Minutes of Evidence

TAKEN BEFORE THE

Committee on National Debt and Taxation.

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COMMITTEE ON NATIONAL DEBT AND TAXATION.

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5, Old Palace Yard, S.W.1.

MINUTES OF EVIDENCE

TAKEN BEFORE THE

COMMITTEE ON NATIONAL DEBT AND TAXATION.

FIRST DAY.

Friday, 2nd May, 1924.

Present:

The Rt. Hon. LORD COLWYN, *Chairman.*
Sir CHARLES ADDIS, K.C.M.G.
Sir ALAN G. ANDERSON, K.B.E.
Sir ARTHUR BALFOUR, K.B.E.
Mr. HENRY BELL.
Mr. J. W. BOWEN.
Professor FRED HALL.
Mr. W. L. HICHENS.
Mr. H. B. LEES-SMITH.
Sir WILLIAM McLINTOCK, K.B.E., C.V.O.
Sir JOSIAH STAMP, K.B.E.
Mrs. BARBARA WOOTTON.

Mr. G. R. HAMILTON, *Secretary.*
Mr. G. ISMAY, *Assistant Secretary.*

Mr. O. E. Niemeyer, C.B., Controller of Finance, H.M. Treasury, called and examined.

1. *Chairman*: The terms of reference of the Committee are extremely wide, and it might be of assistance to the Committee if they could have some indication of the Treasury views as to the scope of the inquiry and as to any limitations imposed by the words of their reference. Are you prepared to make a statement on that?—I can only give you my personal views. I should have thought that there are two important words in the reference. The first one is to "report" on the National Debt. I think the intention of that is to ask the Committee to give their views on the debt problem in general terms, but of course there are a great many subsidiary problems which have a more or less indirect connection with debt, and which we did not think the Committee would want to go into, at any rate, at length. The obvious one which springs to my mind is the general question of currency; that obviously has a repercussion on debt. On the other hand, it is a very big question with ramifications into a great many problems apart from debt, and I do not think it was the intention to ask the Committee, except possibly incidentally, to go into what I may call the more technical, the more strictly financial side of currency. In fact, I think we were asked in the House whether the Committee was intended to deal with the whole question of currency, and we said "no."

The other point is that the Committee is to report on the incidence of *existing* taxation. In my view the Committee there are asked to tell us what they think is the effect of the incidence of taxation as we have it; the real economic effect as apart from the superficial effect. They are not asked to say whether there ought to be any alterations in existing taxation; they are asked to tell us what the effect of taxation as we now have it is. I think the view which would be taken would be that a change of taxation or a change in the taxation system is obviously a matter which the Government would have to decide for itself. Of course, that is rather important from the point of view of the Committee. If the Committee were to explore all possible alternatives of taxation, I am afraid their labours would be very lengthy.

2. *Mr. Hichens*: That would rule out the Capital Levy, would it not?—I do not think so.

3. You would call that an old form of taxation?—No. I was thinking of ordinary annual taxation.

4. *Sir Josiah Stamp*: If we are dealing with existing taxation and reporting on its incidence, although you may not specifically include the Capital Levy, there may be some alternative which may directly lead towards it so as to bring it in?—I think that might follow.

5. *Mr. Lees-Smith*: When you say that we have to deal with the National Debt, in that you would include the Capital Levy as a method of dealing with it?—In my view of the Committee's reference, I do not think if I were the Chairman that I should feel entitled to leave out any discussion of a Capital Levy as a possible means of dealing with the debt.

6. *Mr. Bowen*: The words "to consider and report on the National Debt" are so wide as to imply to my mind that you can talk about anything that you want to talk about which has particular regard to the National Debt; would that be the view of the Chairman?

Chairman: If I had to decide I should leave the scope pretty wide; I should not restrict it within very narrow limits.

7. *Mr. Hichens*: From the point of view of the Treasury you would not expect, say, a Capital Levy to be ruled out?—No, certainly not. What I was thinking of was really this: supposing the Committee came to the conclusion that, let us say, a tax on beer was a thoroughly bad tax, supposing they liked to say the incidence of the tax on beer was such that nobody saved any money for investment, I think that would be a perfectly legitimate thing to say, but I do not think it would be within the terms of reference to say that the tax on beer ought to be abolished and in its place there ought to be a tax on table waters; that is what I meant.

8. Quite so. The distinction is quite clear in my mind. Would your previous remarks apply to the consideration of the question of inflation, for example? Supposing it were suggested that the best way of getting rid of the National Debt was to inflate violently and fiercely, would you suggest that we should rule that out of our terms of reference?—I do not think you can rule it out absolutely; that is why I say I think it comes in incidentally. Of course there are many other aspects.

9. I am not suggesting that it is the way to do it for a moment?—I agree; I am not suggesting any-

thing one way or the other about that; but there are many aspects of inflation not connected with debt.

10. *Mr. Bell*: We have had a memorandum presented to us which suggests that we may possibly consider alternative methods of taxation; that comes right into the heart of things?—I have not seen that.

11. That is for our own guidance; would you rule that out?—I should have thought so as far as concerns any actual recommendation of a new annual tax. You are asked to pronounce on the incidence of existing taxation. Supposing you thought that anything in the incidence of existing taxation was wrong or undesirable, you would say: "The effect of this taxation is so-and-so", but I do not think it would be for you to suggest what else should be done.

12. *Sir Josiah Stamp*: You do not see, for instance, how we could deal with a turnover tax?—No. Except perhaps incidentally and with reference to the broad features of that kind of tax.

13. *Chairman*: The point that Mr. Bell is referring to is in a paper which has been issued to witnesses calling attention to the fact that the Committee's terms of reference are specifically directed to *existing* taxation, and adding that the National Debt and the incidence of the *existing* taxes will, therefore, form the starting point and the centre of the Committee's investigation, and in the opening stages it is proposed to confine the discussion of taxation as far as practicable to the existing taxes, reserving to a later date such consideration as may be found desirable and *as may fall within the limits of the inquiry*?—I think the Treasury want to know what is really the effect of taxation as we have it now. What I rather submit they do not ask the Committee to say, having got this result, is precisely what we should do, if we want to alter it.

14. *Sir Arthur Balfour*: We are really asked to consider and report on the National Debt as it is, or some method of reducing it?—I think including some method of reducing it.

15. If you got to some method of reducing it surely you would have to consider some other form of taxation?—I think somebody might have to consider that.

16. *Sir Josiah Stamp*: We deal with new taxes only so far as they arise as inevitable comments on existing taxes, but we are not to deal with a programme of taxation?—That is so.

17. *Professor Hall*: It seems to me that if we make any recommendation regarding the reduction of the National Debt, the recommendation of some tax or something for securing that reduction may be necessary?—Supposing you came to the conclusion that the Sinking Fund instead of being £50,000,000 ought to be £100,000,000, which would mean raising another £50,000,000, it would not in my view be your business to recommend a particular new annual tax as a means of raising it. You would say you thought the Sinking Fund ought to be whatever you think, and then I think it would be a problem for the Government, if they adopt that recommendation, to say how they will find the money.

18. *Mrs. Wootton*: I understand it is your view that we should not be precluded from discussing a Capital Levy?—I was thinking of a Capital Levy not so much as standing taxation but as a single thing for the moment.

19. You would take the view that we could make recommendations as to a Capital Levy?—Yes.

20. As a means purely of dealing with the National Debt?—I think clearly.

21. *Mr. Hichens*: But you would think it outside our terms of reference, for example, to recommend that the Death Duties should be increased and specifically earmarked for the purpose?—It would rather depend how it was done. Of course one has to feel one's way rather on this sort of thing. One can quite conceive the Committee interjecting a sort of side remark to that effect. What I really have in mind is this: I do not see how this Committee could go through all the paraphernalia of considering the kind of Budget considerations which would arise; I do not think it is possible for any Committee to deal with that.

22. *Sir Arthur Balfour*: But we should have to consider how the National Debt could be dealt with, and, if some other way is suggested to us by a witness, to what extent that other way might have special reference to the effect on industry and employment and national credit?—Certainly.

23. *Sir Josiah Stamp*: What we have to avoid is any attempt to draw up any programme of taxation?—Yes; you are not a Budget Committee. (*Sir Arthur Balfour*): No; I agree.

24. *Mr. Lees-Smith*: I did understand you to say that we could deal with taxes such as Capital Levy or Death Duties as incidental to the arrangement of the National Debt?—If I was a member of the Committee I should not feel myself precluded from saying, if that was my view, that the amount of Sinking Fund ought not to be less than the amount of Death Duties. That, after all, is only giving a kind of measure of what you think ought to be the Sinking Fund; it is not saying that the Death Duties ought to be twice what they are now.

25. *Sir Arthur Balfour*: I do not see how we can prevent our witnesses coming here and dealing with the future of taxation, to put it broadly, on a subject like the National Debt, and we shall have to cross-examine them. The public as a whole would be very dissatisfied if we were to-day to say that we could not talk about a Capital Levy or that we could not talk about some other form of taxation. We should not really accomplish the object of the inquiry at all if we restricted ourselves very closely and definitely to existing taxation?—I certainly would not say that the words in the reference "the incidence of existing taxation" exclude consideration of a Capital Levy. I think they might very well exclude all detailed machinery of how it is to be done and that kind of thing, but I rather distinguish that from the general question of ordinary day-to-day taxation.

26. *Mr. Lees-Smith*: What was in my mind was the specific reference that you made to Death Duties. Death Duties are rather more closely associated with the problem of the National Debt in many minds than many other types of taxation?—Yes.

27. For that reason it appeared to me that we might possibly go more into the Death Duties than into say an increase of the beer duties?—I think that rather illustrates the kind of trouble which I felt the Committee might get into. One can quite conceive people thinking that the total debt redemption ought to bear some relation, say, to the total produce of the Death Duties; but there are very considerable questions involved in earmaking one to the other or anything of that kind; it is a different point.

28. *Sir Josiah Stamp*: And with the Death Duties you might say, for instance, that the Rignano system might be better than the existing system, in its effect on the ultimate redemption of the Debt. You could hardly rule out a modified form of Death Duties.

Mr. Lees-Smith: That happens to be one point I had in mind; I was looking to get some evidence on the Rignano question.

Sir Josiah Stamp: Yes, it is most important.

Sir Arthur Balfour: What I really mean to say is this: a witness may come here and propose some taxation that we are not at the moment thinking of as a method of reducing the National Debt. I conceive that we have to enquire whether it is a feasible thing to do, and to look at it very broadly in regard to its effect on trade, and express an opinion one way or the other.

Mr. Hichens: There is another difficulty in my mind. Supposing somebody comes before us and says that there is a burden on trade to-day because direct taxation is too high as compared with indirect taxation, someone else may come and say the opposite?—(*Witness*): Yes.

29. Are we to inquire into that at all, or leave it severely alone?

Sir Josiah Stamp: Well, that is the bottom of our inquiry.

Mr. Hichens: I rather thought it was?—(*Witness*): That would be what was the effect of certain existing taxation.

30. Your point would be that we were entitled to report that indirect taxation is too low in relation to direct taxation but not to indicate how the situation could be improved?—Up to a point that is my view, yes.

31. *Sir Josiah Stamp*: You would agree that you could hardly stop a witness pointing out what he regards as bad effects of existing taxes, and saying that "those would be modified if the tax were altered in the following way"?—No. I am only suggesting what I submit would be a sort of guiding line to the Committee, and obviously your progress will be on each side of the line rather than straight down it.

32. *Professor Hall*: I would like to ask whether by the words "existing taxation" we must understand existing taxes?—Yes, I should have thought so. What I understand you to mean is "rates of taxation"; I think it means the existing rates of taxation.

33. Existing taxation includes, for example, the taxation of certain imports?—Yes.

34. Are we precluded from discussing the question of taxation of other imports than those that are to-day taxed?—I should have thought you are asked primarily to say what is the incidence of the existing tax; in my view you are not asked to say what is the incidence of some other tax.

35. *Mrs. Wootton*: With regard to the word "incidence"—I raise this because it comes in a paper which a witness has already submitted to us—would you take the view that that includes the proportions in which the existing taxation is borne by different income groups in the community?—Certainly I should think so.

Mrs. Wootton: That is what I thought, but we have before us a document in which a witness is in doubt about that.

36. *Chairman*: We have a copy of the National Debt Return as at the 31st March, 1923. I understand that you are going to hand in certain tables bringing those figures up-to-date; perhaps you will explain your documents?—I thought it might be convenient to the Committee, just to bring the statistics up-to-date, if I gave them the figures up to the end of March, 1924, comparable to the main figures in the printed return for 1923. On page 14 of the return there is an analysis of the various items making up the debt. The first table that I propose to hand in simply brings those figures up-to-date. I do not think I want to say anything on the alterations. They are just the natural effects of either the Sinking Fund or the conversion of one form of debt into another.

37. *Mr. Bell*: Can you show us the comparative figures?—The internal debt is £6,554,000,000 now compared with £6,616,000,000 last year. These figures correspond with the figures at page 14 of the return.

38. *Chairman*: The debt then is £7,680,000,000 as against the amount in the paper £7,812,000,000?—No. The latter figure is not quite the same thing, because it includes the "other capital liabilities." The £7,680,000,000 is the internal and external debt only. Then I want to hand in the Financial Statement which was circulated in the House of Commons the other day, particularly because of Table 4 and Table 6. Table 4 gives the total figures of debt up to the 31st March classified in two ways, first of all, by dividing internal and external debt, and, secondly, by dividing the maturities year by year. Table 6 gives the latest figures of the War debts owed by other countries to ourselves.

39. *Sir Arthur Balfour*: Table 6 includes the interest up to date?—That includes accrued interest funded to date.

40. Simple interest, of course?—No, compound; it is added every year. Table 4 deals only with what I may call the deadweight debt, that is to say, it does not include, in the first case, contingent liabilities for debt, such things as various guaranteed loans for which we may have a liability, such as Local Loans Stock or Irish Land Stock, which are not direct liabilities of ours, although we have a contingent liability for them. Nor does it include, what some people might think ought to be included, the Post Office Savings Bank.

41. *Mr. Hichens*: Or the Trade Facilities Loans, I suppose?—No. The reason for those exclusions is that in the first place you cannot evaluate what the risk of the contingency is, and in the second place, that practically all of them have Sinking Funds of their own, not provided by us, but provided by the borrowers, whoever they may be. Take the case of the ordinary Trade Facilities Loan; the borrower in those cases has to provide an annual sum, including a Sinking Fund, to pay off in a certain number of years, so that, from my point of view, that is not an immediate liability on the Exchequer.

42. *Sir Alan Anderson*: Is the Post Office Savings Bank?—The Post Office Savings Bank is rather different. There, of course, the Savings Bank has its own investments, which are its primary asset. If you took a paper valuation of those, they would not cover the liabilities. We are guarantors of the difference, but, of course, in practice the thing is not of any importance.

43. *Sir Josiah Stamp*: Of course, many of those investments are in Government loans?—Many of them, I should think, are in our own funds.

44. *Sir Charles Addis*: Indirectly they are represented?—Yes. In the second place this table, which deals with deadweight debt only, does not cover what we describe in the printed return as "other capital liabilities," and there again the reason for the exclusion is that there are special assets against those borrowings; they are all repaid by annuities, or frequently repaid by annuities charged on the Votes and not included in the figures we give of Sinking Fund. In fact, our deadweight debt represents debt which is a general charge on the Exchequer and against which we hold no particular assets. Of course, you may say that we hold Allied debts against it, but we do not hold any earmarked assets. I want now to confine myself in what I am going to say to the deadweight debt only.

45. *Mr. Bell*: There is just one exception, the accruing interest on War Savings Certificates?—I was going to say something about that. In this table War Savings Certificates and National Savings Certificates are entered at their original issue price of 15s. 6d. or 16s., as the case may be. Of course, when those Certificates come to be paid, we shall have to pay the accrued interest on them possibly for 5 or 10 years, or even more. There is, therefore, a liability for accrued interest heaped up against us, and that figure is not included in our debt returns, because it is treated as interest and not as capital. There have been estimates made of what the accrued interest is; they are all rather sketchy, but it is somewhere in the region at the present moment of about £80,000,000. I do not want that taken as an accurate figure; it is just an indication. I ought just to make clear to the Committee that, of course, we have provided every year in the Budget for paying as much interest as we think we shall actually have to pay in the year.

46. *Sir Josiah Stamp*: But if there were a sudden rush——?—Then we have no provision against it, apart, so far as principal is concerned, from our general Sinking Funds. Then, again, these figures do not, of course, include the premiums payable on redemption in the case of certain Bonds. Most of the War Bonds are repayable, as the Committee knows, at 102, 103 or 105, as the case may be. The figures here are the nominal value, and exclude the premium on redemption. I suppose the amount of possible premium might be in the region of £30,000,000, but one has to take that figure with

caution because a great many of those Bonds will be converted into something else before they arrive at maturity, so that £30,000,000 is not a figure which anyhow directly we have to pay.

47. *Sir Alan Anderson*: I do not quite understand in regard to the Savings Certificates why you do not write this debt up as the interest accrues?—Take the plain case of an ordinary security: you have your capital, and your interest is payable year by year. You enter as your capital the original sum, and your interest is paid year by year. In this particular case we do not pay interest year by year, but it accumulates against any moment when the holder likes to claim repayment; but we still treat that as interest.

48. Do you charge revenue with the year's assumed interest on these?—No. We charge revenue in the year with the interest which we think we are going to have to pay.

49. Every year?—Yes; that is to say, the amount of the Certificates which experience suggests to us we should really have to pay in that year. We do not make any special reserve against this liability heaping up against us.

50. *Mr. Lees-Smith*: Is not the broad result that, while it is laid down, and we are told that we have a Sinking Fund of £40,000,000 rising to £50,000,000 a year, in fact we are setting aside considerably less for the reduction of debt each year; is not, in reality, what we are setting aside diminished?—I should not put it in that way; I should put it in this way, that the fact that there is this liability is a ground for having a high Sinking Fund.

51. *Mr. Lees-Smith*: I want to be clear on that point. Does it not come to this, that whereas we have ostensibly a Sinking Fund of £40,000,000 to £50,000,000, in reality we are piling up by the side of it a fresh liability—a hidden liability?—There is a hidden liability, certainly.

52. *Mr. Lees-Smith*: It should, in fact, be deducted from that Sinking Fund?

Sir Arthur Balfour: Or the Sinking Fund made greater.

Mr. Lees-Smith: Yes. In fact, we are not reducing our debt by £40,000,000 or £50,000,000 a year.

Sir Josiah Stamp: Supposing a commercial concern borrowed money on the same principle as the National Savings Certificates and was making up its balance sheet, could it ignore this interest liability?—(*Witness*): No, I think it could not.

53. *Sir William McLintock*: No, and where they do put the Certificates in as an asset they add the interest yearly to the asset?—Yes.

54. That interest is not a Sinking Fund charge at all, is it?—No, but of course in so far as your Sinking Fund is not earmarked to particular issues you could apply it in any year to the redemption of the principal of Savings Certificates.

55. *Mr. Hichens*: Why do you not as a matter of fact add to the amount of the debt the accrued interest in respect of the year?—Do you mean as a matter of statistics?

56. As a matter of fact. A private business would be put into a serious situation if they did not; it would be regarded as dishonest?—I think the main reason why it was not done was because it is a matter of considerable difficulty to estimate exactly how much the amount ought to be. You see you have Certificates running for various series of years; you would have to have very elaborate statistics to show which particular series matured in any particular year; I think that is the kind of reason why it was not done originally.

57. It is not a serious difficulty, is it?—Well, I should not like to be sure about that. I am not saying that I think the situation is entirely satisfactory.

58. *Mr. Lees-Smith*: I am thinking of it from the Parliamentary point of view. It surely does give Parliament a very misleading impression?—I think not, because we have always told Parliament that is how we do it.

59. *Sir Josiah Stamp*: We have known about this little anomaly all along?—Yes.

60. *Professor Hall*: Should I be right in saying that at the end of the ten years when you repay the Certificates at 26s. 0d., or whatever it may be, you make in that year a full year's charge for interest?—If at the end of ten years the whole volume of the Certificates were presented at once, which is extremely improbable, we should have to provide in that year out of revenue or borrowings to repay them.

Then I just wanted to remind the Committee that the foreign debt in this table is put in at par of exchange as a matter of convenience. Of course you can make the figure almost anything you like by taking different rates of exchange.

61. *Sir Arthur Balfour*: We lent in pounds sterling, of course?—Do you mean to the Dominions?

62. Yes.—We lent in pounds sterling, generally speaking, with minor exceptions. Another thing I wanted to say is that the Committee will notice at the bottom of this Table 4 an item "Loans from certain Allied Governments, £132,000,000." That, as a matter of fact, represents deposits of gold which were made to us during the war by certain foreign Governments and which have always been treated technically as loans; but we have never regarded it as a very serious liability, I am afraid, because they are only repayable when the Governments in question repay the whole of their debts to us; so that for practical purposes we may regard that item as non-existent.

63. *Sir Josiah Stamp*: These are contra accounts?—Yes. It is the £132,000,000, the last item but one on the table.

64. *Mr. Hichens*: Increased by £4,000,000 during the year?—Yes, that is right.

65. *Sir William McLintock*: Why should not these debts be applied in reduction of the liabilities?—I am afraid there are reasons of high diplomatic policy. I hope a moment may come when that may be done. The only other comment I want to make is on the item, "Ways and Means advances." That, of course, does not represent Ways and Means advances by the Bank of England at this moment; it is investments mainly—in fact, practically entirely—by various Government Departments and on the Currency Note account. There is a little, I think, from the Post Office who have some Government funds which want a short term investment. The point is, it is not outside Ways and Means in the ordinary sense.

66. *Sir Josiah Stamp*: The table on page 5 of the Financial Statement shows a whole lot of items as if they come under 1947-48, but I take it a line ought to be drawn somewhere?—Yes.

67. It is only the 5 per cent. War Loan?—Yes.

68. Then you draw a line and it is general?—Yes. Some of them are 1961 and some go on for ever. Perhaps I may make just one general remark on this table. The Committee will see that in the years 1927-28 and 1928-29, we have very heavy liabilities—£850,000,000 of maturing Bonds. Then, as they know, there is a large total of 5% War Loan, over £2,000,000,000 which we have an option to repay in 1929; that is to say, we can begin to repay then. As a matter of fact, that figure of over £2,000,000,000 will probably be increased very considerably because of other issues which have a right of conversion into War Loan, possibly to the extent of £500,000,000. Therefore, between now and 1929 we have got very big maturities both of Bonds which we must pay—£850,000,000 of Bonds—and War Loan £2,500,000,000, which we can pay if we are in a position to do so. In the Treasury view that is the great governing fact of our immediate debt. That was one of the main reasons why we started on the Sinking Fund provisions last year. Of course, one naturally has a Sinking Fund in order to redeem one's debt, but that was not, at any rate to my mind, the main purpose of that Sinking Fund. It is a good thing to redeem your debt, but the main purpose of that Sinking Fund, which, in relation to our total debts, is not a large one—it is somewhere about two-thirds to 1%—was to get the Sinking Fund established permanently, working each year with a view to improving

our credit, say, in the next six years, and therefore enabling us to deal on more favourable terms with the opportunity that these heavy maturities give us.

I have another table which I propose to hand in which bears on that; they are the same figures as you have in Table 4, but re-classified on the basis of our repaying everything at the earliest date we can, instead of at the latest date. That, of course, slightly alters the amount which we can deal with in the earlier years. For instance, the figure for 1929-30, which in the printed table is £65,000,000, becomes in my Appendix £2,200,000,000 by putting in the 5% War Loan. Of course, there are some items in that which one would not pay off on the first possible date—for instance, the 3½% War Loan, 1925. Still, it is intended to show the possibilities if we are in a position to effect favourable conversions in the next few years.

69. *Mr. Lees-Smith*: On that table, taking the bottom item, from 1961 and after, should a line be drawn somewhere there?—Only in this sense, that when you get to the funded Debt you deal with it by buying it in the market.

70. *Sir William McLintock*: The last three items I think are not "after 1961"?—They are not fixed dates.

71. *Mr. Lees-Smith*: A special point arises there. Some of our witnesses are suggesting conversion as a means of dealing with debt. These figures mean that about £1,200,000,000 of debt or more could not be converted until 1961?—I should not say that. You can offer voluntary conversions at any time you like if you are in a strong enough position to do so.

72. *Sir Josiah Stamp*: There really ought to be a line drawn after the 3½% Conversion Loan?—Yes.

73. *Mr. Lees-Smith*: I mean conversion to a lower rate of interest?—Supposing you take Consols, which are a perpetual annuity, if the circumstances are favourable you can offer the Consols holder a lower rate of interest if you like.

74. In return for what advantage?—The same kind of advantage as I suppose he got in the Goschen conversions.

75. Would it be a saving to the Government?—That depends entirely on the terms, of course.

76. The point I have in mind is this: supposing the rate of interest goes down, say 1 per cent.; you cannot assume that you are going to get the full advantage of that 1 per cent. until 1961?—Not on these particular figures.

77. You have to give them a *quid pro quo*?—Yes. The point about that—and the important point, I think—is this, that in the case of the big War Loan, £2,000,000,000, we, the State, have an option to repay in 1929.

78. *Sir Arthur Balfour*: These really represent your earliest opportunities if the conditions are favourable?—Yes.

79. *Sir Josiah Stamp*: As a matter of clarity, these items at the bottom are really of a different order?—Yes.

80. For instance, you have a right to repay Savings Certificates much earlier than 1961—the whole lot?—Yes, that is so. There ought to be a distinction. The last four items are rather the rag-bag; that is what it comes to.

Then I wish to give the Committee a rather bulky table—I do not propose to go through it at all—which shows the original amount of the various loans, how much has been converted from or to something else, and how much is now left. If you take just that top sheet by way of illustration, that shows the 3½% Conversion Loan and the amounts raised in the two years in which it was on issue by conversion from various other issues. That gives you a total on the right-hand side of the sheet of £693,000,000 odd. Underneath that is shown the amount that has been paid off by various transactions, £27,000,000, which leaves you with £666,000,000, now outstanding. It shows what happened to all these loans since they started. Then I thought it would be useful to the Committee to have quite a brief memorandum, which I propose to hand in, on the Sinking Fund. I am not sure that I need say anything very much on that memorandum, except just to emphasise this, that as the Committee know we now have a Statutory Sinking Fund out of revenue in the present year of £45,000,000, and in the next year and thereafter it will be £50,000,000. That Sinking Fund covers the specific Sinking Funds established for various Loans under the terms of the prospectuses and allows a margin. Take, for instance, the 3½% Conversion Loan; under the terms of that prospectus we bound ourselves to apply for redeeming that loan a certain sum of money each year; that is a specific Sinking Fund and there are one or two other loans in a similar position. The general Sinking Fund provision that we make covers all these items and leaves a margin, but that would not be so in certain eventualities. To take the most obvious case, under the terms of the prospectus of the 5% War Loan, whenever the price of the loan is less than 95, we have to provide a depreciation fund (which is in effect practically a Sinking Fund) up to a certain proportion of the issue, which works out at £32,000,000 a year. Of course, in recent years the price has not been less than 95, and therefore we have not had to provide that £32,000,000. Of course, if we did have to provide it, our existing Sinking Fund would be quite insufficient and we should have to borrow, as we stand at present, for that purpose. I hope that is a contingency which is not likely to happen. If our credit for any reason depreciated—take the improbable case of a general European War—then that liability would be upon us. The same kind of consideration applies to the tendering of Bonds; because there again it depends on the price in the market, to a large extent, whether it is worth while to tender Bonds rather than cash, and there might be a big drain on our Sinking Fund.

81-2. *Sir Josiah Stamp*: Is there, anywhere in the papers, a division of the 50 millions into what one might call our fixed or ear-marked Sinking Fund, and the free portion?—At the end of the note that I am putting in, I analyse the 40 millions of last year, which shows a small free balance in that year; of course the figures would be quite different this year.

83. *Sir Alan Anderson*: But, surely, in the Chancellor's statement this year, there was 40 millions, was there not?—45 millions this year.

84. And did he not say that there was 40 millions, in addition to that, going to Sinking Fund, making 80 millions altogether?—He was then talking about last year. There were 88 millions last year, of which 40 millions was the Sinking Fund I am talking about out of revenue, and the balance of 48 millions was the windfall.

85. *Sir Josiah Stamp*: The point I was alluding to was this. If you can divide the Sinking Fund into two parts, the fixed and the free portions, and also divide the debt which has a fixed sinking fund attached to it under any circumstances and that which has not, one could tell the ratio?—I could quite easily analyse it. It would have to be on the basis of an estimate, to some extent.

86. My point is this. If a third of the National Debt eats up most of the Sinking Fund, the rest of it has got very little provision against it?—Yes. If it would interest the Committee, though I might have to ask them not to publish the figures for the moment anyhow, I could analyse this year's provision. The free balance out of the 45 millions would be very much larger because we have not got to pay the United States Silver Loan.

87. *Sir Arthur Balfour*: It comes to this that, whereas there is a Sinking Fund of 45 millions or 50 millions, or whatever the figure is at the moment, the charges against it do make it rather important that there should be some windfalls coming in to meet the situation, in case of emergency?—Yes. You can put it in this way: that under the terms of issue the holders of certain issues have advantages over others; but as against the man who holds Consols, they have a very great advantage.

88. *Mr. Bell*: I see a mention of donations and bequests; do they amount to more than a few hundred pounds?—They do not amount to very much.

89. They are very infrequent and small?—There have been one or two cases in the last few years of quite considerable amounts; but, generally speaking, they are small. The main items by which the debt has been reduced, apart from revenue, are repayments, and various contributions made by the Colonies during the war, which they specifically wanted to be applied to debt, the biggest being India, who undertook to be responsible for 100 millions of War Loan. I see in 1921-22, donations and bequests accounted for a debt reduction of about £37,000; but I can get you the later figures.* Then I propose to put in two other papers. One shows the conversion options still open under various original prospectuses. They are practically confined to various National War Bonds which have the right of conversion into War Loan, and one American issue which has the right of conversion into National War Bonds. Then I propose to put in a final paper which shows the particular issues which have the right of tender for Death Duties and upon what terms.

90. May I ask a general question, to enlighten my mind? Is the system of giving conversion options, in your judgment, a good one?—Do you mean whether I would do it to-day or whether I would have done it then?

91. I meant on general financial principles?—No, I think not. Take the conversion option of War Bonds. The whole of the 5% War Bonds, practically all the issue, is now entitled to be converted at any time into War Loan at the rate of £100 War Loan for £95 Bonds. That is a very heavy option against us, the value of which, at the time that offer was made, it was impossible really to estimate. Therefore we presumably did not get consideration for it, or not full consideration, because nobody could estimate what it was worth. That, of course, is a very embarrassing feature. But there are times when you have to raise money somehow, and it is a question of what particular form of concession you should give. But my general answer would be that I do not advocate it. I might qualify that, to a certain extent, with regard to the question of foreign debt. Then there is just one more addition. There is a note on the particular issues which have exemptions from taxation if held by persons resident abroad. It is merely a question of fact. They include the 4% and 5% War Loans, the Funding Loan, and the 5½% Exchequer Bonds. I did not propose to-day, if the Committee would allow me, to express any particular opinions as to policy or otherwise. I thought possibly if the Committee wished to hear me on that, they would ask me later. All I wanted to do was to try to put together a certain amount of more or less statistical facts.

92. *Chairman*: Thank you, Mr. Niemeyer.—There is, perhaps, just one thing I might mention. I was told that some members of the Committee rather desired to have figures as to the number of individual holdings of War Loan. I want to say that there is a good deal of difficulty in that, for this reason. In the first place, of course, we have no information as to who the holders of Bearer Bonds are; naturally we cannot tell. In the second place, of course, a single person may hold holdings in four or five different issues, he may hold £100 in War Loan, £100 in Bonds, £100 in Savings Certificates, £100 in Consols. Therefore the individual holder and the individual investor are not one and the same person, and we have no real means of identifying them. Then you may get cases where one trustee may hold for half a dozen beneficiaries, or you may get the converse case of several trustees holding for the same. All those things you cannot earmark. We only know roughly the number of holdings, and that does not tell us very much about either the number of persons who hold or the average amount that any particular person holds. So that I am afraid the figures, even if they could be got, would not be extraordinarily helpful. To get them would be very difficult, and would probably mean several weeks' work for all the people who keep registers, which includes, of course, a great many agencies. It includes, for instance, primarily the Bank of England, also the Bank of Ireland, also Morgan's for the American debt, also the Post Office for Post Office issues, and to a certain extent some of the Trustee Savings Banks. So you have all those separate registers, none of which can be related to any other. You might easily get a man who was on all five, and each entry would count as one. So I am afraid it would be not only extremely difficult and would involve a great amount of work to the people who keep the registers, to provide those figures, but they would not enable you to make any very safe inference when you got them.

93. *Sir Arthur Balfour*: Might it not also lead to people selling, if they heard that you were making such a detailed register?—After all, they all know that they are registered.

94. If it were to be given to a Committee like this, or made public in any way, people might not be willing to hold as much in certain things as they do at present?—You obviously could not say the holding of Mr. A. was so much.

95. I thought that was the object of the suggestion?—I understood the suggestion was that we might say that the number of holdings over £100, say, is so much. I do not think there would be any harm in that, if we could do it.

96. *Sir Josiah Stamp*: You cannot relate individuals by such a register?—No, you cannot. I ought to have added that if there is any other information that the Committee would like to have at any time, and they would let me know, of course we would do our best to produce it.

Chairman: Thank you.

(*The Witness withdrew.*)

(*Adjourned for a short time.*)

Sir Felix Schuster, Bart., called and examined.

Evidence-in-chief handed in by Sir Felix Schuster.

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?*

The supply of credit for national trade and industry has not been affected by the increase of the National Debt to the extent one would *prima facie* be led to suppose. In fact, figures prove that it has not diminished as compared with pre-war conditions. The main supply of such credit is derived from advances by the banks. The following are the figures in the aggregate taken from the

* The figure for 1922/23 was £17,118.

published balance sheets of all banking companies whose figures are available:

	1913	1923
	£	£
Advances	542,185,776	1,025,897,480
Bills Discounted ...	117,097,699	317,693,995
Deposits	1,048,732,256	2,310,817,877

Allowance has to be made for the rise in the price of commodities to show that the increase in the advances has kept pace with that rise. According to the *Economist's* Table of Index Numbers (January, 1924), having as basis the average 1901-5, the index number at the outbreak of the War was 116·6. In December, 1923, it was 208·2, a rise of 80 per cent., while as shown above the advances have increased by 87 per cent., and bills discounted by 171 per cent. This latter comparison is probably not a conclusive one as some banks include Treasury Bills in that item; according to the *Economist* of 19th April, the holding of Treasury Bills by the banks amounts at present to about 100 millions; personally, I estimate it at a somewhat higher figure. However that may be, as a matter of fact, it can be said that commercial bills of approved character always find ready takers, and the rise in banking deposits of 120 per cent. shows that there are ample funds for the purpose; nor are the rates charged to trade more onerous now than they were before the War. These rates are regulated by the Bank of England rate, the yearly averages of which from 1910 are as follows:—

	£ s. d.
1910	3 14 5
1911	3 9 4
1912	3 15 6
1913	4 15 5
1914	4 0 9
1915	5 0 0
1916	5 9 7
1917	5 0 0
1918	5 0 0
1919	5 3 0
1920	6 14 3
1921	6 2 5
1922	3 13 10
1923	3 9 9

As regards the supply of permanent capital, this is not part of the banks' business but that of financial institutions, trust companies, and the private investing public. I think it can be said that, where the security offered is of high character, borrowers have no difficulty in obtaining loan capital on mortgage or debentures at reasonable rates. During the period of very dear money, about 1920, high rates had to be paid, and borrowers, who did not take the precaution of providing for the option of early repayment, placed themselves at a disadvantage; but those who took that precaution have since had the possibility of converting such borrowing into new loans carrying a lower rate of interest. I think that at the present moment it would not be difficult for solvent borrowers to obtain all required loan capital at reasonable rates. But this refers to loan capital only. I believe that much greater difficulty would now be experienced in raising share capital, partly because the saving power of the private investor is much reduced through heavy taxation, and also because owing to the heavy Income Tax and Super-tax as well as Death Duties the proportion of risk to the prospect of gain is much larger than before the war.

The Floating Debt is held by banks, financial institutions, and other private or public trading concerns for a purpose different from the investment of capital, and I do not think that it has interfered with its supply.

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?*

Debt repayment through the Sinking Fund should, in my opinion, be carried on consistently and quite irrespectively of considerations of good or bad trade. It is of the greatest importance to the credit of the country that such repayments through the Sinking Fund should be strictly carried out, and especially in bad times it is the best means of maintaining confidence and keeping up the level of the quotations of Government securities; if as is to be hoped, the aim is by gradual conversion of the debt into one bearing a lower rate of interest to effect a large saving, it is essential that heavy fluctuations in the price of existing issues should not take place, and to that end the operation of a Sinking Fund is by far the most effective. Moreover, the maintenance of the price of Government securities at a steady level has a favourable effect on the price at which trading concerns can raise capital.

It may be said that in bad times it would appear unjust to levy taxation in order to pay off debt, but it must be remembered that the case is a different one from taxation, which may be for unremunerative expenditure. The sums paid at once flow back to the public through the redemption of debt, so that the amount in the hands of the public is not decreased. Of course, the question of reduction of Floating Debt involves different considerations. On the whole this is the cheapest form of Government borrowing, and probably the authorities would best be guided by the rates at which it is possible to place Treasury Bills: that is to say not to issue such Bills at a rate above a certain maximum.

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?*

There is no doubt that high income taxation must of necessity withdraw from trade resources which might otherwise have been used for the expansion of business. Such taxation, in addition to the high costs of living, leaves to the majority of taxpayers very little margin for saving, and the average trader in a very large number of businesses of modest dimensions will probably need to draw all his profits; but I do not think that this applies to many of the larger concerns. When there is a real opportunity of a high rate of profit consistent with prudent management, I still think the expansion of that business will not suffer through the impossibility of capital being found. I think the question of Death Duties is a much more serious one with regard to the future supply of capital, but this will be dealt with under the answer to question 12.

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?*

I presume the word "taxation" in this question is intended to mean Income Tax and Super-tax, because certain other taxation unquestionably involves an addition to the overhead charges of a business, whereas this can hardly be said of Income Tax. The business will be carried on to produce a profit irrespective of the amount of the Income Tax, and, therefore, I do not think it can be maintained that the burden falls on the business itself, but it tends to hamper its operations as there will probably be a tendency to strive after immediate profits and to strain the resources of the firm or company in order to divide such profit, resources which might otherwise be employed in the business for future development.

This applies to cases where partners and shareholders depend on their income from the business. It is difficult to generalise on the point because there are cases (I believe, however, they are the minority) where the opposite takes place, and the tendency exists to show smaller rather than larger profits. In any case, I do not think the tax can be included in the working charges of a business. The latter part of the question is also dealt with in No. 10.

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

This question assumes that the business has sufficient funds available to be able to invest in the National Debt; to that extent it benefits by the higher rate of interest now paid on the debt.

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

Income Tax has no effect on companies' undistributed reserves. These reserves are really part of the capital of the company, and as such contribute to its earnings. Here again it is very difficult to generalise, and the effect on various companies may be of an entirely different character. The general tendency would appear to me to be that in the majority of cases, shareholders will endeavour to obtain as high a dividend as possible, and thus the effect will be to hinder the accumulation of such undistributed reserves. In other cases, however, and especially in private companies the tendency might be to accumulate such reserves in order to save Super-tax.

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

I think this question has been dealt with to some degree in Nos. 1 and 2. Obviously, the total purchasing power must be decreased by the existing taxes. It must, however, not be forgotten that by far the largest part of the National Debt is held in the country, and, therefore, the interest paid on internal debt is spent within the country.

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?*

Income Tax certainly does deter the foreigner from investing in this country and especially in securities bearing a fixed rate of interest. I do not think the tax alone would deter him if he saw a chance of profitable industrial enterprise. Death Duties would be more of a deterrent in such cases. I believe there is evidence of foreign capital being engaged in industrial enterprise to a greater extent than has been known before the War. As regards the investment outside the country by British residents, the question of Income Tax ought not to affect it, as the income derived from foreign investment is liable to British Income Tax wherever it is earned. There may, however, be a temptation to evasion.

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?*

This is a very complex question, and can be argued in many different ways, but as I stated in my answer to Question 5, I cannot think that the Income Tax forms part of the overhead charges of a business, and to that extent, it ought not to enter into prices. It may handicap the exporter in competing in foreign markets where the foreign exporter is subject to smaller taxation in his own country, and can, therefore, afford to work at a smaller profit; but at the present moment other questions of far greater magnitude enter into the problem of competition in foreign markets, and the Income Tax can only be a comparatively minor consideration.

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?*

There does seem to me a decline generally in the habit of saving, but I think this may also be attributed to causes distinct from those of taxation. At the same time, the process of saving still goes on and the great success of the issue of National Savings Certificates has proved that the saving habit can be encouraged and stimulated. Reduction of expenditure, necessitated in many cases by both taxation and the increase in the cost of living, is very difficult in a generation that has perhaps voluntarily assumed certain burdens entailing expenditure, but, while the fact of a falling off in the habit of saving may perhaps come within one's observation, yet I do not think the available statistics bear this out to any important degree. Public issues of good standing are readily taken up; if, as has been argued in some quarters, the success of such issues is in a measure due to the lack of profitable employment in trade, it would show that trade is not short of capital. The trade statistics of industrial profits during the first quarter of the year do not testify to a lack of enterprise, but show considerably increased profits. The *Economist* of April 19th has some interesting figures on this point. I do not think any distinction can be drawn between individuals and 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?*

Death Duties under our present system do involve a destruction of capital, and come ultimately out of the national income. The latter might perhaps not be the case if the whole proceeds were applied to extinction of debt in addition to other Sinking Funds, but if applied to revenue they must be a variable and constantly decreasing quantity. At the high rate now prevailing the same estate cannot bear the tax several times over, and gradually becomes extinct, and in the meantime it ceases to yield its share of Income Tax and Super-tax. Finally, the capital is destroyed. It takes a number of years before the effect on the total returns becomes apparent, but I think that of the 1909 duties would already show itself more clearly were it not for the sudden accretion of new War fortunes. These duties can only be said to be a very injurious form of Capital Levy and certainly must be detrimental to the trade of the country generally. The duties can in most cases only be paid through bankers' advances, which take a long time to repay, and the effect on the business must necessarily be very serious and hamper its work and development.

I consider the tax especially injurious, because it falls on future generations and to a great extent the present is inclined to disregard its consequences —a tax immediately payable at least compels the payer to consider expenditure and to attempt to live within his means. The improvident disregard the future charge on their means, while those who wish to preserve them for the efficient conduct of their businesses are faced with the greatest difficulty in doing so. Life insurance, effective when the rates of the duty were lower, now becomes an extremely onerous charge and almost defeats its object, inasmuch as the amount of the insurance is included in the estate and has itself to pay the high duty and even raises the scale which is levied on the whole.

This form of taxation has been very instrumental in the turning of private businesses and companies into public joint stock companies with the effect that the personal interest of the former partners or

directors is lost, and many instances are known in which the conversion of prosperous private or semi-private undertakings into public companies has led to disaster. These duties also are an absolute deterrent to the investment of foreign capital in the country, and as to residents here they lead to various forms of evasion and investment abroad, and the loss of working capital to the industry of the country caused by these duties cannot, in my opinion, be over-estimated.

In Italy, the one European country that has shown great recuperative power since the war, one of the first steps of the new Government has been to abolish Death Duties in the direct line altogether, and Italian industry has certainly shown very remarkable progress.

The injurious effect of this taxation might possibly, to some degree, be diminished if the tax was levied and the scale applied not on the corpus of the estate but on the share of each beneficiary; but even this, though it might mitigate some injustice and remove some difficulties, would not counteract the detrimental effect of the withdrawal of the sums required from the working capital of the trading community. Even in cases of joint stock companies, which, as such, are not liable to the tax, the effect of the duties falling on the shareholders is, in many cases, detrimental to the concern itself.

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

Certain Stamp Duties are detrimental to trade in so far as they are an obstacle to the formation of new companies, and the charge of one per cent. on the nominal amount of new share capital compared with 5s. before the War is a high rate.

The Transfer Stamp Duty of one per cent. on registered securities does not only reduce Stock Exchange transactions, but it obstructs the investment in the class of securities subject to the stamp. The £2 per cent. duty on Bearer Bonds also is a very high charge, and its effect must be to divert financial business in the shape of new issues away from here to other countries. I have, however, made enquiries in various quarters but cannot find any direct evidence that so far this has actually taken place, but this is probably due to temporary causes, and, with the exception of the United States, we are the only country at present prepared to invest in foreign loans. Ultimately, the effect of these high Stamp Duties must be to operate against this class of business, and a reduction of the Duties would be very desirable. I do not think it is sufficiently appreciated that the issue of foreign loans both for Governments and industrial enterprises is directly productive of trade and employment in this country, and not only sporadically, but that their effect is permanent.

Another instance of Stamp Duties acting detrimentally to trade and industry is the twopenny stamp on cheques. If this was reduced to the old figure of one penny I think the use of cheques and banking facilities would be very much increased. More banking accounts would be opened and used for payment of wages, and the amount of currency notes now in circulation could be reduced, and thus the money would be more profitably employed for trade if deposited with banks instead of being carried about or hoarded.

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?*

I cannot see any distinction between the incidence of the Income Tax and that of the Corporation Tax. The latter is simply an addition to the former levied on joint stock companies which, therefore, bear a heavier burden than competing private firms. What the general effects are on trade, industry and employment it is difficult to say except that each additional charge naturally does hamper development, and this particular tax has produced a great feeling of injustice, while it does not appear to have operated in the sense, I believe, originally intended, that is to say, to prevent the evasion of Super-tax through one-man companies.

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

I do not think any distinction can be drawn between periods of depression and those of normal trade as to the assumption that the tax on commodities is borne by the consumer. There may be temporary conditions where the importer of a commodity, in order to establish a trade-mark or introduce a special article, may be willing to pay the tax for a time, but in the long run I do not think there can be any doubt that ultimately the tax 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?*

I am not sufficiently acquainted with the incidence of Customs and Excise Duties to express an opinion.

In answering the above questions I have tried to adhere to their text as closely as possible, and not to introduce other considerations. I notice, however, that the high income taxation is described as necessitated by the debt, and would venture to point out that it is necessitated not by the debt alone but also by public expenditure in various directions, by the reduction of which considerable relief could be obtained, and in any investigation of the financial condition of the country the question of expenditure must receive very careful consideration.

I do not wish to minimize the serious effect of these taxes. They are a heavy burden on the whole community—traders, the professional classes, and those unable to earn their own living, widows, orphans, and the infirm. They cripple purchasing power and in many cases are only met out of capital.

Several of the questions have referred to the question of foreign investment in this country, and British investment abroad. That question is very closely connected with that of double taxation, which has received careful consideration by the Chambers of Commerce, and I believe various Governments, and proposals with regard to which are now being considered by the League of Nations. This question does not, perhaps, come strictly within the terms of reference of the present enquiry, but its importance as regards the revenue is obvious, and it cannot be too closely studied.

The one clear and obvious remedy for the reduction of taxation in respect of interest on debt appears to be that already laid down by the Treasury in their recent conversion scheme. By strengthening the national credit the burden can be considerably lightened, and successive conversions of the various issues to a lower rate of interest can thus be effected. It may be of interest to remember that in 1816, at the end of the Napoleonic Wars, the National Debt stood at 846 millions, an amount which in the condition of the country at that time would probably have appeared as appalling as the one we now have to face. The annual interest and sinking fund amounted to 32 millions. Before the end of the century the debt was reduced to 634 millions, a reduction of 23 per cent. and the annual charge to £17,600,000, a reduction of 30 per cent., notwithstanding the fact that during the early period of the nineteenth century very little attention seems to have been paid to the importance of reducing the debt.

With prudent and careful management of the national finances a considerable reduction in the annual charge may gradually be accomplished.

97. *Chairman*: You have had a questionnaire, Sir Felix, and you have sent us your printed answers, which have been circulated amongst the members. Would you like to take the points one by one with the answers that you have given?—I do not think I have very much to add to the answers I have endeavoured to give; I think they more or less speak for themselves.

98. Are there any points upon which you would like to address the Committee?—Perhaps I might follow the printed statement. Questions 1 and 2 go together. I thought the best way was to try to get at the figures, and from these figures it is pretty conclusively shown that the advances made by banks to trade generally are larger in some measure than they were in pre-war times. I think they are larger even than appears from these figures, because I believe that at that time they included a larger amount of loans to foreign countries than they do at the present moment. I do not know whether Mr. Bell will agree with that, but that is my experience and my judgment. I think there is a much larger proportion of purely internal loans included in those figures than there was in January, 1913, which is the date I have taken for the pre-war figures. I have tried to bring those advances up to the index level and to see if they correspond to the rise in the price of commodities, and I find that the rise in the price of commodities is not so large as the proportion of the rise in the advances. I think the balances in the banks, their available funds, are quite sufficient to meet any demand that has been made upon them so far; and the rate of interest itself is not more onerous than it was before the war. You find the rates in the years 1919, 1920 and 1921 were very high, obviously as the consequence of the boom that took place in the early days after the Armistice. But that has rectified itself now. If we had gone back as far as 1907, I think you would have had a very high rate again. I think it may be said the rates are not higher for advances than they were before the war, and trade has not suffered on this account. That applies to the ordinary trading advances that banks make to carry on the trade of the country; but it is not the banks' function to supply permanent capital. With regard to permanent capital, as regards loan capital, raising money on debentures and perhaps preference shares, I think any sound concern would find no difficulty in raising that capital now at quite reasonable rates. I point out that very high rates were paid in the years of dear money, and borrowers at that period who did not provide for early repayment have to go on paying the high rate; but that was a question of judgment. What has taken place now shows, I think, that there is no difficulty in placing that kind of public issue. But as regards raising share capital, I do think that is more difficult. People are much more reluctant in placing money at present in ordinary shares of a trading concern.

99. Do you want to amplify that at all?—What is in my mind is simply this. You go into business; if all goes well you give up a good slice of the profit, and, when you die, a great proportion of what you have saved. But you have the whole risk yourself; and a good many people say this is not good enough. They would rather not run the risk which is involved in any business, because they have to give up a large part of the profit and take the whole burden of the risk. But I do say that really sound concerns will not, I think, have great difficulty in getting money; but as regards share capital, the public is more reluctant to invest, and particularly in private business. I do not think people are as keen to go into private business, because the chances of profit and saving are not as large as they were when this high taxation did not exist. That has unquestionably reduced the saving power of the country very seriously.

100. Then as to Question No. 3?—The question of the Floating Debt. I think there was some importance attached to the question, but I do not think it really affects the supply of credit. I do not know what the statistics are. I refer in one of the answers to some statistics published by "The Economist," which give the whole of the Floating Debt held by banks as only £100,000,000. I should have thought myself it was larger than that, but I have no doubt there are good reasons for their statement. If the banks only hold £100,000,000 of Floating Debt, then I do not think the effect on trade can be at all serious. I think it is a separate question altogether, and I do not think it interferes with the supply of capital to trade at all. Commercial concerns will always, if they are good concerns, find the banks ready to advance anything in reason. The banks might reduce their holding of the Floating Debt in consequence of the demands of trade, but they will not reduce their commercial loans or advances. As to Question No. 3, I hold very strongly that the Sinking Fund should in no circumstances be disturbed. The effect of the Sinking Fund on the national credit is very great indeed, and, if the fund were disturbed at all, it would very seriously injure that credit, in my opinion. The operation of the Sinking Fund is very beneficent to the public at large, and it raises our credit abroad to a considerable extent. It has enabled us to pay off the debt, as the Chancellor has pointed out, to an extent which has astonished most people; and the money does flow back to the public. It is not like taxation taken out of the pockets of the people and applied in expenditure. Of course, when taxes are so applied the money may almost be said to have vanished; but when they are applied to debt repayment the money flows through many different channels and it is poured in one stream straight on to the money market, and the effect of the repayment of the debt is quite considerable; I do not think it is immediately harmful to the trade of the country.

I mention the effect of the possibility of conversion of the debt into one bearing a lower rate of interest; that is what is being attempted now by the Treasury, and that is one way that one sees by which the charge on public debt can be reduced. As to Treasury Bills, that has nothing to do perhaps with taxation or the question before you, but I think the Treasury would do wisely if they were not to issue Treasury Bills above a certain rate, and pay them off when the rate becomes too high. It regulates itself automatically in that way, and it is the cheapest form of borrowing we have got now.

101. Then Question No. 4?—Our income taxation must withdraw certain resources from trade that would otherwise be used for the expansion of business. As I say, there is no margin left, and there is a temptation to people to strain the question of what is profit and what is not. They like to draw as much profit as they can, more perhaps than their profit and loss account should show. If they could pay more into reserves there would be more money left in the business, and its resources would be stronger. I do not think there can be any other answer to that; it must be so.

102. Then Question No. 5?—That is partly answered already by what I have said on No. 4. I presume the word "taxation" is used to mean Income Tax and Super-tax and does not include other forms of taxation—local taxation, and things of that kind—which are also very high. Anything like local taxation certainly does come under the overhead charges of a business. That has to be met first. That is not like profit.

103. Income Tax and Super-tax cannot be taken as charges on industry and passed on to the consumer. Has that been happening at all?—That is really an actuarial question, but you arrive at your profits after having paid all your overhead charges and all your outgoings. Then comes the question: Is there a profit at all? I think the temptation now is for people to say they have made a profit, and to draw money out of the business, when they really have not made a profit, and therefore the resources of the

business are impaired. But income taxation is not a charge on the business. I do not think any actuary would include it as a charge on the business.

104. Then No. 6?—If industry is a holder in the debt, industry has got a surplus of capital and cannot find sufficient use for funds in its own business and has to invest, and to that extent will benefit by the higher rate which is obtained.

105. Then No. 7?—The undistributed reserves are really part of the capital of the firm, and as such the Income Tax does not affect the question of these reserves. But what I have said before I think goes to show that the taxes make the accumulation of such reserves far more difficult, and perhaps to some extent they may have been drawn upon. That is quite possible in many cases.

106. No. 8 you say you have dealt with in Nos. 1 and 2?—We have dealt with that already.

107. No. 9?—Income Tax does deter the foreigner certainly from investing in this country, particularly in securities bearing a fixed rate of interest. It reduces his income largely, and he does not know exactly where he is; the Income Tax may be raised, and it does deter him considerably. If he sees a chance of making money in any enterprise that he is an expert in, I do not think it would deter him from starting, say, a factory, where the profit is larger. But I think it will deter him from investing. Some of our National Debt is exempt from tax; he might take that, but he will not take that part which is subject to Income Tax.

Then as regards investment by British residents outside the country, that question does not come in, or it ought not to come in. Every British resident has to pay tax, wherever his income is derived from, whether he invests abroad and has to bring it home or not. The law was altered a few years ago. In former days you had your investment abroad, you accumulated dividends over there, and they were not subject to tax until you brought them home. But that has been changed, so it ought not to affect it. Whether it does is another question, because there are ways of getting out of the payment, but it ought not to be so. But the higher the tax is, the greater the temptation is to certain people to get out of paying it.

108. Then No. 10?—As I have said, it is a very complex question and can be argued in many different ways. Income Tax is not part of the overhead charges of the business, and it does not enter into actual prices. I am not a manufacturer, and I have not sufficient experience of how a man works out his prices, but I cannot conceive that when an ordinary business man says: "How can I sell this pair of boots?" or "How can I sell a bale of cloth?" it enters into his calculation that subsequently he has to pay Income Tax on the profit.

109. And Super-tax?—And Super-tax.

110. That may be half of the profit?—It will enter into his calculation when he says: "Well, it is not worth while doing business; I do not make enough; they take all the Income Tax and Super-tax afterwards, and they do not pay for my losses." But I do not myself think it can be said to enter into the question of price.

111. We shall have to examine a trader?—I do not think you will get any further.

112. Then No. 11?—The taxes do not act so much as a deterrent to saving; they make it impossible. They cripple a man's saving power. In the old Victorian trading days I think the tradition of the father of a well regulated family was to spend only half his income and to save the rest. Now he spends only half his income and he pays the Treasury the rest. In the nature of things saving becomes impossible. It is one of the consequences of the war, and one of the burdens of the war. Also a good many people have regulated their scale of expenditure and have incurred certain burdens in favour of others which they cannot reduce, and they are crippled in regard to saving power. It is a thing that comes within one's observation constantly that people live, if not above their means, but certainly very closely within their means, and a good many pay their taxes out of capital; I have no doubt about that; that is a thing that one comes across constantly. At the same time there is a saving power perhaps in different classes of the population. The statistics of the Savings Certificates and so on show that there is a certain class of the community that has money to save and does save it. Public issues again have been very readily taken up.

113. Then No. 12?—I am afraid I have dwelt rather largely on Death Duties, as I feel they are the most injurious part of the whole system of taxation, because they do involve the destruction of capital, they do come out of national income. If you were to take the whole proceeds of the Death Duties to redeem debt, the effect on trade would be the same, but it would not affect the national income. But if you go on taxing the same estates once or twice and taking the proceeds into revenue, then ultimately the estate disappears and the revenue is no longer produced. I think that is a distinct loss of capital. You cannot trace it out in the figures; it takes a long time. What I feel about the Death Duties is that we are only having the first crop, as it were, of Death Duties at their scale since 1909. We have not seen the effect on the same estates in the next generation and the generation afterwards. I think statistics, therefore, do not show the consequences of the 1909 Budget yet, in particular as the War has produced a good many colossal War fortunes. The effect on trade of the withdrawal of capital through Death Duties is very considerable. It makes it difficult for a man to provide for a continuance of his business, and I think that has led to people going out of business and selling to joint stock companies who do not know how to carry on the trade. It has led to disaster, as I have tried to point out here. The burden falls on future generations, and to a great extent the present generation is inclined to disregard its consequences. A tax that a man has to pay at once he tries to provide for somehow, but a tax that has to be paid at his death, well, he thinks the future must take care of itself, and he does not provide. He does not provide by insurance because the corpus of the insurance is added to the corpus of his estate and he pays tax on that again. It raises the scale which he pays, so it seems hardly worth while to insure. Therefore the provident find it extremely difficult to make proper provision. It leads to evasion in some cases. I do not think there is any form of taxation which has led to so much evasion—or avoidance perhaps is a better word than evasion—because avoidance is quite legitimate. People try to find all sorts of means of getting rid of it, perhaps by distribution of their own capital, which is certainly detrimental to trade. Certain fortunes, say from £100,000 to £200,000, up to half a million, are fortunes that I consider most available for trade, which do trade most good. If a man dies, that is distributed and a heavy Death Duty of 25 per cent. has to be taken out of business. The business has its means fully employed and has to go to the bank to borrow, or the executors have to borrow. It takes years before that loan is paid off and then the concern is crippled. I think it is one of the worst taxes we have, because we do not see the effect of it immediately; but the effect is very widespread and very injurious to trade. I would point out that one of the first things that M. Mussolini did in Italy was to do away with Death Duties in the direct line altogether. I go on to say that perhaps it would mitigate the injurious effect to some extent, if you levied the tax on the inherited share and not on the whole estate. It does seem rather inconsistent with the present principle of taxation that you tax a man according to the burden he can bear, that, if you have one estate divided into five parts, the five parts should pay on the same scale as if the estate went to only one part. I think that, if you have graduation, you should let the graduation be applied to the inherited share and not

to the whole estate. If a man comes into £200,000 he can afford to pay more than if he comes into only one-fifth or one-tenth part of it; and I think taxation on the basis of the inherited share would affect trade less.

114. Then No. 13?—What I say here is more an opinion than anything on which I can give evidence. I think the tax of 1 per cent. on the formation of new companies is rather too high a tax. I do not think it has interfered with the formation of new companies very largely, but still it has hampered it. I think the transfer Stamp Duty of one per cent. on registered securities does interfere with trade and it keeps people from investing in those securities when every sale has to bear an additional tax of 1 per cent. Then there is the 2 per cent. on bearer bonds. I think that is a very high charge and in the end I think financial business must be diverted from here to other countries. I tried to find out from some of the houses concerned in that class of business whether in their experience it has had that effect. They said: No, not so far, because so far this business comes to the United States or here, and there is no other lending country. They did not think the question of the extra 1 per cent. or the 2 per cent. had yet affected that class of business, but in the end it will. I think we ought not to interfere with the issue of foreign loans in this market and should encourage these loans as far as we possibly can. I think it could be clearly shown how direct and continuous the effect of foreign loan issues is on employment here. I prepared a little statement, I am afraid a good many years ago, in 1903, dealing with the course of investment, issues of foreign loans and employment figures, and the result showed itself at once. It is quite clear that in the issue of a loan for a foreign country, for the purpose of a foreign harbour, or a foreign railway, the employment comes here and the employment pay remains here. These concerns that have been financed here originally will continue to obtain their supplies from here, and therefore that is a class of business which, I think, far from being injurious, as is sometimes supposed, can be proved to be, and has been, and no doubt will be, very beneficial to the country. Therefore anything that operates to interfere with that business is injurious. The Stamp Duty on bearer bonds may interfere in the future, but, as I have said, so far I have not had any direct evidence that business has been turned away because the Stamp Duties are too high.

The 2d. stamp on cheques is, I think, a tax which does harm, very largely. I think if so many Currency Notes were not hoarded away in people's pockets or stockings, or whatever the receptacle is, and if people were encouraged to open small banking accounts, that money would be usefully employed in advances to trade. It has interfered largely with existing business; to my knowledge a great many concerns used to pay their wages in cheques and they pay them in notes now. But altogether, I think a new class of people has been created who can save and who can afford to keep banking accounts, which would be useful to the country at large, not only to bankers; I think it would be a useful thing for the country if that class of small banking accounts were more encouraged, and I think that the 2d. stamp on every cheque is a very serious tax. As to No. 14, Corporation Profits Tax, I do not think you wish me to deal with that now.

115. Then No. 15?—If the tax on commodities is borne by the consumers, it must be so either in bad times or in good times. I do not think it will be contended that it is not paid by the consumer, although there may be little intervals when a foreign trader wishes to introduce a certain article and will do so at a loss, but he will recoup himself later on. Ultimately it is the consumer who pays. You have not asked the question whether it is better for the country if the consumer pays; that is another question, so I do not propose to enter into that. On No. 16 I know nothing about Customs and Excise Duties; I am afraid I am rather at a loss on that question.

116. Have you any other remarks to make? You are open to talk about the Capital Levy, if you want to; or is there anything you want to say now at the conclusion of your paper?—What I have said about Death Duties applies just in the same degree to a Capital Levy.

117. If Death Duties were permanently allocated to the reduction of the National Debt, would you have the same objection to them?—I would, but I could not then say that it came out of the national capital. It would meet that objection; but I think the effect on trade would be just the same.

118. *Sir Alan Anderson*: In regard to Question No. 4, you say there is no doubt that high taxation must withdraw from trade resources which might otherwise have been used for expansion. But that does not qualify your view in regard to Question No. 1, that there is plenty of capital to finance trade?—No.

119. Then on Question No. 5, I suppose you would agree that if there were two firms, one in Great Britain with heavy Income Tax and another in some other favoured country without heavy Income Tax, the one that did not have to pay the heavy Income Tax would pile up reserves much more rapidly than the one that had its reserves depleted by Income Tax?—No doubt that is so.

120. To that extent the Income Tax would be a handicap on the firm?—No doubt the foreign firm could afford to work with a much smaller margin of profit. But in answer to the question, at the present moment, as far as I can judge, there are a number of other matters that affect the question of foreign competition to a much greater extent than the mere question of Income Tax. There are the hours of labour, and so on.

121. Quite, but still, there would constantly be that tendency for the heavy taxation to affect the saving powers of the firm?—No doubt that would be so.

122. Then on Question No. 11: "How far do the existing taxes act as a deterrent to saving?" would not the power of the community to save be shown pretty well in their power to take up new issues?—Yes, but it is very difficult to determine accurately that power. You have foreign investors; we do not know how much foreign capital is included in the total subscription. Again, when you subscribe for a new issue, you probably sell another, perhaps a foreign investment, that you possess. I do not think we can say that because there have been so many millions issued to the public in one year, that is actual saving.

123. You do not think the rapid taking up of big issues is a proof that people are saving?—Not a conclusive proof. It goes in that direction and I have accepted it as such, but only up to a point; you cannot determine how far.

124. Nor the investments from Great Britain in loans abroad?—No; it is extraordinarily difficult to find out.

125. Then No. 12: "How far do the Death Duties involve a destruction of capital?" You say they do. Would it not be truer to say that the destruction of capital takes place when the money is spent, rather than when you pay for it? Is not the destruction when the shell is blown off into the air, or when the ship is sunk? Whether you put it down as Death Duties or something else is just registering the fact that has already passed?—I do not quite see the drift of that question.

126. What I was thinking was that one might get into such an elaborate argument about whether a particular item was capital or income in the national accounts, whereas really the destruction is the spending of the money?—Perhaps theoretically you may try to prove that you are right, but I do not think that is the effect of it. That is not what we call the destruction of capital. You have a certain amount of capital employed in a certain business.

You take 25 per cent. away from that business; that part of the capital which has been destroyed has been most usefully employed in the business in which it has been accumulated, and it is taken away from its most profitable earning power. Of course it is not only the actual amount of capital, it is the experience and the knowledge and good-will that goes with the employment of the capital in that particular direction that gives its value to the country.

127. *Sir Arthur Balfour*: With regard to the policy of repayment of debt during a period of trade depression, do you think the Sinking Fund, as we have it to-day in relation to the whole National Debt, is large enough?—Yes, I think so, so far as I know.

128. It is important to maintain at least the present figure?—It ought to be retained.

129. Do you think that repayment of debt is really one of the first conditions towards conversion and maintaining the country's credit?—Yes.

130. So that under all circumstances it ought to be maintained?—Yes.

131. Will you take it that the repayment of debt and improving the country's credit have a very large effect on cost of production, in the fact that we buy our food at a better price if the exchange is in our favour?—Yes, you bring in the exchanges there.

132. You are bound to bring them in?—Yes, that is so. If you improve your exchanges, it makes a considerable difference.

133. If you purchase at a lower price, that affects the cost of production fundamentally and consequently the amount of the tax you can collect?—Quite so.

134. Now No. 5. If, as is frequently the case at the present time, orders of considerable magnitude are offered to this country at a price for which we could not manufacture here at a profit, but at a price which some foreigner offers, do you think that when such an offer is made, the fact that there is 4s. 6d. Income Tax to pay does not enter into the question of taking that order?—I should think not; but you know better. I think a man will work for a profit. The question of how much of that profit is to be taken away again is another question.

135. When he is taking an order at a foreign price and the margin is perhaps very slight indeed, is it worth while taking it at all, when he has to pay 4s. 6d. Income Tax?—If you are running a big risk, then it may not be worth while. I think I tried to explain that in my answer to the Chairman.

136. So that after the consideration of the Income Tax at 4s. 6d., it may not be worth while?—It may not be worth while to do the business.

137. Is not the biggest effect of Income Tax on the cost of production the fact that the purchasing power of the payer of Income Tax is reduced?—That is so.

138. And in consequence the volume of manufactured articles that he can buy is reduced and the cost of production goes up, owing to that reduction?—Yes.

139. Is not that the serious effect of Income Tax?—I agree with you.

140. There is another aspect on which I would like to have your view. If you take a concern that has a certain output, it makes a certain profit which in previous times of lower Income Tax left a fair return to the ordinary shareholders; to-day that same concern, working under the same conditions, does not have a similar amount to distribute to its ordinary shareholders unless it puts up its prices. In that case does not Income Tax come into the question of cost of production?—It is no use quarrelling about words. I think we mean the same thing, but I do not think you can call it increase in the cost of production. What it does do is to discourage enterprise.

141. Or you can call it increasing the selling price, if you like?—It may discourage enterprise; I think it does. Your margin is not large enough and you do not want to run the risk, but I do not think it increases your cost of production.

142. In answer to Question No. 11, you say: "There does seem to me a decline generally in the habit of saving, but I think this may also be attributed to causes distinct from those of taxation." Could you just give us one or two of those causes?—They are psychological altogether, I think partly the effect of the War. This habit of saving in the younger generation has apparently lost its attraction entirely. They say: "We are going to have a good time." I have heard it said: "The Chancellor is going to have it all, any way; let us spend it."

143. Would you say that the greater dependence of the individual on the State in certain directions nowadays has had a great effect on savings?—Yes, I agree with that entirely—very much so.

144. Then with regard to Question No. 12, about Death Duties, I take it that if, in finding the money for Death Duties, it is necessary to liquidate land, or, in the case of a business owned largely by the deceased person, to liquidate the business, or to cripple the business for working capital, that would be proportionately very much more severe in the case of a Capital Levy?—It would be more severe because it would all come simultaneously.

145. In connection with Question No. 13, Stamp Duties, you mention the stamp on cheques. I take it that if there was a penny receipt stamp and a penny cheque stamp, that would still further emphasise your argument and help people to pay a great deal more by cheque than they do at the present time?—There are many cases that do not give a receipt at all.

146. In consequence of the 2d. stamp?—Yes.

147. *Sir Josiah Stamp*: I want to ask you a question on No. 3 as to maintaining the Sinking Fund consistently through a bad and good time. Do you consider that collecting public resources during transition for repaying debt does not destroy the funds, but merely re-directs their ownership?—It flows out of a great many channels into one.

148. You take £100 away from a business that might otherwise usefully employ it in extending its capital resources, and it finds its way into the hands of a holder of War Loan by way of redemption of that War Loan through the Sinking Fund?—Yes.

149. He has to invest it in something?—Yes.

150. And he is not always prepared to invest it in the business that gives it up; he may invest it in a new business. That alters the direction of invested capital, does it not?—No doubt that is so, but the amount of capital in the hands of the public is the same.

151. It alters the application of it from existing businesses that may be needing it very much in those difficult times into other classes of business?—Quite so.

152. Have you addressed your mind to the economic result of that in times of depression? Supposing you have a private business that has to pay up a large sum at a difficult time. It is very difficult for them to go into the market and get that money back by way of loan to extend their business, is it not? It is only tending to swell the quantity of money that in bad times can only be got by large public companies in share capital and to take it away from personal businesses of an enterprising character?—Of course, that is to some degree the same argument that I tried to use in a larger measure in regard to Death Duties.

153. I am coming to that. The fact that the capital remains intact is not a sufficient answer to its economic effect in times of depression, if you are taking it away compulsorily from businesses that can use it and putting it into public reservoirs that can only be got at through recognised financial channels?—I agree with you.

154. Take the case of a private hosiery business in Leicestershire or a textile business in Yorkshire; they have not a wide public appeal and cannot raise money?—That is so.

155. Surely it is an important thing if you take away money from them and put it into London finance

where it can only be got at by a new venture?—It will eventually flow back.

156. But not without a good deal of friction?—No.

157. Does it not seem to you that there is something to be said for having a minimum Sinking Fund which you maintain through thick and thin, but increasing it by a sliding scale in prosperous times?—Well, I think the present Sinking Fund would probably be the minimum I should like to fix, and then, of course, the sliding scale is applied through surplus revenue.

158. It only applies to surplus revenue if the National Estimates happen to be wrong?—That is so, yes—well, or business being more prosperous than was anticipated.

159. Do you mean that in prosperous times you are bound to have a Budget surplus? Supposing the Inland Revenue in estimating the Income Tax, and the Customs people in estimating the yield of the tobacco duties, make allowance for the fact that they are on a rise, and estimate as closely as they can what is coming in. After all, the Income Tax is on a three-years' average, and there is no reason why there should be an under-estimate in good times any more than in bad times, and that surplus is accidental. is it not?—At the same time, when you have surpluses over the estimates, it does show a period of prosperity.

160. Yes; that is because of the official habit of under-estimating the amount. That is quite a different point from trying, as a matter of policy, to get more in good times?—As we are placed at present I should hesitate before I interfered with the Sinking Fund at all; I think it does greater service to the country.

161. I am not attempting to question you on that. What I want to know is this: you rather lean to the view that you have to take a fixed Sinking Fund policy through thick and thin?—Yes.

162. A kind of average figure that is the average burden through all. I am asking whether it would not perhaps be better to have a rather lower minimum figure, but rise to a much higher figure in prosperous times?—No; that does not appeal to me. I think in prosperous times the people would be able to use their money in their business better than if it were taken away by an increase in the Sinking Fund; and then it would be difficult to decide which are prosperous times and when to apply an increase.

163. On Question 5, following Sir Arthur Balfour's question with regard to the incidence of the income tax and the cost of production, do you recognise the distinction that is commonly made by economists in the incidence of a tax on profits—that is to say, no tax if there is no profit—and of a tax on items of produce where, whether there is profit or not, the tax is paid; do you subscribe to that important distinction? If there is a tax on a barrel of beer and it is payable whether the brewer makes profits or not, the price of beer will be increased throughout and the incidence will be on the consumer; but if a tax is levied on the profits of the brewer and nothing is paid if the brewer makes nothing, then there is no increase in the price of the beer: do you agree with that distinction?—As far as I understand it, yes, but I was addressing myself to the question of Income Tax and Super-tax—taxes on profits alone.

164. If you have any doubt on the subject of Income Tax being put into cost of production, what is your view as to the amount of tax that is put in? You spoke of 4s. 6d., but after all that is merely an accidental point of a graduated scale from a penny in the £ up to 10s. 0d. or 12s. 0d. in the £, but it happens to be the point at which you go from one class of tax to another. What is the amount of tax that is put into the cost of production in the drapery trade, for instance?—I say none. My answer is that it does not enter into the cost of production.

165. I rather gathered that you receded a little under pressure from Sir Arthur Balfour and you spoke entirely of 4s. 6d. I want to know why 4s. 6d.? If you are receding at all on any point, why not some other figure? Take the case of an order from abroad that he was pointing to; if it is a limited company and it is going to get back from the shareholders in the dividends 4s. 6d., or whatever the tax may be, does it matter to them what it is? If it is a company or an individual is it 4s. 6d. or 10s. 6d. that is taken into account?—I am afraid my answer to Sir Arthur Balfour must have been misleading. I think what I meant to say was that Income Tax does not enter into profits at all, but it enters into the argument whether the manufacturer will take the risk of business in those conditions; whether it is good enough for him to run the risk because he has to pay a large tax.

166. If he takes that into account, it is the sort of Income Tax and Super-tax together that he himself is going to pay that he considers?—Well, he thinks: "Is it worth my while to run the risk? It is not a question of profit. I make 2 per cent. profit and perhaps I risk 50 per cent. Is it worth while doing?" I do not think you can generalise. I think it is a question for the individual.

167. It leads to this important distinction, and this is what I am getting at: Supposing he does consider it; supposing there are two of us that are considering this order. One is Sir Arthur, who has to consider a burden of 12s. in the £, and the other is myself, who has to consider a burden of 2s. in the £. He is disinclined, but I am inclined because of my lighter burden. Is not the real tendency of your reply that the business is driven into the hands of the smaller people who are charged less?—It may be, but they will not be able to do the business so efficiently or at all.

168. That is theoretically so?—I think there is a tendency that way.

169. Do you believe that it exists in practice, that these orders are taken more by the smaller people because of the smaller rates of Income Tax?—I believe in practice that people try to turn their businesses into limited companies which may be badly managed and then try to get out because the profit is not good enough.

170. You think the tendency of high taxation is to drive the orders for foreign trade into the hands of the smaller concerns?—Oh, no; you must not carry the argument too far.

171. With regard to the Death Duties, what proportion of the Death Duties do you think are provided for in advance by people who do not want their estates depleted? You gave excellent reasons why it was difficult to do it, but do you consider any serious proportion is provided for out of income?—How can it be provided? Will you tell me how they can provide for it?

172. A man may say: "Here is my fortune—£20,000. I do not want it to be depleted at my death. I will work harder, and I will save harder than I might otherwise have done in order that it may be £24,000, and therefore £20,000 net." To what extent are men during their lifetimes saving harder and working harder because of the burden of Death Duties than they would otherwise do?—You can only judge by what you hear people say. I think they are not provided for to any large extent. I think the greater proportion, or the majority of people, do not provide for them now.

173. Therefore there is no set-off at all against the grievous position of the destruction of capital by Death Duties?—There are some people who have tried to provide by insurance, but of course the high rate of these Duties was only introduced 15 years ago, and people who have arrived at a certain competence probably at a certain age have had to pay very high premiums of insurance; and the fact that the insurance itself is added to the estate and may raise the scale which is paid has really frightened people away from insurance.

174. Do you not think that quite a number of people are exerting themselves more in the matter of life insurance because they know their estates will be cut into?—I hope you are right; I am afraid that is not the experience I have.

175. So that you think that people are in their lives, and in their ordinary everyday

spending of their income, totally uninfluenced by the burden of Death Duties, and that there is therefore a complete depletion of capital?—They are not entirely uninfluenced. A good many people do think about it a great deal, but it is a psychological fact, and some people say: "Well, the future must take care of itself." I would much rather you made it possible for a man to pay his duty immediately. I like a tax that people can face and say: "I have to pay this, and I have to meet it, and I have to reduce my expenditure." People do not reduce their expenditure because at some future time a Death Duty is payable on their estate, and they find it difficult to do so for a good many reasons, whereas if the tax were payable immediately then they would have to, and I think it would be better all round. I have sometimes thought whether it would not be worth while for the Treasury itself to become in a way a Life Insurance Office and allow people to anticipate their Death Duties by a sort of payment in advance.

176. Could you give us any of the reasons why the Duties were abolished in Italy; you told us the fact that they were abolished?—Because as far as I am told from Italy it was thought that they worked badly; and because they interfered with business.

177. If you had to choose between the different evils with regard to Death Duties I understood that you did not like the method of graduation by reference to the fortune of the decedent but you preferred a graduation by reason of the fortune of the recipient?—Yes.

178. The amount of the receipt or the amount of the fortune?—The amount of the receipt.

179. A kind of graduated Legacy Duty?—Yes.

180. Do you make any point of the third method of graduation that is in force, that of nearness of relationship?—Yes. I should certainly say there ought to be relief given to the direct descendants. If the money goes to distant relations, or distant people, probably it would not be employed in the same business at all; it would be withdrawn altogether. I think the effect on trade is far more serious when it goes in direct line.

181. *Sir William McLintock*: I want to ask you about Question No. 4 and Question No. 7. I do not know if you would draw in No. 4 any distinction between the small business and the limited company. You state that the small business will require to draw on its profits. You, of course, agree that the business earning a small profit does not pay a very heavy rate of tax?—Yes.

182. And then, when you come to the larger business like a limited company, the tax does not fall mainly on the company but on the shareholders who receive the dividends?—But there are a great number of limited companies which I include in the smaller businesses.

183. You are including both?—Yes, small traders, limited companies, I include, and I think the tendency of the high taxation there is that there will be an attempt to over-estimate profits and draw them out of the business.

184. To over-estimate profits?—Yes.

185. That surely will penalise rather than help them?—They cannot help themselves. The difficulties of saying what the profits of a business are, are absolutely immense. The tendency now for people who have to meet expenditure will be to make an over-estimate and call a thing a profit which perhaps his neighbour would not call a profit.

186. My experience has all been in the other direction—that they under-estimate the profits by reason of the higher Income Tax rather than over-estimate them?—I think I have anticipated that objection. I do not think it applies to many of the larger companies, but, in answer to another question I say that you cannot generalise; in some the effect will be to under-estimate, and in others to over-estimate.

187. But in the large businesses the burden of the tax falls mainly on the shareholders as individuals by having the tax retained from the dividend, or receiving a small dividend free of tax so that the business itself is not crippled except to the extent that you deal with it in No. 7?—Even the larger companies will be tempted to overstate their profits, because they have to take the tax off. They wish to pay as good a dividend as they can. They may want to keep up their credit, and there will be a tendency to over-estimate profits there just as much.

188. The point I want to put to you is that in No. 7 you hold the view that Income Tax has no effect on companies' undistributed reserves, and I suggest to you that that is the one part of the companies' profits that is really affected by the tax. If you assume that a company earns £100,000 and divides £50,000 and keeps the tax off the shareholders who receive the £50,000, then the only burden that falls on the company is the diminution of its reserves by reason of the tax on the other £50,000?—The company pays the tax on the whole £100,000.

189. Yes, and recovers one-half from the dividends paid, and therefore the burden that falls on the company is the tax on its undistributed portion. That is the point you suggest when you say "Income Tax has no effect on companies' undistributed reserves"?—You mean on the actual amount of that reserve? I did not take the question in that sense. Of course, it must affect the actual amount of the reserve.

190. And that is the main effect, or the only effect really on a company?—Except that it prevents accumulation of those reserves. They have nothing to play with, and nothing to put back into reserve. There is also a temptation to bring some of the private reserves into profits.

191. In the last sentence of No. 7 you say: "In other cases, however, and especially in private companies, the tendency might be to accumulate such reserves in order to save Super-tax"?—Yes, there have been cases.

192. You know, of course, that that hole is stopped now. All private companies formed since 1914, if they do not distribute a reasonable amount of their earnings as dividend, are treated as if they were simply private individuals?—Has it been stopped altogether?

193. Yes; there may still be deliberate fraud, but that particular hole is not open to-day?—I think it is going too far to say deliberate fraud. There is deliberate avoidance; some men are getting out of it.

194. *Mrs. Wootton*: On No. 3 you say that the repayment of debt through the Sinking Fund is one of the best means of maintaining confidence in bad times. Would you confine that to repayment through the Sinking Fund? Would you, for instance, agree that the same thing would be true of the earmarking of a portion of a tax specially for repayment?—You mean that there should be a special tax to provide for the repayment of debt?

195. No; I am not suggesting that there should be a special tax, but you said that the use of the Sinking Fund to repay debt will maintain confidence in bad times, and you go on to say that the reason is that the debt is redeemed and the money flows back into the hands of the public. What I want to know is whether you attach special importance to the words "repayment through the Sinking Fund", or whether you think that is true of repayment of debt by any form of taxation?—I have used the word just as we have been in the habit of using it. That has been the form under which a special fund has been provided, and a special amount has been fixed to be used for repayment. I think there must be limits both ways.

196. Supposing, for the sake of illustration, it were decided to earmark a portion of Death Duties for debt redemption, would you take the same view that in times of trade depression it would stimulate trade, because the money got back into the hands of the public?—My opinion is that the whole of the

Death Duties should be earmarked for debt redemption, because I do not think they can be looked upon as revenue at all.

197. On No. 4 you say that high income taxation must of necessity withdraw resources of trade which might otherwise have been used in its expansion. I suppose you would agree that if the proceeds of Income Tax are used for debt redemption, or paying interest on the debt, they are transferred, in so far as the debt is held within this country, into the pockets of the debt holders, and that so far as we know they may be re-invested by the debt holders in some form or other, and probably will be. What we do not know is what kind of investment it will be as compared with the investment that the Income Tax payer would make?—But in the meantime, if that is carried to any extent you have crippled the existing business and existing trade for the purpose of providing capital for an investment of an indefinite nature which may go out of the country, certainly which will not flow back to that particular channel where it has been found to be useful; I think that is Sir Josiah Stamp's point. *Sir Josiah Stamp*: I made the point that surely the evil was confined to a slight alteration of direction, or a little dislocation of investment.

198. *Mrs. Wootton*: On Question 9 you state that the question of Income Tax ought not to affect the investment of income by British residents outside this country; that is, of course, so far as they do not evade the tax by illegal means or by residence abroad. Would you apply that to any other tax which might be imposed in the same conditions? If some special tax were imposed, some form of tax on capital perhaps, would you say also that that would not encourage investment outside this country, in so far as capital invested abroad and held by residents here would be liable to the tax just as much as capital invested at home?—Well, if either the Income Tax or any other tax exceeds an amount that the taxpayer feels he can pay, it will lead certainly to investment abroad and conceivably to change of residence.

199. That of course is a further matter?—I think it is part of the same question.

200. You agree that he could only evade legally a tax on income or a tax on capital to which all British residents are liable on the whole of their property or income, by himself going abroad with his capital or income; that is the only legal means by which he can evade the tax?—That is the only legal means by which he can evade the tax, but I think he might be tempted or induced to do so.

201. He might of course be tempted to illegal means, and he might be tempted to take himself abroad with his capital?—That would not be illegal in fact.

202. But you would agree that it would require a much stronger inducement to drive him out of the country with his capital or income than it requires to make him send his capital or income abroad and keep himself at home; it would require more powerful taxation to lead to that on a large scale?—Unquestionably the reasons why a man changes his residence and lives abroad must be far stronger than the avoidance of a tax, but at the same time you can imagine a tax being fixed, or certain legislation being enforced, which will drive a number of people to take that course. It has actually happened already in a few cases that have come to my knowledge, but not in sufficient numbers to weigh in the scale.

203. On No. 11 I think in reply to Sir Arthur Balfour you were discussing some of the causes of the decline in the habit of saving. I think I understood you to say in reply to him that the measure of dependence on the State is one of the checks to the habit of saving. Would you attach much importance to that in view of the sources from which most of the saving comes? Would it be true that the class which does the greater part of our saving is also the class which has become increasingly dependent on the State?—I do consider that there is a very considerable class to whom saving would be possible and very desirable, who do not save because they feel that they are going to be looked after by the State. There are cases which have come within my own knowledge of people not providing for their relations, their parents, and so on. They say: "We need not. We will spend this." I think there is a large class.

204. Do you thing they are people whose savings would be in the aggregate important; are they wealthy people?—No. That depends on what you describe as wealthy people. I think the large success of the Savings Certificates is in a great measure due to these very people I have in mind. The great part of these savings have not been provided by what are described as the wealthy classes; they are actually provided by classes of wage earners, perhaps a class who had not been in the habit of saving, but to whom the possibility has been opened of saving, and they have done so. I think it is a habit than can be very greatly encouraged, and in some measure that habit is discouraged by the fact that some of them think: "Oh, it does not matter; we shall be provided for and looked after."

205. If it is that class of person which is particularly concerned, that will not have a very large effect on our total national capital?—I think so.

206. You think so, even though it is chiefly not very wealthy people but people such as those to whom Saving Certificates are an important form of investment?—I think they are a very important part of the population.

207. You would not agree that though they may be important numerically, their contribution to total national saving is not very large?—I think it is, or it may be.

208. On No. 13 you said that it is not sufficiently appreciated that the issue of foreign loans in this country, both for Government and industrial enterprises, is directly productive of trade and employment. Would you agree with me that the term "export of capital" is often used as synonymous with the floating of foreign loans in this country for Government and industrial purposes?—No, I would not. It may be used, but it is not quite correctly used in that sense. Take this case: a new loan is issued for the building of a railway in South America. Probably you have an English company running that railway. Of course the capital is exported in the way that the rails and the engines are exported to that country, and become part of the national wealth of that country, but at the same time the property remains here, the shareholders are here, and the construction of the railway material takes place in this country. It is exporting the capital in one sense only.

209. It is exporting capital, surely, in the only sense in which one can speak of the export of capital?—Anyway, such export of capital finally only takes place through export of goods which are goods manufactured here.

210. In that case, would it be a correct interpretation of your sentences here to say that the export of British capital on loan for Government and industrial enterprises abroad is directly productive of trade and employment in this country?—Yes. If you wish to use that term; I would describe the process as investment abroad.

211. On No. 15 there is a small point. You said that there cannot be any doubt that ultimately a tax on commodities is borne by the consumer. I suppose you would apply that both to variations of existing taxes as well as to the imposition of a new tax. You would agree that if the tax on some commodity is raised or lowered the consumer ultimately pays more or pays less?—Certainly.

212. And there would not be much force in any argument that it is undesirable to lower the tax on a commodity, if you wish to lighten the consumer's burden, on the ground that the consumer will not get the benefit of the reduction; you think he will get the benefit?—I have no doubt, after a little while. There is always an interval before the effect of a measure like that is felt. He will get the benefit.

213. That argument, of course, has been used in regard to particular taxes—I think it was used with regard to the tax on sugar—that the consumer might not get the benefit of a reduction, but you think that in most cases he would?—I have no doubt that he would, yes.

214. Could I say that he always would?—In any great general article of consumption like sugar, and so on, I think it is safe to say that he would.

215. And, conversely, that he would always be injured if the tax were raised on any article of general consumption?—Injured as regards this particular thing?

216. Yes?—This opens quite a different line of argument, the question of Protection, and so on. That is not a question that we are discussing here. But as regards the question of an effect on the price of a particular article, I think I have no hesitation in saying "yes."

217. *Mr. Lees-Smith*: I want to inquire into the possibility of what can be done by conversion, and to take your remarks upon that subject. The National Debt is about £7,500,000,000. I want to get your views as to what proportion of it can be converted. For example, I presume that the proportion owing to America cannot be converted; we have an arrangement with them, and besides we are only paying 3½ per cent?—As regards the American debt I think we can commute it at a certain time.

218. The ordinary argument for conversion does not apply surely to the American debt on which the interest is only 3½ per cent. Again, we are bound by agreement with America on that portion of the debt?—Yes, but I think we have a right if we could to redeem the whole loan, but the question of exchange would prevent that.

219. I want to try and get at some estimate of what we can do by conversion. The conclusion seems to me that we have no means of compulsory conversion, in the case of America, to a lower rate than that which is agreed upon by Treaty?—No, but there is no compulsory means in this country.

220. Yes, when the debt falls in; I will come to that in a moment. Then take the short-dated securities; of course, conversion does not apply to them, and they do not come into the argument. I am talking of Treasury Bills and so on?—Well, Treasury Bills you can renew or not as you please; that is a conversion. If you can borrow at a lower rate you can pay them off.

221. That is so, but I wish to arrive at an estimate as to what are the limits of our savings by means of conversion. What I am trying now to establish is that this general doctrine of converting to a lower rate of interest obviously has not any reference to securities like Treasury Bills?—I am afraid I do not agree. The Treasury Bill is a thing that is converted every time a Bill matures.

222. *Sir Charles Addis*: It is converted into Treasury Bonds, for example; that is one form of conversion.

Mr. Lees-Smith: Very well, take that?—It might be quite desirable to convert them into Treasury Bonds, if you can do so at a low rate, because then you fix the maturity instead of its falling in.

223. What would be the position of the debt which we cannot repay, which does not mature until 1961 or so, and over which we have no option? Would there be any means of converting that portion of the debt before 1961?—Only voluntarily. There is no means of converting any debt except by the consent of the holder. In 1888, I think, the holder of Consols was given the option of being paid £100 for his £100 nominal Consols, or, taking a reduced rate of interest, 2½ per cent., gradually going to 2½ per cent.

224. The point I have in mind is a process of conversion to give a fall in the rate of interest of 1 per cent. The process of conversion could not be applied to the debt which we have no option to redeem until 1961 until that date?—But there is a very large amount of the debt with which you will begin

225. Yes; I am dealing for the moment with the other portion of it?—No. Of course the 3½ per Cent. Conversion Loan is being redeemed now through the Sinking Fund.

226. That means, if you include the American debt, that about £2,500,000,000 of the debt is not in a position in which any conversion scheme could be operative either at all or until 1961; that is the point I am trying to make?—Still, you can effect a very great saving.

227. I am not discussing how much you can effect; I am trying to be quite clear as to how much you cannot effect for the moment—what are the limits of the possibilities. The conclusion I come to is that you have a sum of about £2,500,000,000 to which conversion proposals cannot apply either until 1961 or until we can alter our Treaty arrangements with the United States?—I am afraid I do not quite agree, because you say "before 1961." Say in 20 years' time the conditions of the money market were much lower, you could offer terms to the existing holders.

228. Yes, you might offer terms, but I am assuming you would want an offer which will save this 1 per cent. to the State; you would have to offer a *quid pro quo*?—Supposing the rate for the value of money changed, you would have to give holders a longer dated security in order to ensure them some continuity, as has been done in the recent conversion scheme. That offer was to redeem the Bonds due in 1929 and give them a security which runs until 1941.

229. 1961 is a very long date. Have you any idea in your mind of what the lowering of interest by conversion would be? How much per cent. do you anticipate being able to save? May I put it in this way: Last year the Chancellor of the Exchequer made an estimate of this sort, and he said he thought that he might reduce on an average by 1 per cent. by means of conversion; would you accept that estimate as fairly reasonable?—I should put it at a higher percentage than that in the course of years.

230. You think it would be higher?—I think the percentage of reduction would be larger.

231. Then, of course, as a result of these conversion schemes you would lose Income Tax and Super-tax upon the sums saved to the State?—Yes.

232. I am just trying to get some idea of the yield of this whole process; it reduces the yield by about 25 per cent. probably?—Assuming that you contemplate going on throughout the century at the same rate of Income Tax and Super-tax.

233. Broadly I have put the kind of calculations that are in my mind, and you will tell me how far you do not agree with them. I began with the figure stated by Mr. Baldwin last year of 1 per cent. You deduct the £2,500,000,000 to which the process, as I say, seems to me very difficult to apply; that leaves £5,000,000,000, on which 1 per cent. is £50,000,000. You take away 25 per cent. for loss of Income Tax and Super-tax, and that reduces the total proceeds to well under £40,000,000. You see what is in my mind? Personally, I am inclined at present to suspect that these conversion schemes are never going to help us very materially in reducing a debt charge involving £350,000,000; that is the point I am trying to make?—Your argument as to the loss of revenue depends on the continuance of the Income Tax and Super-tax at their present high rates.

234. It does, yes; and so long as the National Debt continues at its present high rate?—In any case although I hope you need not contemplate raising fresh loans, one always has to bear that in mind, and if you ever had to borrow again it would be very desirable to have your debt on a 3 per cent. level rather than on a 5 per cent. level.

235. A question has been raised which I should like to get clear. You say in paragraph 3 as to sums raised by means of the Sinking Fund, that in that case the amount in the hands of the public is not decreased, because the money flows back into securities?—Yes.

236. That means that money raised by means of a Sinking Fund does not *pro tanto* diminish the

amount of capital in industry; that broadly is the position?—Yes. I agree with the flaw in that argument that Sir Josiah Stamp has pointed out.

237. There is a certain, probably slight, differentiation in the direction of the money, but there is no diminution in the total amount of the capital in industry?—No, there is not, but at the same time it has got a different sort of flow.

238. Would you for a moment isolate the Death Duties? If the money raised by Death Duties were entirely devoted to the redemption of debt, while it might alter the flow and so on, it would not diminish the amount of capital in industry; would not that follow?—Yes, that is so, if it is devoted to redemption of debt.

239. Does it not follow by exactly the same argument that if money is raised by a Capital Levy and is devoted entirely to the redemption of debt, it does not diminish by a penny the amount of capital in industry?—I was going to qualify my answer with regard to the Death Duties. The sacrifice of earning power through the realisation of the amount for the payment is much greater than the value of the flow back. The Death Duty paid is, say, 25 per cent. Of the capital employed in business and the capital employed in land, 25 per cent. up to 40 per cent. have to be realised and paid. That has to be done at great sacrifice to the existing business, which is probably broken up. You cannot replace it by the same amount of capital working in other directions. That would apply to a much larger degree in the case of a Capital Levy.

240. I just wish to bring that point out. I do not know that at the moment we are discussing the Capital Levy?—I was going to apply to the Chairman. I am not prepared to discuss the whole case of the Capital Levy, because it was not included in the questions; it was particularly excluded. I should like to have time to consider the question carefully and to come here prepared with a reasoned statement of the whole case rather than answer on the spur of the moment on a single point.

241. The reason I raised it was that it did happen that you had stated as your opinion that it would diminish the amount of capital in industry, and I therefore thought I was justified in cross-examining you on it?—Quite; that is my opinion distinctly.

242. *Mr. Bell*: I want to try and elucidate one or two things that I am not quite clear about. On No. 2, and in subsequent replies, you say that you think there is an adequate supply of capital. I think you would agree with that interpretation of your paragraphs?—That was in answer to the question. I do not know that if I had to write about the subject I would have used the word "capital." I repeated the word that had been used. Credit would be a better word. What I mean is that there is, in my opinion, at present sufficient to meet the demands of traders for the ordinary running of business by applying to the Banks to help them, but I think, as regards permanent capital, the public so far has been able apparently to supply a sufficient amount of loan capital, but not of share capital, and I think that is where at present there is a shortage.

243. That is how I thought this should be more properly put. As a matter of fact, there is not a supply of permanent capital; it is only a supply of such permanent capital as prudent investors put into debentures and mortgages, and so on.—I think I put that at the end of the answer.

244. I want to explore the question of the payment off of debt. I have heard it expressed by a financial editor in the same language that it is conceivable theoretically that in good times it is less opportune to reduce debt than in bad, because, as you say, the money which is being employed profitably at that period is better left in the pockets of the people so that profits can be made. On the other hand, it is said that in bad times it is obviously inopportune to get in this large Sinking Fund. I want to go a little further. If the times were so bad that additional taxation had to be raised to meet the Sinking Fund, would you be prepared to say that equally in bad times as in good you should always keep up that Sinking Fund, even if it were necessary to tax specifically for it?—I say that the minimum amount, whatever it is, should be maintained like the interest on your debt. The Sinking Fund should be considered as part of the interest you have to pay, and you have to provide for that.

245. Even if it were necessary to tax?—Yes.

246. I will skip No. 5 because I think it is largely dealt with in No. 10. I was looking at the costings the other day of a big works in which one of the costing charges was Income Tax, and I wondered if Mr. Hichens or others could tell us if, in the case of costing generally, Income Tax was one of the items of expenditure.

Sir Josiah Stamp: Was the Income Tax Schedule A?

Mr. Bell: No, it was on profits.

Mr. Hichens: I should say no.

Sir Josiah Stamp: I do not know how they cost it.

Mr. Bell: It was estimated obviously, but estimated from week to week very carefully, and I was wondering whether it was a common thing to do it, or an unusual thing.

Mr. Hichens: Very unusual, I should think.

Sir William McLintock: Very uncommon.

247. *Mr. Bell*: With regard to the exporter, you say that you think, as a rule, he does not take into account the tax, and that, practically, he is not handicapped. But you go on to say that the exporter may be handicapped in foreign markets, where the foreign exporter is subject to smaller taxation in his own country, and can, therefore, afford to work at a smaller profit. You seem to say that in the foreign country the exporter can do something by reason of the smaller taxation, and yet that in this country the higher taxation has no effect?—Well, if I do say that, I am wrong; I was not aware that I had done so.

248. You see your sentence there is: "Is able to afford the small profit." I have some evidence, I think, in actual practice, that men who have been accustomed to a certain income do try and keep up that income by charging on the selling price of the articles they produce the amount of Income Tax and Super-tax which they have to pay. A man keeps up the price of the article which he sells because of the heavy charge which is made upon him for Income Tax and Super-tax?—Because he is straining after profit; that is what I say in my evidence. He is trying to produce a profit which is really not legitimately earned. He is trying to put up the thing and draw any profit he can out of the business to pay that tax. He finds he has got to keep up his living expenses. Of course, every trader tries to put as high a price on his article as the market will allow him.

249. And to that extent it hampers the exporter?—I do not think I have made quite clear what I meant to imply with regard to the exporter. Take a man, say, building a railway engine here. A man in Belgium builds the same railway engine and pays less tax; he will run for a smaller profit, whereas here the man is inclined to say: "Well, I cannot run the risk of a market if, at the end, my profit is reduced by the 10s. I may have to pay out of each pound I earn." That is all. My contention generally is that the tax is not a proper charge on prices and does not come into it at all.

250. *Sir Charles Addis*: Your view, as I understand it, is that prices are governed by totally different considerations?—Yes.

251. The trader tries to get the highest price he can, quite irrespective of tax?—Yes.

252. And the effect of the tax merely must be that he shares the profit with somebody else?—Yes.

253. I think you have not done yourself justice with regard to your statement as to the exporter on No. 10. What you have in view, I think, is exporter A. in one country and exporter B. in another country,

subject to differential rates of Income Tax, competing to sell a similar product in a third country?—Yes.

254. And to that extent your statement is quite correct?—Yes: thank you very much.

255. Are your objections to the Death Duties, so far as they apply to the form of the tax, mitigated by the normal need of raising a very large revenue at present? Admitting that it is a defective form, how far is it justified by the need for raising an abnormal revenue, assuming that it would be necessary to find a substitute for it?—I think the ultimate effect on the trade of the country and the investment in this country is so injurious that the present rate ought to be reduced. I would much sooner raise the same amount of revenue out of Income Tax and not have any Death Duties at all. I think the general effect on the saving of the nation and on the whole habits of life would be far better. People will have to come to live within their means and be bound to. Under the system of Death Duties, they put too much on posterity.

256. You are quite clear that you would prefer to have an increase of Income Tax?—I, personally, should very much prefer it. I think Death Duties indefinitely hanging over a man who does not know how he will have to provide for them, and what his children will do, drive people out of business, and drive them out of the country, or drive them to adopt measures which none of us would approve of. I am speaking of Death Duties with regard to the direct line. Death Duties to distant relatives or outsiders I do not mind at all.

257. On the other hand, I suppose you would agree that Death Duties at least present this advantage that they are a better test of ability to pay since they include both capital and income. You may assess a man's wealth either on his capital or on his income?—Yes.

258. Would you agree that Death Duties have at least that advantage that they combine those two?—No, I should not say that there was any advantage. I think the keeping of capital intact in many directions where it is usefully employed is far more important than immediate income.

259. Capital is a better criterion of wealth in your view than income; do I understand you to say that?—No, I do not say that. I say the maintenance of capital as such and working for the trade of the country is more important than a reduction of the individual's net income through taxation.

260. For fiscal purposes do you consider that capital or income is the better criterion of personal wealth?—Income for fiscal purposes—yes.

261. In the case of the appreciation of shares, for example, that is caught by Death Duties but not by Income Tax?—That is caught by Death Duties. The depreciation of shares could be argued both ways. The executors have to sell at the depreciated price. The person who buys them acquires them at a depreciated value, and the effect on the country is the same.

262. There is also another advantage in the Death Duties, is there not, and that is their certainty. The Death Duties can neither be evaded nor avoided, and to that extent it is a better tax.—But my point is that they are being both evaded and avoided.

263. Well, not at the point of death.—No, but then as far as the revenue is concerned, if it has been avoided before a man's death then the mischief is done.

264. You mean the capital is moved out of the country?—Yes. To start with, there must be a very varying revenue. You get two or three big estates one year, and in the following year there may be none at all. If you go on taxing the same estate it is a diminishing, a vanishing quantity, and the revenue must be less and less from those estates. Unless you get large new fortunes created, as there were during the war, that sources of revenue will disappear in the end. You will destroy all large estates, and you will destroy all those that pay the higher scale.

265. Do you not regard the national income as rather a stream that is being fed from affluents all the time?—Not to the same degree. I think you are cutting down the great wood and the trees are not going to grow so fast. Say you have got an estate that pays 40 per cent.; that estate is reduced to a smaller scale. Next time the estate comes in for taxation it is only 60 per cent. of the original estate. Then the same operation takes place, and gradually it comes down and you do not get the same revenue from it, or you do not get any revenue. Estates that come in for this taxation within short periods less than a generation, as has been the case—twice or three times in 10 years—disappear from a revenue yielding point of view altogether.

266. You do not think that there is a continual process of growth going on by which other estates are taking their place?—I think you destroy them more rapidly than the growth. Of course, we do not see it, as I tried to explain, in the returns, because the War has produced a growth of certain fortunes in a few directions.

267. Your point is that it is a reduction of the national wealth?—Yes; but the War has produced new fortunes which have taken the place of those that have been destroyed.

268. When we get to normal times, in your view the effect of the Death Duties would be a gradual reduction of the national income?—I think it would be gradually reduced.

269. And the national capital?—Yes.

270. If, for example, the Death Duties were applied to the repayment of debt, so that there was merely a re-distribution, is it your view that still there would be a loss?—There would not be the same loss to the national revenue, but I think there would be a loss to the national income and to the national prosperity—to the national creation of wealth.

271. If it passed into less productive hands there would be a loss to the production of national wealth?—Yes.

272. I suppose that would be at least mitigated by the fact that most of the money would go into the banks, who would have the re-distribution of it. What I have in view is the case of the hosier who was put forward—the linen draper—who would not have the same opportunity of obtaining the money in the London market as the large company. I suggest that that is not quite the case, because through the action of the banks, through whom the money flows, the small producer is relatively not much worse off than the large?—Yes, but it does not come back to him immediately, although eventually it flows back to the whole trade of the country. It is used in a different way, and it is not so productive.

273. Let me put it quite crudely. Supposing that a large company A. has paid a large amount of money in taxation and thereby had to impinge upon its capital?—You are off the Death Duties now.

274. I do not think it matters which tax it is, as long as the effect is the same. Supposing by the death of one of the partners his money is withdrawn, what advantage would they have over the small producer; would not both one and the other go to their bank to fill up the gap?

Mr. Bell: Might I ask, would not the big man be already a bigger borrower than the little man?—(*Witness*): Exactly; you come to a point when the bank is not going to help them any more.

275. *Sir Charles Addis*: If the wealth is redistributed only?—The total resources of that concern are so destroyed by the withdrawal of capital that he has not got the same credit with the bankers that he had before, and therefore he does not get back his share of the reservoir that is in the hands of the banker.

276. The banker has to find some other outlet in order to employ those accumulated funds?—Yes.

277. And your view is that he finds that with the small producer?—Yes.

278. If not with the large, then with the small?—Yes.

279. That in itself might be a good thing in the encouragement of enterprise; it would be new blood?—No. It is a very good thing and I hope the bank will be able to do both, but the destruction of one large concern in favour of a number of smaller concerns would be very disastrous, if we have to compete in the world trade, because production and distribution, as you know perfectly well, better than I do, have to be done on a large scale now.

280. I wanted to make that point. If there is any advantage at all the advantage is on the side of the small manufacturer or shopkeeper?—I do not think that I agree to that at all.

281. Then I am still at a loss as to what becomes of the money?—I think the advantage to the trade of the country is the maintenance of the large concerns that can compete, and particularly in the times that we have before us now.

282. To turn to the question of saving; as a mere psychological question in your experience, do you not think it is six to one and half-a-dozen to the other; that there are certain people who are deterred from saving by increased taxation and a certain number who find it an incentive?—That is so. It is merely a psychological question, and it is a question which one is really afraid to answer, because although one may judge from the instances that may come before one, this may not be a good guide to what is taking place all round, but I have heard the opinion expressed in all classes right down to the wage earner, "What is the good of saving."

283. Take the case of the man, for example, who wishes to provide for his children at his death; would he be deterred from doing so by the Death Duties, or would he be incited to increase the amount he would otherwise provide?—I am afraid he does not think enough about it. He says they will have to look out for themselves and somebody will provide for them. That is the answer I have received in many quarters where I have been surprised to get it.

284. I do not think you will get that answer in Scotland?—Probably not.

Mr. Lees-Smith: Nor in Yorkshire.

285. *Sir Charles Addis*: With regard to what you said upon the operation of the Sinking Fund in good times and in bad, would there not be a danger of reducing production by enforcing your Sinking Fund in times of depression in the same way as in times of prosperity?—No. I do not think that would change my opinion on that point.

286. *Mr. Bowen*: When you talk about destroying capital, I take it you do not mean the destruction of wealth?—Well, the word "capital" as I have used it is the term which we have used in business—the thing that is working a business, and I do mean the destruction of wealth also, because I think that follows.

287. But can you say that wealth can actually be destroyed unless you have a war, where you blow it to pieces?—The wealth is destroyed in many directions. It depends again what you describe as wealth—whether you mean material wealth. I think a man's brain is his wealth and the best wealth; it does not destroy that.

288. In this re-distribution of wealth upon which taxation has an effect your view is that to take it from large concerns and put it into the hands of small ones is not conducive to good trading?—If the effect is to destroy the larger ones.

289. Is it not just the ordinary cycle of events, that these changes will occur whatever you may do to try and avoid them?—I am afraid our experience is in a different direction. Of late years the tendency has been for the creation of huge concerns rather, much larger than I care to see. That applies even to great banks, if Mr. Bell will forgive me for saying so, but we were compelled to do it by force of circumstances. Big manufacturing concerns in all parts of the world have arisen, and I think they are able to work to better advantage than a number of smaller ones.

290. I am being confused with certain questions and answers that I have heard. First, I heard the view that capital was being re-distributed and taken out of the hands of huge concerns and was now drifting into smaller hands. Now you tell me that you fear the existence of trusts is not good. I had in mind the idea all the time that trusts had been growing up?—I have not used the word "trusts," if you will forgive me for saying so.

291. Perhaps I ought not to use it either; I will use any word you like?—The word "trust" conveys a meaning which perhaps none of us would wish to imply; it means something which is not beneficial to the community.

292. I do not mean that. I used the word "trust" in the general acceptance of the word—in the American sense of the word. What I mean is production on a large scale?—Yes.

293. What I want to get to is this: you agree that a distribution of capital, say, in the sense of Death Duties, when it is taxed as it is, is bad for the estate. What I would like to know from you is, do you agree with me that if that is bad in comparatively a small measure for an estate upon which Death Duties are charged, the same thing must be held to be sound when applied to the State as a whole in regard to a huge National Debt which we carry?—This is an entirely new aspect that is put to me. I am asked: You look upon the State as a general business? We are carrying on a large business called the United Kingdom which has a big debt, and your argument, if I take it right, is: Let us reduce the debt and therefore we lighten the burden to everyone. Of course, your question leads up to the Capital Levy; it is the argument of the Capital Levy.

294. Not necessarily?—Well, it tends that way, whether you call it Death Duties or not. I think Death Duties are a form of Capital Levy.

295. I wanted to get to one or two other points that you have referred to, if you do not mind. You have spoken about the confidence which is necessary in the country to maintain the credit of the nation?—Yes.

296. Then you indicated that the existing Sinking Fund was round about the sum that you would maintain it at, which is something like £50,000,000 a year or less?—Yes.

297. If it is bad to split up an estate and to tax future generations, is it not equally bad that we should go on contemplating a huge debt, only paying off £50,000,000 a year?—We have done much more than £50,000,000 a year. As the Chancellor pointed out, we have paid off an amount equivalent to the whole of the National Debt before the War.

298. I was rather taking your own figure?—That is the figure which has been fixed, and I said that must be the minimum, but events have proved that the figure has been very much exceeded, and I hope it will be.

299. The next point I want to ask you is: what is your view as to the line of demarcation of the weight that industry can bear?—I think myself that we have just about come to the limit; that industry cannot bear very much more than it is doing at the present time, or the public at large, I think. At the same time, taxation is necessary. I think I would much rather have the taxation in a form which is not destructive of future earning power.

300. In effect, you believe in direct taxation and not indirect taxation?—Now you are coming to the fiscal question.

301. I did not want to introduce that, but I thought that was in your mind?—I have been a Free Trader all my life, and I believe in direct taxation. I have always been a supporter of direct taxation, but there may be times when it becomes too heavy. I am also a believer in the doctrine that taxation and representation should go together,

and therefore taxation either direct or indirect should be so distributed that all classes share the burden.

302. If confidence is necessary to restore the credit of the nation, and if capital has been so distributed as to fall into the hands of different people, how far can it be wrong in your opinion to redistribute taxation?—I am afraid I have not followed.

303. If capital has been distributed, as you say, going from the hands of big concerns to smaller ones. I gathered you said that it was difficult to get share capital because of existing high taxation?—It is difficult to obtain new capital, and it would be more difficult than it has been.

304. If that is so, it cannot be in business; it must be somewhere else?—No; it is not in existence.

305. If the banks are able to find loan capital, there must be some credit in existence?—The banks are able to find loan capital for temporary purposes, but not for permanent purposes; it should be remembered that the amount the banks have to dispose of is based on their deposits and must be a varying quantity, which is ultimately dependent on the prosperity and well-being of the country.

306. There is no actual stoppage; there is a continuance of loaning of capital?—Yes.

307. That presumes the existence of some form of wealth; certainly there is credit to be obtained?—I would use the word "credit" rather than "wealth," because the very fact of what the Banks are able to do is only based on credit again.

308. But do not you presume in all this conversation we have had about capital and savings that with the capital we have there is going to be no production in the future; cannot we assume that the existing capital would be utilised to produce more capital? Let me put this final point. Assuming that there is going to be high taxation do you believe that there is no possibility of recovery at all?—Oh no; I am a great believer in recovery. I am a great believer in the future of the country.

309. To the extent that the country can restore its credit and secure the confidence of other nations?—Yes.

310. And to the extent that the individual members of the community can bear a fair share of their personal responsibilities?—Yes, and that all members of the community are willing to contribute a share of working and of working hard. If that is the case, I personally have not the slightest doubt that even with the existing burdens the country will recover and will be able to redeem its burdens much sooner than is generally expected. I am unwilling to give a number of years, but in a reasonable period, within the time of a generation or so, you might probably reduce the interest charge by one-half.

311. I am glad to hear that, because it is rather encouraging after what I understood you to say in reply to Sir Charles Addis when you said that you contemplated there would be a reduction of income and a reduction in many other ways. You do agree as to the prospect of recovery provided we can get this restoration of good social order, if I may use the term—the desire to work and produce?—The desire to work and produce—those are the very words—and by all classes, every one of us.

312. *Sir Charles Addis*: I just want to suggest for one moment to Sir Felix that what I understood him to say in reply to my question was that, in his view, so far as Death Duties were a factor, the national capital and the national income would be reduced too, but clearly there were many other sources from which it might be increased; did I interpret you correctly?—That is my view. I think the Death Duties are an adverse factor in many ways as an actual fact and a decreasing source of revenue to the State, and also, from a psychological point of view, in preventing people from facing their difficulties.

313. I only want to bring out that you did not think there were not favourable factors because you dwelt on one unfavourable?—No. Perhaps you may have seen a few remarks I made in a different place the other day about which I have been taken to task for being too optimistic.

314. *Chairman*: You have been under examination now a long time, and if you feel you would like to stop now, I think perhaps any remaining questions might be put to you in writing?—I shall be happy to come again at any time you may appoint.

Chairman: We are very much obliged to you.

(The Witness withdrew.)

(Adjourned to Monday morning at 10.30.)

SECOND DAY.

Monday, 5th May, 1924.

Present:

The Rt. Hon. LORD COLWYN, *Chairman.*
Sir CHARLES ADDIS, K.C.M.G.
Sir ALAN G. ANDERSON, K.B.E.
Sir ARTHUR BALFOUR, K.B.E.
Mr. HENRY BELL.
Professor FRED HALL.
Mr. W. L. HICHENS.
Mr. H. B. LEES-SMITH.
Sir JOSIAH STAMP, K.B.E.
Mrs. BARBARA WOOTTON.
Mr. G. R. HAMILTON, *Secretary.*
Mr. G. ISMAY, *Assistant Secretary.*

The Rt. Hon. Lord Clinton, representing the Central Landowners' Association, and Mr. H. W. Carlton, F.S.I., F.L.A.S., representing the Land Agents' Society, called and examined.

Evidence-in-chief handed in by Lord Clinton and Mr. Carlton.

1. The Central Landowners' Association, which has established forty-five County Branches, is the representative organisation of owners of agricultural land in England and Wales. Its present membership includes not only the majority of owners of the larger estates, but also a considerable and increasing number of occupying owners of single farms and of smaller areas of agricultural land. The agricultural landowner exercises an important function in the production of home-grown foodstuffs, in the majority of cases directly where he farms the whole or part of his land, and in all cases as the source of at least two-thirds of the total capital invested in the industry in the form of land and its permanent industrial equipment.

2. The Land Agents' Society, which has also established a system of County Branches, represents the management of many millions of acres of agricultural land in England and Wales, and is therefore intimately concerned with the matters coming within the scope of the reference to the Committee.

3. The evidence submitted by these two bodies deals with the effect of taxation upon agricultural land.

Burdens on the Land.

4. Existing taxation, *i.e.*, national and not local, is levied on the land in the form of Death Duties, Income Tax (including Super-tax on the larger estates), Land Tax and Inhabited House Duty, the two latter being peculiar to real property. The cumulative effect of these burdens, augmented by the present high rate of Death Duties and Income Tax, presses with great severity upon agricultural land, and, in conjunction with the increased cost of maintenance of buildings and other works, directly lessens the power of the owner to maintain the land at its full efficiency and adequately to house those employed upon it. Development by reclamation, drainage and afforestation is also largely curtailed, thereby preventing an increase in rural employment. The prosperity of agriculture and other rural industries, and the number of workers employed in them, depend in a large measure upon the ability of the landowner to maintain and develop his estate for productive purposes.

5. While it is understood that the incidence of local rating does not come within the scope of the Committee's reference, it should be remembered that local rates have to bear the cost of services such as police, education, main roads and poor relief, which after exhaustive consideration by public inquiries have been described as national services that the State requires to be undertaken, and which therefore should more properly be the subject of national taxation.

Death Duties.

6. We desire to draw special attention to the effect of the Death Duties, particularly the greatly increased and more steeply graduated scale of Estate Duty imposed by the Finance Act, 1919, upon the agricultural industry as a whole. The disastrous effects not only result in the disappearance of an agricultural estate in its original form in two or three successions at most, but the whole farming industry is seriously prejudiced by the removal of capital urgently required for the equipment and development of the land, more especially in the present depressed state of the industry, when additional capital is its crying need, and the prospect of increasing rural unemployment is rapidly becoming a grave national danger.

7. Compared with other forms of property, Death Duties press with exceptional severity upon agricultural land, because it has a market value relatively far in excess of its income-producing value, and also by reason of the basis of valuation adopted in practice. The land is valued at the estimated price in the open market at the date of the death, no reduction being made for the effect of placing the whole of an estate upon the market at one and the same time. It is the practice to value each occupation separately on the assumption of a sale in lots.

8. The result of such a valuation is a sum in most cases in excess of the amount which an estate would realise as a whole, and far greater than the capitalised value of the average net income receivable by the successor, who, being unable to meet the duties out of a property which gives a very low return, is forced either to mortgage and further cripple his resources, or to sell the whole or part of his inheritance. In the event of a sale in somewhat the same lots, a great disturbance of tenant-farmers follows and also a serious displacement of labour. Men employed on estate building staffs, in the woods, and on general estate work, apart from such men as gardeners, keepers, etc., have to be dismissed, and very frequently fail to find other employment. No such ill-results arise when estates invested in Government or other funds become subject to the duties; the loss,

great as it is, falls mainly on the owner and his family, while the break-up of an agricultural estate must adversely affect a whole district. If, on the other hand, the successor decides, from a desire to maintain a family property intact, to incur the burden of a mortgage, the effect is to reduce his ability to maintain his estate efficiently; expenditure on maintenance is curtailed, a number of men discharged, and not infrequently the mansion house (for which a tenant can seldom be found) is closed and dismantled, causing a loss in national and local taxation through the consequent reduction in assessable values.

9. While we are aware that all classes of property are subject to Death Duties, it is submitted that their incidence operates unfairly on agricultural estates as compared with other forms of property. We therefore respectfully put forward the following suggestions for a more equitable adjustment of the burden, recognising that in present circumstances the desired reduction of the scale of duties, although urgently required, may be a matter of great difficulty:—

(1) Regard should be had to the fact that the income from agricultural land is less in proportion to its market value than that from any other class of security, and that, where the estate is not sold, the Estate Duty should be levied upon a fair capitalisation of the net income.

(2) That agricultural estates passing upon a death should be valued for Death Duties as a whole, and not in lots.

(3) That the cost of realisation (which is greatly in excess of similar costs on an estate in the Funds) should be accepted as a deduction.

(4) That payment should be spread over a longer period of years.

(5) That a reversion should be made to the former method of levying the duties once only during a settlement, or alternatively, that in the case of a tenant for life regard should be had to the expectation of his interest in the estate.

(6) That in cases where estates are not in settlement, the period within which relief is given in respect of quick succession should be extended from five to fifteen years.

(7) That the precedent for the encouragement of thrift established by the allowance of Income Tax on life insurance premiums should be followed by providing that specially ear-marked insurance policies, payable direct to the Commissioners of Inland Revenue for liquidation of Death Duties, should not be aggregated with property passing at the death of the assured.

Income Tax and Super-tax.

10. The total income derived from land is assessed under two Schedules: the annual or rental value accruing to the owner under "Schedule A," and the annual profit accruing to the occupier under "Schedule B." Where an owner also occupies the land he is therefore liable to assessment under both Schedules on the annual values of ownership and occupation respectively, and if his total income from all sources exceeds £2,000, he is liable to the additional duty of Super-tax, and the amounts of both assessments have to be included in the return of the total income.

Schedule A.

11. Previously to the current financial year, owners of agricultural land paid Income Tax under this Schedule on an assessment which, in the majority of cases, exceeded the net income from the land. Up to 1894 no deductions were allowed for the cost of maintenance, and since then statutory allowances, although gradually increased in amount, were subject to limitations. Recent concessions, especially the extension of the scope of the "Maintenance Claim" in this and subsequent years, will, it is anticipated, go far to remove the grievance of the landowner that he was not assessed upon his net income, according to the practice of assessment of profits arising from trade under Schedule D.

12. We would draw attention to one point which operates to discourage expenditure on maintenance at a time when arrears of work, due to conditions brought about by the War, have still to be faced. The "Maintenance Claim Rule" provides that "the total cost of the maintenance, repairs, insurance and management on any land *managed as one estate*, or of any houses on any such land, shall be compared with the total annual value of the land or houses, as the case may be," and also, if the owner of any land or houses to which the rule applies shows that the average cost to him of maintenance, etc., has exceeded the statutory allowance for repairs, he shall be entitled "to repayment of the amount of the tax on the excess." This is held to mean that the owner can recover through the claim no more than the amount of tax payable on the estate in respect of which a claim is made. So that where two estates are owned in different parts of the country in respect of which two distinct claims are made, if the average expenditure on one exceeds the amount of the Schedule A assessment, and *vice versa* on the other, the loss on the former cannot be set against the available balance of assessment on the latter, although the estates belong to one owner who is taxed as an individual on his total income from all sources. It is submitted that any balance of average expenditure over the assessment of an estate in respect of which a claim is made should be allowed against income received from other sources.

13. With this adjustment the assessment under Schedule A would be equitable. But while the average cost of *maintenance* would be allowed, all expenditure on *improvements*—none of which are allowed at all in the maintenance claim—and on such replacements as may increase rental value is subject to Income Tax, and on the larger properties to Super-tax in addition. The real trouble is that the abnormally high rates of Income Tax and Super-tax exact so heavy a toll that outlay on development is penalised, and in many cases the taxes are being paid out of capital.

14. It should be noted that the amount of interest which can be charged on new works and improvements, more particularly where the expenditure is forced upon the landowner to meet changes in agricultural practice, is limited by the letting value of the holding in the open market, and consequently in the present condition of the agricultural industry such expenditure, increased to a prohibitive extent by taxation upon it, holds out little or no prospect of a return.

Land Tax and House Duty.

15. Attention is also drawn to these taxes which, although relatively smaller in amount, increase the cumulative effect of burdens on the land in this country. Both are charged on the full annual value without deduction for cost of maintenance. Land Tax is an additional charge on production and discourages development; it is submitted that the terms for redemption should be made more favourable to the taxpayer. House Duty, which includes within its scope farmhouses of an annual value of £30 and upwards, is in effect an additional rate upon a dwelling-house, and might well be diverted to Local Authorities towards the relief of local taxation.

APPENDIX A.

Analysis of Receipts and Expenditure in 1919 and 1920 on ten Agricultural Estates in England and Wales. No personal or capital expenditure was included, and the following was the average result:—

Area ... 16,768 acres. Gross Rental ... £20,381 9 2

Expenditure.	£ s. d.	
Tithe Rentcharge	1,997 17 6	
Land Tax	137 1 11	
Rates on Cottages and Allotments	261 8 11	
Insurance	201 12 6	
Repairs and Replacements	6,113 13 10	
Management	1,452 15 2	
Sundry Compulsory Charges	289 17 3	
Pensions to old Employees	307 6 10	
		£10,761 13 11
Net Income (subject to Income and Super-tax)		£9,619 15 3

Note.—Out of this net income the landowner has to meet the cost of upkeep of mansion house and grounds, subscriptions and donations incidental to land-ownership, improvements other than those necessary to maintain rents, make provision for Death Duties, and in the majority of cases pay jointures and other family charges, and mortgage interest.

APPENDIX B.

Comparative Statement.

Valuation for Death Duty Purposes of an Estate in Agricultural Land, and of an Estate in Consols.

(1) Estate in land, producing a net income of £9,619, as shown in Appendix A:—

Gross Rental ...		£20,381 9 2
Deductions.	£ s. d.	
Tithe Rentcharge ...	1,997 17 6	
Land Tax	137 1 11	
Rates on Cottages, &c. ...	261 8 11	
Repairs and Insurance, 20 per cent.	4,076 4 0	
Management, 5 per cent.	1,019 1 0	
Compulsory Charges ...	289 17 3	
		£7,781 10 7
Estimated net Income for Valuation purposes		£12,599 18 7
Years Purchase ...		22
		£277,198 8 10
say—£277,200 0 0		
Value of Mansion and Contents, Grounds, Woodlands (excluding Timber), Employees' Cottages, &c., not included in above rental £75,000 0 0		
Estimated Capital Value for Death Duties		£352,200 0 0
Estate Duty on £352,200 at 23 per cent. ...£81,006 0 0		

(2) An Estate in 2½ per cent. Consols producing a similar net income of £9,619:—

Nominal Capital Value—£384,760.

Actual Market Value at 57 per cent. ...	£ s. d. 219,313 0 0	
Estimated Value of Residence and Contents	25,000 0 0	
		£244,313 0 0
Estate Duty on £244,313 at 20 per cent. ...	£48,862 0 0	

Comparison of Results.

Difference in favour of Consols—

Estate Duty.	*Capital Value.*
£32,144 0 0	£107,887 0 0

Assuming that in each case the amount of the Duties is raised by mortgage, (1) £81,006 at 5 per cent. = Annual Interest £4,050, (2) £48,862 at 5 per cent. = Annual Interest £2,443, and deducting these amounts from the net income, £9,619, the remaining income from (1) the Landed Estate is £5,569, and from (2) the Consols Estate is £7,176.

Difference in income in favour of Consols = £1,607.

APPENDIX C.

An Estimate of the Average Amount of the Statutory Burdens on Land in England and Wales.

	Per Acre. s. d.
Income Tax, Sch. A. (net amount of tax on annual value after deducting average cost of maintenance)	2 3
Income Tax, Sch. B. (on an assumed occupier's profit equal to the annual value, less 10 per cent. earned income allowance)	4 0
Tithe Rentcharge (average amount as estimated by the Ministry of Agriculture) ...	3 6
Land Tax (varying from 1d. to 1s. in the £)	0 9
Local Rates (at 11s. in the £ on farmhouses and buildings and 2s. 9d. on the land) ...	4 0
Total	14 6

Equivalent to 48·33 per cent. on the estimated net total return from ownership and occupation of the land. Super-tax at a varying rate according to amount of income would be added in the case of the larger Estates.

The above estimate is made on the assumption that the average rent (including Tithe) of agricultural land in England and Wales is 20s. per acre, the assessable value for Schedule A. being 10s. after deducting Tithe and 33 per cent. as the average cost of maintenance, repairs, insurance and management. Taking the average occupier's profit at 20s., the total net return would be 30s. per acre. House Duty on the annual value of the farmhouse is not taken into account.

In comparison it may be mentioned that the United States Government published the results of an enquiry for the year 1921-22, which showed that the average total of all public burdens, central and local, upon farm lands in the U.S.A., amounted to about 3s. an acre.

(Appendix D. summarising the annual accounts of various Agricultural Estates is not reproduced.)

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315. *Chairman*: Mr. Carlton, you take the place of Mr. Fisher?—(*Mr. Carlton*): Yes; Mr. Fisher unfortunately could not come.

316. *Chairman*: Lord Clinton, if you like to read your statement you can do so, or, if you prefer, take it as a basis for your statement clause by clause?—(*Lord Clinton*): I think the latter course would be more convenient.

317. You were Parliamentary Secretary of the Board of Agriculture?—Yes, for a short time.

318. And you are now a Forestry Commissioner?—Yes.

Perhaps I need not deal particularly with the first three paragraphs, which deal mainly with the position of the bodies that are giving evidence before the Committee. We represent a considerable number of agricultural landowners, and the Land Agents' Society, of course, represents the agents who are interested in a very large acreage of agricultural land.

If I may deal with paragraph 4, that is a recitation of the different taxes which fall upon land, and we state that the cumulative effect of those burdens together with the high rate of Death Duties and Income Tax has a very serious effect upon the agricultural industry. I should prefer to deal mainly with the Death Duty side of the question and leave my colleague to deal with the other taxation. Of course, they overlap to some extent. May I just say with regard to these burdens that it is quite clear, I think, that in a case like land, where so large a proportion of the rental of land has to go towards the maintenance of an estate, that is, buildings and equipment of farms—any great taxation must lessen the power of an owner to keep up and maintain his estate in the condition which we consider necessary for the proper carrying on of the industry. That is so clear that I do not think I need argue it, but I think one may say quite roughly that the heavy taxation, without any charge for past Death Duties, almost takes away what was formerly the free income. Consequently something has got to go in order that the estate may be maintained. The first thing that goes, inevitably, is the improvement of land and development, reclamation, drainage, forestry. It is out of the power of owners who have no income except from the land to apply any money towards those purposes, and the result must be serious, particularly in the way of employment. Labour which used to be maintained for that purpose now has to go. I regret that very many owners are no longer replanting the land which hitherto has been growing timber, and the dismissal of this class of labouring staff hitherto employed in the work has certainly already had a considerable effect upon employment in the rural districts. An owner will endeavour, I believe, having cut out these not absolutely essential matters, to maintain the estate in buildings and equipment so far as it is actually necessary for agricultural purposes, but I think I can show you when you come to figures that, although owing to the increased prices there is a larger amount being spent on that ordinary maintenance to-day than there was before the War, there is actually less maintenance being done. I do not want to argue that for the moment if I may deal with it when I come to figures.

With regard to the Death Duties, they are of course a very large heavy capital taxation; they are difficult to provide against, not only on account of the fact that the free income is hardly sufficient to provide any means for the purpose, but on account of their very uncertain incidence. The burden of a capital tax is felt, not only on account of its actual amount, but on account of the frequency of its application, and we say in our memorandum that the effect will be the disappearance of the agricultural estate in its original form in two or three successions at the most. In two or three successions at the most the estate must go, and you cannot provide against an uncertain burden of that kind except by some form of insurance. The trouble about insuring against Death Duties is that money specially provided and really earmarked for the payment of duties becomes aggregated with the whole of the estate, and, now that there is so steep a graduation of duty, this may result in increasing the rate of duty over the whole of the estate plus the added value of insurance, until by that increased rate a very large part of any savings is lost. I am afraid that does make owners exceedingly unwilling to adopt that form of provision, with the result that in too many cases no provision is made. That, I think, must have a serious effect on the whole capital of the country. It is quite contrary to our ideas of the necessary application of thrift for this purpose, and we do feel, and we have suggested to several Chancellors of the Exchequer, and got a large amount of sympathy—but nothing else—that where there is life insurance, or any form of actual provision, really earmarked in the hands of the Inland Revenue, or anybody else you please, for the payment of these duties, at all events that should not be aggregated with the remainder of the estate. I should like to suggest that insurance should not pay duty at all, but I think the first step is to ask that it should not be aggregated with the estate. I believe a really large provision would be made in that case for the payment of these duties, and consequently for the keeping up of the capital value, not only of the land, but of other forms of property. With regard to the other ways of providing for these duties there are probably three: either by sale or part sale of an estate, by a mortgage, or by bringing in outside money for the purpose. The last has been done, no doubt, very largely in the first or second dose of Death Duty.

319. What do you mean by outside money?—I mean that very often an owner of an estate has money invested in the funds or elsewhere, and to save burdening his estate he will sell out those investments and pay the duty with them, but clearly that cannot continue very often because the money goes. Mortgages are difficult to obtain, even at a high rate of interest, and a larger margin is required with land than used to be the case. This interest charge lessens so greatly the free income of the estate that an owner is almost bound to sell to redeem himself of the burden.

With regard to the sale of estates, at one time, a few years ago, there was an active sale of estates in land; it has rather ceased now. It has not been a very profitable form of investment to those who purchased. Most of them would prefer to remain tenants than become owners. I think it is unfortunate; I wish they were owners; but the general idea is that they are better off renting land than they are in being owners of land, partly on account of the onerous taxation. It is almost impossible to sell an estate as a whole. There are very few people in the market for it; most people are unwilling to buy, for the same reason as an owner is obliged to sell; that is mainly on account of the incidence of the Death Duty which presses more seriously, as I shall endeavour to show you later, upon a landed estate than it does upon an income in funds. That is one of the reasons; it is not the only reason why men are not willing now to accept the responsibility and the cost of owning a large estate. If an owner sells at all it has to be in lots, and in those cases tenants have bought, because they would rather buy than go, but they do not usually want to buy. But the effect upon the district is, I am afraid, a very serious one. The bulk of the staff of a large estate would certainly be dismissed, not only those who are employed about the person of the owner, gardeners, keepers, &c., and people of that kind, but the building staff, frequently a very large staff, would disappear. The woods staff, so far as it has not gone already, would go; drainers, fencers and others would also disappear; and so far as employment alone is concerned, the effect on a district may be almost disastrous. In addition, of course, in the upkeep of an estate a large owner will employ a great number of local tradesmen, small contractors and others, and it is not the least to be expected that when the estate is split up and the men owning it are really dependent upon their farming profits, that the equipment or building of the estate will be kept up in anything like the same fashion. I believe the breaking up of an estate, although perhaps in theory and politically quite sound, has economically and socially an adverse effect upon a country district.

Then may I just go one step further in the case of selling by lots? You can sell farms if they are in good order. In the first place, you would sell the farms that are in the best order, because people are not very willing to buy farms where the buildings are not well kept up, and the cost of repairs, of course, will fall on those who purchase them. The greatest trouble is in regard to the mansion house, which is, generally speaking, quite unsaleable. A high value is put upon it for Death Duty purposes, but if it is a large house, when you come to put it on the market nobody wants it. I could show you that the larger houses now are thrown in at no cost whatever when you buy the land, and yet they have to pay duty. The position of the mansion house and gardens, &c., is really one of the serious problems in this matter, both of cost of upkeep and of duties which may be levied upon them.

320. Is the mansion house always valued for Death Duties at a big price?—Big prices are put upon houses in good order.

321. You say that there are some that cannot be sold and are of almost no value; do the Government put a tax on them if you can prove that they are of no value?—I speak under correction, because I have not had anything to do with the valuation of mansion houses, but I dare say my colleague can help you. The assessable value of the mansion house would be taken at so many years' purchase. (*Mr. Carlton*): Yes; I believe that is the usual practice. (*Lord Clinton*): It has a value whether anybody can enjoy it or not. The value is there for assessment and rateable purposes, and the capital value I understand would be a certain number of years' purchase. (*Mr. Carlton*): Yes. We have come across that rather strongly with regard to the revaluation. A great many of these mansion houses are absolutely unlettable, but the district valuer as a rule will not take that into consideration. He says: "What would you let it at if you could let it?" (*Lord Clinton*): Now may I pass on from that? I think I have covered now really most of the ground with regard to the Death Duty question until I come actually to the figures.

322. You suggest that if you insure for Death Duties the amount of the money which you receive from that should not go into the aggregate?—Yes.

323. But supposing you insure for £100,000 and your Death Duties turn out to be £60,000, how will you deal with the balance?—I think quite clearly the balance would be aggregated to your estate.

324. You want immunity for the amount of the duty?—Nobody wants to have the duties increased. I do not want to have them increased by moneys which I have actually put aside to pay the duty.

325. *Sir Arthur Balfour*: Would Lord Clinton deal a little more with paragraph 5; it is a very important point, and he did not mention it at all; that is the question of local rates which should be really national taxation?—I did not deal with it because I did not think it came within the scope of your inquiry, but I will be very glad to do so.

326. *Chairman*: The Chancellor has stated that we are not concerned with local rating, although your point is extremely interesting?—I am quite glad to answer if the Committee wish to have it, but I did not deal with it because I thought it was not within the scope of your inquiry.

327. *Chairman*: It is an interesting point, and although it may not quite come under our reference, I think there is no harm in hearing it?—It has always been a sore point with local ratepayers that so large a portion of the burden of services which we regard as national services, such as main roads, should fall upon them, and that the general taxpayer should pay nothing towards the upkeep of roads. The only amount that is paid towards upkeep of main roads is, as you know, an assignment of vehicle tax which does not come directly out of the ordinary taxpayer who makes use of the roads. A Committee sat upon this matter, including many other things, two years ago—a Committee of some importance, because I think it was the first time that owners, occupiers and workers ever sat down round a table together and at the same time came to an agreement. We did definitely decide to ask the Government to lower the general rate upon agricultural land and at the same time to make a larger charge upon taxation for those services which were actually national services. We got a ready response to our request for a lowered rate on agricultural land, but we have been told to wait for any further dealing with this national service until the Rating and Valuation Bill has been passed. Strictly speaking, from an owner's point of view it may be almost as broad as it is long—what I do not pay in rates I pay in taxes—but certainly from the occupier's point of view it is exceedingly important that he should not be charged for the upkeep of roads which he does not want. He wants the roads, but he does not want them kept up in the way they are kept up; they become dangerous for his own horses and they are really made now for the convenience of the motor traveller who may come from New York or anywhere else in the world.

In paragraph 9 we deal with a certain number of suggestions which we think should be considered with regard to the Death Duties. The first is that land returns a very low rate of interest upon the capital value. It is difficult to say what the actual rate of interest is, but we put it generally at about 2 to 2½ per cent. I do not believe it is really much more than 2 per cent., but I cannot give you the figures.

328. 2 per cent. net?—No, the gross value. Let me be quite certain that I understand.

329. Will you get 2 per cent. return on your money after paying all the charges and taxes, Imperial and Local?—No Before deduction of Imperial taxes (*Mr. Carlton*): That is rather shewn by the figures, I think, of the results of the different estates; they vary so enormously with the estates.

330. Lord Clinton says it is about 2 per cent.; I was wondering what 2 per cent. means?—(*Lord Clinton*): I do not know really, I admit. I have often been asked the question what does it pay, and it is so difficult to say. One estate may pay a very large percentage; other estates may pay something very small. It is one of our extreme difficulties in putting forward anything like an average return from estates I think it easy to see that on an estate with large farms, particularly sheep farms, the gross and net income are almost the same, subject to taxation, but when you come down to the arable districts with an estate consisting perhaps largely of small holdings, or, particularly largely of cottages, then your net return probably is not sufficient to pay the taxation; but on that actual point I am really not quite certain how to answer. We know that it is a very low yielding security and gets a capital value higher than its income represents in another class of security. In passing I should like to put before you quite an interesting return got out by the Land Agents' Society in 1919 in which they endeavour to show what percentage the actual rental of the land represents on the cost of the buildings and equipment of the estate—putting aside land rent altogether, how much does the income represent as a percentage upon the capital expenditure upon the estate? They ascertained the pre-war cost of equipment—that is visible equipment; not equipment that has been replaced and lost, but the actual cost of the buildings and fences, and other things, which are now visible. They take that as £16 an acre, but with certain adjustments they put it at a slightly higher figure. This return is an average of 27 estates, and the net result of this appears to be that, while in four cases the rent represents an interest on cost of equipment of 5 per cent., the average is 3·66 per cent.

There is no land rent; that is interest on the equipment alone.

331. *Sir Arthur Balfour*: Just let me understand those figures. I take it that the expenditure is the total cost of the buildings, fencing, and so on?—Yes.

332. Then the percentage which has been read to us is the rent without any deduction for repairs, renewals, or anything else; is that it?—No. I beg your pardon. I am not fully acquainted with this. The outgoings allowance for repairs is calculated at pre-war rates so that the percentage will undoubtedly be reduced by the higher rates now prevailing.

333. So that it is really the return on the capital expenditure?—Yes, without taxation.

334. *Chairman*: You are quite certain on that point; it is without taxation?—It is without taxation a return upon the actual money expended on the land and buildings. There is no land rental in that at all.

335. *Professor Hall*: I thought you mentioned that it bore pre-war taxation?—Pre-war costs, not the cost that would be necessary to replace the buildings at present prices but the average cost at pre-war rates.

336. *Sir Arthur Balfour*: That is really a net return subject to taxation?—For the capital and buildings only.

337. On your capital invested?—Yes. The land rent is excluded. I can put this in if you like.

338. *Chairman*: Very well.—Then with regard to No. 2, we rather object to the estates being valued in lots, mainly because, of course, it always brings out a higher figure. The duty is charged on the estate as a whole, and we think it is not unreasonable that the estate should be valued as a whole. Then, of course, in selling an estate the costs of the conveyance and other things are very heavy. I speak subject to correction, but I think there is no deduction for that. Then the next suggestion we make is that payment should be spread over a longer period of years. We can get eight years now. Of course, in no estate I think would it be possible in the course of eight years to provide out of income for these capital sums, and we think it reasonable that there should be a possibility of providing this money out of income rather than having to mortgage or sell for the purpose.

339. *Mr. Lees-Smith*: But you pay interest?—Yes.

340. Would you be willing to pay interest on the further extended period?—So long as they give us reasonable rates of interest, and, as a matter of fact, they have; they have reduced it from 5 to 4 per cent., which, of course, is distinctly in our favour.

341. *Professor Hall*: What number of years would you suggest instead of eight?—Well, nothing under 20 years would enable you to do it.

342. *Chairman*: If you pay 4 per cent. in order to receive 2½ per cent., how will you manage?—It is better than paying 5 per cent. and receiving 2½ per cent. as we have to do now on mortgage. Of course, it all comes back really naturally to this: you have to sell, and then you get the break-up of estates, which, as I have stated, I believe is quite a considerable disadvantage to the locality.

343. *Sir Arthur Balfour*: Do you think you are going to find people who will be willing to worry with an estate for nothing for 20 years?—We do now very largely.

344. *Sir Alan Anderson*: If you let it drag on for 20 years you may have several deaths overlapping?—You do now unfortunately. There are, of course, certain concessions made for quick successions. Formerly duties were levied only once during a settlement; now they are levied at every succession. I think some attention might be paid to the quick succession difficulty which I speak of in No. 6. In the case of the death of a first successor to an estate five years after his succession the succeeding owner, provided he was paying off in eight years, has to pay out yearly the three-eighths of his duties still in arrear, and, in addition, his own duties, from which he gets a deduction of 10 per cent., begin. On these very quick successions there is such a destruction of capital that I think there should be an increase of the period allowed in quick successions, perhaps from 5 to 10 or 15 years. The allowance of 10 per cent. made on the death of an owner in the fifth year, increases slightly with the shorter period of his enjoyment of the estate. It is rather more than 10 per cent. in the fourth year, and so on.

Then in No. 7 we deal with the matter of life insurance, to which I have already drawn your attention. May I now deal with the figures in Appendix A.

345. *Chairman*: I understand that Mr. Carlton will deal with Income Tax and Super-tax?—(*Lord Clinton*): Yes. (*Mr. Carlton*): My feeling is that after the statement of Lord Clinton, and this considered statement by the Land Agents' Society, there is really very little that I can say except to amplify some of the statements in the evidence.

346. If you would like to address the Committee on any points that have arisen on Lord Clinton's evidence you may do that now so that you may both be examined at the same time?—The chief difficulty, I think, with regard to the landowner's income is that to a large extent it is a conventional assessment and he pays on the conventional assessment, whereas under Schedule D, Schedule E and the other Schedules the taxpayer pays tax on his actual income. For instance, there are such things as woodlands; certain woodlands if managed on a commercial basis may be put under Schedule D, but there are a great many small woodlands and clumps of trees which, although they add to the beauty of the countryside, have little or no value, even for amenity purposes, to the owner and which cannot be so treated. On these the owner has to pay under Schedule A and Schedule B; that is to say, at the present moment he would be paying at the rate of 4s. 6d. under Schedule A and on one third of that under Schedule B. Also with regard to the lands let; although the Schedule A assessment is based on the rental, there is a great deal of expenditure which cannot be brought into consideration in arriving at the Schedule A assessment. Of course, it has for some years been open to a landowner who can prove that on an average of five years his expenditure in repairs, management and insurance exceeds his statutory allowance (which is in the case of agricultural land one-eighth) can recover tax on the balance, but there are a great many items of expenditure that do not come within the maintenance claim, and the principal of those is improvements. In the maintenance claim one can include repairs and replacements that are necessary to maintain the existing rent, but even if you have an improvement (as distinguished from a replacement) that is necessary to maintain the existing rent that cannot be brought in under the present law. I have an instance in mind in which the rent of a farm had been raised, and the tenant was always complaining about it, but was satisfied when we built him an extra shed at some considerable cost. That, of course, comes out of the rental, but it cannot be brought into the maintenance claim. Then take another case: supposing that a farm had been let as a grazing farm and the tenant went out and the new tenant desired to milk; that means an enormous alteration of the buildings and the provision of new buildings. Or suppose that one desired to encourage small holdings: if you have a 500 acre farm and you are to create smaller holdings of 100 acres each, there is only one farmhouse and that would mean extra building for four more farmhouses and homesteads. That expenditure could not be brought into the maintenance claim for relief of taxation.

347. *Sir Alan Anderson*: You mean you cannot charge that out of income?—You cannot get your tax back on it.

348. You cannot claim for it out of income?—You have to pay for it out of income, but you do not get the tax back on it.

349. *Sir Arthur Balfour*: It is not allowed as a charge?—No.

350. *Sir Charles Addis*: You mean the cases where you are building extra farmhouses and homesteads?—Yes.

351. In those cases you can get no relief in taxation for the cost of those?—No, not if they are new buildings—if they are improvements as distinct from replacements.

352. *Professor Hall*: In what respect are you different from a factory owner who erects a new factory?—His expenditure is productive; these farm buildings are necessary merely to maintain the existing rent.

353. It is capital expenditure really?—It is capital expenditure that really has to come out of income, but it is unproductive capital expenditure, because you cannot put up the rent proportionately.

354. *Sir Charles Addis*: I do not follow that; it will not be done if that is so?—It has to be done very often to maintain the rent. If the landowner was in a position to do so he would also like to improve the buildings if he possibly could.

355. *Sir Alan Anderson*: Is it not exactly the same as the owner of the factory who has to extend his building by making a capital improvement in order to maintain his revenue?—Would he make a capital improvement only to maintain it?

356. If he found he was losing money and he had to do something—build new machines, for instance, that is a capital charge?—I think new machines would be allowed on an obsolescence allowance.

357. Supposing he builds something that he is not allowed; there are plenty of additions to his plant that he does not get allowed.

Professor Hall: He is only allowed the annual wear and tear.

Chairman: He would get wear and tear, or obsolescence.

Sir Arthur Balfour: On plant?—Yes, on plant. New machinery, I think, was the question.

Sir Alan Anderson: It is exactly the same as new buildings.

358. *Chairman*: What is allowed for depreciation on farm buildings?—There is no depreciation at all; it is all arranged through this repairs allowance. You bring in your maintenance claim. You get your statutory one-eighth for repairs to start with, and then you have to prove that you have spent more on the average of five years. Being a repayment claim the tax cannot of course be recovered until the money is spent. This money is not producing income, and so also loses interest.

359. *Mr. Lees-Smith*: I thought that you undertook a great deal of this expenditure rather for sentimental as distinct from economical reasons?—I think most of the landowners have a very lively sense of the good of the countryside and the good of the tenant.

360. That seems to underlie part of what you are saying; it is not entirely financial?—It may be unavoidable. For instance, supposing arable cultivation should prove very much more remunerative than grass, the buildings that have been suitable for the grass farm would not be at all suitable for the arable; you would have to build further buildings. You have to a certain extent to follow farming practice and the changes in farming practice.

In connection with paragraph 13, I should like to draw special attention to the second sentence. There is with regard to the maintenance claim a very clear distinction between improvements and replacements. The cost of replacements you can have allowed if they are only to maintain the existing rent, but not if they are to increase it; but the improvements you cannot have allowed even if they are simply to maintain the existing rent.

There is also one question on paragraph 15. You see the sentence: "Land tax is an additional charge on production"; that is, additional to the Schedule A. assessment. Of course, land tax is allowed as a deduction in arriving at the Schedule A. assessment, and the result is that the whole of the land tax is not an extra charge; it is only the land tax less the income tax on such land tax. I do not think there is anything else that I can usefully add to the evidence in chief.

361. *Chairman*: Would you like to deal with the figures now, Lord Clinton?—If you please. In Appendix A. we deal with the average of the accounts of a considerable number of estates which my Association collected in the year 1919. They are all audited by chartered accountants, and I have no doubt that the figures are correct. I have already lodged a caution against averages in general, and this is only really worth what you see before you. Of course, it represents a very large average estate, which, in one way, is unfortunate, but our difficulty was in getting smaller estates which could give us a chartered accountant's certificate. The figure for repairs and replacements represents 30 per cent. of the gross rental. We have had several investigations of this kind. In the year 1912 the average percentage for repairs and replacements was just over 25 per cent.; in the year 1919 the average showed a little over 25 per cent. That, I think, goes to prove one of my points, that while the cost of repairs and maintenance may be as great or greater now than it was before the War, it is quite clear that owing to the greatly increased cost of labour and material, so much work is not being done. In the year 1919 the average percentage was somewhat smaller than what it was just before the War. In the average of some 30 odd estates which came before us in the year 1921 that cost had increased to 35·86 per cent. We find that that is certainly above what is being paid now, and we have put in a figure of 30 per cent., which is probably approximately correct. That is the actual average of the estates in Appendix D., I believe. That shows a net income which is subject to Income and Super-tax of £9,619 out of the £20,000. As has already been explained to you, the annual deductions made from the gross to arrive at the net are those which would be admitted as proper subjects for abatement of tax. These are not statutory deductions, but they have first to be proved for the purpose of Income Tax. Of course, off that £9,619, which is stated there as the net income, Income Tax and Super-tax have to be paid. I think the appropriate rate of Super-tax on that income would be 2s. 9d. and the Income Tax would be 4s. 6d., making 7s. 3d. altogether. In addition to that there are very large amounts of additional expenditure which in a sense are not compulsory expenditure, but yet are incidental to the ownership of an estate. There is nothing here, of course, for the upkeep of the house and garden, woodlands, etc. Of course, with estates of this size particularly, the houses and gardens were built and laid out in more spacious days, and they may be to some people very enviable possessions, but they are a liability and not an asset to the present owner. He does not want to let them go altogether. He does not want to dismiss all his staff; he has had no doubt to dismiss a great many; so he has to struggle to keep them up, and that really does become, I consider, a compulsory reduction from the net income, which we are able to show.

Then there are in almost every case, I suppose, jointures or family charges; there may be, and frequently are, mortgages from the last dose of Death Duties; and there is a very considerable upkeep of woodlands on many estates, and also a large amount of subscriptions and donations which, while not, of course, compulsory, are really incidental to ownership. No doubt that reduces that figure in many instances (I can show you one, if you please) to actually something approaching a minus quantity. I put this before you as an average for what it is worth of a considerable number of estates, and we endeavour to build up upon that average a valuation for Death Duty purposes for the purpose of showing the

estimated charge, and also for the purpose of comparing it with the capital taxation there would be upon an estate in Consols producing similar income. This is net income, not what I call the real income. In Appendix B the gross rental, you see, is the same, £20,381, and there are certain deductions made out. I draw your attention to two of them—repairs and insurance—which we enter at £6,300, and which the valuer for Estate Duty purposes would take at the conventional figure of 20 per cent. or £4,000. Management is not widely different. The valuer would take 5 per cent. for management, while the actual average cost as shown in these accounts is £1,450. He does not admit pensions to old employees, which here is the small figure of £307. That is sometimes, but not always, admitted for abatement of Income Tax. If it was admitted for abatement of Income Tax perhaps the valuer would take it into consideration, but the system is not uniform, and I do not really quite know why. That shows the valuer's net income of £12,599 as against our estimated net income of £9,619, and he uses as the multiplier 22 years' purchase, or about that figure—it varies slightly in different places—and thus brings out a total capital value of £277,200. Now we add a figure to that which, I think, is open to criticism, but which we put in after the advice of a firm of valuers who have a great deal of this work to do. They said, with an estate of that size, the mansion and contents, including woodlands and all the appurtenances of the estate, the actual cottages and grounds would normally go in at about £75,000. I draw your attention particularly to that, because afterwards I am going to show you in another kind of estate a house and grounds of much less value. At all events, that is the figure which, under advice, we have put in. That brings out a capital value for Death Duty purposes of £352,000, which, at 23 per cent., is liable to a duty of £81,000.

I am now going to compare that with an estate invested in Consols showing the same income as the estate from land. Consols being 57, the capital value would be, in the first case, £219,000 as against the £277,000 charged for land; that is a difference of £58,000. I claim on that that there is a differentiation against the landed estate which is seriously against the interest of the owner of the land. We can make no complaint whatever, of course, if we are in the same position as other people, but we have some right to complain, and we are not, perhaps, very slow in doing it, about our treatment when we think it is unfair in comparison with other people's. I added to the Consols estate the figure of £25,000 for residence, but you may strike out both figures for residence if you please, and there will still be the difference that I have mentioned. I think it is not unfair to say that in the large estate generally there is a very much larger value put upon the house and grounds, a place which the owner is bound to keep up, which he does not want to keep up, than ought to be put upon it. If those figures of £75,000 for the house in the one case and £25,000 in the other are accepted, the increase of capital value of landed estate is £107,000, and the increase of duty is £32,000; that is to say, the land would in those cases have to pay £32,000 more than an estate in Consols producing the same income. In addition to that, of course, the income which we have taken for land is now reduced by the incidents of land ownership. The owner in Consols certainly has not got woodlands and other things to keep up, although he may have, of course, his house and gardens, but usually on a smaller scale. I think that is the main comparison I want to make; I do not know whether I can assist you any further upon the matter.

362. Does that complete your statement, Lord Clinton?—I think I have finished. (*Mr. Carlton*) Appendix C shows an estimate of the average amount of the statutory burdens on land in England and Wales. This estimate of 14s. 6d. per acre is based on the general figures mentioned in the penultimate paragraph, and the details of the Income Tax of 2s. 3d. under Schedule A and of 4s. under Schedule B are arrived at as follows:—

As to Schedule A.

		£ s.
Gross rent per acre		1 0
Less tithe	3s. 6d.	
Less repairs (33 per cent. on £1), say ...	6s. 6d.	0 10
Leaving the Schedule A. assessment at		0 10
Tax on this 10s. at 4s. 6d. in the £ equals		per acre. 2s. 3d.

As to Schedule B.

	£ s.
Gross rent or annual value per acre	1 0
Less 1/10th Earned Income Relief	0 2
Leaving the Schedule B. assessment at	0 18
Tax on this 18s. at 4s. 6d. in the £ equals (say)	4s. 0d.

Tithe rent charge is the average as estimated by the Ministry—3s. 6d. Land tax of course varies in different parishes; it cannot be less than 1d. or more than 1s. 0d. in the £, and it is taken at an average of 9d. Local rates are taken at 11s. 0d. in the £ on the farmhouses and buildings, and at a quarter, *i.e.*, 2s. 9d., on the land. That comes to 4s. 0d., and makes a total payment out of the land for rates and taxes and tithe rent charge of 14s. 6d. per acre. That is compared in the very last paragraph with the position in America, which shows an average of total burdens for rates and taxes of only 3s. 0d. an acre. As to Appendix D, these are not estimates but actual figures and I think, my Lord, these figures speak for themselves.

363. *Professor Hall*: I should like to ask Lord Clinton if he has any idea of the capital value of the estates referred to in Appendix A. You give the gross rental and the value for valuation purposes as you arrive at it, but can you give us any idea what the capital value is against which that net income can be set?—(*Lord Clinton*): What would be the value of that in the market to-day, do you mean?

364. Yes, or in the estimation of the owners?—What would the owners sell at?

365. Yes.

Sir Alan Anderson: What would someone else buy at; is not that it?—(*Lord Clinton*): I think you may say roughly 20 years' purchase of the net income.

366. About £200,000?—(*Mr. Carlton*): Of course, the deductions in Appendix A in arriving at the £9,619 are only such deductions as do not bear tax, and I think a purchaser would look very carefully into the estate accounts. It is very difficult to arrive at the capital value, but from these figures I think it would be less.

367. *Professor Hall*: Those are what you may call trading account charges—the expenses?—(*Lord Clinton*): The only definition really is expenses which are accepted by the Inland Revenue as for abatement of taxation; that is all.

368. *Mr. Bell*: Could you give us that a little more closely. What would an estate to-day of practically 17,000 acres produce in your judgment, the net income being subject to Income Tax and Super-tax?—It is absolutely impossible to say, unless you tell me what are the owner's charges upon that estate for jointure, family charge, mortgage, upkeep of mansion, etc.

369. You say you can, with pretty close certainty, state that the same estate, if it had to be valued by the Government for taxation purposes, would be called £352,000?—Yes.

370. Cannot we get anywhere near what it would be?—No, I do not think you can get any nearer. Supposing there were a mortgage for £50,000, that

£50,000 would be a deduction from your £350,000; it would be reduced in the valuation.

371. I was trying to take it on the same footing?—On the same footing that is the figure. I cannot give you the mortgages.

372. *Mr. Bell*: I only wanted to see if I could get any possible line of the valuation of the Government for this particular estate or average of estates and what it would be saleable at?—I do not think I can do it from these figures.

373. *Sir Alan Anderson*: Might we just know broadly, is the complaint that the Government valuation is considerably too high?—Our main complaint is that the Government valuer should not deduct merely the conventional value of 20 per cent. or so from his gross to get at his net, but he should take the fair average outgoings of that estate, say, for the period of the last five years. We had better take five years, as that is the average employed for other purposes.

374. You complain that, following the convention, he reaches a higher figure than you sell at in the market?—Yes.

375. *Sir Josiah Stamp*: There is a marked disparity between the estate duty valuations and actual value?—Yes.

376. *Mr. Hichens*: On the broad question of the National Debt is it your view that the Government ought to take steps to pay it off rapidly or not?—I am only a poor landowner; I would much rather you did not ask me questions on anything like high finance. I am only here to give evidence on land.

377. But our terms of reference are broadly two: in the first place the National Debt, and in the second place the effect of high taxation upon industry and employment and trade?—Quite so.

378. The implication of our reference rather is that by paying off the debt rapidly taxation would be high, and that might have an ill effect upon trade and industry generally, and therefore it is rather an important question from our point of view. You have no view that you wish to put before the Committee?—No. Really I have got no expert view upon that matter. I can merely guess as well as anybody else, but that is all; I would rather not guess here.

379. Then what is your view with regard to high taxation and its effect upon industry?—Well, so far certainly as land is concerned, high taxation prevents a landowner carrying out improvements and to some extent prevents him from carrying out his ordinary duties with regard to his estate.

380. The impression rather left upon my mind, and I should like to know if it is right or wrong, is that one of the main troubles of the agricultural industry appears to be that it is upon an uneconomical basis; is that right? You seem to suggest that there are so many improvements that you have to make that do not pay you to make, such as building houses?—I suppose it is a matter of common knowledge that the building of houses for agricultural labourers now is certainly not economic; that is quite clear. I think the same thing applies to a certain extent to farm buildings, which are economic perhaps in the sense that they do tend towards a greater production from the land, and to a certain extent are economic with regard to the occupier of the buildings, because he can organise his labour better. With regard to the owner, I think they are probably uneconomic; you increase the capital value without adding to income, and they have the effect of greater taxation of your income.

381. But, broadly speaking, the returns which you have got from agriculture are not tempting to the capitalist?—No, that is so.

382. So that it is non-economic to that extent?—Yes.

383. As far as taxation is concerned, taking Income Tax and Super-tax, would you say that, assuming them to be assessed upon the profits that are made and the real income, they are detrimental to your industry?—Distinctly. I am presuming that taxation is detrimental to any industry. None of us would like to pay taxes if we could help it, obviously.

384. I want to get at exactly why it injures your industry. I can see one way which you have brought out, which I should like to bring out a little more strongly even. You make the point that a prudent land owner, and I think one might say a prudent business man, is obliged to lay by certain sums against a rainy day, and is also obliged, if he wishes to maintain real efficiency, to make a certain number of improvements out of profits?—Yes.

385. He cannot capitalise everything?—Quite so.

386. That, of course, applies, does it not, not only to agriculture but to all industries?—Quite so.

387. The importance of it is very great; I take it you would agree?—I agree.

388. But I suppose it is no greater in agriculture than any other industry?—Of no greater importance, I should imagine, but where you are dealing with a large capital outlay on land with a lot of liabilities upon it, it is more difficult to provide in agriculture than it is in most other industries. I do not know sufficient about other industries to say, but I know the difficulty here at all events.

389. But it is obvious that if taxation is high you cannot set aside such a large sum against a rainy day?—No.

390. One could see that would be a disadvantage?—Yes.

391. Are there any other disadvantages that you can see in high taxation assuming it to be, as Income Tax is supposed to be, upon your income or your profits?—The disadvantages I think you include already so far as land is concerned are the upkeep of land, the dislocation of labour, want of improvement, impossibility of improvement or development; beyond those I suppose there is no other objection. There is the personal objection, of course, that everyone has, and then there is the wider objection in that it reduces employment and stops improvements.

392. That is all part of the same thing, is it not?—Yes.

393. Does it affect prices in any way? Does it affect you in relation to foreign competition, do you think, or in any other way?—Agriculture is so different from other matters.

394. I know; that is why I want to get at it.—The price of our agricultural product has no reference whatever to the cost of production.

395. Nor does ours if it comes to that; I wish it had. Somewhere in the world there must be some relation between cost and market price; I think there must be, but at all events I do not see it in land.

396. I want to talk to you about agriculture if I may.—As a general rule I should like to say that increased taxes must increase cost. I do not like to put that argument forward because I say that price has nothing to do with cost in regard to agriculture, unfortunately.

397. But in so far as it is on the profits, would it increase prices in any way even if you had a free hand, do you think? I just want to get at your opinion.—If there were no Income Tax, and none of these high taxes——

398. I am talking only of Income Tax and Super-tax for the moment?—If those taxes did not exist there would be then a greater demand for labour which would be followed perhaps by a higher cost of labour, and a greater demand for material which would be followed by a higher cost of material.

399. If there were no taxes prices would be higher than if there were taxes?—More men would be employed and more things would be produced.

400. Then you cannot assume that money which goes to taxation does not employ people, can you? It is not put into a sink, although we say so in popular parlance?—Some of the money which goes in taxation, I imagine, would employ persons in America.

401. You mean so far as it goes to pay off the Debt?—Yes.

402. But you are not suggesting we should not pay the Debt?—No, but you are taking me just a little out of my depth. I can reply for land, but not for other matters.

403. I simply wanted to know whether in your opinion, apart from the fact that a prudent man puts some of his profits to reserve and into improvements, Income Tax and Super-tax really affect you. That is the question I want to put?—It certainly affects the development of business.

404. But apart from that?—No, apart from that I will not say that it does.

405. On the other hand, when you get to other forms of taxation such as stamp duties and duties on cheques, it is obvious that they are an expense of your business, and therefore they do increase your direct costs to some extent?—Yes.

406. And in so far as they are higher they must be more directly reflected?—Yes, that is so.

407. I suppose on broad grounds you would agree that there must be the same principles of taxation in respect of agriculture as in respect of any other industry, would you not?—I am asking that there should be; I am complaining that there are not.

408. In certain respects agriculture is more hardly hit?—Yes.

409. But if it could be demonstrated, for example, that those differences did not really exist you would be quite satisfied, would you?—I probably should not believe you; I think I should argue at all events with you, but if you could convince me, then I should say it was all right.

410. Would you agree that there must be one common basis for everybody and that taxation must inevitably be high if we are to pay off the Debt?—Yes.

411. *Professor Hall*: I would like to take you to paragraph 4. I want to be clear whether you really mean that Income Tax is a tax upon land or a tax upon income from land; because it does affect the question?—Perhaps it is stated rather loosely here. Income Tax is a tax upon the assessable value of land.

412. And therefore falls upon the income of the individual and not upon land?—If you wish to separate the two, yes.

413. If the individual was below the Income Tax level he would not be liable to tax?—No.

414. So the statement is not quite correct when it suggests taxes upon land?—I am afraid we use the ordinary form; it is always spoken of in that way by people who have to do with land; but I admit that yours is more accurate.

415. I just wanted to be quite sure whether you meant that it was transmitted as a result to prices?—No.

416. In regard to Death Duties and insurances effected against Death Duties, you complain that the amount is added to the estate that is assessed?—Yes. That does not apply only to land.

417. Supposing we imagine the case of an individual who is paying £1,000 a year as premium for such an insurance, and we assume another individual who has free income of £1,000 a year which he invests as an insurance. Would you differentiate between those two?—I should not want to differentiate at all. If a man is setting aside out of income a certain sum actually ear-marked in some form for the eventual payment of his duties, I think, although it would pay its proper rate of duty eventually, it might be taken out of the aggregate of the estate, so that an increased rate due to that saving should not be put upon the estate.

418. Or if a person were insured without specifically saying that it was insurance for Death Duties, he would have the amount added to his estate?—I suppose that is necessary. I do not know whether you could get round it or not.

419. It does not at first sight seem equitable as between the two men?—No, I admit so at once. In so far as his duties are payable out of his insurance I want them to escape aggregation. We know quite well there are great difficulties about this, but the general principle of it seems to me that in order to save capital on estates and to encourage people to thrift, this advantage should be given, that where Death Duties are payable and are actually insured against or saved in some way, that amount should be free from aggregation.

420. You have no suggestion as to the means of removing that inequity between the two men that I have put?—No, I have not at this moment.

421. You are, of course, making an allowance for the fact that insurance premiums can be deducted from income for the purpose of Income Tax?—Yes, for Income Tax up to a certain point, but not the full amount.

422. So that the person gets a benefit during the time he is paying those premiums?—Yes.

423. You are not objecting to payment of some duty, then, upon the amount saved in this way?—No; I am only asking that it should not be aggregated with the estate and so raise the duty over the whole.

424. But it would be liable, you agree?—I think it must be liable to duty. I think it would be too great a loss if it was not.

425. Now, I want to take up a point that Mr. Carlton mentioned. I did not think that Mr. Carlton fully justified the charging of the cost of new premises as a maintenance charge, and I would like to ask him how he would establish equity between the estate owner or farmer who builds houses upon his estate and the factory owner who wishes to extend his factory. In both cases the new premises are considered improvements and are not allowed as deductions when the charge for Income Tax is being arrived at. I should like to know how he could justify exemption being given to the farmer unless it were given to the factory owner as well?

Mr. Carlton: I suggested, I think, that if the factory owner extends his premises he thinks that is going to extend his business and that that is going to extend his income, whereas I suggested that improvements were necessary to maintain existing rent, not to increase the rental value, and so those improvements would be non-productive.

426. Does not the provision of house accommodation for those who live in houses and work upon the estate affect the total payment for wages to the individuals working upon the estate, and therefore the expenditure on the working of the estate?—You mean that they have their houses rent free very often? I was not considering the provision of cottages so much as an owner possibly going in for more intensive cultivation and having to split up his farms into small holdings, and small holdings are shown to be very uneconomical; that is shown by the County Council returns; all new small holdings mean very great loss.

427. You justify your claim that these houses should be charged as maintenance charges on the ground that there is no increase in the net revenue from the estate?—Yes. I should limit it to improvements necessary to maintain existing rents.

428. Then what is the reason for effecting a change if there is no alteration of the net revenue of the estate?—I suggest there might be a difference in farming practice.

429. But why should a change be adopted unless there is an increase in revenue from the estate?—It is partly for the improvement of the countryside and partly it is quite possible that you could not let the farm at the same rent. (*Lord Clinton*): You might add also, I think, that the requirements of the sanitary inspectors, particularly in regard to dairies and cow sheds, have increased and been a very great cost in many cases. You do not get any more rent for your property.

430. In regard to the figures which you have put in for the particular year that has been selected, might we ask if you think that was a special year or would you take that as being typical? It is in Appendix A, 1919 and 1920?—We were asked to do

it in the year 1919 for the purpose of some Inquiry—I forget at the moment what it was—and we took it then. Then in 1920 it was taken out by another Society, the Land Agents' Society, and we adopted another percentage on repairs on that account; but to answer your question there is nothing particular about the year 1919; it was merely a chance that in that year we were asked to do a certain thing.

431. The question of prices affects the cost of repairs and replacements in this particular year?—Yes. I tried to bring that out too, and I think it is really very important. You have in that year, 1919. actually the same percentage on your rental used in repairs and yet owing to the increased price there must have been less work done. That went to prove one of my first points of all, that owing to high taxation we were not able to keep up estates in the same way as before.

432. But with the lowering of prices you would have been able to effect more improvements?—Certainly.

433. So that this position must not be taken as typical of a post-war period?—No.

434. You say that the percentage given here of gross profits, 4·8 per cent. is roughly correct. You estimate the capital value at £20,000 and the net income, subject to Income Tax and Super-tax, at £9,600; that gives an average of 4·8 per cent. gross income before the tax is deducted?—That is on figures where you only deduct certain conventional expenditure to arrive at the net.

435. You could not fairly charge the upkeep of the mansion house and grounds as an expense of agriculture, could you?—As an expense of agriculture, no, but it is a necessary expense of an owner, unfortunately. Certainly a man requires great strength of mind to allow the house to fall into disrepair altogether. He has to keep it going in some way. It does become, in my view, an absolute charge. You might see many places which are going derelict; a very large number of houses actually are falling to pieces now. In that way a landowner can save expenditure, but it is a horrible choice to have to make.

436. Your statement is that the landowner has a bigger house and more expenses to support than the ordinary business man?—Yes, I think I have said that in the days of less expense these houses were built for the estate and are larger than a man who has an income would choose to live in himself and very much larger than the owner of the estate desires.

437. Still, 4·8 per cent. is not a low rate of return upon capital?—I do not know that we get it. You rather disallow the repairs to the mansion?

438. Yes. I am disallowing that for the moment.—I think you cannot disallow a considerable amount of subscriptions and donations which are in a larger degree compulsory upon an owner of that amount of land than they would be upon the owner of merely an income.

439. Then we are considering the case of the large landowners and not the case of all agriculturists in these figures?—That is what I explained, I think, at the beginning, the reason being that we were told, I think, that we must get accounts properly audited, and we could not get them from small estates.

440. Would you say that this percentage of return upon capital is representative of the smaller estates, too, where they have not these charges to maintain?—You would get more nearly a net income, I think, by deducting these charges from the gross in a small estate than you would in a large estate. The owner of that estate will also have less woodlands to maintain, and if he does do it that again is a further deduction from his income.

441. The only further question I would like to ask you arises out of the comparison between our own country and the United States, referring to charges upon farm lands. Is that really a valid comparison in your opinion?—It is taken from the agricultural returns of the United States.

442. But is it a fair comparison, with the difference in methods of cultivation?—I do not know; it is given for what it is worth.

443. I presume it is given to influence this Committee?—Yes.

444. I suggest to you that the difference as regards intensive cultivation might make a difference?—I think it might.

445. You agree that it is not a fair basis of comparison between the two countries?—It is the only way in which you can compare them, I think; you could not get it in any other way.

446. But you agree there is a difference in system which may be responsible for our difference in the charge per acre?—The difference in our system of rating undoubtedly will put a much greater charge upon land here than there would be in the States. That is one thing certainly, and so far as I know they have no Super-tax; that does not come in. I do not know whether they have double taxation of land, Schedules A and B, in the States.

447. Would you agree that the fact that so much land in the larger estates in the United States is extensively cultivated affects this comparison? There is much more intensive cultivation over here; we have not very large estates?—It does not affect the calculation because these are figures which exist. It may affect the comparison. There is the actual fact that every acre of agricultural land here has to pay so much. Against that we have the fact that every acre of agricultural land in the States has to pay a different figure. I do not know whether you need go into the system of taxation or the system of cultivation.

448. It does affect the yield and the burden upon the unit of yield upon the land?—Our yield here is much larger than in the States, it is true.

449. *Mr. Bell*: I just want to ask one general question. You say that agricultural land has a market value relatively far in excess of its income-producing value. Do you differentiate between estates long in the family and those which have been recently bought where a value far in excess of the income-producing value of the land is deliberately given? Is it not the case that there would be no complaint by one who had deliberately given the "market value far in excess of its income-producing value," for reasons of his own, whatever they were?—At one time in this country, land had no doubt a value quite apart from its income. That value has now, I suppose, pretty nearly disappeared, and it is perhaps getting more nearly upon a cash basis than it used to be. It has not quite reached it from the valuers' point of view, because he puts a value upon it above its income-producing value. Whether that is a hardship to the man who has bought recently, I am not quite sure.

450. *Mr. Lees-Smith*: I see that you put forward various claims for relief in your evidence, but, on the other hand, does not land obtain certain advantages in our tax system which other forms of property do not enjoy; for instance, whatever you suggest, in the case of local rates land only pays half the assessment. That is a special advantage given to land?—I would not admit it is an advantage. It is a method we have pressed for for a very long time, so as, if possible, to put land on a par with other property. By constant pressure for a generation almost, we are gradually getting the rating of land down to a fair basis compared with other classes of property, and we want to get the taxation down in the same way.

451. There is differentiation in favour of land in rating?—May I say there *is* a different system of rating land to the system employed in other classes of property? I do not like your words "differentiation in favour of."

452. In addition to that, has not land for years been under-assessed as against other property, for Income Tax purposes?—Since the year 1910, in England there has been no re-assessment. The new assessments will show an increase, no doubt. I admit the fact that of recent years it has been under-assessed.

453. It is anticipated that the new assessment will bring in an increased revenue of £6,000,000 to £7,000,000 a year?—I do not know how that is arrived at; I hope it will not.

454. That was a statement given by the Chancellor of the Exchequer; the last Chancellor, not the present one?—Yes.

455. In the case of your special request that insurances should not be aggregated for Death Duties, is there any reason to give an advantage to money saved in regard to Death Duties over money saved for any other purposes? Why should not all persons who save money claim that they had shown thrift and that the savings should not be aggregated with their estate?—It seems to me so important that people should be encouraged to save to pay off this capital tax within their lifetime, that it is right to make a differentiation.

456. But you would not confine that differentiation to money saved for Death Duties; why not to every kind of thrift?—I should be very glad, but we have not suggested it. I do not want to repeat; I have no other argument, perhaps, but it is so important to get this capital tax paid off in a lifetime that I think it would be to the interest of the State and eventually to mutual gain, to allow it.

457. Clearly the only practical method of carrying out your object would be to say that all money saved up to the Death Duty limit should not be aggregated?—Yes; I do not confine it to insurance.

458. All savings?—Yes, all savings for Death Duty purposes.

459. Whatever the purposes are—to the Death Duty limit?—Quite so.

460. The point that rather puzzles me is that under all these circumstances, when there is a farm for sale there are unlimited applications?—I do not think it is the case now. It was the case two or three years ago when prices were booming and farms were making probably large profits. Then we thought these good times would last for ever, and people bought, but they have found out their mistake now. I have not heard of any land sold recently; I doubt very much whether you would get many offers to buy land. You get offers from people to rent now at fair prices, but I do not think there are many offers to buy. Farmers bought partly because they thought they were going to make very great profits. They really bought under very great pressure; it was buy or go, and they did not want to leave.

461. The argument is that land does not yield an income in proper proportion to the capital?—Yes.

462. Is it not the fact that the landowner receives a return not necessarily of money income, but he receives what may be called amenities?—Yes.

463. That is a real thing; he receives social consideration which the owner of Consols does not?—I think I suggested just now that that sort of social amenity or political advantage, or whatever it may be, which quite clearly had a definite value attaching 50 years ago or more, has disappeared. I do not think it exists at all now.

464. Surely there is a great difference in the social prestige of a landowner and a person living on Consols in Brixton. The first has a definite market value and he is willing to pay for it?—I do not like to say so, but I do think that people now are becoming more and more valued according to their incomes, and it does not much matter where the income comes from.

465. And yet the fact remains that people are willing now to spend money on land, knowing that they will get less income than they would if they put that money into Consols?—But please do not put that into my mouth at all. People are not willing to spend money on estates, people will not buy estates; that is one of our troubles; there is nobody in the market for a big estate. You may get a man to buy a farm, but I doubt if there have been any sales of whole estates within the last two years; I could not say; but there have been very few, at all events, except that the Forestry Commissioners have bought a few.

466. *Mrs. Wootton*: The point which I am anxious to get at is where the burdens on land are more serious than corresponding burdens on industry. On this question of the large capital value in proportion to income, can you give us some more details as to the causes? To what do you ascribe the increased capital value?—The increased capital value is due, I think, to the fact that the valuer, in valuing land for Death Duty purposes (we are speaking of Death Duties only) does this. He finds out the annual value first of all. He takes from that a conventional deduction only for repairs and upkeep, while in our view he ought to take the average actual deduction. Then you would get down very nearly to what we require—a similar valuation of land compared with other property.

467. You do not think that in this higher capital value there is any element of certain amenities which land has other than income-producing power?—There ought not to be, but that is a cash value.

468. Do you think that there is in the valuation for Death Duty purposes?—Mr. Carlton is a valuer; I think he does not put on much for that. (*Mr. Carlton*): No, nothing at all.

469. Is your point that in regard to Death Duties the capital value is exceptionally unfair because land has this exceptionally high capital value; is your point with regard to capital value that this is a bad basis of taxation in regard to land?—(*Lord Clinton*): My point is that capital is a bad basis of taxation in regard to any form of property, but I do not think I have raised that point before. The only point I have tried to put here is this. I am not objecting to land being valued as an income producing subject in the same way as other property is being valued. If you could really strictly deduct the proper outgoings from land and value the rest, I do not think we should have much to complain of beyond the general question that we do not like paying taxes.

470. What I want to get at is, do you suggest that capital is a worse basis for taxation in regard to land than it is in regard to other forms of property?—I have not suggested that.

471. In regard to Income Tax and Super-tax on land, I want to make a comparison between a land owner and any other person paying those taxes. Is your suggestion that Income Tax on land is particularly unfair to the land owner at present because he is worse treated in regard to allowances for depreciation and maintenance, and so on, than is the corresponding person drawing an income from industry?—We have had in the last few years quite considerable concessions in regard to land so as to give more nearly the same taxable value as other forms of property. For instance, up to 14 years ago, or less perhaps, we were only allowed to deduct one-eighth, that is 12½ per cent. Now we are allowed to deduct up to the full amount, under a certain system of calculation. I do not complain greatly, but yet the fact does remain that we are still, or up to last year we were still, certainly, in a worse position than other forms of property. Last year has put it in a better position because instead of a conventional deduction of one-sixth for cost of repairs to buildings being applied only to buildings under a certain rental, now I think it applies to buildings of all sizes. That will help very considerably and that again is getting us nearer to the Schedule D. basis, which is what we are out for. Other properties are under a Schedule D. basis and we should like to be on the same basis.

472. That is your point—that your basis is less valuable than a Schedule D. basis?—It is gradually getting better, I am glad to say; but still, it is rather less valuable.

473. What you are suffering from is the same troubles as happen to other people, but you complain that the troubles that happen to the land owner are the worst?—We are suffering the share of the land owners and others as well.

474. May I put it then in this way, that your particular troubles would be met, in so far as Death Duties are concerned, if the capital value of land for

Death Duty purposes were assessed at something which bore a more reasonable relation to its actual income-producing power?—That, I think, would probably be our main point.

475. You do not think that that will happen automatically, in so far as I think you yourself suggested that part of this capital value is really fictitious, and does not correspond to any market value?—The valuers would, of course, have to examine books and see that the actual average deduction from income of the past few years is applied to the valuation.

476. But you do say that this capital value bears no relation to the actual market value if the estate should be sold; it tends to be higher?—Yes.

477. And you do not think that as regards that lower market value it will tend in time to adjust itself?—You might meet it by reducing your number of years' purchase. I think it probably ought to be less than 22 years' purchase. If I may say so, I think those are two separate points. First of all there is market value which is arrived at by a certain number of years' purchase of the income value, and then there is income value, which we always claim is put by the valuer too high. They are two points, both, I think, of importance to us.

478. *Sir Josiah Stamp*: I should like to express those points that you have just made in another way. There are two main features in your evidence. One is a feature of fact or administrative technique, and the other is one of principle. As I understand your evidence, at the present time the Death Duty valuation as made by the valuer is, usually speaking, higher than the current market value of the estate?—Yes, of the estate as a whole.

479. Now, have you any evidence of that? Could you give us any cases where the market values of the estates in this return, when sold, were considerably less than a recent private valuation of them?—I cannot do that, and it is very difficult to get at any figures, because, as I say, estates as a whole are so very seldom sold. You may get more nearly approaching their value by selling in lots. You will always have left on your hands the unsaleable portion of your estate; you will not be able to sell your mansion house for anything like the figure it is put down at.

480. If the administration or technique were adjusted, your grievance under that head would be gone. Then the second question of principle is that what people are prepared to give for estates necessarily adds to their value for Death Duty purposes, because they may be giving something more than the income value. In the past, according to your evidence, people would probably give a quite appreciable sum for this particular class of income beyond that they would give for the same income derived from other things?—Yes.

481. That is tending to disappear, you think?—Yes.

482. Your view is that in so far as there is no income-producing value as a basis of capital value that is unsound as a test of valuation for taxing?—I cannot say there is no income-producing value.

483. But in so far as a portion of the value is based not upon money income but on other things, that it is not a suitable basis for taxation?—No; and I am not claiming that that is done. My only claim there is that the proper deductions for income and value are not taken.

484. That only emphasises the difficulty. Supposing you reduced the income to its net amount of actual in-pocket money, your point is that in the past people have been willing to give something in addition to the capitalisaton of the land. That represents the market value, and it is unsound, from your point of view, for Death Duties taxation, to include the non-money element?—I am afraid I must say this again. I am not claiming that valuers do include it.

485. Would you say that in so far as the non-money element enters into market value?—Yes; the error of the valuer is not, I think, due to any sentimental value. It is due to the fact that he does not admit the full deduction from the income value.

486. These are what I include—the difference between that valuation and the market value?—Yes.

487. But supposing we get rid of those, and we say that people are prepared to give a capital market value for a certain net source of income from land higher than they do give for the same income derived from other sources; if they do, as I understand your evidence, that particular class of value, based on non-money income, is not suitable for taxation?—I do not think it is suitable for it. I do not think it is fair, probably, to begin with, but supposing it is adopted and supposing it goes on being adopted, it is doing what I want to avoid—the immediate break-up of all these estates. It is driving estates into the market when there is no ready market for them.

488. You say, "Regard should be had to the fact that the income from agricultural land is less in proportion to its market value than that from any other class of security, and that, where the estate is not sold, the estate duty should be levied upon a fair capitalisation of the net income." I can only gather, in regard to that, that you mean that people are prepared to pay something in excess of what they would give for a similar income other than from land?—Are you not there dealing with purchase price and I am dealing with valuation only?

489. No. Supposing that the valuation has been corrected by all the things that you desire, and brought down to the basis of purchase price, and we now find that the basis of purchase price or market value is still in excess of the capitalised value of a similar income from other things—we will banish the question of valuation and deal entirely with market value—you propose that the Death Duty should not be levied upon that market value, but upon a capitalisation of that income?—Yes.

490. That is to say, you wish to eliminate from the market value those things which are not, we will say, on similar lines to commercial income. Suppose I am prepared to buy a certain concern with a certain amount of income for £10,000, but in the case of land I am prepared to pay for that same amount of income £12,000?—It means that the valuer puts upon it that amount which I say you will not get in the open market. You may, no doubt, dispose of large quantities of your land in small lots, but if you are going to deal with that estate as a whole, you will never get for it the market value which the valuer puts upon it.

491. In this paragraph you have two terms: you have value for Death Duties, and you have market value, and I thought they meant something different. I thought market value meant market value here. Is it that the income from agricultural land is less in proportion to its market value? Never mind about Death Duties at all; is that a fact?—The income which the owner receives from agricultural land is less in proportion.

492. I just want to get down to this point; it is quite a simple one. I understand your point to be that there is a value a man is prepared to pay in the market, and that it is higher than he will pay for a similar source of income generally?—I do not admit that, because you cannot find a purchaser for the whole estate. For single portions of the estate you will get perhaps a higher market value because it is wanted, but so much of the estate is unsaleable that no nominal market value will ever cover it.

493. You are assuming, I take it, a conventional valuation upon what you call a fair capitalisation?—I am suggesting that the valuation should be upon a fair capitalisation of the known income which would be enjoyed.

494. How do you base capitalisation? Do you take it as being something that equals Government securities?—Yes.

495. And if the market values that are ruling are higher, then they should be ignored?—The actual value to the successor is the value he will get out of

it, and that is the value he ought to pay. You cannot get at market value; you may guess.

496. You make a statement here that market values are in fact a test. In paragraph 7 you say that agricultural land has a market value relatively far in excess of its income-producing value?—If you could sell your land divided up into small plots covering the whole of your land, the house and everything else, you would get a value far in excess of its income-producing value; that is quite certain. But so much of it is really unsaleable at any price, although a valuer must put a price upon it. I do not want to get the matter confused.

497. Does not a valuer, as a matter of fact, proceed lot by lot, and does not the unsaleable proportion get treated for what it is?—No; a value is always put on the mansion house.

498. I am not on the question of the mansion house; I am entirely on the question of agricultural land?—Agricultural land he would go into lot by lot, and no doubt he will put a fair value upon it. He does not regard, of course, the case to the owner himself apart from what an occupier would have to pay.

499. Then, would it be correct to say that you wish to have something below market value where there is a mansion of which, shall I call it, the minus value ought to be taken into consideraton?—Surely, is not the right value to put upon it the value to the person who has got to pay the duties? It will give him a certain income, and there should be a valuation of that income. That is how you would value anything else.

500. If this is a claim to ignore, in Death Duty valuations, the non-monetary elements as a matter of income, but elements which are still worth something in the market, it is a very big claim, because it strikes at the whole basis of valuations of all sorts. It strikes at furniture, it strikes at pictures, it strikes at everything that has an annual enjoyment value, but not an annual income value, and if we are once going away from the value at which a thing is to be sold in the market and to capitalise the merely money elements of it, we have a very big principle involved. I am not sure how far you would carry the matter, whether you would go beyond land, or why you would stop at land? But even having settled this question, we still have no evidence as to how far this market value that you speak of as being in excess of general values is something imaginary, and how far it is somethng to be tested by the facts? —I am sure you can test it by facts in regard to such things as mansion house, gardens, park, etc. I am sure you can test it by facts with regard, say, to woodlands from one year to 25 years old.

501. Let us take the case of the estate. All the farms are valued, and then you have left what you call the unsaleable portion—namely, the mansion house and park and woodlands, and so on?—Yes.

502. You say that in regard to that second portion a very much lower rate of value should be adopted and then added to the aggregate value of the other. Do you argue that that takes away from the value of the other?—Of course, it is a liability, not an asset.

503. Let us say that the value of the farm had come to £50,000. Then you have the question of the mansion, and that you put at £10,000 under the present basis. Is it your case that that should be reduced by £5,000, say, making a total of £55,000, or is it your case that something should be deducted from the £50,000? Is it being exaggerated or is it a positive liability?—If you are going to do it on a sale value and that mansion house is unsaleable, then you ought to put no value at all upon it.

504. I do not think it is part of the duty of this Committee to deal with the correction of small anomalies of taxation; therefore I am not going into the question whether valuers are adopting the right method or not. The whole question is whether you take money as a basis?—You are dealing now with a mansion house which has no income and no market value and you propose to put a value on it.

505. When you say it has no market value, do you mean it is put up and does not sell at all?—Does not sell at all.

506. I will take it that it has no annual value, but that does not mean that it has no capital value?—I could give you recent instances where the house has been allowed to fall in.

507. Then in the case of an aggregate of £50,000, it is not that you merely want it to be nil, but you want something taken away from the £50,000?—No, I am now saying that. I have never pressed this claim, but I will press it now that you suggest it. The unsaleable portion of the mansion house should go in as of no value at all.

508. You are perfectly prepared to allow lettable property like farms to be assessed upon market value?—Yes, although I would like to say this. If the whole of those farms were put upon the market at the same time, I do not think you would get the value of them. That perhaps is a minor point; but so far as you get their value, I could not reasonably object.

509. It is only where owner-occupier property is concerned that you want a drastic alteration in the system of valuation?—Yes.

510. You do not claim it as a liability, but you want it reduced very much?—I want it struck off altogether, because it is unsaleable. I am quite willing to say Yes to what you say, but my method is to take the actual net value of an estate and to capitalise it, and I cannot really put forward any other method. Yours may be an excellent one, but it is not my way of doing it.

511. I am only trying to see whether you really are making a claim which begs a very big question of principle and confines it to that but does not take it to its legitimate conclusion?—I am merely asking for a difference in administration.

512. We will get the Revenue valuers here and ask them how in fact they do value such property, and find, from what they say, whether the values they put on property are increases beyond the current market values. But that will not dispose of your argument, if it still be your contention, that if there is any amenity value in lands, that should be excluded. Now I understand you really drop that?—I put forward the main contention that I make, that for Death Duty purposes land should be valued upon the actual net money which the new owner will enjoy, and I am perfectly sure, in my own mind, that that is a fair way of finding out the value. Now you say, and I dare say you are quite right that the saleable land ought to be valued at what we estimate to be its market value, regardless of the fact that it is all put on the market at the same time, and I think you admit—I am not quite sure—that the unsaleable portion should go for nothing. We may get to somewhat the same result in two different ways.

513. *Mr. Bell*: If an actual bid were forthcoming which the proprietor did not wish to accept, would you regard that as evidence of value?—You would be bound to do so. We see houses going derelict, we see houses being handed over apart from the value, and you cannot claim that a large mansion house has any general value.

514. *Sir Josiah Stamp*: If you are confining yourself now to the question of mansions, I know exactly where we stand?—Not entirely. I take all unsaleable subjects in land.

515. Woodlands?—Yes.

516. I have only one other point, that relates to an answer given to Mr. Lees-Smith. You would agree, generally speaking, that properties were underassessed after 1910 because of their rise in value?—There has been some rise in value, though not so much as some would say.

517. From 1894 to 1910 they were rather overassessed, were they not?—In an estate where reasonable care was taken to get the right assessments, the assessors generally met one fairly upon the matter.

518. But there was a long process of reducing assessments during that period, was there not, with continual reductions when the evidence was quite clear that the owner-occupier of the property had no power to pay?—At that time I had entirely to do with Scottish matters, where our method of assessment was quite different. I am not quite certain what happened with regard to Death Duties. Perhaps Mr. Carlton might know that. (*Mr. Carlton*): I am afraid I cannot answer that.

519. You do not put forward this comparison with America except in a most general way, do you?—(*Lord Clinton*): It is merely taken from the figures.

520. You seem to regard tithe and land taxes as being a burden upon land in the ordinary sense?—As regards the land tax, I think it is. Tithe is not a burden in the ordinary sense; it is part of the land that belongs to somebody else.

521. Have not land taxes been long enough in force to be bought up and generally amortized?—It really is a burden on the land. It is different from tithe, because tithe was land belonging to somebody else; it belongs to the Church; I am merely collecting the money for the owner.

522. Have you not got a ground rent charge? However, I will not bother you about that; that is a long argument that has already been threshed out; but it does rather destroy the validity of the comparison?—Perhaps so; but it is, nevertheless, a burden on land.

523. *Sir Arthur Balfour*: Can you tell us the number of members of the Central Landowners' Association?—About 6,000.

524. And the Land Agents' Society?—(*Mr. Carlton*): I am afraid I do not know that. I will get that from the Secretary.*

525. There has been apparently an increase of owners occupying farms in some areas. Has the number of members of the Central Landowners' Association increased?—(*Lord Clinton*): Yes.

526. Owing to the break-up of estates?—Yes, owing to the break-up of estates and also, I think, owing to the excellent work the association has done.

527. You have spoken to us about charges on land without return from the buildings on the land by way of rents. Have they increased?—If a farm comes into the market to-day, you may get an increased rent for it, but I could show you cases which no sane man could possibly accept. I should say the nominal increase, so far as I am concerned, would be about 10 to 12½ per cent.

528. Is it your contention that the cost of realisation of land should be accepted as a reduction from Death Duties?—I think it ought to be.

529. Is not that a charge which takes place after the death?—In order to get the estate, I have to spend a certain amount of money in legal and other expenses; I think that might be an allowable deduction.

530. That might be carried rather far; you might have all kinds of charges worked up against the estate. Do you not think it would be a principle very dangerous to admit?—Is there anything else that you could put quite on the same plane as the provision of money for the valuation of the estate.

531. The valuation of property outside of agriculture, the valuation of building property, all kinds of valuations, such as a dock or ships, for instance?—I do not think this is a question of valuation. It is the actual cost of raising the money, a cost connected with your sale. I do not think we are speaking of valuations here.

532. Taking that point one step further, supposing a mansion and park was offered for sale and there was no bid, do you think that ought to be taken as evidence that it had no value at all?—There is always a value, unfortunately, to some hypothetical purchaser whom you cannot find.

533. It would not be right to say because there was no bid for a mansion or park or woodland, that it had no value; therefore it would be right to include some value for Death Duties?—That was not my suggestion; it did not come from me.

534. You said you thought that 22 years' purchase was too much. What do you say would be a fair number of years' purchase?—Of course, it all depends how you value. On the present method of valuation I should think 18 or 20 years would be ample. On a fair valuation, after deducting all outgoings, I think 20 years would probably be fair.

535. Does your Association know in what proportion of cases advantage has to be taken of the spreading of Death Duty payments?—It is very general, I think.

536. In a large proportion of the cases?—Yes.

537. *Sir Alan Anderson*: It seemed to me that you rather changed from what you put down in your evidence because of the argument chiefly of Sir Josiah Stamp and I am not quite sure that you gave the impression you wished to give. Is not this true, that you have two arguments; one is that the valuer does not arrive at the correct value by taking these conventional deductions, but he gets something too high?—Yes.

538. In your written statement, it seems to me quite clear that you claim that land has a higher value in comparison with income than other things; that appears several times?—Yes.

539. Sir Josiah Stamp led you on rather to deny this. I was not quite sure which you stood on, because it seemed to me that this was wearing down what you started out by saying and what the whole of the argument was really based upon. You do claim, do you not, that what you wrote in paragraphs 7 and 9 is correct: "Death Duties press with exceptional severity upon agricultural land because it has a market value relatively far in excess of its income-producing value." That is your point?—Yes, but perhaps I may go rather more deeply into that. When you are buying land, you are buying two profits, the owner's profit and the occupier's profit; the owner has only one of the profits. That is really one of the main reasons why the market value of land is considerably in excess of its income-producing value. You are selling two profits of it; actually you only possess one.

540. But it is in excess, is it not?—Yes.

541. It is common knowledge that it is, and anyone who has ever bought or sold any piece of land knows that the relation between the capital value and income is absolutely different from anything else?—Yes.

542. Why it is so does not matter to us at all, but it is so and I have not the smallest doubt it will always remain so. You just indicate the reason why land should be treated differently in these taxes from other things. It is clear that you cannot, I think, follow out the line you take here, that the capital value should be ignored, because you could not lay down your pictures or your yachts without any tax on them, could you?—No; they have a sale value.

543. They have a value, although they have no income?—That is so.

544. It might be of great disadvantage to the State to have constant changes in the ownership of land?—Yes.

545. While it does not matter, with your pictures and your yachts?—That is so.

546. I suppose you would say there is obviously evidence that these heavy taxes will bring about constant changes in the ownership of land?—Yes, the whole of the land of the country will come into the market.

547. Will not that have the effect that the value of land will drop? There will still be a difference between the income value and the capital value, but it will be partly reduced by this pressure to sell?—

* In a subsequent note it was stated that the Land Agents' Society had a membership of upwards of 1,100 land agents, sub-agents, assistants and pupils concerned in the management of about ten million acres of agricultural land in the United Kingdom.

The supply will be greater than the demand, and that will tend, of course, to a fall in prices.

548. Would that not put right this difficulty of yours?—Yes, it would get nearer. My main point, always, is that the real income-producing value should be taken into account. You are getting nearer to it.

549. *Sir Arthur Balfour*: Have you thought what the effect would be of a Capital Levy on land?—We have it already. Do you mean more Capital Levy?

550. Would it exaggerate your present troubles?—Yes, it would be the last straw on land, and everything else, I imagine.

(*The Witnesses withdrew.*)

(*Adjourned for a short time.*)

Professor A. C. Pigou, called and examined.

Evidence-in-chief handed in by Professor Pigou.

1. At the request of the Secretary I have prepared the following statement. I have thought that, at this stage of the inquiry, I could be more useful to the Committee by confining my evidence to broad issues. The numbered paragraphs consist in the main of conclusion. They are intended as heads of evidence, not as complete discussions, which accounts for their dogmatic form.

The Debt and Unemployment.

2. Broadly speaking, taxation and the circumstances of the National Debt should not be regarded as determinants of employment and unemployment. Of course, *changes in taxation*, by shifting demand from one thing to another, may from time to time throw people out of work. Of course, too, through its various reactions, taxation may affect in a lasting way the aggregate demand for labour, and so the aggregate earnings of labour. But unemployment, when it occurs, is, in the main, a consequence of maladjustment between the demand for and the supply of labour in various occupations, not of the volume of demand; and taxation, as distinguished from changes in taxation, cannot be responsible for this maladjustment.

The Debt and National Credit.

3. I take the "national credit" in the Committee's reference to mean the terms on which the Government can borrow. Given general world conditions as to the demand for and supply of capital, these will depend—apart from expectations of changes in the value of money—on the confidence people have in the ability and willingness of the Government to honour any obligations that it may incur. Other things being equal, the existence of a large National Debt, to which no remunerative asset corresponds (a debt incurred by the Government to enable it, *e.g.*, to take over the railways, would be in a different position) must weaken that confidence. Given the size of the National Debt, a consistently maintained policy of providing for the service of the debt (including the gradual reduction of the principal by means of a Sinking Fund) must strengthen confidence.

External and Internal Debt.

4. The National Debt consists in part of a gold debt to the United States of America, but, in the main, of a sterling debt to British citizens. The service of the external debt involves the actual withdrawal of goods from the country; the service of the internal debt merely the transfer of command over goods from one set of people to another (partly the same) set inside the country. Therefore the external debt involves a cost to the country as a whole in a sense that the internal debt does not.

5. If external debt is paid off by the Government raising from its citizens 1,000 millions, whether by loan, levy or tax, and buying with the proceeds 1,000 millions of domestic securities, which it exports to sell abroad to provide debt payment, the country as a whole after that owes interest on the security instead of on the debt, and so the country as a whole is not really better off. You have exchanged the debt as from the Government for a debt as from individual citizens.

6. If debt is paid off by the Government purchasing and selling abroad foreign securities held by Englishmen the debt is really paid off as from the nation at the expense of the nation having less income in the future.

7. Apart from the export of foreign securities, external debt can be reduced and interest on it paid only to the extent to which a surplus of export goods over the import goods for which they have to pay exists. (When I say "over the import goods for which they have to pay," of course I mean to exclude the import goods for which they do not have to pay, namely, which come in as interest.) If a Government is in a position to raise annually 500 millions to finance internal debt, it does not follow that 500 millions of export surplus can be provided, but if it is in a position to raise annually 500 millions to finance services which (1) are not alternative to something which its citizens would otherwise have to provide for themselves, and (2) can be dispensed with, then it does follow that 500 millions of export service can be provided.

External Debt.

8. The real burden of the external debt, which is in terms of gold, is increased if the things produced by a given quantity of British labour and capital become less valuable relatively to gold, but it is not altered if sterling becomes less valuable in terms of gold provided that it at the same time becomes in equal degree less valuable in terms of things (*e.g.* if, through an expansion of British currency, both sterling became worth half as many dollars *and* sterling prices doubled).

Internal Debt.

9. The internal debt, being an obligation of one set of Englishmen, and at the same time an exactly equivalent asset to another set, its existence has no direct effect on the supply of capital or the terms on which capital can be raised. The destruction of actual and potential real capital which took place during the war had, of course, a very important effect on these things. But, given this destruction, the fact that, owing to the methods of war finance, it has left behind it an aftermath of internal debt, has no direct effect on current supplies of capital or on the rate of interest.

10. Indirectly a small effect is produced in so far as the transference involved in the service of the debt is from people more willing and able to save to people less willing and able to save, or *vice versa*.

11. The suggestion that the withdrawal of income from private hands to finance internal debt takes away resources that would otherwise have been available for the expansion of business is incorrect. The income is still available for this purpose in the hands of the holders of war loan to whom it is transferred.

12. Since War Loan stock is a convenient form of collateral, the wiping out of War Loan stock by repayment out of taxes would make it more difficult for some people to borrow money from banks. The aggregate annual supply of real capital would not be affected by this to any important extent, though its distribution might be modified a little.

13. The stress which has been laid above on the fact that the service of an internal debt involves merely transference of purchasing power inside the country must not be taken to imply that the existence or otherwise of such a debt is a matter of indifference. The process of carrying out the transference has injurious dynamic consequences, which are likely to be more serious the larger the required transference is. This aspect of the matter will be considered later.

Floating Debt.

14. The plea that the existence of a large Floating Debt creates a permanent risk of *unavoidable* currency inflation is invalid. It is always possible to secure the renewal of Treasury Bills by the offer of sufficient interest.

15. On the other hand, the plea that the funding of Treasury Bills by an issue to the public of Treasury Bonds has a large deflationary effect is unconvincing. No doubt the repayment of Ways and Means advances from the Bank of England has a deflationary effect, but the repayment of Treasury Bills, even when held by bankers, is in a different category. I suggest that, while the conditions favourable to funding operations are likely also to be favourable to deflation, funding operations themselves do not promote deflation to any important extent: they are rather a channel than a cause of change. There is, however, high authority opposed to this view.

Occasions of Repayment of Debt.

16. It is plainly desirable, if practicable, to pay off larger amounts of external debt in periods of *real* prosperity than in periods of *real* depression. As regards internal debt, if everybody understood economics, the matter would not be so clear. But in actual fact, depression being largely the result of lack of confidence, a manipulation of the debt service so as to allow at least of the rates of taxation not being increased in depressions, would almost certainly be advantageous. The difficulty is that Government, while welcoming the implications of this principle in times of depression, would be apt to forget them in times of boom.

Static and Dynamic Effect of Taxation.

17. In considering the effects of taxation, whether due to a National Debt or other causes, upon trade and industry, or more generally, upon productivity and economic well-being, it is important to distinguish between the effects of the *fact* of taxation and the effects of *people's knowledge of the fact.* The first class of effects would result from a tax imposed for one year only, with the certainty that it would not be repeated, as well as from a permanent tax; the second class only from a tax that was expected to continue. The first class of effects may be called the static, the second the dynamic effects of taxation. In paragraphs **19-22** I shall consider static effects, and in the paragraphs that follow dynamic effects.

18. Before any practical inference could be drawn from a discussion on these lines, it would be necessary to consider the way in which the burden of the tax system as a whole is distributed among people of different grades of wealth. I understand, however, that I am not asked to give evidence upon this matter.

Static Effects.

19. The static effect of raising revenue by taxation should in general be considered in relation to the way in which the resulting revenue is to be used. Thus, if a £100 million is raised by taxation in such a way that 50 millions of it comes "out of capital," the net capital of the country will be increased by 50 millions should the whole of this revenue be devoted to capital purposes, but diminished by 50 millions should the whole of it be used up as income. Nevertheless, in a comparison of different taxes it is useful to compare the static effect of raising revenue through one or another of them without reference to what is done with the revenue afterwards.

20. In this connection it is sometimes imagined that an Income Tax, being a tax on income, is necessarily paid out of income, and Death Duties, being taxes on capital, out of capital. This popular opinion rests on a confusion between the *source* out of which a tax is paid and the *object* on which it is assessed. It is not *necessary* that a tax assessed on capital should be paid out of capital, any more than it is necessary that a tax assessed on beer should be paid out of beer.

21. As a matter of fact, however, it is probable that Death Duties—since (1) they are levied in large individual amounts, and (2) they are levied on occasions when the payer is in the act of receiving new wealth—will be paid out of capital to a larger extent than Income Tax.

22. When it is said that they are (in some measure) paid out of capital, this does not mean that existing capital is destroyed. What happens is that the taxpayer sells securities, which are bought (at one or more removes) by somebody whose command over resources would otherwise have been devoted to making new capital.

Dynamic Effects.

23. The dynamic effects of various sorts of taxes, *i.e.*, the effects of people's knowledge that these taxes are and will continue to be in existence, are independent of the way in which the revenue due to them is employed. They depend exclusively on the nature and scale of the taxes.

24. It is a general principle that taxes which differentiate against particular ways of employing resources (*i.e.*, which strike them when they are employed in some ways but not when they are employed in others) tend to divert resources away from those employments against which differentiation is made.

25. There is a presumption that this sort of diversion will cause the country's resources to be employed less advantageously than they would be if there were no such diversion; and, in order to rebut this presumption, it is necessary to show that there are special reasons for believing that, apart from differentiation, an undue amount of resources would be devoted to the particular uses against which it is proposed to differentiate.

26. There is thus a presumption in favour of raising revenue by a general Income Tax, which hits income, however it is spent, rather than by taxes assessed on tea, sugar or motor cars. This presumption holds against taxes on particular imported commodities as well as against taxes on particular commodities produced at home, though not quite as strongly. There is an analogous presumption in favour of Income Tax as against taxes assessed on particular forms of investment (*e.g.*, houses and agricultural improvements) from which other forms of investment are exempt.

27. It is further to be urged in favour of Income Tax that under it the distribution of taxation among people of different degrees of wealth can be adjusted

in such proportions as may be deemed desirable much more easily than it can be under a system of commodity taxes.

28. Taxes on particular commodities produced otherwise than under conditions of monopoly will, in general, *if they are established and expected to continue*, cause the supply of those commodities to be reduced below what it would otherwise have been in such degree that the producers of the commodities get as good a rate of return as the producers of other commodities. According as diminished output leads to increased, unaltered or diminished cost of production per unit, this will mean that the prices of the taxed commodities are raised above what they otherwise would have been by an amount greater than, equal to, or less than the tax. Taxes on imports of goods which have a large world market may be expected to raise prices by about the amount of the tax. The change in prices (as against what they would otherwise have been) need not be different in periods of depression from what it is in normal times.

29. Taxes on commodities that are produced under conditions of monopoly tend to raise prices, but the extent to which they raise them varies greatly in different circumstances.

Income Tax.

30. Income Tax does not directly enter into prices. It is assessed on the profits resulting from trade and industry, and if, as may be presumed, people are already charging the prices that yield them the best profit, the removal by the State of a proportion of the profit will not tempt them to fix prices differently.

31. It follows that Income Tax does not directly handicap exporters in competing against world prices.

32. Indirectly, in so far as Income Tax causes people to work and save less, it checks production. Even in this aspect, however, it does not handicap the export industries more than other industries. Matters are adjusted through movements in rates of exchange or in the relative levels of money prices in different countries.

33. It is to be presumed that Income Tax checks foreign investment in England, because foreigners so investing have in general to pay a tax from which they are free if they invest at home.

34. But Income Tax does not induce British residents—provided that they continue residents—to invest abroad, except in so far as they contemplate fraud, because they are liable on foreign-earned as well as on British-earned income.

35. The question whether Income Tax checks work and enterprise depends on the form of the Income Tax scale, taken in connection with the function relating amounts of income to amounts of satisfaction yielded by income to representative members of the community. If the scale were so arranged as to impose an equal real sacrifice on the recipients of larger and of smaller incomes, and if everybody understood what was happening, the tax would not affect work or enterprise either way. In view of the fact that (1) the existing British scale is probably graduated more steeply than the principle of equal sacrifice would require and (2) that many people fail to distinguish between money sacrifice and real sacrifice, it is probable that the existing British scale does check work and enterprise to some extent. It is impossible to say to what extent it does this. The data required for an arithmetical solution of the problem are not available.

36. The British Income Tax, while apparently neutral between saving and spending, is in fact differential against saving; because, while income that is spent is taxed only once, income that is saved is taxed twice, once in itself and again in the future income that the investment of it yields. In so far as people realised this, it is probable that the British Income Tax checks saving.

37. A further differentiation against saving is involved in the higher rate of charge upon unearned as against earned incomes and again in the system of Death Duties which strike income that is saved but not income that is spent. These differentiations may also be presumed to check saving. The extent to which they do this cannot be determined. In view, however, of the fact that a large part of the savings that are made come about more or less automatically and without much regard to the return they will yield, I do not myself think that the check is likely to be very large.

38. Nevertheless, if the serious practical difficulties and some objections from the side of distribution could be overcome, a strong case could be made for exempting from Income Tax that part of income which is saved.

39. The problem is, however, complicated by the fact that some portions of spent income may be regarded as income invested in the capital of human capacities—a form of capital more important than machinery. To exempt saved income in the ordinary sense and not to exempt this income would therefore involve an injurious kind of differentiation.

Undistributed Profits.

40. Undistributed profits of companies are the part of the income of the shareholders which the directors re-invest in their concerns without consulting the shareholders. In order that this income should be treated on a par with other incomes, the rate of tax imposed on it would have to vary from company to company according to the wealth of the shareholders. That arrangement being obviously impracticable, all income of the sort is taxed at the standard rate. It does not seem likely that any appreciable difference is made to the aggregate amount of investment by the adoption of this compromise scheme. The principal problem which the scheme raises is that of preventing Super-tax payers from avoiding a portion of their proper tax liabilities by means of one man companies. To exempt undistributed profits from Income Tax would be, in effect, to exempt one particular form of saved income while not exempting other forms that are, from a national point of view, no less advantageous.

The Corporation Profits Tax.

41. The Corporation Profits Tax is in effect an Income Tax (1) which differentiates against investment through joint stock companies as compared with investment through private partnerships or in a man's own business, and (2) is assessed at the same rate on everybody without graduation and without allowances. Both of these characteristics are disadvantages.

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551. *Chairman*: Perhaps you will take your evidence-in-chief and deal with the points as they arise?—On paragraph 2 all that I want to suggest is that unemployment and employment do not come much into the question of taxation, because, though taxation may alter the general demand for labour, if it alters it permanently, the effect will presumably occur in wages rather than in employment, and unemployment in the main is the result of maladjustment. Changes in taxes are relevant to unemploy-

ment; the absolute amount of taxes and the kind of taxes, so long as they are permanent, are not particularly relevant. That is all I want to say on that paragraph.

With regard to the national credit, I was not completely clear as to what exactly was meant, but, if one interprets it as the price at which the Government can borrow, then I suggest that this will be improved in so far as people's confidence in the power of the Government to meet its obligations is improved. That, of course, will be done if there is a consistent policy of paying off debt. Of course, the whole thing will be modified if people are afraid that there is going to be manipulation of the currency, but I leave that out, because I do not think there is much prospect of that kind of thing happening. Apart from that, the thing that will improve the national credit is, I think, in the main, assurance on the part of the people that the Government is going on paying off the debt regularly. If they did not have that assurance any new large demand for money, such as might come about if a new war happened, would cause enormous perturbation, and people would require extremely high interest.

552. Do you mean by that repayment by a Sinking Fund?—I think the main point is not so much the method of repayment as that people should be confident that somehow or other it will be done. The chief point of a formal Sinking Fund is to give people confidence, to make people think the Government will stick to it. Then as to No. 4 regarding the external and internal debt, of course there is a very fundamental distinction between those two things. The external debt is a debt in terms of gold in the main to the United States, and the internal debt is a debt in terms of sterling to the British citizens. Apart from the distinction between sterling and gold, which I will leave for a moment, the external debt is fundamentally different from the internal debt, because whereas paying off internal debt means simply a transference from one set of people to another, paying off external debt means either sending out securities or sending out an actual surplus of goods; consequently there is no real connection between the two. I should, therefore, like to add to my paragraph that, apart from mere matters of budgetary convenience, and so on, fundamentaly a nation that succeeded in paying off its internal debt would not by that fact be given any greater capacity to pay off external debt, because the payment of the internal debt is only a transference inside the nation.

The point I wish to make in paragraphs 5 to 7 is this: Supposing that the Government is able to dispense with spending 100 millions on the upkeep of the Army, and the Army is paid off, that implies that the services of these people who were in the Army will cease to be rendered as soldiers, and roughly those people will then be able to provide services in making export goods that could be used to finance a foreign debt. But if the Government has merely raised its 100 millions in some way that involves a simple transfer inside the country, then there is no inference that it could raise that money for the purposes of making a payment abroad; that is the sort of distinction I am trying to get at.

Perhaps I should explain paragraph 8 a little. The external debt is owed in terms of gold and the real burden of the debt consists in the using up of labour and capital that we have got to reserve in order to pay so much gold debt. If a given quantity of our labour and capital comes for any reason to be worth less gold than before, that means, of course, that the real burden of the debt, which is a fixed sum of gold, is increased. But it would not be correct to say that, if the value of the things produced by Englishmen becomes less relatively to gold, therefore, necessarily, the burden increases, because the value of those things may become less relatively to gold owing to labour or capital becoming more efficient. In those circumstances the labour and capital would buy as much gold as before, but a greater quantity of goods. The usual way of putting it is simply to look at the things; I think you ought to look behind the things, at the labour and capital.

The next point—which is not always taken I think—is that if you alter the value of things in terms of sterling by manipulating currency that will presumably alter the value of sterling as against things to the same extent as it alters it against gold, and, therefore, there will be no real effect on the burden of a debt which is expressed in terms of gold. On the other hand, of course, if the United States by an inflationist policy reduces the real value of gold in terms of things throughout the world, that will have the effect of lightening the burden of our debt, because then a given quantity of stuff produced by so much labour will buy more gold. That sort of action from the United States is something that we have not any direct control over, but I think it is important to get clear on the fact that relative movements between sterling and gold affect the burden of the debt in different ways according to the cause of the movement, and you cannot lay down any general rule that a given fall in the exchange, for instance, must increase the burden of the debt. It depends on why the exchange falls. Perhaps I should add in connection with that another point which is sometimes referred to. It is sometimes said that the way to deal with debt is to increase production, and that by increasing production you lessen the proportionate burden of the debt. Of course, that depends again on what happens to prices. Supposing that prices fall in the same proportion in which production increases so that the aggregate gold value of your income is the same, then you have to use just as large a proportion as before of your income in paying your debt; so that when one says that the way to deal with debt is by increasing production, there is something implied to the effect that if you increase production, prices will not fall in the same proportion as production increases; they may fall a bit, but the implication is that they will not fall in as large a proportion; otherwise the inference is not valid.

Then in paragraph 9 the distinction I draw is between the fact of an internal debt being piled up and the cause of that internal debt being piled up. Of course, in so far as the War involved the destruction of real capital, that necessarily meant that the rate of interest is higher now, because there is less real capital; but, given the amount of the destruction, it does not seem to me to make any difference to the position of real capital, whether the financial proceedings which took place in connection with it involved the piling up of a debt or not. The thing that pushes up the rate of interest is the destruction of the real capital, and the other is a secondary matter which only has an indirect and smaller effect. Then I qualify that in paragraph 10 by suggesting that if the financing of the debt involves the transference of resources from people who have a greater willingness to save to people who have a less willingness to save, that of course does cut down the supply of real capital and raise the rate of interest, and conversely, if the transference is the other way. That is an indirect and secondary effect.

Paragraph 11, I think, explains itself. It follows from the argument that payment of internal debt is just a transference within the country, that it cannot involve the taking away of funds from the source on which business can draw. The real stake represented is still there, but it is in other people's hands.

Then paragraph 12, of course, deals with a very controversial matter on which there are many people here who would speak much more as experts than I can. What I suggest is, that the wiping out of War Loan stock will not have a very large and important effect in cutting down the supply of real capital. Of course, how far it involves cutting down the supply of bank money depends on the extent to which people do use War Loan stock for the purposes of borrowing from banks. Sir Josiah Stamp has

made some inquiry as to that. It is a matter which depends on fact, but I want to add just one further qualification. Granted that you do cut down your bank accommodation by removing this collateral you do not cut down the supply of real capital to the same extent, because the very fact that you have cut down the bank accommodation means that you have diminished the currency, and therefore lowered prices. As a result, people receiving fixed incomes and so on are in a position to lend more, perhaps, through the banks, and perhaps in other ways than through the banks, than they would have done otherwise, and that is partly a make-weight against the cut in the supply of capital through the banks. So that my general impression is this: the very common idea that wiping out this scrip by repaying War Loan would make a serious inroad into real capital is very much exaggerated. But, as I say, I put that forward as a suggestion; I really have not much knowledge about that.

Paragraph 13 is just by way of qualification. What I have been saying about an internal debt being merely a transference must not be taken to imply that it does not matter how big an internal debt you have, because indirectly the taxes that you have to raise to pay for it do produce effects; so when one has shown that it is a mere transference, I do not want to say therefore it does not matter; I think it matters a great deal, but not in the same sort of way as the external debt does, as it is not directly a loss.

Then there is some more of this controversy about the money relations in paragraph 14. It is often suggested that a large Floating Debt may lead to unavoidable currency inflation, and, therefore, it is very important to do away with the Floating Debt, so that this shall not happen. What I suggest is that nothing of that sort can happen unless the Government fails to renew its Treasury Bills. The way in which the inflation would happen would be if the Government, being unable to renew its Treasury Bills, had to get Ways and Means advances from the Bank of England. My suggestion is that you cannot call that sort of inflation unavoidable, because in all practically conceivable circumstances the Government could always renew its Treasury Bills if it offered enough interest. But there is, of course, a point in this. If you imagine a state of affairs in which the Bank of England is trying to prevent inflation and the Treasury is determined not to let it prevent it, the Treasury can by means of its Floating Debt "do in" the Bank of England. It can refuse to raise the rate on Treasury Bills when the Bank of England raises its discount rate, and so can bring it about that these Bills are not renewed. Then the Treasury may come to the Bank of England and say: "You must give us Ways and Means advances, because otherwise we will default on our Bills," and the Bank of England could not in those circumstances possibly refuse. So I think it is true that if the Treasury chooses to prevent the Bank of England from safeguarding the currency it has a weapon to that end in the Floating Debt, but that is a very different thing from saying that the existence of the Floating Debt threatens to lead unavoidably to inflation.

Regarding paragraph 15, the suggestion is often made that the funding of Treasury Bills by an issue of Treasury Bonds will have a deflationary effect. I want to suggest that that view is exaggerated. This is another thing I do not feel very confident of. But consider what happens: Supposing that the Government issues a Treasury Bond; if the Banks who before held the Treasury Bills and kept on renewing them take up the Treasury Bond, obviously no difference at all is made. The Banks merely hold the Treasury Bond permanently instead of renewing the Treasury Bills from time to time. But if a private person takes up the Treasury Bond and uses his balance at the Bank to take it up, then the process, I take it, is this: supposing it is £1,000, this private person draws a cheque for £1,000 on the Westminster Bank and pays it to the Government account at the Bank of England. The effect of that is, on the one hand, to reduce the liability of the Westminster Bank to that individual, and on the other hand to reduce the balance of the Westminster Bank at the Bank of England. The next stage is that the Government draws a cheque for £1,000 on the Bank of England to the Westminster Bank to pay off the Treasury Bill, so that the Westminster Bank's balance at the Bank of England returns to what it was before; it holds £1,000 less Treasury Bills and it owes £1,000 less to its customers. In those circumstances it seems to me that it is in a position to lend the customers another £1,000 on the security of the Treasury Bond. Therefore it is in a position to get back to where it was before, and if it does not do so that implies that the customers do not really want such big balances, and that they would have cut down their balances even if the Government had not funded the Treasury Bills. So what I suggest is, that though the funding of Treasury Bills into Treasury Bonds will often as a matter of fact be accompanied by a deflationary tendency, the real thing is not that this process of funding the Treasury Bonds causes a deflationary tendency, but the general slump in confidence at the same time makes it easy to fund your Treasury Bills and also tends to cut down people's balances.

553. *Sir Josiah Stamp*: They are two effects of the same cause.—They are two effects of the same cause and not one the effect of the other; that is what I suggest.

554. *Sir Charles Addis*: Do you say a general slump in confidence?—I mean that people do not want so much money; they do not want so much balances; and when they do not want so much balances for trading, and so on, they are readier to take up Treasury Bonds, and therefore that is a good time for issuing Treasury Bonds. But if the Treasury Bonds had not been issued then they would have cut down their balances anyway, because they did not want to do so much trade. Of course, that is another matter that I do not want at all to dogmatise about.

555. *Mr. Bell*: What would happen to that customer's Treasury Bond if he had drawn off this balance?—He having formerly held a Treasury Bill, and now having a Treasury Bond, is in a position to borrow on his Treasury Bond.

556. *Sir Josiah Stamp*: Presumably he will not want to borrow?—No; I think he will not want to, but my point was that so far as the bank is concerned you do not really weaken the lending power of the bank. The reason why the thing happens is that he does not particularly want to borrow.

557. *Mr. Bell*: You spoke rather as if it would come back into the Westminster corpus of securities in which it could do something. I refer to the customer who drew off the balance of £1,000 to buy a Treasury Bond; that would not go back to the bank?—No, only in the event of the customer depositing the Bond as collateral.

558. Only if he wanted to borrow again?—That is what I mean.

559. *Sir Charles Addis*: The point is that the bank is in a position to lend £1,000 to him or somebody else?—Yes.

In paragraph 16 the question is whether there is an advantage in paying off more debt in times of prosperity than in times of depression. If it is real prosperity and not merely apparent prosperity, obviously a country is in a better position to pay off external debt when it is prosperous, just as an individual is, than when it is in a poor way. With regard to the internal debt, I do not think it is really so clear, because that is a transference, but even there I think it is better to pay off in apparent good times. If you pay off exactly the same in apparent good times and in apparent bad times, you will have to have higher rates of tax in order to get in the bad times the same absolute amount of revenue as in the good times, and that I imagine

would have strong psychological effects, and might increase the slump if there was a period of lack of confidence.

560. *Chairman*: What would you take as being the gauge of prosperity in a country?—Of course it is very difficult. You would have all sorts of tests. I suppose the percentage of unemployment would be one test. In so far as you have statistics of production you could rely on them. Of course the price movement will be partly an index of real prosperity and partly a false index. The difficulty is that the statistics are so very deficient.

561. *Sir Josiah Stamp*: Real foreign trade?—Real foreign trade, but that might be upset. A bad harvest might increase your foreign trade. I should think the best single index would be the percentage of unemployment. But, anyway, the reason why I should be in favour of paying off less debt in apparent bad times is the psychological reason so far as internal debt is concerned. It does cheer people up to have a slight reduction in taxation, and it does extraordinarily annoy them to have an increase in taxation at a time when they felt that things were going bad. They would actually have to have an increase in rates if the same absolute amount had to be paid in the bad times, except of course in so far as Income Tax is on the three years' average, and there is delay; but that would be the general effect. Of course, the objection to this kind of arrangement is that a Government would accept the principle when times are bad, but they are much less likely to accept it when times are good; so if you press that principle too much it might in practice bring it about that there would be very little debt repayment at all. It is the sort of principle that is rather easily abused.

562. Politically?—Yes.

563. *Sir Arthur Balfour*: You think it is better to have a steady average rather than trying to rush high at one time and come down low at another time?—I would not like to commit myself. If you could have a definite law connecting prosperity with the amount of debt repayment, that might be all right, but if you have not got a law there is always the political danger.

564. *Sir Alan Anderson*: In point of fact, if the rates were the same you would get a bigger yield in the good times than in the bad times?—Yes.

565. Would not that satisfy you; that would give you a bigger repayment in the good time?—Of course, there is something to be said psychologically for having even a lower rate in the bad times—I mean by way of encouraging people; but the whole thing depends on people's psychology to such an extent that I cannot, I think, say anything very definite.

566. *Mr. Lees-Smith*: How could you connect up a particular rate of taxation with the amount of the Sinking Fund?—Of course, you would not directly connect the rate with the Sinking Fund. This is an academic suggestion: you might connect the amount to be put to Sinking Fund each year with some index of prosperity.

567. But that is not keeping the rate the same?—No. That would imply an alteration in the law unless something else be done. You could not make a direct connection with the rate, I agree.

Paragraph 17 is a very obvious point. All I want to say there is that there is a distinction between the effects of the fact of a tax which would happen if the tax were there for one year only, and the effect of people knowing that that tax is there and is going to continue. Those two things have got to be distinguished, and in a one year tax you would only have the effect of the fact; in a continuing tax you will also have the other effect. I think Sir Josiah Stamp has used the term static and dynamic effect; they are two quite different classes of effect, and it is useful, I think, in discussing the effects of taxation to keep them separate.

568. *Sir Josiah Stamp*: You seem to deal here with the fact of a tax and the way in which it gradually dawns on people that that is the fact, as though it is a matter of a period of time in becoming aware of the fact?—What I mean is this: Supposing you put in this year a tax on the income that has been earned during this year, and everybody knows for certain that it will never happen again, then the effect of that will depend on where the tax is taken from, but if people also think the Income Tax is going on for a long period of years, you will have their general conduct altered by their knowledge that if they earn income they will in future have to pay Income Tax on it.

569. You are not making the other distinction between what people think taxes are doing for them or against them and what they are really in fact doing?—No, I do not mean that.

570. It is a different class of distinction altogether?—It is the first one that I mean.

571. *Chairman*: Would you ever get people to believe that a tax would be taken off once it is put on?—I am not suggesting that the two aspects would be separated in fact, but it is convenient to separate them in analysing the effects. But when you have done all that, I suggest in the next paragraph that, whatever you find out about effects on trade and industry of particular sorts of taxes and particular rates of taxes, that does not enable you to reach any practical decision as to what taxes you are going to have. That is simply a discussion of the effects of the taxes on production, and, of course, before you can come to your practical decision you have to consider not only that but also the effects on distribution, and it might quite well be that a certain system of taxes, very admirable from the point of view of production, might be very bad from the point of view of distribution and the other way round. I do not know how far the reference of the Committee is intended to go.

Supposing the Committee simply had to discuss the effects on production, it would get to useful results, but you could not draw an inference as to what you ought to do from those results, because you might then find that your system was intolerable on the distribution side. For instance, you might conceivably argue that the thing best for production was to collect all your taxes from the poorest people. There are two entirely distinct principles that have to be considered.

572. *Sir Josiah Stamp*: Do you suggest that they are very divergent in their application?—That is a difficult thing to say.

573. If they are two absolutely distinct principles, the question is whether in practice you would get the maximum benefit out of each if they are far apart?—Yes. Of course, they are much more consilient than they appear at first sight; but I think it would be a paradox to say that they would be completely consilient.

574. What is the practical importance of the distinction?—From a distributional point of view, it would plainly be best to take nearly all your money from the rich people, but that might be so bad from a productive point of view that the poor people would in the end be damaged. You would want to consider both sides. As Sir Josiah says, there will be a certain consilience between them if you push things far enough. I did not really want so much to discuss that as to guard myself. I think it is important to be clear that when one has settled the productive effects one has not necessarily settled the total merits of the taxation system.

575. *Mr. Lees-Smith*: Is the effect of the taxes on distribution a point upon which, in fact, it is possible to give any valuable evidence? Take the case of a large Sinking Fund as an example; would it be possible to give any evidence of the effect that that would have upon, say, distributing wealth more evenly?—I was not thinking of the effect of the various uses of the tax.

576. For instance, a tax on sugar?—Of course an admirable productive tax is a tax on site values, because it does not interfere with the supply of anything, but from a distributional point of view you might say it is extremely unfair to take all that

money from people who happen to own site values. All I meant to suggest is that you have the two things.

577. *Sir Josiah Stamp*: If you settle your tax entirely by reference to psychological questions, on the distributional side you might get a set of taxes, or a burden of tax, that is not the best from the point of view of aggregate productivity?—Yes.

578. Taking all the money from the rich and drying up the fund, which as a fact means that all your savings go, may have a greater re-action on total productivity than any other method?—Yes, certainly. In paragraph 19 I start off with the question of what I call the static effect of the different taxes. What I say in that paragraph is pretty obvious; that the net effect of raising taxes, even if you take them out of capital, ought to be taken in conjunction with what you do with your money when you have got it. If you raise 50 millions in this sense out of capital and apply it to capital uses you do not reduce the total capital of the country; that, of course, is obvious. If you consider the effects of the taxation by itself without taking account of what is done with it, then of course there will be differences between different taxes, and in paragraph 20 I suggest that there is some confusion in the minds of people who say or imply that Income Tax, because it is a tax on income, is paid out of income, and Death Duties, because it is a tax on capital, is paid out of capital. The distinction between Income Tax and Death Duties is that under Income Tax the object of taxation is income, and under Death Duties the object of taxation is a capital fund, but it does not follow that because an Income Tax is assessed on income as an object that it therefore comes out of income as a source, and correspondingly with Death Duties. The nature of the object of assessment does not determine the source of taxes as, of course, you can see by the illustration I give about beer. A tax assessed on beer obviously is not paid out of beer. There is, in fact, a fundamental distinction between the object of assessment and the source out of which a tax is paid. Although in certain cases the two may coincide, to prove that a particular tax is on a particular object does not prove that it comes out of that object as a source; so that you have to consider in detail each particular case. In the particular case of Death Duties I agree that the money for Death Duties will come out of capital probably to a bigger extent than in the case of Income Tax, first, because you collect a large sum of money at one time, and of course it is easier to provide a small sum out of income than a large sum, and secondly, because Death Duties come at a moment when people are receiving a new fund which they have not come to regard as their own wealth in the same way as the wealth they had before, so that they are more likely to pay the Death Duties out of capital. Of course, to some extent this is cancelled by the tendency to provide for Death Duties beforehand by insurance, but still I am inclined to agree that Death Duties as such are likely to be paid out of capital to a larger extent than Income Tax. I suggest in paragraph 22 that this does not mean, of course, to say that Death Duties are entirely paid out of capital.

579. *Mr. Lees-Smith*: Under the Rignano scheme would it also be true that Death Duties would be paid out of capital?—I should have thought so. I do not say that they would be entirely so paid under the Rignano system any more than under any other system.

580. *Sir Josiah Stamp*: Surely the tendency would be much greater under the Rignano scheme than under the present scheme for the tax to be borrowed out of capital?—I am not sure.

581. It becomes heavier?—Of course, there is more of it, but I was eliminating that. I would not have thought at any rate it would have been paid less out of capital. In paragraph 22 I suggest that when it is said that a tax is paid out of capital it does not of course mean that actual live capital is taken up and used in the taxes.

582. Not destroyed?—Not destroyed. What I mean is, the railway shareholder does not destroy part of his railway. What usually happens it that the person who has got to pay the Death Duty, if he pays it out of capital from his point of view, sells securities and somebody else buys them. That somebody else buys them instead of investing in new capital, so it is not literally true to say that the duties are paid out of the capital. The stricter form would be to say they are paid out of resources that would have become capital.

583. *Professor Hall*: Is not that in a measure true of all taxation?—Yes, but not in the same way. In so far as Income Tax is paid out of income you do not stop potential capital.

584. *Mr. Hichens*: Why? It might have been saved?—So far as it is paid out of income?

585. Yes; it very likely would have been in a great many cases, would it not? If Income Tax is high it is likely that the saving of the community is much less?—Certainly, yes; I come on to that presently.

586. *Sir Alan Anderson*: Is not the difference in the case of the individual that though by reason of the Death Duties the individual's fund of capital is reduced, he submits to that because he is getting a lump at the death of a rich uncle and he is prepared to take a less lump?—I was really not distinguishing here the part of Death Duties that is paid out of capital from the part of Income Tax that is paid out of capital. When you say any part of any tax is paid out of capital, you do not mean that existing capital is destroyed, but that a certain amount of resources that would have become capital do not become capital.

587. *Professor Hall*: I was rather trying to find the difference between the Death Duties and other forms of taxation in that respect?—Well, my suggestion is that there is no difference in that respect, but there is a difference in the sense that a larger proportion of the Death Duties is paid out of capital than of Income Tax, and in so far as either of them is paid out of capital it is paid in that sense and not in the popular sense.

588. All taxation whether Income Tax or Death Duties really reduces the amount of available capital?—No. All taxation, in so far as it reduces the amount of capital, reduces it in the sense that it prevents new capital being formed, and some taxation comes out of what would have been saved.

589. *Sir Josiah Stamp*: Supposing a man has an income of £1,000 and his disposition is to spend £900 of it and save £100. A tax of £50 is then put on, the question is whether he will stint his spending to £850, and keep his saving at £100, or keep his spending at £900 and stint his saving to £50, or divide the expense between the two. He will do different things for different classes of tax, and stint the expenditure side of his account more for an Income Tax than he would for a Death Duty?—Yes, I agree with that, but I do not agree with your illustration, because one of the principal reasons why he will do it differently is because the Death Duty is a much bigger sum. I think for £1,000 taken in Income Tax or Death Duties there would not be much difference.

590. The size of the sum makes the difference. As a matter of fact, in the Death Duties you will have an occasionally very big sum instead of a small sum regularly. My question was addressed to the suggestion that all taxes stopped potential capital becoming real capital; they may do, but not to the same extent?—That is so, certainly. In paragraph 23 I deal with dynamic effects, by which I mean the effects of people knowing that if they do certain things they will be subject to certain taxes. The fundamental principle that I set out in paragraph 24 is that taxes which differentiate against particular ways of employing resources tend to divert resources from those employments. For instance, if you make a man subject to a tax provided he does one thing and not subject provided he does something else with his resources, you tend to shift his resources away

from the thing which is differentiated against. Following on that, in paragraph 25 I suggest that in general, unless you have special reason to think that if you leave him to himself he will employ too much of his resources in particular ways, you will do harm by resorting to differentiation. Because after all the presumption is that he will know his own business best. Of course I do not mean that there will never be a case or that there may not be a quite considerable number of cases in which this presumption is overthrown; but the presumption is that people will arrange their expenditure best for themselves. Therefore, anybody who wants to interfere with their arrangements by hitting them more if they choose one way than if they choose another way has the burden of proof on him. He has to prove that they would make some mistake and the initial presumption is against him. Of course, to take a simple case such as beer or alcohol, a person who thinks that it is wicked to drink beer will say: "Well, that settles it. A person will choose to drink more beer than is good for himself; therefore there is a case for discouraging him by a differential tax." But if you take something purely at random, then the presumption is against differentiation. The presumption is that if you differentiate you will cause people to do something other than what they intended to do and what they naturally would do, which would be better for them than what the Government would choose to do for them unless they can prove their case. The burden is on those who want differentiation in a particular instance. That general principle leads to what I say in paragraph 26, that there is a general presumption in favour of Income Tax as against taxes on particular commodities. Because if you put an Income Tax on a man you let him spend as he likes what you leave him after the tax, whereas if you collect the same amount of money from him by a tax on motor cars, for instance, you cause him to shift his expenditure away from motor cars, which presumably he likes, to something else that he does not like so much, and so you are doing more harm, and you only get the same amount of money as if you had taken your money and said: "All right; I am going to take that money, but what is left you can do as you please with." That creates a general presumption against all sorts of commodity taxes except taxes on commodities on which there is some special reason to believe people would spend too much money if you left them to themselves. In exactly the same way there is a presumption against taxes on special uses of capital from which other users are left exempt; for instance, a rating system which hits resources invested in houses and improvements in land whereas it does not hit resources invested in machinery, is *prima facie* bad, because it diverts resources away from these particular things although there is no reason to suppose that these particular forms of investment are inferior to others.

591. *Sir Arthur Balfour*: Do you put Corporation Tax in that class?—I dislike the Corporation Tax, partly because it differentiates against investment in companies and also partly because it is a flat rate with no allowances or graduation. Then perhaps I might add one point. I qualify the last point, and say the presumption is less strong against differentiation in regard to goods imported from abroad than in respect to other cases. The reason is that imports in general constitute the foreign demand for our exports in general. From a theoretical view if you put a tax on particular imports you get your other imports on slightly better terms, so there is a slight set off there which does not exist in regard to other differential taxes; but I do not think there is much in it myself. The general position is quite plain, that if you let people use their income, such as you leave them after taxation, as they like, the chances are, unless you have special reason to the contrary, that they will do better with their income than if, by a differential tax, you cause them to employ it otherwise than as they choose.

592. *Sir Charles Addis*: I am not quite sure that I caught that point in regard to the distinction of imported articles. Do you say that you might differentiate there because it would allow other articles to come in cheaper?—If you put a tax on imported motor cars, since foreigners want to get our exports, coal and so on, and they are discouraged from sending motor cars because there is a tax on them, that will have the indirect effect making them send things other than motor cars to us on slightly better terms, so there will be a slight gain by that kind of differentiation.

593. *Sir Josiah Stamp*: Only fractional?—Only slight, but it is so theoretically.

594. *Sir Alan Anderson*: Do you think it would prevent us from selling as much coal?—Yes. There is that sort of diversion that does not happen in the other case. It is an extra, I think, but I do not think there is much in it. That is one class of consideration in favour of an Income Tax as against any sort of commodity tax, except in certain special cases for which you can see special reasons. Then another very strong point in favour of Income Tax is that, when you have settled what you want to do with distribution, you can do it so much more easily by means of Income Tax. You can say definitely how much you want from people of different wealth, whereas if you try to do it indirectly by putting taxes on tea and sugar and similar things, you obviously cannot do it nearly as accurately.

595. *Sir Arthur Balfour*: Does not the very greatest difficulty in collection come in there?—There is a difficulty in collection, and that is one of the arguments in favour of indirect taxes; but so far as I remember, at the Income Tax Commission we had evidence that that difficulty in collecting Income Tax is small and much less than one would think.

596. You would have to spread it much further?—Yes.

597. Therefore you would increase the difficulty.

Sir Josiah Stamp: But your point is that the difficulty is to get at a considerable degree of progression. In direct taxation you always seek that?—(*Witness*): Yes, and not merely that, but the difficulty is in arranging your scale of taxes. If you decide that you want a particular scale you can do it by Income Tax, but it would be extraordinarily difficult to do it by a system of indirect taxes, whether it is progression or anything else.

598. *Sir Arthur Balfour*: It would mean a big change from one system to another?—Yes. There are obviously considerations on the other side. If you rely on commodity taxes you do not know how much of the different commodities people will buy.

599. *Mr. Lees-Smith*: Do you propose, what I think some of the witnesses will propose, that the Income Tax should be reduced to lower limits and the taxes on tea and sugar taken off altogether?—*Prima facie* I should like that, but there are all sorts of administrative difficulties. In pure theory I should much prefer that, but pure theory may be compensated by administrative considerations.

600. *Sir Alan Anderson*: You say if you could get all your money from Income Tax that would be the fairest way of the lot?—Yes. Take the old case of Ireland and England. The Irishman drank whisky and the Englishman drank beer, and so the Irishman, because he happened to like whisky, was taxed much more than the Englishman. There must be some unfairness owing to the fact that different people like different things. Then paragraph 28 deals with the question of the effect of taxes on price. With regard to that the theoretic answer is quite simple. You can construct a mathematical formula which will show by how much a given tax will tend to raise the price of a thing, in the formula there being statements as to what the general conditions of demand and the general conditions of supply of the thing are. In other language you can get your formula in terms of the elasticity of supply, and the elasticity of the demand of the thing. The formula is a very simple and short formula, but you cannot get any

arithmetical answer because you never do know in fact what the elasticity of the supply for a particular thing or what the elasticity of the demand for any particular thing is. So that your mathematical formula remains in the air. All you can do is to make a sort of guess. Broadly, for a commodity produced under conditions of competition, you can say the presumption is that the tax will raise the price. If it is the sort of thing on which, when you cut down the scale of production, you raise the cost per unit, then the price should rise by more than the tax. If it is the sort of thing on which, when you cut down the scale of production, you diminish the cost per unit, then the price should rise by less than the amount of the tax.

601. *Sir Arthur Balfour*: You say cut down the scale of production; do you mean owing to people having less purchasing power?—No, owing to people buying less because the thing is taxed. I can perfectly well produce a formula, but there is not much point in the formula because you cannot make it realistic.

602. *Sir Josiah Stamp*: It is a warning against any kind of extreme action?—It tells you what you ought to know in order to get the answer, and when a person produces an answer you can say that answer is wrong or you can say that answer implies that he believes certain things about the conditions of demand and supply. But you cannot do anything positive. It is futile to say we know that a tax of so much raises the price so much because so many months after such and such a tax was put on the price was so much higher; because all sorts of other things may have happened besides the putting on of the tax; and there is the further complication that the real effect three months afterwards might be quite different from the real effect when the thing has had time to settle down. I am prepared to produce a mathematical formula in terms of elasticity to show how it would affect the price, but I do not think anybody could fill in the figures. Therefore you really cannot say except by a guess. Supposing you have an import that has a very large world market, then your formula will work because it is practically certain that the elasticity of supply of this thing between one country and another will be highly elastic and if one country will not take it the people will send it elsewhere. If you put a tax on it in England practically nothing of it will come into England unless the price rises by the amount of the tax. That is the sort of case when you have some knowledge of these elasticities; but generally you have not. Therefore generally I do not think you can answer the question how much a given tax would raise the price.

603. *Sir Josiah Stamp*: It is possible, is it not, for an individual business with a certain output to say what it has cost in overhead expenses?—Yes.

604. By reference to the price?—Yes.

605. But it is not possible for the nation to do it?—With improved statistics you might be able to do it, but not now.

606. Is it not sufficient for practical purposes to assume that there is not any great variation, certainly that there are not many industries which are in a position to increase?—I think that is the best thing to assume in the absence of knowledge, and then you at once step on by means of the formula to say that the tax raises the price by the amount of the tax. If you assume that, you get your answer.

607. Is not that sufficient for practical purposes?—I think it is all you can do in the absence of special knowledge.

608. Could you not say if you knew the standing charges in, say, a brewery company and divided them over x output or $2x$ according to the price of beer? You would have some portion of your formula as an actual fact then?—You might if you knew that it would cost the same per unit to produce 1,000,000 barrels of beer and to produce 2,000,000.

609. If you knew in fact what the irreducible brewery charges were in regard to any reasonable scale of production you would then know the effect of the tax?—Yes, I suppose for a period, but after all, overhead charges are not stationary. If you have a long enough period you might get alterations and get all sorts of influences.

610. You cannot suggest any method by which any Chancellor might in fact get at it? He has got to make a desperate shot at a much larger question—what will be the effect of higher prices on consumption?—Yes; I am suggesting that our ignorance of the facts makes it impossible to give an answer. The whole thing is much more in the air than people think. In the case of monopolies, there is of course the same difficulty. I think you can say there is a presumption that if you put a tax on a monopoly the price will rise by a less proportion of the tax than if you put it on the same thing produced under conditions of competition. That, so far as it goes, is an argument for taxes on monopoly commodities. But I do not think that that gives you much information either. I am afraid all that is unsatisfactory. What I want to suggest is that we really know very little about it.

Then in paragraph 30, I suggest that Income Tax does not enter into prices directly, because it is a tax on profits that are left over after the prices have been settled; and consequently if it does not enter into prices, it does not directly handicap exporters with regard to foreign competition.

611. *Sir Arthur Balfour*: Would you say that Income Tax does not induce a higher selling price?—Not directly.

612. But indirectly?—I think it may indirectly, as I go on to suggest, in so far as it restricts saving and work.

613. Do you not think it induces a higher selling price because of the difficulty of obtaining the same dividend on capital?—I suggest that everybody wants to get as big a dividend on his capital as he can, and therefore he will in any case fix his price on the most profitable basis.

614. Supposing you have to increase your selling price to obtain a reasonable return on capital to keep money in the industry at all, and as a result less goods of that kind are being sold, then would you say that Income Tax had affected it?—I admit that if a company is prepared to fix its price in such a way as to get less money than it can when there is not an Income Tax, then an Income Tax may cause it to charge higher prices; but surely all ordinary companies fix their prices to get as much money as they can.

615. That may be their wish, but it is not always possible to do it?—It is always possible to get as much as they can.

616. There might not be a reasonable return for capital employed. In those conditions, if you put on a higher Income Tax surely you force the sale price up?—No. Supposing the conditions of your business are such that it is making a loss of £100; to put on an Income Tax will not strike you at all because it is making a loss. Supposing it is making a profit of £100, and would like to make a profit of £200, the Income Tax will not make any difference.

617. Supposing it is making a profit of £100, and that that it is a satisfactory rate, and you put an Income Tax of 10s. in the £, so that it only leaves £50, surely it has got to increase its prices then?—That implies that it could have got more than £100 before by charging higher prices.

618. *Sir Alan Anderson*: Supposing it wants to get new capital, will not people be deterred from risking their money in something that is going to give an unsatisfactory return after half of it has been taken away in Income Tax?—I admit that indirectly, as I go on to say, it will check the amount of investment.

619. *Sir Arthur Balfour*: That is precisely what I mean. You are spoiling the flow of capital into industry?—Perhaps we are really at cross purposes.

I was looking at the direct effect. I am admitting in another paragraph that there will be indirect effects, but on the assumption that a business tries to get as much money as it can, it will not directly be caused to charge a higher price because of an Income Tax. If it can improve its position after the Income Tax by charging a higher price, it could also have improved its condition before the tax.

620. It is a very delicate calculation, I know, but I think you will find that if you have a high Income Tax you do induce a high price on goods, and you thereby do reduce the sale per unit?—I am not certain that we really disagree; I am not sure you are not referring to these indirect effects which I go on to admit.

621. *Sir Josiah Stamp*: I think Sir Arthur Balfour is referring to the direct effect on costs. If there is anything in that I would ask what Income Tax it is that goes into the cost; is it the low Income Tax that small people pay or is it the high Income Tax which rich people pay, or is it the normal rate of Income Tax which a company deducts from a dividend.

Sir Arthur Balfour: I purposely left costs out. I purposely said the sale price of the goods?—(*Witness*): I am suggesting that the Income Tax does not directly affect the sale price of the goods though it may affect it indirectly.

622. But does it affect the sale price whether directly or indirectly eventually; that is the point?—Of course, that is a very controversial matter. My suggestion it that it does not enter directly into the price and obviously if one admits that, as paragraph **31** says, it follows that it does not directly handicap exporters. If one does not accept that, paragraph **31** obviously does not follow.

623. *Mr. Bell*: In the case of two exporters, one from America or another country, and one from ours, where the incidence of Income Tax is much higher, would you say that the exporter of the higher taxed country is not directly handicapped?—If my first point is admitted, namely, that Income Tax does not enter into price, of course it will not affect it.

624. Do you say that it does not handicap the exporter at all?—It does not handicap our export trade more than it handicaps English manufacturers of goods for home use. As I go on I suggest that Income Tax indirectly, we will suppose, stops a certain amount of saving and so diminishes the supply of capital.

625. But cannot the less heavily taxed exporter in the other country sell his goods more cheaply in the foreign market than the more heavily taxed goods of this country?—In so far as Income Tax checks work and saving, it checks production; but then I suggest that even in that respect it does not handicap exporters. It does not do that because of the effect of international price levels and the rate of exchange.

626. *Sir Arthur Balfour*: Supposing my company was offered a large order from abroad at a price. We want to sell to make as much money as we can, but the offer is made at a price at which it can be purchased in some other country with lower taxation than we have. We look at that order and the price at which it is offered. Do you mean to say that in that case the amount of Income Tax that we have to pay on the margin of profit, if any, is not a very big consideration and does not affect the export trade of the country?—Perhaps you would separate the two things.

627. I am telling you what happens in practice. I want you to answer me whether, from a theoretical point of view, that should happen?

Sir Josiah Stamp: Would you say it sometimes happens, but not always?

Sir Arthur Balfour: It very frequently happens just now?—(*Witness*): May I put it positively? What I suggest is this. An Income Tax will to a certain extent check the amount of saving there is in the country, but there is no reason to suppose that that saving will be diverted away from export industries more than from other industries. Take motor-cars. A person can get a motor-car either by making it in England or by making so much cotton and sending it abroad and getting a motor-car in exchange for the cotton. Therefore the real competition is not between the English maker of motor-cars and the foreign maker of motor-cars, but between the English maker of motor-cars and the English maker of cotton. Therefore if you check the supply of savings, there is no particular reason why those should be taken away from the English maker of motor-cars rather than from the English maker of cotton, but they both may be injured a little. There is nothing special about the foreign trade.

628. But it does injure them collectively finally?—Yes.

629. *Sir Josiah Stamp*: Would it be correct to say that this is only a particular case of a general class of discouragement attaching to anything if you do not have the reward of your labour?—That is my point.

630. It is not a class by itself?—Precisely.

631. *Sir Arthur Balfour*: I do not refer to it as a class by itself. I want to put it that it is a particular instance of discouragement?—Yes, but not special to the export industry.

632. I am just quoting it in the case of export and drawing attention to it from the export point of view, but I admit it does apply to other cases, too?—On Mr. Bell's point about comparative prices of the foreigner and the Englishman, I think that works through the general levelling of prices. Supposing that you have a taxation in England which puts up prices in England, that of course in the first instance will specially handicap English exporters, because they have to compete in neutral markets. But then all the prices in England having gone up, there would be a tendency, under a gold standard, for gold to flow abroad and so for the whole balance of international price levels to be changed, at the end of which process the special handicap to the export industry as against others, is removed; if it is not a gold standard but a paper standard, the same thing happens through the exchange. That is my suggestion: that the special handicap on the export trades as against others is only a temporary thing until the international price levels have become adjusted and that then, whatever handicap there is, is common to all sorts of industries, and not particularly on the export industries.

633. *Mr. Bell*: I cannot say I follow that, because other conditions in addition to the Income Tax might be in favour of the other country. Exchanges might work concurrently adversely to this country. It does not follow that they will adjust themselves?—What I mean is that if all prices in this country have gone up, it looks on the face of it as though our exporters must be specially handicapped. But under a gold standard all prices cannot go up permanently as against the rest of the world, because the mere fact of their having gone up and having therefore induced a lot of imports, induces again a flow of gold, and that tends to lower the prices in England.

634. That is if a gold standard were operative?—And if it is not operative, just the same thing happens through the alteration in the rate of exchange.

635. You get the price in the lower exchange?—Yes; it comes to the same thing as under a gold standard.

636. *Sir Charles Addis*: Instead of getting a pound for every 4.86 dolars, you get a pound for 4.30 dollars?—Yes. It really does not matter whether it is a gold standard or not, from this point of view; the adjustment will be made in one way or the other.

637. *Mr Bell*: you may have a case where the exchange would be a still further handicap?—If there were some other cause acting on the exchange, it might.

638. It depends upon the pendulum of compensation necessary to put this right?—If there is something else happening to interfere with this compensation, of course it might not work.

639. But still the same disqualification exists as to this tax all this time?—No, I do not admit that. I would say that you had your compensation but there was something else which upset it. But I admit if you have something which interferes with your compensation you will not get the adjustment so quickly.

640. It would be a question of time?—Yes.

641. *Sir Arthur Balfour*: It really means that, though your theory works out, certain individual firms might go out of business while it is working out?—Certainly; I admit that and I admit that any change may have that sort of effect. Then the next point is whether Income Tax checks foreign investment in England. Presumably it does in so far as the foreigner who invests in England will have to pay Income Tax which he does not have to pay if he invests abroad. But the investor from the United States, I think, is in a peculiar position. The United States remit on their home Income Tax the equivalent of any English Income Tax paid.

642. *Sir Josiah Stamp*: There are all kinds of divergencies.

Sir Arthur Balfour: Some of the Colonies do it, too; Canada, for instance?—(*Witness*): But in so far as the foreigner has to pay taxes when he invests in England which he does not have to pay when he invests abroad, he is plainly discouraged.

643. *Professor Hall*: Could you relate that to the last words in paragraph 9, in which you say: Given this destruction, the fact that, owing to the methods of War finance, it has left behind it an aftermath of internal debt, has no direct effect on current supplies of capital or on the rate of interest." Supposing you have a high rate of Income Tax, what is the result of that? Would it not affect the flow of foreign capital to this country and thus affect the interest?—Yes, I agree with that. Then to take paragraph 34; it is sometimes suggested that the Income Tax on British residents causes them to invest abroad instead of at home. It cannot do that unless they intend to be fraudulent, because they have to pay English Income Tax, under the English law, on foreign investments as well as on home investments. Then paragraph 35 raises the question whether Income Tax checks work and enterprise: that really depends on the connection between the amount of satisfaction a person reckons to get from different amounts of income. Supposing that you put a tax of such a sort that a man only suffers the same sacrifice if he earns a larger income as if he earns a smaller income, that Income Tax will not discourage work and enterprise at all, because he is not differentiated against, if he works a bit more.

644. *Sir Arthur Balfour*: The same percentage?—If he suffers the same sacrifice. I do not mean the same loss of money.

645. How are you going to measure his sacrifice?—I mean the amount of satisfaction that he loses. My point is this. Take a tax of 10 per cent. You can imagine a state of affairs in which a 10 per cent. tax would inflict the same sacrifice on a man with £100 as it does on a man with £1,000. If that is so, a proportionate tax will not inflict any greater sacrifice on a man when he earns more than when he earns less, and so will not discourage him from earning more. But if it is not so and if £100 off a £1,000 income means more sacrifice than £10 off a £100 income, then the effect of your Income Tax will be to discourage a man from saving, because he will find that he suffers more if he earns more.

646. There are individual circumstances which you cannot measure; you cannot lay down any rules and say that it does happen?

Sir Josiah Stamp: You can see it in operation?—(*Witness*): Yes. What really I am trying to get at is that you cannot say how much, or indeed whether, the Income Tax will discourage work and saving at all until you know both the relation between the amount of satisfaction derived from successive pounds income and the scale of the tax. If you know both those things, you can see what the effect of the Income Tax on work and enterprise will be. But you certainly do not know the first of those things.

647. *Sir Arthur Balfour*: The danger point is where you get to the point where you reduce individual effort because it is no more worth while?—Yes. The point is whether the tax will have that result, and the whole effect depends on the connection between the two things I have named. It is a mathematical conception really which is very difficult to put into words. But apart from the mathematical point, there is this practical point. I think there is a psychological effect. People do look at the amount of money and not merely at the amount of sacrifice involved in so much Income Tax. If you have a 10 per cent. Income Tax, for instance, and supposing the conditions are such that £10 off £100 means the same real loss as £100 off £1,000, in pure theory that Income Tax ought not to check work; but as a matter of fact the man will not think about the amount of sacrifice; he will think: "If I do an extra bit of work, I have to pay to the Government 10 per cent. of whatever I earn." He will be discouraged because of the psychological way he looks at it; but how much will he be discouraged, it seems to me quite impossible to say.

648. Do you think a lower rate of production in almost every industry is in any way attributable to that sort of thing?—I do not see how one can say.

649. *Mr. Lees-Smith*: How far are all these tendencies counteracted by the fact that he will have to go on working longer in order to retire on a certain amount?—Of course that depends on how keen he is to have a certain amount to retire on.

650. If it is of any importance, it is a counteracting tendency which would act in the opposite direction to this discouragement which you are now referring to?—But it would really be included in the formula. You could include it, only again it would be part of the unknown things.

651. So that whereas the tendency of your remarks up to the present has been that a high Income Tax is a discouragement to saving, really in fact you could not now give any absolute answer to the question whether it was not rather more an encouragement than a discouragement?—What I am really suggesting is that you cannot tell whether it is a discouragement unless you known certain facts about the mathematical function connecting satisfaction with income. You cannot tell, unless you know things about that which you do not know, whether it would be an encouragement or not.

652. *Sir Josiah Stamp*: On balance?—On balance. But what suggests discouragement on the whole to be probable, in our ignorance of all that, is that psychologically people tend to look at the loss in money rather than the loss in real sacrifice; and it is quite obvious that if there is a 5s. Income Tax, a man will think: "If I earn another pound, I will only get 15s."

653. *Sir Arthur Balfour*: So that really very high taxation is a form of slavery?—It might work either way.

654. *Sir Josiah Stamp*: Would you agree with this as a general observation: that Mr. Lees-Smith's point is right. So far as the maintenance of a high standard of life is concerned, rather than give it up, a man will work a little longer. If I may use an illustration which actually came before me, of a medical appointment worth £100 which was open to two men, one of whom was a doctor with a private connection and a large practice earning £3,000 a year, and the other had £500 a year. The psychological effect on the man worth £3,000 a year was that he felt first of all that £100 was not worth as much to him as it was to the other man, and therefore he was not prepared to work as hard and sacrifice himself so much, and the second point was that he did not get £100, but got less than £50, while another man would get £90. Therefore the whole tendency of the very high rate of tax is to throw that class of opportunity into the hands of the smaller men. But between the

desire to work harder and make up leeway, if there is any line to be drawn, it surely is between maintaining what you have got and striving to get more?—But the difficulty is that you do not know how many people there are affected in that way, so when you try to get the net effect on the whole country, you have more or less to guess.

655. *Mr. Lees-Smith*: That is what I wanted to be clear about. You do not absolutely say that a high rate of Income Tax is a discouragement to saving, but you say that in some cases it is a discouragement and in other cases it is an encouragement, and you are not in a position absolutely to give a verdict as to which is the stronger tendency?—It would partly depend on the amount of the tax and partly on the form of the graduation. I do not think anyone can give a certain answer.

656. *Mr. Bell*: I take it that a complete impoverishment would be a great incentive?—It would, undoubtedly, but you have the two things going against one another. If there is a high tax and a man has less income, that tends to make him work harder, but on the other hand he knows that each unit of effort he does, gives him a less amount of money, and those two things have to be balanced, and unless you know facts which we do not know, you cannot balance them in that particular case. Then in paragraph 36, I suggest that the Income Tax is differential against saving in a way that does not at first sight appear, in that you really tax saving doubly. You tax income when it is made and you also tax the proceeds of the saving when they materialise. That view is not always taken. I can illustrate what I mean by a particular case. Supposing you have a man who has £1,000, of which, if there were no tax at all, he would spend £500 on machinery and £500 on pianos and things like that; suppose that his demands for those two sorts of things are exactly alike. Then a non-differential tax which took £100 from him would cause him to spend £450 afterwards in each of those two ways. Income Tax, I suggest, will be differential against saving in the sense that if you take £100 from him under Income Tax, he will no longer spend £450 in each of those ways, but he will be induced to spend rather more than £450 on the consumable things and rather less than £450 on the machines because he will know that in so far as he spends the money on machines, his profits on those will be subject to taxation later on. In that sense, I suggest that an Income Tax which includes savings is really differential against savings, that it does not leave the choice between savings and spending in the same position as it would have been in if there had been no tax, but that it makes people rather less likely to save than they would have been if there had been no tax.

657. *Mr. Lees-Smith*: I am not now dealing with the general case of Income Tax affecting savings; I am dealing with this particular point of the argument you are putting. Do you maintain that this fact is realised and worked out in the way that you have worked it out here, by a very considerable portion of the taxpayers of this country?—I do not know; I say in so far as the people realise it.

658. You have been dealing with a good deal of psychological conditions. Is it not in fact the case that one of these psychological conditions would rather help the revenue than discourage the taxpayer; that it is the fact that it may be realised by economists but not realised by the average taxpayer sufficiently to affect his actual policy?—That is difficult to say. I think it is quite likely that people do not realise it. Of course I agree that so far as they do not realise it, it does not operate. I should agree in general that it would have more effect if more people were economists.

659. *Sir Charles Addis*: But where it is known and where a man wishes to provide for his family, for example, it would be rather an incentive to a man to save more, would it not?—Yes.

660. So that even there there is a counteracting effect?—Yes, if a man is determined to provide a certain income for his family, I agree. Then in paragraph 37 I suggest that there is a further definite differentiation against saving. The taxation of unearned income at a higher rate and the existence of Death Duties are both differential against saving and would probably discourage it to some extent. But against that you have to set the fact that a very large proportion of saving is made more or less automatically by rich people who save what is left over and probably are not affected much either way. So while I do not think you can say how much any given scheme of differential taxes will actually stop saving; there is no doubt that in the English system there is a certain amount of differentiation against saving. With regard to exempting savings, I suggest that there are several practical difficulties. Supposing that you exempt savings from Income Tax, it would be very easy for a person to save one year and buy securities and get an exemption from Income Tax on the strength of that, and then another year, more or less secretly to sell those securities and use the proceeds as income. Then there would also be the other objection from the side of distribution, that as a matter of fact the people who save most are naturally the richest people, so that if you exempted savings from Income Tax you would be exempting a lot of very rich people. If you had one man with £10,000 a year and another man with £1,000 a year, and the £10,000 a year man saved £9,000, it would seem very paradoxical to tax him only the same as the man with £1,000 a year.

661. You do not think it is practicable to divide the tax in such a way that part falls upon income and part falls upon expenditure, leaving free from taxation that part of the income which is not spent?—That is exemption on saving.

662. Yes, making necessary allowances for children and for other things of that kind?—My difficulty in practice is how you are going to make certain that you will not be defrauded in the ways mentioned. You might be able to get over it; I do not know.

663. That is the biggest difficulty that you see?—That is an administrative difficulty, on which I have no knowledge. It appears to me to be insuperable; but there may be ways of getting over it.

664. *Mr. Bell*: It would be overtaken by a tax on expenditure *ad hoc*?—You might contrive what would be in fact an exemption on saving by a tax on specific articles of expenditure. A tax on each item of expenditure would be in effect an Income Tax from which saving was exempt, but it would be almost impossible to graduate a tax of that sort. If, in order to exempt savings, you had to abandon graduation, I would much rather stick to graduation and not exempt savings.

665. *Sir Josiah Stamp*: Assuming for a moment that there were no administrative difficulties, on the theoretical side of the question of distribution in the case you gave, would you be satisfied if the *rate* of tax were decided by reference to total income but not the *amount* of the tax; that is to say, that the man with £10,000 would be charged a lot more because the rate on £10,000 was more, but he would only pay on the £1,000. Would that to your mind be a satisfactory theoretical result? It has been put forward as an intermediate process.

Sir Charles Addis: Do I understand that the suggestion is that the rate of tax should differ with the income?

Sir Josiah Stamp: Yes; the point is this. Supposing you were to allow the exemption of savings, it is suggested that that would be theoretically unfair on the principle of sacrifice, because obviously two men are not in the same position where they happen to spend £1,000, where one man has an income of £10,000 and the other an income of £1,000. But it is said that could be got over theoretically if you charged one man on £1,000 at the rate of £10,000. Supposing it was 2s. in the £ for one and 10s. in the £ for the other?—(*Witness*): That would come arithmetically to the same thing as sticking to one rate and charging it on a certain proportion of what was saved. Even then you would be letting off the rich man easily.

It seems to me that is one of the cases in which you have to balance your distribution against the production effect.

666. *Professor Hall*: Supposing you had one tax upon income and one tax upon expenditure, would you not then get at the man with £10,000 in comparison with the man with only £1,000 income?—You might get at him in this way. If you tack on to your Income Tax a system of high taxes on luxurious expenditure, for instance, taxes on expensive motor-cars and things like that, then you would differentiate between your rich man who spent a lot and your rich man who saved a lot, but it may be at the cost of being too favourable to the rich man as against the poor man.

667. So you mean that the effective method is to tax particular commodities. You mentioned motor-cars?—Luxury taxes, I think.

668. Not general expenditure, but particular commodities?—I think that would help to get over the distribution difficulty.

669. *Sir Josiah Stamp*: We are not flogging an absolutely academic point here, because we know that one of the dangers is that we might be altering the whole economic position. It has been put forward that we might check saving, or encouraging the rich to save, by treating in the same way two men with £50,000 a year if one is prepared to stint himself to save £20,000. Have you any suggestions whereby as a practical matter we could encourage the man who wants to save £20,000 and give him some kind of differential treatment? For instance, just as life assurance is allowed up to one-sixth of the income, you might allow a rebate on the total Super-tax in respect of a limited amount of saving. There is, of course, the question of distribution again; you have to balance it?—It is difficult to say how one could balance it, though as a general principle I do think it is important to do something towards encouraging saving. But I find a difficulty in making an exact balance.

670. It is done at present for life assurance?—There is a suggestion that it might be extended to undistributed profits.

671. *Sir Alan Anderson*: In public companies?—Yes. Some people say that you ought to exempt undistributed profits from Income Tax, which means, of course, in effect, that you exempt from Income Tax that part of people's income that the directors reinvest for them before distributing any dividend.

672. Actually to charge the Income Tax and not Super-tax on the large reserves of big companies would be some direct encouragement towards national saving?—Yes. It might be suggested that you should exempt the undistributed profits altogether, but that would differentiate in favour of a particular kind of saving. Of course, an alternative way of encouraging saving would be not to exempt it altogether, but to exempt the proceeds of saving for a certain time. For instance, you might say that a person who put up a house should not have to pay Income Tax in respect of the value of that house for a certain period, but that would be administratively very difficult.

673. It has been suggested that, if a man saves money, the income during his lifetime from this saving should be charged at a lower rate; but I suppose, however, desirable that may be, it is almost impossible in practice?—Yes. Paragraph 39 deals with the difficulty that at a certain point savings and spending cannot really be distinguished in their effects on future production. Because it comes to much the same thing if you invest in a machine that produces £5 a year or if you invest in a person's education that produces in him qualities that will yield £5 a year. But investment on education is called spending, investment on a machine is called investment. So if you were to treat technical saving with special favour, it would be very difficult to see why you should not also treat these other things which are not called saving but have the same effect as saving on production.

674. *Professor Hall*: Could you not make an allowance for those?—You might, but I think it is important to notice that they really come to much the same from the point of view of production. The future yield of £100 spent on education is very likely quite as big as, and it may be a great deal bigger than, the yield of £100 spent on making a machine. It is the same thing with regard to money spent on food and other necessary things.

675. *Mr. Lees-Smith*: In paragraph 13 with reference to internal debt you say: "the process of carrying out the transference has injurious dynamic consequences." Would you develop that further? Let me explain the point I want you to address yourself to. The payment of interest on internal debt is broadly the payment by what one might call active factors of production to passive constituents, as it were. Is that an important distinction? Do you think that that fact in itself reduces the productive efficiency of the community?—Is not the real point whether the people who receive the money are more likely to save it than the people from whom it is taken in taxes? If you take £100 from a man who would have spent it and pay off War Loan, and if the man who gets that £100 repaid for his War Loan invests it, then you will increase capital and so indirectly increase production; whereas, on the other hand, if you take your £100 from somebody who would have saved it and pay off War Loan to a spendthrift who spends it you would decrease production.

676. There is the other factor, that you are taking your £100 from a man who is earning, and that diminishes his desire to continue working and therefore weakens the active and productive energies of the nation as a whole?—Yes, if it is taken by Income Tax.

677. What I am trying to get at now is the effect of the payment of interest on war debt upon our total capacity. Broadly I take it that it is a payment from the active and working factors in the community to the passive factors in the community. Is not that in itself injurious to the general production of the community?—The way I put it would be this. In order to provide the money for the War Loan owners you have not merely to take your £100 from the active factors, but you have to let these people know that if they go on working they will be subject to an Income Tax, and so far as that discourages them from working and saving you do check productivity.

678. Is it possible either by a formula or by any other process to arrive at any conclusion as to how far the payment of this £350,000,000 a year of interest has an effect upon the distribution of wealth? Could you contend, for example, that wealth is more unequally distributed as a result of that payment than it would be otherwise?—That depends on how the War Loan holdings are distributed on the one hand and how the tax burdens are distributed on the other.

679. I could not be accurate as to the figures, but I believe broadly that in spite of all the Savings Certificates it would not be very far from the truth to say that about 90 per cent. of the War Loan is held by one-tenth of the population. Assume that to be so?—Assuming that to be so, there is an alteration of distribution, but I think one has to make a distinction between what has been done in finance and what has been done in actual fact. At present people have to pay Income Tax to the owners of War Loan because there has been a war. It depends on what you are contrasting If you are contrasting what has happened and what would have happened if there had not been a war, then the position is that the richer people would not have used up their resources in the war and would probably have invested them in something else. The actual amount of the transference from poor people to rich people now does not make things so much different from what would have happened if there had been no war. The fact of what happened in the war as well as the fact of the financial method of dealing with it would have to be taken together there.

680. On the question of the use of War Loan as collateral for bank advances, do you think as an impartial economist that it would be a great advantage if there were less of this collateral? What I refer to is the fact that a year or two ago in the House of Commons there were continual complaints being made that banks were lending money too freely and it would have been a good thing if there had not been so much collateral on which they could lend. Do you think that an amount of collateral which does not represent any additional real work for the country would be injurious to industry?—I do not think there is very much in that; it does not make much difference. In so far as destroying this collateral causes a deflation of currency, whether it is desirable or not depends on the time when it happens. It would be obviously desirable to have deflation of the currency at a time when everything was booming.

681. If that collateral had not been there we might have had an inflation of the currency?—Yes, it might have been a good thing at that time, but, on the other hand, to do anything which would cause a deflation of the currency now would be a different affair. I do not think one could answer it in a general way.

682. *Mrs. Wootton*: Would you agree that the amount of available collateral is not by any means the only thing which determines the amount of bank credits?—Of course.

683. Does it not come to this, that if repayment of War Loan reduces the amount of available collateral, that is not so much an argument for or against repaying on a large scale as an argument for choosing your time to repay?—Yes, it is more an argument for choosing your time. I do not think is is much of an argument anyway. So far as I can judge the importance of that has been exaggerated.

684. Do you think it has been exaggerated in regard to all proposals for repayment, either by increased Sinking Fund or by earmarking Death Duties, as is sometimes proposed?—Yes, I do not think it matters what the method is.

685. Nor the size of the proposal?—So far as it has a deflationary effect, it would have a bigger deflationary effect, the bigger the amount of the collateral destroyed.

686. Then again it may be largely met by choosing your time for repayment or adjusting the amount of your repayment at different times in accordance with whether you want to deflate or inflate?—Yes. So far as it has a deflationary effect there is obviously much more to be said for doing it when there is a boom.

687. On the question of funding, you say in paragraph 15 rather tentatively that "The plea that the funding of Treasury Bills by an issue to the public of Treasury Bonds has a large deflationary effect is unconvincing." I suppose you would agree that that depends very largely on the conditions of the credit situation at the time. As you worked it out in argument it appeared that it gets to very much the condition it was in originally, and the question is whether the bank will or will not re-lend the funds which are set free from Treasury Bills. Is not that the case?—I would not put it quite like that. My suggestion was that when the time was convenient for issuing Treasury Bonds the presumption was that at that time there would be a certain amount of deflation going on anyway, so I would not exactly say that by choosing the time rightly you could make the deflationary effect of Treasury Bonds less; but in practice you would not be likely to choose a time for issuing Treasury Bonds except when there would be deflation going on in any case.

688. You think the freedom of a Government for determining funding is very largely limited?—It depends on the terms, of course.

689. You can choose the time when funding is likely to be deflationary?—When there is likely to be a tendency towards deflation. My suggestion is that it is not the funding which causes deflation very much.

690. They are different effects of the same cause?—Yes.

691. That would rather limit the possibility of funding as a means of dealing with the debt, would it not?—Yes, I think you would have to choose your time to fund Treasury Bills certainly.

692. And you are rather in a cleft stick in so far as the time that is convenient for doing it is a time of lack of confidence and therefore a time when you are likely to get deflationary effects as a result of funding. Is it not the case that the time when it is easy to fund is also a time when perhaps it is very disadvantageous to fund?—That implies the deflationary effect from funding itself, but I suggest there is not much of that, that the main thing is that they both tend to go together. But so far as there is a deflationary effect what you say is true.

693. It would be at its maximum at the time when funding was easy?—Yes; there would be some effect then if there is any at all. My suggestion is that there is not very much effect. I am very diffident about that, but that is my suggestion.

694. In paragraph 10 you only make one positive statement, I think, under the heading of internal debt. You say that indirectly the internal debt produces a small effect in so far as the transference involved in the service of the debt is from people more willing and able to save to people less willing and able to save or *vice versa*. The only positive statement in that is, I think, contained in the word "small," that is to say, you do not commit yourself to saying whether the net effect of the debt is to encourage or discourage saving, but you do say that the effect will be small either way. Could you give us any reasons for supposing that the effect would be small?—What I am suggesting is that there is no direct effect on current supplies of capital. There may be an indirect effect in so far as the money is transferred from people who would save more to people who would save less. I suppose the reason for saying "small" is that the total amount transferred in a year including interest and Sinking Fund together is only some £350,000,000. That is a small quantity; it is roughly equivalent to the total savings of everybody out of all the nation's income. It is a small part of the total amount from which savings come.

695. So that the levying of taxation in order to meet interest on the debt or to repay the debt does not have any serious effect on the amount nationally saved even if it is supposed that the debt holders are very different in their actions from the taxpayers from whom the money comes?—When you say to repay the debt I assume you mean to repay the debt on the sort of scale on which it is repaid now, when it is a matter of £350,000,000 a year including interest and Sinking Fund.

696. You think the effect is small?—The whole effect is the difference in the proportion of this £350,000,000 that will be saved by the new people who get it as compared with the other people from whom it is taken. Supposing a normal person saves one-tenth of his total income. That makes only £35,000,000 altogether, and the difference on £35,000,000 would not be likely to be more than a few millions.

697. There is no particular evidence, I suppose, to show what the actions of the debt holders are likely to be in regard to saving as compared with the actions of the people from whom the money comes. There is practically no evidence on the relative saving?—I think there is just this, so far as you are dealing with Sinking Fund and not with interest. Ten people pay £100 towards tax, which is going to the Sinking Fund to pay £1,000 out to somebody else. Those people who pay £100 as taxation are more likely to pay it out of income than the people who get the £1,000 in repayment of their War Loan are likely to regard that as income. So far as that is the case the transference would tend to increase the amount of saving.

698. That refers to repayment?—To Sinking Fund, not to interest.

699. On interest there is no difference whatever?—I would not be prepared to make any guess about it, but I think about Sinking Fund there is that point.

700. Therefore if you have a Sinking Fund on a very extensive scale that Sinking Fund is probably advantageous to national saving rather than disadvantageous?—I should think probably its direct effect was.

701. But you have to put against that any indirect effect of discouragement due to the taxes?—Yes.

702. There is one other question which I think is related to that. That is the question in regard to the assessment of the Income Tax. You have put before us the argument that in theory it does not make any difference whether the tax is assessed on income or assessed on capital; in either case it trenches on potential capital, but that in the case of Death Duties it is more likely that it will actually be paid out of capital?—That a larger portion of it will be paid out of capital.

703. In so far as Death Duties are used for interest on the debt and for Sinking Fund they will get into the hands of the War Loan holders either in the form of interest or in the form of repayment, and there is no distribution of capital, no trenching on potential capital involved. In raising Death Duties the loss of capital may be made good when the funds made by Death Duties are paid over to the debt holders?—Certainly.

704. Would you be inclined to say that probably it is so balanced or do you think there is not enough evidence?—It is difficult to say. That implies some distribution in one's mind as to what taxes go to finance the war debt and what go to other purposes.

705. At present you have no ear-marking of any particular tax for the purpose of war debts; but having regard to the proportion which the revenue raised on Death Duties bears to the whole tax and revenue, do you think it is likely you would get a net loss of potential capital?—You mean that, supposing £1,000 from Death Duties is paid out of capital and is then used to pay back war debt the odds are in favour of re-investment. I should think that is quite likely.

706. The point that I am getting at is that there must be a great deal of feeling that Death Duties are particularly injurious to the national capital because you take proceeds of Death Duties, a part of which come out of capital, and pour them into your general revenue and use them for revenue purposes. What I want to get at is whether there is much in that point and whether you do not gain as much on the swings as you lose on the roundabouts?—I think any tax the proceeds of which are reinvested is a gain to national capital so far as the tax does not come out of capital; and is neutral so far as it does. But perhaps I ought to add that in what I said about Death Duties I did not say anything about their indirect effects. One cannot make a case out against Death Duties on the ground that a large proportion of them is paid out of capital without taking into account the fact that from the point of view of discouraging future saving Death Duties are rather a good form of taxation, in that people are probably not discouraged from saving by thinking of the Death Duties as they are by thinking of an Income Tax on unearned income.

707. If you take into account the direct and indirect effect together you do not think Death Duties are more injurious than Income Tax?—No. I am not opposed to Death Duties as such. It depends on the amount, of course.

708. You do not regard them as more injurious than Income Tax?—It is very difficult to say. I should not be inclined to say so.

709. *Sir Josiah Stamp*: With regard to the last few words of paragraph 3, you say that a consistently maintained policy of providing for the service of the debt, including Sinking Fund, must strengthen confidence. That must be partly dependent on the way in which you tax. You might say: "We will get confidence by paying off another £50,000,000 a year," but you might destroy that very confidence by your methods of taxation?—Yes.

710. And there is a point where you have to drop the one because of the disadvantage of the other?—Yes.

711. If your only way of getting the Sinking Fund is to go to delicate and disputed sources of taxing which destroy confidence one would balance the other?—Yes.

712. In paragraph 4 you say that the service of the external debt involves the actual withdrawal of goods from the country. Would you agree that to make that really complete, in our case at any rate, you would have to say, "and also leaving goods abroad that we might have received"?—Yes.

713. With regard to the argument in paragraph 11 about the fallacy in supposing that because you withdraw certain funds by way of taxation and then repay the debt you therefore destroy capital, would you look at that from the point of view not merely of the quantitative quantities of the sums present on the one hand and the sums extracted on the other, but from the point of view of the qualitative differences of the capital so produced? Will you agree that one of the elements in our success from the social and industrial point of view has been the class of hard working and intelligent manufacturer in a private business who by living lean and hard and saving from his profits and extending his business where he has seen useful opportunities, has been able to build up British industry. I take particularly the way in which the Leicester hosiery, the Nottingham lace and Yorkshire textiles have been built up by private individuals with confidence in themselves and their own foresight, saving their own money and extending their own businesses from time to time. Will you consider the case of a considerable tax, say £10,000, taken away from Mr. Smith, who would have seen a very fine opportunity of extending his own business. That is taken away from him and finds its way, through the Government, to Mr. Jones who is a War Loan holder or a trustee if you like, and who finds his £10,000 of War Loan redeemed. It is perfectly true that the capital available in England is exactly the same as before; there is a man with £10,000 wanted in his business, and there is another man with £10,000 to play with. But there is a very great gap between the two which will make it difficult for one to be reached by the other. First of all Mr. Jones does not want an investment in anyone's private business; he wants another investment on the same lines as his last, a gilt-edged investment. That is an alteration of the quality though the quantity will remain the same. Will that money that repays War Loan under the existing methods become readily available for the class of Mr. Smith who can hardly convince his own bank of the value of his credit; will it become available to him on any large scale? Are you not interfering with all those businesses that cannot use the company promoter and cannot float themselves to get the capital that is really essential to them? I want to ask you whether you have addressed yourself to the importance of qualitative distinction?—Of course that is important, but it is difficult to say how important.

714. What I want to know from you is whether you are drawing a theoretical barrier between the two or whether you think the existing channels of money-lending are sufficiently free and frictionless to allow the whole of that capital to get back where it was wanted?—I think it is clear that the whole of it would not get back.

715. Will not that have the effect of enlarging the margin of difference between ordinary risk-taking capital and gilt-edged capital? Will there not be an increased supply into the existing reservoir of trustee investments and securities and a lack of supplies in the ordinary risk-taking industrial enterprise?—There would be a danger of that. You are thinking of a larger scale of debt reduction than the present?

716. Any considerable reduction of debt?—What I was thinking of was the payment of interest and sinking fund on the present scale. Your argument is much more forcible in respect of a big levy than it is in respect of a small one.

717. You think it is unimportant on a small scale but it might become important on a large scale?—I have not really gone into it, but it clearly would be more important on a large scale.

718. It is said it is not destroyed because it is transferred from one to another. Would not there be a check to industry likely to arise from that?—There certainly would be a danger of that.

719. *Mr. Lees-Smith*: Would not economic theory in that case say that the returns from ordinary shares and similar investments will return to trustee and gilt-edged investments, and therefore that in itself would correct the effect?—Yes, but there would be a lag.

720. *Mr. Bell*: As I understood it there were no shares in this case.

Mr. Lees-Smith: I am presuming you were not confining yourself to what happens in a private business. I am talking of investments of that sort.

Mr. Bell: Sir Josiah was talking of Mr. Smith and Mr. Jones.

Sir Josiah Stamp: I am not concerned with ordinary shares that can be sold and gilt-edged securities; I am concerned with a private man or a small company whose shares have a very limited market?—(*Witness*): The whole point is that there will be a certain amount of friction which will prevent this theoretical adjustment happening, and the question is how important the friction is practically.

721. You would get an increased margin of difference in the two classes on any considerable scale?—Yes; how long it would last is a question.

722. It would set up tendencies which would tend to correct it?—Yes.

723. *Mr. Lees-Smith*: I want an answer on the theory of this. Does the answer depend on the question whether this money is taken out of a business which has shares? Would not economic theory say that equally in the long run it would tend to be corrected even if it is taken out of a private business?—If you mean by economic theory, an economic theory which assumes no friction; but the whole point is that there is friction. Economic theory ought to take account of friction, as far as it can, and it is very difficult to take account of it. All I can say is that it will be of importance, and people who have experience will be able to say how much importance it will have, better than academic people.

724. Would there be forces correcting this and therefore diminishing the friction?—It is the same sort of question as to what happens to a tax on the occupier. It tends to be shifted in certain ways, but the shifting may be very much delayed by various sorts of friction. To determine the importance of the friction involves a lot of detailed practical knowledge, which I have not got.

725. *Sir Josiah Stamp*: Has it never been your experience to talk to a manufacturer in that position who is paying a large sum of money in Income Tax and Super-tax and who says: "But for this, in the old days I would have extended my business, but I pay this money over and therefore I am restricted and not extending as I want to"? It is very cold comfort to him to say: "You need not worry, the money is still in the market and you can get it." He says: "How can I get it? My bank will only lend it on such and such terms." Then you may say: "You might float a company." He will say: "I am not big enough; I should have to pay money to promoters and so on, first." You do meet such men; he is not a picture of my imagination?—In order to find out the importance of the thing, one would have to try to guess how important the friction was, and then one would have to calculate what proportion of the capital would be taken from people in that position as against the proportion that was taken from people with regard to whom the friction would not operate. It would be a difficult statistical inquiry to gauge what it all came to.

726. One can form a very close statistical idea of how many people it would involve, but we started with what I thought was an agreed postulate, that apart from the quantitative measure, these people were qualitatively the salt of industry. They lead the way as pioneers. One knows the class of industry that has been built up by individuals who have been prepared to take risks with their money?—What I want to put is this, that to appreciate it you would have to know how many of these people there were and how much of the tax came from them, and there is very little to go on to make an estimate.

727. I do not want to pursue this any further except that you do agree that one must qualify the quantitative by the qualitative?—Certainly.

728. In your paragraph 14, where you deal with the risk of unavoidable currency inflation from a large Floating Debt, I think it is a matter of words and definition of what we mean by unavoidable, is it not? Take the nightmare of March, 1920, when the Treasury had that enormous quantity of Bills continually coming on the market and really competing in a mad race with industrialists who wanted money. If more money was not to be created, the industrialist could only get money by Treasury Bills failing to be renewed, and the Treasury, therefore, were in competition with him and had to increase their rate. Would you not call that unavoidable?—It is a matter of words. It could be avoided by a sufficiently high rate on Treasury Bills

729. You would not regard the high rate as an integral part of the inflation?—It would be within the physical power of the Bank of England to raise the rate to any extent provided that the Treasury did not offer Treasury Bills at less than that rate, because if they did offer Treasury Bills at less than that rate, and the Treasury Bills were therefore not renewed, then they would have to borrow on Ways and Means and flood the banks with the money got out of those Ways and Means so that the Bank of England would not be able to enforce its high rate in the market.

730. It is really a question of the meaning one attaches to the word "unavoidable"?—Yes, I think so, really.

731. With regard to what I shall call the popular fallacies of the incidence of Income Tax, would you agree that there might possibly be an element in the general economic doctrine on an intermarginal expense like Income Tax which might affect the margin? Follow out Sir Arthur Balfour's practical example. You are not always sure that economic knowledge would be full enough and the friction free enough to secure that the full price that could be charged under existing conditions is being charged. A high tax may make a man explore more carefully the possibility of pushing his price higher than he otherwise would have done without affecting the demand. In that sense, it may increase prices over a zone within which they could have been increased before but there was not enough pressure to make a man do it?—Yes; but it is quite conceivable it would work the other way. It might make him think: "We are in a bad way; we will try to lower our prices."

732. That case was suggested to me by a very eminent economist, who was deploring the effect of Super-tax up to last year. I asked him what he thought about the general economic theory, and he said: "Yes, I agree with Income Tax being only a charge on the margin, because if it is a flat rate, it cannot affect it, and even if it is a truly proportioned rate, it cannot." He said that if it is really unduly punishing a certain section, then it will shift the margin. Now that is the very case that Sir Arthur Balfour was putting. It may be put in these terms: if your scale of valuation is not a true reflex of

psychological things, Nemesis will overtake you and you will get it back at a cost?—I do not see why that should happen.

733. I only put it to you as it was put to me by quite an eminent man?—I cannot envisage for the moment the process by which it would happen or why it should happen, apart from the indirect effect of our Income Tax on saving.

734. No, it was not that at all. It was merely that the differentiation was bad and it was put into costs. I do not want to pursue it now, because it is a highly academic point, but if there is anything in it, I should be glad if you would, on further thought, send us a note on it, because it is part of the case that is being made to-day?—For the moment I do not see why it should work in the way you suggest.

735. It was only on that high authority. Sir Arthur puts it in commercial terms when he says that either the business is thrown into the hands of smaller people who do not pay so much tax, or of the big man who pays a lot and succeeds in putting it into the cost. In a measure that squares with the American economist's theory that a wrong differentiation will somehow or other find its way into the market?—I have not considered that particular point.

736. You realise that those who hold the academic view about Income Tax are on their defence at the moment and it is really up to those who believe in the academic view to establish the position?—I think the burden of proof on a special point like that is rather on the person who puts it, and some reason ought to be given for it.

737. *Sir Alan Anderson*: We have heard a lot of interesting things about the chances of our being gored by this burden we have got on us, but you have not told us whether you think we are really carrying the whole burden now. Do you think we are paying out of income all that we ought to pay?—Do you mean in the way of repaying debt?

738. In the way of paying our taxes and repaying debt? Is there any evidence that savings are being depleted by these payments?—I do not see how there could be direct evidence.

739. Could there not, in the amount of capital available for fresh issues, and statistics of the smaller people, and so on?—You could have statistics showing what difference there was in the amount of capital that is provided now and what used to be provided, but it would be very difficult to say that the difference is due to taxes, particularly when you have a War in between the periods compared.

740. The destruction of capital has taken place when the money was spent?—Yes.

741. And the mere collecting of the money now in one form or another is not a destruction of capital, but it is just registering the fact?—Yes.

742. In your opinion, do you think the present rate of repaying debt is sufficient? This is a different point?—That is the first point, it seems to me, and then the second point is whether we are getting the repayment of debt and interest out of income, or whether, as is suggested by some people when they look at Death Duties, we are paying it out of capital and we are failing to carry out the whole burden.

743. There is no doubt that we are saving, we are getting richer rather than poorer?—We are getting absolutely richer as a nation; there is no doubt about that; but whether we are getting as much richer as we should be if we had a different system of taxation, or whether we are getting as much richer as we should have been if it had not been necessary to have these taxes, is another matter.

744. I was not asking that. I am not on that point and I do not really know; I was not trying to lead you on at all; but in you opinion we have got the whole burden on our shoulders now?—We are definitely adding to the capital of the country every year. I have forgotten what the figure is. I think the last figure was in the nature of £150,000,000 to £180,000,000.

745. *Sir Josiah Stamp*: That is an absolute addition to our physical wealth?—Yes. Then there is the point, one does not want merely the difference; one wants the proportion to the population; but we are not using our wealth up.

746. *Sir Alan Anderson*: Then there is another question whether the amount of fresh capital that we are getting is sufficient now to keep our industries supplied, and whether it will be sufficient when there is a boom in trade, and we want much more capital. I suppose when you have a progressive industry, it is constantly wanting fresh capital?—If the capital of the country is increased, we will say, 2 per cent. each year, that means that industry will increase 2 per cent. I do not see how one could have a sort of hypothetical need of industry.

747. *Sir Josiah Stamp*: Could you not put it like this: to maintain the *per capita* production of the population you do not want it to fall below a certain amount?

Sir Alan Anderson: You want to increase so much.

Sir Josiah Stamp: The minimum necessary.

Sir Alan Anderson: Are we saving at that rate now?—(*Witness*): That depends on what the estimate of the existing capital is, which is a thing roughly ascertainable, but I have not got the figure in my mind.

748. The way I look at it is this: We have been set up to inquire into the burden of the taxes and the National Debt. The first question is whether we are really carrying the load and not falling down under it?—I think there is no doubt about that.

749. You think we are getting a little stronger all the time?—Yes.

750. Then the next question, it seems to me, is whether we are going ahead sufficiently to get our industries going in competition with other people outside, and I think really if we find we are, then that answers to a great extent the objections that people are bringing to Income Tax on trade?—Do you mean, are we increasing as rapidly as other countries are increasing?

751. I suppose it would not be very satisfactory if we did not do that?—It would depend on the other country. A perfectly new country is likely to increase more rapidly than an old country, and I do not think, supposing we find that we were increasing at a less rapid rate than Canada, we should be disheartened, because Canada would naturally increase more rapidly than we should, just as a baby would naturally grow more quickly than a man.

752. You say in your second paragraph that taxation cannot be responsible for maladjustment between the demand for and the supply of labour. I suppose the demand would vary with the price; the demand is for a product at a price?—What I mean by demand is the general scheme of demand, so much demand at one price, so much at another, a sort of general scale.

753. But would not taxation very much rule the demand, because it would rule the price at which you could make the article?—The real substance of that paragraph is this. You can imagine by taxation cutting down the real wealth of the country and therefore the real demand for labour, that is the different amounts of money that you would give for different quantities of labour. What I suggest is that if demand in that sense for labour was reduced, it would show itself not in diminished employment, but in diminished real wages; because unemployment is mainly the result of maladjustment between the supply of labour and the demand for labour, and if there is a complete falling off in the scale of demand for labour, you would have to work less; it would not be generally manifested in the form of unemployment. The thing that makes unemployment is fluctuation.

754. Unless people decline to work?—Yes, but I do not think that can be permanent. If you have a permanent lower level of demand for labour, wages must eventually adjust themselves. Of course it will be checked in so far as there are various means of keeping unemployed people in funds.

755. The lag would be greater?—Yes.

756. In paragraph 3 you say that a consistently maintained policy of providing for the service of the debt must strengthen confidence and that is the best way no doubt to strengthen confidence; but in paragraph 16 you suggest that it should be eased off at a time of depression which, you say, is largely the result of lack of confidence. Do you not need to maintain it then just to encourage confidence?—In the first place I mean confidence in the Government's power to repay, and in the second place the business man's confidence in the position of industry. I agree that unless it was clearly understood that it was a regular policy that the cut in the repayment of debt during depression must be met by an extra repayment in a boom, it would not do to decrease it during depression.

757. I should have thought that was just the last thing you ought to cut in depression?—I think it makes a great difference according as it is a regularly recognised system or not. If everybody knows you are going to pay off debt in bigger proportion in boom years than in bad years, then when bad years come and you do not pay off so much, it would not make people think that you were not going to keep up your policy.

758. Perhaps that would be true if it started in the boom years?—Yes.

759. In paragraph 7 you are talking about how you can pay external debt. I suppose the only way you can possibly pay is by exporting goods or services?—Or foreign securities. A lot of Englishmen hold a lot of American securities.

760. Things they have got already, which represent past goods or services. The only new way would be goods or services?—Yes, for the country as a whole to pay off.

761. You say in paragraph 8: "The real burden of the external debt, which is in terms of gold, is increased if the things produced by a given quantity of British labour and capital become less valuable relatively to gold, but it is not altered if sterling become less valuable in terms of gold provided that it at the same time becomes in equal degree less valuable in terms of things," and so on. That is subject always to that great time lag, is it not. Prices never do rise quickly to adjust the change in currency, do they?—Fairly quickly. For instance, the Germans have adjusted themselves.

762. It took a very long time?—It took a long time because of the progressive depreciation of the currency, but if you expand your currency and then stop it will catch up. But what actually happened is that you have expanded a certain amount and are trying to catch up to that, and meanwhile you depreciate your currency further.

763. *Sir Josiah Stamp*: In the case of Germany it went more rapidly?—Yes, I should not think the lag would be a matter of more than months.

764. *Sir Alan Anderson*: In paragraph 28 you say: "Taxes on imports of goods which have a large world market may be expected to raise prices by about the amount of the tax." That is prices here?—Yes.

765. Does it not follow in the same sort of way that the taxes on goods which are exported would raise prices here by more than the tax because export prices cannot be raised to meet their share of the tax. For example, if the cost of coal went up, and British coal could not regulate the world market, the exporter of British coal would have to sell his coal outside at the world price?—The condition I think is not the quantity exported but that there is a large amount produced in other countries with which it has to compete. Supposing we were the only source then the condition would not hold, but if we are exporting a thing into a market in which there is a great deal, just as when we are receiving anything from a large market, you cannot then put the seller in a position that he would get a different price in England after the tax than he would get abroad with the tax.

766. If there was any tax which increased the cost of winning coal, for instance, it would tend to fall on the coal sold in the restricted area rather than be spread out over the world, would it not?—No, because, if it did that, coal would be exported and there would be less coal in England.

767. This tax is to raise the cost of winning the coal to the man who cannot get his coal; he is paying the tax and it is definitely costing him more. He cannot get it back on the export market because he is competing with American and other coal, and therefore surely it would tend to put up the price of the coal sold in Great Britain by more than the tax?—I see what you mean. Is it a tax to include exports?

768. A tax on all the coal he gets?—On all the coal he gets whether exported or not?

769. Yes?—Then presumably he will not be able to sell his coal for export, and he will have to restrict his output of coal and in so far as he can confine himself to more profitable mines the price will go up by a bit less than the tax.

770. He would have a sort of monopoly?—We are assuming that a high tax is put on, and therefore he does not export so much coal. That means that the aggregate of coal produced in England is less. In the particular case of coal if you produce less, presumably you confine yourself to the better mines, therefore, presumably, you confine yourself to the mines in which coal can be produced at a less cost and so the price ought not to go up by the full amount of the tax, though there ought to be a great restriction of output.

771. *Professor Hall*: I think you would probably agree that the burden of the total debt is increased if prices fall?—It depends on the reason for which prices fall. Supposing prices fall because capital and labour become more efficient, then, though you have to have a given amount of coal, labour and capital having become more efficient you can get this coal with less expenditure of labour and capital.

772. I am thinking rather of currency changes?—You mean if our currency is deflated?

773. Take the case of the burden of the debt to-day compared with the burden of the debt three or four years ago. You would agree that owing to the fall in prices the burden of the debt is greater to-day than it was three or four years ago?—If you mean internal debt, more has to be transferred certainly, but in so far as external debt is concerned it ought not to make any difference if it is our currency alone that has been affected, because, though we have to produce more things to get a given amount of currency, that given amount of currency gets more gold, more dollars, than it did before.

774. I was thinking principally of our internal debt?—If prices fall you have to have a higher rate of taxes in order to finance the debt.

775. Have you any suggestions to make regarding that point? You spoke about the distribution of wealth by transferring a bigger quantity to people who hold War debt. Have you any suggestion to make regarding the equalising of the burden?—Obviously you can always reduce the burden in that sense of inflating your currency but you get a great number of other disadvantages.

776. Is that the only suggestion you could make?—If you want to alter the distribution of the burden I think the worst way is to manipulate the currency. The way to do it is by taxation. I would much rather put heavy taxation on certain people and give allowances out of taxes to other people than do it by playing with the currency.

777. You have no suggestion to make regarding the fixing of the rate of interest according to price levels?—The rate of discount of banks?

778. No. Assume that the price of a certain commodity was 20s. three or four years ago, and that the same commodity to-day can be obtained for 10s., a person in receipt of £50 interest can buy twice as much to-day as he could previously? If the reduction of prices continues that person will obtain an increased proportion of the national wealth?—Yes.

779. That means that the debt is an increasing burden upon the community?—Yes.

780. Have you any suggestion to prevent the burden increasing in the manner indicated?—You will prevent it increasing if you maintain a stable level in prices, which can conceivably be done by a discount policy on the part of the banks.

781. You would still work through the currency?—You can up to a point work through the currency to keep prices relatively steady.

782. Would you think it offered any argument in favour of a scheme of compulsory conversion?—Compulsory conversion to a lower rate. I think that would have a very serious effect on the sense of security, because after all the loan was raised on certain definite terms, and if you alter the terms after people have subscribed to the loan you shake all feeling of security of contract.

783. Although those persons at a low rate of interest might be obtaining just as great a command over goods as previously they had with a higher rate of interest?—That would only apply to the people who invested in the loan when prices were higher than they are now. The people who took up the first War Loan in the war for instance took it up when prices were lower than they are now, and the people who took up the Government debt before the war took it up at still lower prices.

784. You do not see any way out of the difficulty then. It is a real difficulty I think you will admit, that owing to the change of prices some people are getting more command over commodities than they expected when they made the bargain?—Yes.

785. And the largest share of the national wealth?—I do not think that you can repudiate your contract after you have made it.

786. I am not suggesting that we should, but I am rather trying to find out if you can see any way by which this can be prevented from happening?—I think there is a distinction between preventing it happening more than it has happened already—which you can do in so far as you can make prices steady—and correcting damage that has been already done. I do not think you can do much about that. But everything that is done to steady prices will tend to prevent it happening again.

787. In regard to the question of collateral that has been mentioned I understand your position to be that no matter what be the supply of collateral there is no increase or diminution in the amount of real capital, buildings or machinery, the things that are employed in the industry?—I would not go quite so far as that. All I suggested was that this idea that you would produce a very large effect on the aggregate of real capital if you got rid of this collateral was exaggerated. I would not go so far as to say it would make no difference at all.

788. Do you think it would make some difference?—Yes, I should think probably it would. It certainly would make a difference during the process of transition, but my impression is that the thing is rather exaggerated.

789. In what way would it affect the quantity of real capital?—In so far as the banks by creating credit in effect make a forced levy on certain people, if there was no collateral you might make it impossible for them to make so large a forced levy.

790. Should I be right in saying that increased credit has a tendency to increase prices and give a stimulus to increased production?—It generally has the after effect of a collapse, and I do not think you can separate artificially the boom from the collapse that it tends to produce afterwards.

791. I am only trying to get at the point that has been raised in the discussion as to what effect there would be upon industry if this collateral did not exist?—You mean in the long run, apart from temporary booms and depressions.

792. Yes?—With this particular form of collateral I think it might mean that there would be a little less capital available but not much.

793. *Mr. Bell*: You have spoken of payment out of capital. I want to put the case of an estate which is worth £1,000,000 and among its assets are, say, £300,000 of War Bonds, which are eligible to be tendered for the duties on that estate. The executors take those £300,000 of bonds and tender them to the Government as the duty payable on the £1,000,000 estate. Is that a pure loss of capital?—It is a loss of capital to the concern, but it is balanced by the reduction in the taxes that would subsequently have had to be levied to pay the interest on them.

794. But for the estate it is a loss?—It is a loss on the claim to actual payments from the taxpayer, but it is not a loss of capital in the sense of physical capital.

795. I am thinking of an estate of that sort which carries on a business. Is it not denuded of the use of £300,000 for the carrying on of its business?—But how was it carrying on its business by means of the Bonds?

796. The Bonds were available as collateral to meet its requirements from time to time?—It borrowed on the basis of the Bonds, and it cannot borrow any longer. Then that particular business——

797. Is denuded of £300,000 out of capital?—Yes; it is not able to buy the £300,000 worth of goods that it could have bought otherwise.

798. It disappears as capital?—No; it does not disappear. That particular business does not keep it.

799. For the business itself it disappears?—Yes. I was thinking rather of the aggregate capital of the country. That is not a diminution of capital to the country; it is really a transference from that business.

800. I am only talking of the business itself?—Yes, I agree in that sense the business loses its capital; but there is a difficulty about the two senses of capital—capital from the private point of view and capital from the nation's point of view.

801. I quite agree, but I was only looking at the effect upon that business?—Yes, I agree to that.

802. *Chairman*: I wonder what the other effect is also. Supposing a business is making 15 per cent. of industrial profit and £10,000 goes into the revenue, and the business cannot carry on, is there not a great loss to the country altogether by such a sum being taken away?—I do not think so.

803. It was earning 15 per cent.; that 15 per cent. on £300,000 would be £45,000, which would be paying Income Tax and Super-tax. Is not the matter affected if these cases are multiplied?—It depends on what happens to the £300,000. It means that people have not got to pay taxes to finance the interest on that. But when we are talking of a big estate like that complications come in because of the different scale of taxes which will be paid on this money when it gets into other people's hands, so that the revenue might lose in a big levy in so far as the amount from Super-taxpayers will have a self-destructive effect in destroying other taxes.

804. *Professor Hall*: Do I take it from what has been said that you think it would be a good thing if some method could be devised of relieving that part of the income which was saved from taxation or from the current rate of high taxation; but you see practical difficulties in the way of adopting any such scheme. You agree in theory but you find difficulties in practice?—There is also the difficulty in theory about distribution, and whether you could do it without being unfair to the poor man as compared with the rich man. There are two snags in the way.

805. I think Sir Josiah Stamp has pointed out how the differentiation between the rich man and the poor man might be met by fixing the rate according to his total income and applying that rate to the particular part that was taxed?—That would be a differentiation, but not a very big one. The rich man might still pay only a very little more than the poor man.

806. You do not feel very enthusiastic about such a tax?—I see a great many difficulties in the way of it.

807. *Professor Hall*: I should very much like to have full information on the subject. I do not know

whether we could get a memorandum from Professor Pigou on it or not.

Sir Josiah Stamp: Professor Pigou on this point at any rate is practically repeating Mr. John Stuart Mill's views of 50 years ago.

Professor Hall: Do you think, having regard to what you said about a recurring tax, that a modification of the Income Tax would be possible so as to provide for a tax upon increases of income in the first year of the increase, at a time when a man is supposed to be best able to pay and would least feel the burden, providing he got a reduction in the later years? He would not have to pay more in his lifetime and the tax would come at the time when he was best able to pay. If a man's income goes up from £1,000 to £1,200 he would pay a supplementary tax on the £200, but he would not again pay on that, but should his income rise from £1,200 to £1,500 he would then pay upon the difference between £1,200 and £1,500. That might alleviate the general rate of Income Tax?—I have not thought about that particular plan. What strikes me at the moment is that there would be a very heavy marginal tax. The person would be thinking: "Now shall I increase my income by so much?" If it brought him into the new scale he would find that he would have to pay away a lot of his new earnings in taxes and he might be rather discouraged from making them. It would be a sort of zone system like under the old unreformed Income Tax.

808. Since it only falls upon him once he would not be deterred from getting that increase?—No, but what would happen? You could reduce the general rate of Income Tax; you would tax him during the first year?

809. Yes?—And what would happen when it went down again?

810. Nothing; but he would not be taxed again upon that until his income rose above that figure?—I have not really thought about that.

811. It would be trying to distribute the burden of Income Tax in a manner which would be less felt by the taxpayers?—Yes. I have not really considered that plan.

812. *Chairman*: We are very much obliged to you, Mr. Pigou, for coming. We have had a very helpful discussion. We shall probably call on you again a little later on?—Thank you.

(*The Witness withdrew.*)

(*Adjourned to Wednesday, 4th June.*)

THIRD DAY.

Wednesday 4th June, 1924.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman.*
SIR CHARLES ADDIS, K.C.M.G.
SIR ARTHUR BALFOUR, K.B.E.
MR. HENRY BELL.
PROFESSOR FRED HALL.
MR. W. L. HICHENS.
MR. H. B. LEES-SMITH.
SIR WILLIAM McLINTOCK, K.B.E., C.V.O.
SIR JOSIAH STAMP, G.B.E.
MRS. BARBARA WOOTTON.
MR. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

Professor EDWIN CANNAN, LL.D., called and examined.

EVIDENCE-IN-CHIEF handed in by Professor CANNAN.

1. I take it that the purpose of the Committee is to explore the possibilities of lightening the total burden of the debt, whether by altering the nature of the debt itself or by improving the existing system of taxation.

I.—FORM OF THE DEBT.

2. With regard to the form of the debt, I have three suggestions to offer:—

(*a*) In order to secure intelligent treatment of the debt, the real nature of parts of it should not be concealed under misleading names as at present. The State owes, I believe, between two and three hundred millions to the savings-bank depositors: instead of this appearing in the accounts of the debt as what it really is, an obligation to pay that amount of money on demand, some of it is included in "Consols" and other Government stocks, some in "capital value of annuities," some, more reasonably, in "advances from Government Departments," and a balance, I fancy, is omitted altogether. Again, the State has raised 236 millions by a fiduciary issue of currency notes: instead of this appearing as what it really is, it is divided between "Treasury Bills" and "Government Department advances." Altogether there can scarcely be less than 500 millions of debt which is not what it appears to be. The result is that the public is misled and has to pay for an immense amount of unnecessary calculations and bookkeeping, if not also for unnecessary commissions and profits.

3.—(*b*) The distinction commonly drawn between debts frequently renewed like three-month Treasury Bills and debt less frequently renewed like Treasury Bonds and the various loans which are repayable at fixed dates has in normal times nothing like the importance usually attached to it in regard to currency and credit. But some considerable risk does attach to the existence of a large short-term debt, and the perpetual dabbling in the money-market which it involves is objectionable. This part of the debt

ought therefore to be diminished rapidly, even at the expense of some immediate loss in interest.

4.—(c) Conversions which increase the debt (absurdly called the "nominal capital" of the debt) at the same time as they reduce the interest should be looked upon with greater suspicion than they are. Whether they are actually advantageous or not obviously depends on future events—when the debt is to be paid off and the market rate of interest prevailing during the period—as well as on the interest annually payable. Further, even if a balance of advantage can be shown by arithmetic and prophecy, this balance must be quite considerable in order to outweigh the discouraging psychological effect of the increase of capital. A nation is far more likely to provide a large annual sum if the interest is large and the capital small than if the interest is small and the capital large.

II.—The Amount and Distribution of Taxation.

5. We may begin by taking it for granted that the total revenue must, on the average, be at least sufficient to pay the interest on the debt in addition to all other expenses of government. Open repudiation has no considerable support, and the veiled repudiation effected by depreciation of currency is much worse, as it robs the creditors of private persons as well as those of the State, and also, while in progress, swindles the wage-earners and salary-earners for the benefit of the profit-earners. As Adam Smith pointed out, even the creditors of the State would prefer open repudiation, as they are mostly also creditors of private persons and fixed-income receivers. The practical question with regard to the total amount of taxation is therefore only whether, and if so how much, taxation should be raised over and above what is determined to be necessary for the ordinary expenses of government and the interest on debt, *i.e.*, how much should be raised for redemption of debt.

6. In regard to this there is always a certain conflict between the views of the taxpayers as such and the views of those who represent the State as a corporation. To the individual taxpayer £100 collected from him in taxation and spent in the purchase and cancellation of Government debt naturally appears at best as a forced investment in Government stock; if he wants to invest in Government stock he would rather do it voluntarily, and in most cases he does not want to invest in Government stock but would prefer some other investment yielding higher interest. Moreover it seems to him to be obviously desirable in the interests of the community as a whole that he should be allowed to prefer this other investment; to take the capital from him and give it to some holder of Government bonds is taking it from an enterprising person willing to run risks and giving it to somebody less likely on the whole to make good use of it. He overlooks the fact that narrowing the area of fixed-interest investment tends to diminish the rate of interest obtainable therein, and this takes something off the force of his argument, but I am not prepared at present to contend that there is not some ground for his contention. If there is nothing in it, I cannot see how to show why the ordinary shareholders in a company would ordinarily object to being obliged to wipe out debentures and preference shares by payments out of profits, nor why general compulsion in that direction should be condemned in the interest of the whole community.

7. From the point of view of the State as a corporation, however, the redemption of debt out of taxation is clearly within certain limits desirable. Collection of taxes is expensive and always interferes to some extent with production; to collect more at the moment is therefore bad, but just as it pays the individual to incur a certain privation in the present in order to secure a long-continued income in the future, so it will in normal times pay the State to raise more taxes in the present in order to secure having to raise less in a long future. Determination of the practical question how much should be redeemed in any year is even more difficult and more a "matter of opinion" than determination of how much an individual should save. There is no certainty about the future in either case. Nobody knows how much the individual may be able to earn in the future, nor how many children he will have: nobody knows how long the country will remain at peace, what its population will be, how much they will be able to earn, and so on. But at any rate the individual can form a pretty accurate estimate of the present privation involved in saving, whereas it is exceedingly difficult to form any very reliable estimate of the real expense and inconvenience involved in collecting a somewhat greater amount of taxation in any particular year. It is relevant to remark, however, that the State itself often decides the question for its local sub-divisions. My impression is that if the authorities which at present decide how long counties and towns in England may have to pay off their debts had to decide the question for a locality in conditions as like those of Great Britain as possible, they would give about thirty-five years. This would mean on the 4 per cent. tables, a payment beginning at 100 millions and increased every year by the amount saved in reduction of the annual charge for interest. And this, I should think, would in all the circumstances be a reasonable amount. It would convert the debt into an annuity of about 400 millions terminable in thirty-five years.

8. When Sir Stafford Northcote established what was absurdly called the "New Sinking Fund," he was virtually turning the debt of that day into a terminable annuity of 28 millions, which would, I think, have had to run for fifty years. As it has turned out, that was far too long; the debt of that day should have been paid off entirely, and could easily have been paid off, as everyone now admits, before 1914. Moreover Stafford Northcote, not being the kind of statesman who captures the popular imagination, never thought of insisting on the fact that the debt would be paid off and done with in a limited time; the fund consequently never became at all sacrosanct, but was tampered with almost at the first opportunity by Goschen and subsequently, more seriously by Hicks-Beach and Mr. Lloyd George. In my opinion the best way to secure steady redemption of debt is to fix for total redemption a date which people up to fifty years of age may reasonably expect to see; if occasional disasters occur in the interval, the payments may be suspended for short periods with the effect of postponing for equal lengths of time the date of final redemption, and this will not be nearly so fatal as other methods of tampering with the scheme The fund should not be christened with the uninspiring name of Sinking Fund, but be called "Debt Redemption Fund".

9. It seems to me that the complete redemption of debt in about 35 years is well worth the taxation required for it in the meantime. The objection to the high taxation of Great Britain at the present time is not that the taxpayers or any particular section of them are suffering very real privation in consequence of it. If that had been so, it would have been impossible that the first remission of taxation given by a Labour Government in this country should have included a remission of tax on entertainments. The causes of distressful poverty are clearly, and I think by universal admission, other than taxes. The objection most successfully urged against the taxation of the present time is that which always will be made against any system of taxation which bears at all heavily on the rich, namely that it reduces saving, and therefore hinders that supply of new material equipment of all kinds which is necessary for the improvement of the economic position of even a stationary population and still more for that of an increasing one.

10. Against taxation for purposes which are not of the nature of lasting improvements of the permanent or reproductive or immaterial equipment, this objection is valid when pressed to the proper degree and not further. A time is within the memory of almost the youngest of us when a man with £10,000 a year would pay £34 in Income Tax: now he will pay about £330 in Income Tax and Super-tax: nobody seriously believes that on the average such people have reduced their expenditure by £296. The bulk of the additional taxation of the very wealthy has doubtless come from reduction of their savings and consequent investments.

11. But against taxation for repayment of National Debt, the objection that high taxation reduces savings has no validity at all. The loan is on the other leg. Not a penny paid to the holders of debt in redemption of debt or purchase of stock for cancellation will be regarded by them as anything but a part of their capital requiring reinvestment, while those who are taxed are sure to reduce their consumption to some extent, so that the amount saved on balance must be greater, unless the cost and inconvenience of collecting the extra taxation is greater than the reduction of consumption on the part of the taxpayers, which is not likely to be the case, if the amounts collected is kept within moderate limits. If the Committee think it necessary to placate those who are opposed to any taxation "falling on capital," I would suggest that they might recommend the allocation of the proceeds of the Death Duties, the taxes on the transfer of property, and the Super-tax to the "Redemption of Debt Fund."

12. Coming now to the distribution of taxation, I am not prepared to recommend any drastic change in the existing system. Given that a certain amount of revenue is to be raised, it is no use to grumble about the disadvantages of this or that particular tax unless we can suggest better means of raising the money if that tax is reduced or abolished. Thoughtless persons constantly bring up against particular taxes objections which are common to all taxes. They complain that the tax which they dislike diminishes the expenditure of private persons in some particular direction or in all directions. Of course this is precisely what taxation is meant to do—it is meant to take away individuals' power of commanding labour, land, and equipment, and to transfer it to the State. Another complaint is that the tax discourages idleness and improvidence because it is paid by the industrious and provident—as if revenue could be got from people who do no work and have no property. What we must do, to make out a good case against any particular tax in connection with the direction of industry or the encouragement of industry and providence, is to show that the tax diverts industry and resources from an unusually desirable kind of production, or that it is particularly discouraging to industry and providence—"particularly" meaning more so than some substitute which can be proposed.

13. More than a quarter of the tax revenue of Great Britain is derived from taxation of intoxicating drinks and tobacco. Few persons are prepared to allege that this part of taxation is discouraging to unusually desirable industry and providence, and to propose a substitute for it, or any part of it. It has some obvious recommendations, and also one which is seldom taken nature of, namely, that as women drink and smoke less than men, and children scarcely drink and smoke at all, it differentiates in favour of maintaining a family. There appears to be no good reason for not keeping this taxation up to the rate which yields the maximum possible revenue. I imagine it is not far from that at present, so that it is not necessary to consider it further.

14. Not far from one-half of the whole tax revenue is provided by Income Tax and Super-tax. This taxation is less injurious than the drink and tobacco taxation, but it is difficult to find a superior substitute for it. It cannot be said to discourage any particularly desirable branch of industry, since it merely reduces the taxpayer's aggregate spending power without suggesting to him that it will be his interest to restrict it in any particular direction. And it does not discourage the industry and providence of the taxpayer any more than any system of taxation which can be seriously suggested in place of it. It is true, of course, that the principle of progression embodied in it would, if carried much further than it is, be found to the industry and providence of the richer taxpayers. Few people will work or save if the whole or 90 per cent. of what they get from additional income is to be taken away from them. But judging, as one must, from my own feelings and from private conversations, I do not believe that the existing scale has any important effect in causing people to slack, or to retire from work early, or to consume more. The direct effect of the imposition is, of course, to reduce the power of the taxpayer to save, and the progression increases this tendency, because the richest persons are, on the average, the persons who save the largest proportion of their incomes. But it does not follow that it would be better to try to raise the money from poorer people who might be obliged to damage their own efficiency or that of their children.

15. The only other very large contribution to the tax revenue is made by the miscellaneous taxes. These are a species of property tax levied at enormous inequality, and graduated partly according to the amount possessed by the person leaving the property, and partly according to the relationship between him and the recipient. What their exact effect is upon persons who expect to leave property is a psychological problem of some complexity. Some will doubtless say, "I have my income secure till I die, and I don't care what happens afterwards, so I don't intend to work more or spend less because my heirs will have to pay the Death Duties than I should if there were no Death Duties." But others will say, "I must work more and save more so that my poor widow and children may have something left after they have paid the enormous exactions of the Government." We may continue that there is not much difference between Death Duties and an equally progressive Income Tax in this respect, but that there is slightly more discouragement to saving in the Death Duties, owing to the uncertainty of life and the optimistic view taken by each person of his own expectation of life, which will make each man prone to underrate the actual burden of Death Duties.

16. The Death Duties are still very young, and are probably susceptible of a good deal of improvement. Progression according to the amount left by the deceased pays regard to the distribution of wealth in the past, rather than, as seems reasonable, to the distribution in the immediate future. It would be better to base the progression, as in France, on the magnitude of the amounts received by individual legatees, and perhaps to combine this with progression based on the magnitude of the income or property already possessed by the legatee. The old dropped scheme of progression according to relationship should be restored in place of the very crude existing graduation, and the present minimum between progression according to amount and progression according to relationship should be wiped up. The French arrangements, in which the whole thing is clearly expressed in one table, is a useful model. (In June, Cours Elementaire de Science des Finances, 5th ed. 1912, p. 308.)

17. The greatest difficulty in regard to Death Duties as they seem to be more understood by the taxpayers is that of avoidance. The larger the property in the more inducement there is to avoid the tax by transmission during life and we thus have there in all suffering the fate of King Lear of this in time. An elderly man with £10,000 only, for various obvious reasons, is not in the least likely to hand over £5,000 or £6,000 to his children in his lifetime. But an elderly man with a million will very often find that it will save him a great deal of trouble to hand over half or more; what he left will be ample for his needs and

leave a margin for security. Such avoidance would be made less profitable if the progression depended partly on the wealth of the recipient of the legacy, since a son or daughter already enriched by a gift would then have to pay more on the final amount obtained by way of legacy.

18. The Rignano plan, with which the Committee are doubtless familiar, while proposing to tax property which has been inherited at a confiscatory rate when it is left by the inheritor to someone else, exempts any non-inherited surplus altogether. For example, A, starting with nothing, accumulates so that he leaves £10,000 to B; this is exempt. When B dies, the first £10,000 which he leaves (or any smaller amount if his estate does not amount to so much) is taxed extremely heavily, but any surplus over is exempt. B is thus driven to save if he wants to provide anything for his heirs. The practicability of the scheme in its entirety may well be doubted, but it is worth while considering whether some differentiation of the tax in favour of the surplus over what has been inherited might not be practicable and desirable. It would tend to increase saving and to diminish avoidance.

19. The Death Duties are not the only taxes on capital; there are also the various Stamp Duties which burden transactions in property. These make it more expensive to transfer property from one person to another, and form a hindrance to production which is none the less real because its incidence among individuals is capricious. The clog upon transference is important because it tends to keep property in the hands of people who are less competent to manage it than others to whom it might be transferred. Such taxes are a survival from a bygone age in which the art of collecting taxes was so little developed that the stamp method seemed very excellent. The best of the Stamp Duties in present circumstances is the 2d. duty on cheques, which causes us to want to keep a large stock of purchasing power in our pockets and tills and thus prevents the currency note issue from being even more depreciated than it is. No remission of this duty should be made unless accompanied by a considerable reduction in the authorised fiduciary issue.

20. It will be said that while recommending an increase of 50 millions a year in the amount required for interest and redemption of debt, I have proposed no means of getting any additional amount from the people. I do not intend to do so. If there is no possibility of getting more from the people, so much the better. Executives and legislatures are daughters of the horse-leech whom the well-disposed citizen should not attempt to satisfy. The required amount should be found by reduction of useless and pernicious expenditure.

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813. *Chairman*: Will you please proceed with your statement, Professor?—I thought it best to start off rather afresh without attempting to deal specifically with the questions which I received from the Committee. The questions seemed to me to be rather academic in character, and I thought one could make a more practical attack on the subject directly. It seemed to me that a good many of the questions rather dwelt on the evils of what was, without considering whether there was any better substitute. It does not seem to me to be of much use to dilate on the evil of a particular kind of taxation, unless you have a better substitute for it. Of course, all taxes are more or less bad, so unless you consider each in connection with any substitute that may be proposed, you are not really very practical. That explains why I have not paid any direct attention to the questions, although I have had them in mind.

As to the first head of my paper, the form of the debt, I attach a good deal of importance to making it quite clear what the debt is. I think in past years that I can remember a great deal of harm has been done by covering debt up in unintelligible forms. For instance, for years and years after Stafford Northcote had introduced the twenty-eight millions scheme, it was the practice to go on talking of terminable annuities inside that big terminable annuity, and to go on juggling with those annuities and sometimes increasing them, sometimes decreasing them. All that was perfectly nugatory, because the whole thing was really determined by the twenty-eight millions covering annuity. Now those annuities have been pretty well dropped, but we still have some mysteries. For instance, there is always the mystery about the Treasury Bills held by the State itself through the Currency Note Account, the amount of which has never been stated, but which is believed to account for most of the 250 millions of "Government Securities" held against the fiduciary issue.

As to paragraph 3, I do not think I need add to that. I disbelieve in the immense importance that is attached to the distinction between the Floating Debt and the permanent debt.

I now go on to paragraph 4, and I should like the Committee to examine some of the conversions that have been made and see whether they really have turned out well in the course of time, when the capital has been considerably raised. I think, if you will go into the conversions in 1921 and 1922, you will find they have been a very losing business, and I think that ought to make people anxious in future about any conversions which cause more than a trifling increase in the capital. Of course, sometimes in order to make the thing go at once you require a trifling increase like 3 per cent., or something of that sort, but any large increase I think is out of the question really. It is a most dangerous thing, a thing which no private person would ever think of doing, unless he was in the hands of moneylenders and quite reckless. You do not hear of sound people asking their creditors to take a debt of £200 at 2½ per cent. instead of £100 at 5½ per cent.

Then I go on to the two heads of the amount of taxation and the distribution, and, so far as this Committee is concerned, I suppose the question of the amount of taxation really depends entirely on the sum which goes to redemption of debt, because this Committee have not got any power to recommend alterations in the other expenses and no recommendations which they can make will alter the interest very much, so that the real point about the amount of taxation, whether it is desirable to raise more or less, so far as the Committee is concerned, seems to be the same really as the question how much is to go to redemption. There I try to make a point which I think people are rather apt to forget, that it is a matter of degree. You want to pay off debt because, if you pay it off, in the long run you will pay less in capital and interest than if you do not, but how fast you will do it must always be a question of how much the difficulty of providing more money at the moment increases progressively, so to speak. The more millions you raise in one year the more difficult it is to raise the last or most burdensome million, and consequently you have always got to balance the two advantages—the advantage of paying less in the long run with the greater difficulty of paying more in the short run. It is very much the same problem as meets every person in his private economy, how much he ought to save; but it is not to be confounded altogether with that question, because, so far as the State is concerned, it is rather a question of balancing the difficulty of raising taxation quickly in large amounts in a short period with the difficulty of raising a rather larger aggregate in a longer period. That is not quite the same, of course, as the question of saving as commonly understood, but it presents the

same principles really, the balance of ultimate advantage against immediate difficulty. Just in the same way there is no way of answering it quite positively. You cannot lay down positively that some particular amount is the right one. There will always be considerable difficulty in deciding, and it must be more or less a matter of opinion. The question is more difficult really for the State than for the individual, because it is rather more difficult for the State than for the individual to decide what is going to happen in the future, and also there are not the possibilities of insurance open to the State that are open to the individual.

Coming more closely to grips with the subject, I suggest that the best way of securing a proper kind of redemption—I do not say it is always a perfectly successful method, but the method which is likely to be most successful on the whole—seems to me the plan of turning the whole debt into a terminable annuity in the same way that Stafford Northcote tried to do in 1875. He did not succeed except in a limited sense, I think very largely because he did not make enough of the scheme. He never said: "This plan will pay the whole thing off in a limited number of years"—which I think was about 50. He never held that out as a hope; instead, he rather suggested that the future Chancellors of the Exchequer would probably cut the sum down, and thereby made it easier for them to do so. The end of it was, as one knows, that the amount was very soon nibbled at; it was nibbled at after the conversion of 1888 on the ground that the conversion saving might very well go in that way so as to reduce the total applied to the debt, and was subsequently tampered with several times, but still, even tampered with as it was, it did work pretty effectually; it did do a great deal during the period in which it was in force. I suggest 35 years as the duration of the annuity, because it seems to me that if the same sort of thing had happened, so far as you can suppose it to happen, to a local authority, and you sent down one of your Local Government Board or Ministry of Health Inspectors to decide what the authority was to do about it, it is very unlikely, I think, that taking all the circumstances into consideration, such an Inspector, if he acted on the ordinary principles which guide the State in deciding what local authorities are to do about their debts, would give more than 35 years. As a matter of fact, when such inspectors come across a purely unproductive debt, they usually give a very short period indeed, but these unproductive debts are usually only of small amount and so the difficulty of paying them off in a short time is not very great. I think if some enormous disaster had happened to a town, say, in England, probably about 35 years would be considered the right time to pay off the debt incurred in consequences of it, and looked at from the point of view of the State, this seems very reasonable. It is rather a short period no doubt compared to what has been done in the past with regard to the payment of debt, but it does not seem a short period when you consider what ought to have been done, and when you look back over history at the different cycles of prosperity and disaster that have happened to States in the past, I should say 35 years is a fairly long period. You do not know what may happen before that time is over.

814. *Mr. Bell*: What kind of figure would cover that 35 years' redemption?—£400,000,000, altogether, interest and principal; I think that is about right. I will not pledge myself to the figure, but looking at the tables of annuities and so on, it seems to work out at about that. Of course, it will be said that that means another £50,000,000 more on taxation than would be payable with the same other expenses if the present amount is adhered to, and of course it will be objected that another £50,000,000 means £50,000,000 (or nearly £50,000,000) off the savings of the people. Of course it does mean some considerable amount, a large proportion of the £50,000,000, off the savings of the taxpayers, but it does not mean that the savings of the community as a whole, or the additions to capital of the community as a whole, are reduced by that amount at all. Of course, it simply goes into the pockets of the stockholders, who are not in the least likely to spend money which they get in that way as income. If any of us have a proportion of our holding of National Debt paid off, we do not go out and spend it in riotous living; we merely re-invest it; so that there is no argument against it in that way.

Then we get in paragraph 12 to the distribution of taxation, which means really the possibilities of altering the present taxation and substituting something else for it. I think on the whole that the present system is a very tolerable system; it is much better than any which has been devised in any other country or at any other time. It may be improved, of course, in course of time, but the idea that there is anything very much wrong with it is, I think, rather an illusion. Of course, the fact that it is high is against it, but you cannot prevent that now; you might have prevented it by a more prudent policy in the past, but now that it is there you are not going to alter the total very much, and the question is simply what are you going to do about rearranging it—taking taxation off some things and putting it on to others. As to that, I think we ought to notice in the first place what a large proportion of the taxation is raised from intoxicating drinks and tobacco, and to have regard to the fact that no one really wants to abolish that very much. On the whole it does not seem a bad sort of taxation, and the principle has usually been to keep it up to about the maximum. I do not think there is any objection to that. I rather want to insist upon it, because when you read the ordinary books on public finance they are apt to take general principles, such as "ability," which do not leave much place for this kind of taxation, which has been very large in modern civilised countries and has on the whole worked pretty well. That, as I say, accounts for more than a quarter of the receipts from taxes. Nearly half comes from Income Tax and Super-tax. I do not mean to deny for a moment that that taxation, with its progressive scale, does diminish the savings of the taxpayer very considerably; but that is not a conclusive argument against any kind of taxation. It does not follow that it would be better to try to raise taxation in some other way. If you are going to have taxes which do not tend to diminish savings at all, you will have to try to arrange to tax people who do not save, who are of course in the main the people with very small incomes. It does not seem either desirable or really possible to do that. As I have already pointed out, so far as the diminution of savings of the taxpayer simply means a transfer of his capital to somebody else—the holder of the debt—it does not really tend to diminish the capital of the whole country. Of course, so far as it goes in expenditure no doubt it does. You have to take account there of the fact that you must do the best you can under the circumstances. I do not think any considerable change is called for as regards the Income Tax and Super-tax.

The only other large contribution is provided by the Death Duties. It is very difficult to say exactly how the fact that a larger amount is going to be levied off your property at your death affects your action in either working or saving. It seems to me that the only conclusion one can arrive at is that it affects different people in this respect somewhat differently, and there is not really any great difference between its effect and that of an equally progressive Income Tax or Super-tax. The progression of course has a certain effect of its own, but it is much the same effect, I think, in both cases. The only difference that I can see is that the one is more certain than the other, and as we rather underrate the probabilities of our dying within a few years, on the whole probably people do not attach as much weight to the Death Duties as they would do to more certain taxes. I do not think that the fact of Death Duties being levied

at rather long intervals in itself makes any difference; it is the fact that they are levied at *uncertain* intervals that makes the difference if there is a difference.

Then I suggest that it is quite possible that the Death Duties could be improved in some way. I think the great danger about them at present is that after a bit when people begin to realise how large they are, the richer people will take more trouble to avoid them than they do at present. I do not think there is much danger of avoidance with regard to the smaller amounts, but it seems to me that when you get to the larger amounts the temptation to avoid handing property over in your life time must be very great. When you only have a moderate amount, you do not want to hand it over, because you are rather afraid that you may be left short. Your children might lose their property, and you might have to do something more for them, or you might meet with some disaster and your children might not be sufficiently mindful of what you had done for them to give it back, especially as they would say "Well, we will be taxed again on it directly when you die." So I do not think there is much ground for supposing that the smaller people will avoid, but it seems to me when you have a millionaire and a chance of his property being taxed 40 per cent. or something of that kind, it is incredible that there will not be a very large amount of avoidance; the only surprising thing, I think, is that there has not been more already. Therefore, I think it might be well to look round and see whether you could devise some means of making it less probable that people will avoid in that way. I think perhaps by altering the system of progression a little, making it depend less entirely upon the one point, the magnitude of the deceased's property, and making it depend also on certain other considerations, it might be possible to do this, but it is a matter that requires investigation and thought. I have not had much time to think about it.

The paragraph 19 is suggested by one of the questions about Stamp Duties. The Stamp Duties of course are borne with very little complaint, but I cannot help thinking that they are rather more damaging than people usually suppose to the general interests of production. It appears to me that, when you have got duties which burden the transfer of property quite appreciably, there is a certain clog upon the passing of property from one person to another which is very undesirable. Everything which makes it more expensive to transfer property must tend to keep it in the hands of people who ought really to get rid of it because they cannot manage it as well as somebody else. You see at once that, if the tax is pretty heavy, property will often go on being kept by the person who has got it,—although he manages considerably worse than somebody who might buy it,—because the cost of the transfer is so great. It seems to me that the existing duties on the transference of property are quite high enough to be appreciably hurtful in that way. I do not think there is much to be said for them. When any new tax of this kind is suggested, it is always criticised very violently and usually very justly. We submit to the taxes which exist because we are accustomed to them simply, and not because they are good.

Finally, I have remarked that I do not really want to propose any new and additional sources of revenue, because it seems to me the most promising thing is really to cut down some of the expenditure rather than to try to get more out of the people. A great deal of expenditure is quite unnecessary and useless, I think. We all know of particular instances, though of course general cheese-paring is very unsatisfactory, and as to that I would like to say that one of the things on which I should not allow a reduction of expenditure is the expenditure upon providing the people with means of criticising the finance of the Government. Just lately the price of Blue Books has been raised to such an enormous pitch that it becomes very difficult to get the information that we used to get, and the public library that I have been accustomed to get the information at has had to stop getting the Blue Books altogether at great inconvenience. It seems to me that that is about the least desirable direction to economise in. That, I think, is all I want to say, Mr. Chairman.

815. *Mr. Lees-Smith*: Taking paragraph 2, Mr. Chairman, I think it would be useful for us to have a statement from the Treasury on that point. It is difficult to examine the witness on it at the moment, and I think it would be useful to have a memorandum from the Treasury on the witness's views.

816. On paragraph 4 can you suggest to us any test of what is the reasonable amount of increase of debt which you could accept in a conversion scheme? How far can you go; can you go up to 10 per cent.?—I do not think you can lay down a figure like that. You would require to consider both the interest you were saving and the capital increase. You must always take them both into consideration, but I think increase in capital is a risky way of doing it, which you should try and avoid as far as possible. When I suggested that a little increase of capital is sometimes desirable, I was thinking of the sort of amount which is generally allowed on new issues in order to give the investor the impression that he is not going to drop a little of the capital almost immediately by the stock or bond going below what he has given for it. You must very often give him a slight chance of appreciation, and he will pay more than it is worth for that. The bad example I referred to was the giving of about £160 and £130 of the Conversion Loan for War Bonds. If you look back on that you will find there was great loss on it. The people who took those options now have what is worth a great deal more than what they would have had if the country had gone on paying rather high interest for those two or three years, and avoided increasing the original amount of debt. It is purely a matter of arithmetic, is it not, plus a consideration of the fact that your arithmetic can only be founded on prognostications of the future about the rate of interest prevailing in the market and about the rapidity with which you are going to pay off debt. If you are going to pay off debt to-morrow, of course it would be most absurd to agree to any rise in the capital.

817. Coming now to paragraph 11, you have explained to us that the repayment of debt out of taxation does not in fact diminish the amount of money available for capital investment?—Yes.

818. But a rather new point has, I think, been developed in our last two meetings, first of all raised, I think, by Sir Josiah Stamp, and that is this, that, if you take money by taxation, you take it from the firms which are building up their position—enterprising and active firms—and you hand it over to the people who hold War Loan. They will probably themselves invest it in some other fixed interest security, and you get a diversion in the direction of your capital. You take it from the users and you give it to the more or less passive investors, and there is no adequate machinery for bringing it back to the more active classes. *Mr. Hichens*: Just like giving the ten talents to the man who had one and buried it. *Sir Josiah Stamp*: The point was that the machinery will bring back a lot of it, but there is a certain amount of friction and you will never get back into the private and little known business all the money that has been taken. *Mr. Lees-Smith*: It is a question of the importance of that capital, but it is a possibility and a tendency; the question is whether it is important enough to make you practically deflect the tax policy or the debt policy which you would otherwise pursue? —*Witness*: I do not think that its importance is great at all. One can see that it looks important if you look at it from a theoretical point of view, in which you would think of the holders of debt as entirely different people, a particular class of unenterprising persons, and so on. I think there is very little ground for that idea. Has that class of person increased so enormously since 1914 as to hold all the debt that is now

out? Of course one knows that what happened during the War was that everyone who could do so put money into war loans, and very many of them have their holdings still. Before the War I had not a penny of Government Stock, and now I have about enough to bring in about half what I pay in taxation. In that respect I am rather a good representative of the taxpayer at large. If I am going to get paid off, I am not to be regarded as having a predilection for Government stock simply because during the War I got stuffed up with it. It is much more likely, I think, that I am going to launch out a little. Generally speaking, the debt is not held by a particular class of bondholders such as Cobbett used to think of. Whenever Cobbett saw a new house after the Napoleonic War, he always said it had been built by the bondholder. I have seen a lot of people's investment lists owing to people perpetually coming to me to have their claims for Income Tax drawn up—they get it done without expense in that way. It seems to me that they are very ordinary people who have this debt, and I should doubt very much whether there is any tendency of any importance at all on their part to reinvest in similar securities. Of course, recently a much more dangerous thing has been suggested; it has been suggested that when holders of National Debt are paid off, they re-invest in foreign stocks. I think perhaps that is more alarming than the internal diversion. I do not look with much favour upon the perpetual investment in foreign stocks. It seems to me that the financial authorities ought to do a great deal more than they do in discouraging it, and I think perhaps some harm is done by the Government itself in giving rather too much encouragement to the idea that the Government will look after people who have lent money to foreign governments. I think that is a most pernicious idea. I do not like governments being put in the position of debt collectors for the investor who has gone in for foreign bonds. I think the sooner the investor gets into his head that foreign governments are not safe institutions to lend money to the better. But I do not see how you can arrive at any very sound conclusion on this point unless you make some inquiry as to who actually does hold the debt at present. If you could find out something about that, so that we really knew who holds most of it, you might get some light.

819. Coming on to paragraph 7, that I think is the most drastic proposal for dealing with the debt that we have yet had put before us. It is not as drastic as a Capital Levy, but it does involve payment of some hundreds of millions a year, I suppose in the course of about 15 years hence. I would like to get the particular view that you hold. We have had a number of witnesses whose general opinion is that we need not take any very effective steps to attempt to redeem the debt within any appreciable time. If you take the present Sinking Fund, the new Sinking Fund of last year, it would pay the debt in about 150 years or some such period as that, if none of those experiences that happened to Sir Stafford Northcote's Sinking Fund are repeated. The underlying view is that we can in practice leave the debt, trusting to the increased productivity of the community to make it a very light burden. Your view, in reality, is quite different. Your view is that we must take very drastic and burdensome steps to repay it within the lifetime of the majority of people of this country. I would like your views on the other opinion—that it is not a really serious burden to the country, and that it can be left for time to deal with, for the increased productivity of the community to reduce it to small proportionate dimensions?—Do you not think the idea about the increased productivity of the community is rather based upon the experience of the last 120 years or so, which is perhaps not so very likely to be repeated? You cannot expect, for instance, that the population of this country is going to increase in the next 100 years in the same way that it did in the last 100 years. You are not going to have the debt per head reduced by increased population in that way—at least I should be very sorry to think of the population increasing in the same proportion as it did in the last 100 years. Of course, against the idea that the burden will be very much smaller, I would also put the idea that the burden at present of what is proposed is not really so very enormous. We are not really ground to powder by the existing taxation. The country is really pretty comfortable. I see no sign of that extraordinary want of prosperity that people seem to think fashionable to profess to believe in at present. Anyway, the additional payment in paying off the debt is, as I point out, not an addition to the burden but a mere transfer from one set of people to another. If you pay off certain people who have a right to exact a certain amount you are not really increasing the real burden in any way; you are only slightly increasing the difficulty of raising the amount. Of course, the amount is rather large, but it is not as if the money is going away to somebody else outside.

820. You reach here a figure of 35 years by a certain method of calculation. Is it possible, in your opinion, to lay down that a certain percentage of the National Debt should be paid off each year? What I have in mind is the fact that last year in the House of Commons in the debates on the Finance Bill one or two speakers—Mr. Asquith, for example—reached a figure not far from yours at any rate in the first year by this proposition, that before the War we were paying off 1 per cent., when the debt was about one-tenth of what it is now, and we now ought with a larger debt to pay off a rather larger percentage each year. By making the percentage rather larger than 1 per cent. they reached a figure of about £100,000,000, with which at any rate you would agree, but they did not state whether it was to be cumulative or a flat rate, and they kept to your preliminary figure. Do you think that is a scientific method of arriving at the measurement?—It seems to me it would lead to the rather absurd result that you would always be reducing the amount you were paying off, and you would never pay it off altogether. It gets down to an infinitely small sum, does it not? Of course, at the beginning of the period you pay off 1 per cent. of a large amount; at the end of the period you are only paying off 1 per cent. on a very tiny amount, and you never get it all paid off. There does not seem any sense in perpetually reducing the amount annually devoted to redemption like that.

821. Let us take it this way: do you consider that if we paid off, say, 1 per cent. before the War, that we ought therefore to pay off a larger percentage now that the debt has increased tenfold?—I do not think there is any force in the comparison of percentage at all. I never heard of anyone who thought he ought to pay off his own debts in that way by thinking about the percentage that he was paying off.

822. It is a very favourite Parliamentary comparison?—Parliament has some very strange comparisons—such as the "twin sisters" to which Gladstone paid equal addresses, and I do not know what not.

823. Coming to paragraph 18 towards the close of your Paper, has this Rignano plan or system of Death Duties, or the principle that it is based on, been adopted anywhere? Has there been any experience of that anywhere in the world?—No, I do not think there has, and it is quite obvious why there has not, because if you take the plan just as it is proposed by its author the advantage is not immediate enough. No Chancellor of the Exchequer is likely to adopt a plan except under very great pressure—which is not likely to be there—which will give a great deal of money to his successor, but will not give any to him.

824. You mean the advantage of it comes in after the first deaths begin?—Yes, but I do not see why the principle of it should not be adopted in a very partial way, and experimentally to some extent, by simply differentiating between the amount inherited and the additional amount, if any, accumulated by the deceased himself. It seems to me that the records

at Somerset House are now complete enough to make it possible to say how much people have inherited.

825. It would not lead to a great deal of extra administrative work?—Well, I am not an expert about that.

826. Suppose you assume the adoption of that principle, then I presume you could actually increase your general scale, or increase your rate of Death Duties and avoid the dangers of evasion?—I should doubt if you could get very much more out of them. £56,000,000 a year is a good deal, you know. The only way you could really get more out of them is a way you probably would not like to adopt, and that is, to get rather more out of the moderate sized estates; they do not really pay very much at present.

827. *Mr. Lees-Smith*: I think this is the first time that the Rignano system has been brought before us. *Sir Josiah Stamp*: It has been referred to. *Mr. Lees-Smith*: Yes, but it is the first time it has been definitely suggested by a witness?—I think that in putting forward his scheme orginally, Rignano prejudiced it a good deal by thinking of it, not as a means of paying off debt, but as a plan for putting the whole capital and productive powers of the country in the control of the Government. His idea was that we could run a sort of socialism by it, and, of course, that rather prejudiced it as a mere suggestion for raising money.

828. *Sir Arthur Balfour*: I take it you are not really recommending the Rignano scheme as it stands at present?—No; I only just take a hint from it; that is what I suggest.

829. *Mr. Lees-Smith*: One of the principles of it?—Yes, the one principle of letting the first inheritance off so much, so that if I choose to save £500 a year I know that the amount will not be taxed, or not taxed so heavily as the rest. If you could work that it seems to me it would be quite a useful idea. *Mr. Lees-Smith*: I think this is a subject we ought to pursue. Perhaps it would be possible to get the Inland Revenue to give us a memorandum on the administrative practicability of this proposal?

830. *Mrs. Wootton*: The chief thing that we have to consider at the moment is this question of the burden of the debt, and, as Mr. Lees-Smith has pointed out, we seem to be in two minds as to whether the debt is burdensome or not. It seems an elementary thing to say, but would you agree that, if the debt is burdensome, the burden must consist either in the friction involved in collecting funds by taxation to meet the debt service, or in the fact that when interest is paid or debt is paid off the funds are less advantageously used by the debt-holder than they would have been by the taxpayer?—I think it does sum the thing up.

831. That covers all the possible sources of burden?—I think so.

832. On paragraph 11 of your statement there seems to be a distinction in regard to the second part of the burden which has not yet been clearly brought out. Would it be fair to say that there you distinguish between what the debt-holder receives in repayment and what he receives in interest? So far as what he receives in interest is concerned we have no evidence as to whether he uses it, or very little evidence as to whether he uses it, better or worse than the taxpayer?—Well, but does it matter whether he does or not, because you cannot take that away from him; that is my idea. No one proposes that you are going to take it away from him, so the only question is between paying him off and not paying him off.

833. If you pay him off you cease to have to transfer funds to him in the payment of interest?—But he will re-invest and get the interest somewhere else, so that you do not diminish his power of calling on the labour of the country at all.

834. When it comes to repaying him, your paragraph 11 seems to suggest that that is definitely not disadvantageous. He is not likely to use those funds paid in repayment disadvantageously, because he will regard them as a capital repayment?—I think that is perfectly certain.

835. So that there is a distinction between the interest and the repayment so far as the probable use of funds is concerned?—Yes.

836. That seems to me to be a point of very considerable importance. We are rather apt to consider the service of the debt as a whole and to discuss whether a debt-holder will use the funds better or worse than the taxpayer. If he is likely to use the funds coming to him by way of repayment better than the taxpayer that is, as far as it goes, an argument for repayment?—Yes. What I think is that the taxpayer paying it out is pretty sure to diminish his expenditure to some extent, and the other person who gets the repayment will not increase his expenditure, and consequently by collecting money for redemption you will increase the amount of capital available for investment on the whole.

837. That is an argument then for repayment at as rapid a rate as possible, other things permitting?—Yes.

838. On the question of conversion I rather gather that you are sceptical about the possibilities of conversion?—No. As the rate of interest goes down, no doubt it will be possible to make some profitable conversions.

839. The question is whether conversion is likely to be an effective method of dealing with the debt within any measurable period. You suggest 35 years as the time we ought to aim at for repayment; what help do you think conversion would give, say, in the next ten years?—Well, I do not know; it is purely speculative, I think. It is said that the rate of interest will not be any lower in 1929 than it is now, but a great many people think it will. I do not know, but I should be rather inclined to think that unless all sorts of disagreeable things happen, like wars or internal mismanagement, or something of that kind, it would be lower.

840. It is a purely speculative question, and it is impossible to answer, but we have to consider whether conversion is likely to be a beneficial method of dealing with the debt; we have to make some sort of guess at its probable merits?—I think you ought to assume that there will be tolerably good government, and you hope you will keep out of wars, and so on, so that altogether the probability is, on the whole, in favour of some reduction but not a very great one, I should think.

841. One question on this matter of the distribution of taxation. You do not wish to recommend any drastic change in the existing system; I think you say that in paragraph 12?—Yes.

842. We are, I think, rather in the dark at present as to how the burdens of the existing system of taxation do work out. We have before us some figures of Sir Herbert Samuel, with which you will be familiar, which relate to the latest year, the year 1918-19, in which an effort was made to estimate the percentage paid in taxation by different income groups in the community; you probably know the figures, I mean?—Yes—absolutely useless, I think. I had a research student who took up that subject. He began about 1908; he had not finished before the beginning of the War, and I have not heard of him since.

843. That is not very encouraging, and if we are to consider the distribution and the incidence of taxation, clearly this is a very important thing; it is the first thing we have to get at. Can you suggest any way by which we can arrive at some estimate of the degree of progression in our tax system?—No; I do not think you can get it for this reason, that the question involves the supposition that taxation does not exist. If you are asked what the distribution at present is, you are asked to compare the situation at present, when certain people have certain available incomes to spend on commodities at certain prices, and so on, with another situation in which there is no taxation, and so I do not see that that is possible. All you can do on any occasion is simply to say what difference some change might be supposed to make,

some change which is sufficiently small to be conceivable. I think the idea that you can compare what is with what might be if there was not any taxation, and consequently no expenditure, no National Debt and no anything, is altogether out of the question.

844. Is not what you are trying to do, to estimate the actual percentage of income paid by different income groups and compare the percentage paid by one income group with that paid by another?—I think that what I have said is exactly what you are trying to do then, because you are trying to make out what their position would be if you took it off.

845. I should think we are trying to make out what their comparative position is while it is on, which seems to me to be a different point?—No, because their comparative position when it is on involves everything else as well as taxation. I think that inquiry is a will-o'-the-wisp myself; I cannot help it if the House of Commons has asked you to do it.

846. Our task seems to be a difficult one. We have to discuss the burden of the debt; we do not know who holds it, and do not know what they do with it. We have to discuss the incidence of taxation; we do not know upon whom the incidence falls. And, in your view, we cannot find these things out?—I am afraid that is so.

847. There is one other question I want to ask, and that is about the taxes on commodities—what are vulgarly called indirect taxes. The argument against taxation to which greatest weight is usually given is the argument about its trenching on saving, the argument which you discuss, I think, further on in paragraph 14. We have already arrived at the conclusion, with which you have just agreed, that part of the burden of debt consists of the friction involved in raising funds by taxation. That friction is surely very considerable in regard to these indirect taxes?—Well, it depends on what the indirect taxes are, does it not? I do not know that our indirect taxes in the Free Trade period were really very burdensome in that way. This country seems to have been rather conveniently situated for raising the sort of taxation that it did. It could not grow various things on which considerable taxation could be raised conveniently. In the case of spirits the taxation perhaps had rather a tendency to consolidate the production into large scale production, so that there were only a few producers; but in that case it does not seem to have been bad, because it is very generally admitted, I think, that production on a large scale produces a less unwholesome liquid than the production on a small scale.

848. Here again it is a case of comparison, is it not? One has to compare the friction involved in that form of taxation with the friction involved in Income Tax and direct taxes generally?—Yes. So far as the Customs are concerned, you have to consider what kind of oversight of imports and exports you would have to keep up if you did not have the Customs. Of course, if you are prepared to throw your frontiers absolutely open and not bother about statistics at all, I am not sure that it would not be rather a good thing to do, because people would not be able to produce so many erroneous theories if you had not got statistics. If you threw the frontiers entirely open and let the things come in without being recorded at all you could save a great deal of money by abolishing Customs; but, if you are going to watch and record everything, you are not going to save so very much by taking off the duties on a few articles on which they are at present charged.

849. At the same time, when you have any changes in your indirect taxes you, of course, get the dislocation of industry consequent on any changes in your tax system, and you get friction with every adjustment of your indirect taxes?—Yes. Of course, that is an argument against having taxes on the importation of motor cars, for instance, but I do not know that it matters so very much with regard to the liquor taxation, which is the principal thing.

850. To come back to the principal point which is what I want to get at, the common argument is that direct taxes on income and estates are disadvantageous and have a prejudicial effect upon trade, national credit and employment—I think those are the words in our terms of reference. What I want to know is whether the taxes on commodities in your opinion are also seriously prejudicial to trade, credit and employment; there is very much less attention generally paid to them?—I think if you took off the Income Tax and tried to get another £300,000,000 by taxation of commodities ——

851. I am not suggesting that. I am suggesting conditions as the proportions are at present?—Well, I think as conditions are at present they are so very much less complicated by the taxation of commodities being on liquor and tobacco; if they were on all sorts of different commodities you probably would have much more difficulty. As they are only on those, and you do not mind the quantity of those being reduced—and it does not really very much matter if there is a certain amount of obstruction in the production of those things—the situation is rather different. But I think the argument you have mentioned is very strong against the large extension of taxation on commodities.

852. All the existing taxes, though they are on those particular things, do reduce what the taxpayer might otherwise spend on other commodities?—Yes.

853. And reduce the potential effective demand in other directions?—Yes.

854. And that would be a factor of importance with regard to trade, national credit and employment?—Yes; consequently it is well to favour the taxation of things that you do not think do people much good.

855. *Sir Josiah Stamp*: Just reverting for a moment to the questions that you have been asked about Sir Herbert Samuel's figures, I am a little disappointed, as one who took a considerable part in helping him, that you find them absolutely worthless. Do I understand you think that the figures as such are wrong or not the best approximation that can be got, or is it merely that the lessons that can be drawn from them are dangerous?—I think the result is of no value, because it does not suggest anything useful. It is no use saying that different classes pay so much; I do not know how it can be of any use.

856. If various statements are being made of a vague character that certain people bear very much more than their share, or very much less, is it not better to substitute for that vagueness something like a reasonable approximation to the facts, whatever use you are going to make afterwards of it? It is better to have contention based on ascertained fact than contention based on mere theories?—I should substitute a knowledge of elementary economics, I think, for another set of figures equally delusive.

857. Is it of no value at all in your judgment to know that certain income groups bore certain proportions of the total burden at one time and bore totally different proportions at another? Does a change of tendency of that description convey nothing?—It does not convey any idea to my mind at all, because when you say that certain groups bore so much at one time and so much at another, I do not know what comparison you are making.

858. Suppose a statement is made that a rich man with £10,000 a year, say, is not paying half as much as he used to, and strong political action is to be based on a vague statement of that sort, whereas the rich man in question says that his burden is quite as great or even greater, is it not better to throw into the arena of discussion something approaching Sir Herbert Samuel's facts, or whatever you like to call them, than merely to talk at large?—You can point out that, of the income obtained by the wealthy person, so much is taken in taxation; that is quite reasonable and is constantly done, and there is no difficulty about that. But you are trying really to do more than that; you are trying to show also that he would have that amount of gross income if the taxation were different. You are always somehow implying comparison with a state of things which is impossible to conceive, it seems to me.

859. I do not know that the Paper itself ever attempted to do that; it simply got at certain ascertained facts. Would you condemn a statistical inquiry of that sort merely because there were a few fools about who put them to wrong uses, or had not the necessary knowledge to put them to the right uses?—What I suggest is that you can lay down something about changes. Just now you suggested that somebody said at one time the rich man paid so much, and at another time he paid something else. It is possible to deal with that, because you are then dealing with two periods not very far apart from each other, and you have a particular change that happened then. You can say: "I agree; I quite admit that the change did damage the position, or improve the position, of the particular classes." What I object to is the attempt to put up the whole thing in a statistical form and say that at the present time such and such a class are paying so much per cent. and others are paying something else.

860. Having got your statistics really you must put them in a glass case as a curiosity and say no correct inference can be drawn from them? For example, a man with £10,000 a year says "I know as a fact I was bearing 30 per cent. tax ten years ago, and I am now bearing 40 per cent." You say to him in answer: "You are not bearing 40 per cent. at all, because if you were not paying what you think is 40 per cent. you would not have the £10,000." It is really the re-action of the taxation upon the gross amount of the income which introduces the confusion into the inference, as I understood you?—You are always liable to the suggeston that somehow or other the incidence has been shifted, but when you deal with actual, possible, practical changes that do take place, you can ignore that.

861. Are you a complete agnostic as to statistics about the burden of taxation?—I am completely agnostic about statements which lay down that people with certain incomes paid so much per cent. and people with other incomes paid another so much per cent.

862. Even if you regard the word "payment" as merely the first incidence of the tax? I grant you that in taxation it is very difficult to find the ultimate incidence; it revolves round the community and nobody knows quite where the ball finishes. But is it not useful to know where the first impact is?—I am not sure that I know what is meant by the first impact.

863. Well, the first apparent burden. The man says: "I pay so much Income Tax. You assure me that I do not pay anything of the sort, but I only appear to pay it, and if I did not have this payment to make, my income would be quite different." Is it not a useful piece of exact knowledge to put down on a paper that he does in fact pay so much Super-tax and Death Duties?—There is no difficulty about that, of course, but that is quite different from saying that the man with £10,000 a year pays so much per cent., and the man with £100 a year pays so much other per cent.

864. Does that uncertainty arise simply because you are adding to the direct taxes, which are more obvious, proportions and percentages of other taxes and showing them to him as a payer of taxes? It is the indirect taxes being divided up that you object to?—Well, there is more difficulty, of course, about saying anything about what happens to them than there is about the other, but I do not say that it does not apply to the others too. It would be quite impossible, for instance, to say anything about the incidence of the duties on the transfer of property. You pay one or two per cent. on the transfer of property; it is quite impossible to say who bears that.

865. But, after all, in Sir Herbert Samuel's Paper that particular class of tax is a very small proportion of the total burden of the rich, but the indirect taxes constitute the largest burden on the poor. Is it not a reasonable inference that, taken as a class, the consumer does bear the tax upon a consumable article and not the rich person? Would you go to a poor man and say: "You are not bearing this tax on beer and tobacco at all; it is the rich Squire who is really bearing it"?—The consumers of the things specially taxed no doubt suffer in consequence of those special taxes.

866. Surely when Sir Herbert Samuel says that an income of £100, £200 or £300 a year bears a certain burden and divides up the indirect taxes on such amounts, and also says that the income of £10,000 or £20,000 bears a certain burden mainly consisting of direct taxes, that is an approximation to the truth even after allowing for incidence and shifting?—I do not see that it takes you anywhere.

867. If you are merely trying to reduce vague statements about the payment of taxation to an element of exactness of not greater error than 5 or 10 per cent., surely it is worth having? This Inquiry, it seems to me, might shut up to-morrow if the very first step that it takes is to ascertain facts that are worth nothing at all?—I do not say that is all. You are asked to consider the distribution of taxation apparently more or less in relation to the National Debt. All you can do is to suggest changes and not very big changes at all, because it is impossible really to make very great changes anywhere, and you can see the effect of them already without following this will-o'-the-wisp and trying to make out what is the incidence in that sense at present; you can consider whether any changes are desirable in the distribution of taxation.

868. Would you say that it is determinable from figures whether the rich people are bearing a higher proportion of tax than they used to, or whether the poor people are bearing a higher proportion of tax, or a higher absolute burden? After all, that is important. I am not so much concerned with the proportion of the total; I am concerned to know whether a particular class does in fact bear a larger burden than it did at any other time; surely you would not say that that was impossible of determination?—No. I think it would be very difficult to get it into very exact form, but I think you could state with considerable confidence what had happened.

869. On the question of the burden of the debt, as I understood your reply to Mrs. Wootton, you agreed with her view as to the burden of the debt, but did not your answer presume that kind of identity between the whole body of people receiving interest and those paying the taxes out of which it is discharged. I put this to you; if you say that the burden of debt is merely a matter of friction and so on, does not that rather cut right across the case that we are running up against every day of our lives—the case of the young fellow who goes into business and makes a fair amount of profit and has a very large burden to bear. If you tell him the debt is no burden he will laugh at you. You say it is not a burden, because after all it comes back to the people; he says "I have not got any War Loan, and if this tax were not put on me I should have this much more to enjoy." It is very difficult to convince him that it is not a burden. Is it not a fact that in discussing the non-existence of a burden in that way we are committing the fallacy of confusing what is true of a total with what would be true of individual parts, and is it not a serious drawback to production that new producers and new effort should be subject to this very considerable charge in favour of what you might call the dead hand? It is rather a long question, but I hope I have made myself clear. I want to clear up what I call this confusion of thought about the debt not being a burden, because the interest is circulated amongst ourselves?—I do not think I ever said that the debt was not a burden on the people who have to pay it. It is a burden on the people who have to pay it, and it is a benefit to the people who get it, of course. I do not think I am guilty of having confused the thing at all.

870. I do not say you have confused it. I only want to know whether you would agree that there is a considerable amount of confusion in this popular

rejoinder in the contention that the debt is not a burden?—The burden consists in the friction involved in collecting the money by the awkward way of taxation. If it was collected in another way by the people who now hold debt having instead more property in the ordinary way in which people hold property, so that the debt-holders' income did not come in by way of taxes, it would be just like any other property, of course.

871. That is the very point I am aiming at. If this were a direct charge by way of interest on other people's property, you would get a totally different distribution of the burden, and that seems to lead to the view that taxation of unearned income and Death Duties is economically more sound than spreading the burden upon effort pure and simple?—I do not think you are entitled to say that you get a different distribution of the burden. The burden might be just the same; it depends on who had the property. If the people who had the debt had other property instead of it, I do not see that the people who have not got it would be in any different position from what they are.

872. If you had your system of unearned income taxation or earned income relief worked, as it has been on the Continent, by an annual taxation of capital values—a small annual tax—you would have a distinction much more complete than if the income from that particular capital were devoted to the service of the debt. That would mean that a young fellow going into business and making profits would not be burdened in that way?—It does not make very much difference whether you make your differentiation between earned and unearned income by taxing the capital in the way you spoke of just now, or by way of differentiation in Income Tax. It does make a slight difference, and an important difference in a way, but on the whole there is not much difference, is there?

873. No, there is no real difference. It is only that it is more obvious that the burden is specifically off effort and upon property, to pay this particular charge which you describe as a charge upon property. —Of course there is an argument in favour of that in this, that after all these burdens are local burdens in the sense that each country has its own National Debt, and in the long run the property that is fixed in the country will have to bear any additions, and in the long run the property holder will have to bear something. Of course, that is more remarkable perhaps in the case where you have great external debt. There you might depopulate the country entirely, because all the people might leave it if they were taxed heavily, and in that case the property there would obviously depreciate. You have always to consider that possibility of migration.

874. It seems to me it is one of our tasks to consider whether the existing distribution of the taxation burden is best from the point of view of not repressing effort, apart altogether from mere fairness of distribution by reference to amount of income, and I wanted to hear you on that to see whether you thought any change could be made which would lighten the burden that there is on enterprise. You do not think so; you think on the whole that things are fairly well balanced?—Yes. I am not advocating any change in that way, I think.

875. Now may I take the point about the economical effects of redeeming debt by taking taxation from say, small businesses. By small businesses I mean such businesses as the medium business in private hands in Yorkshire or Leicester engaged in textile industries, and so on, which have been a very important feature in the past in the progress of the country. You said you considered that investment in foreign States is a diversion of the man's money; it does not come back into his business quite as readily. I suggest to you for your consideration whether the second point that Mr. Lees-Smith just touched upon has not some importance. You draw £5,000 from a business that is in energetic private hands, but whose credit is not widely known, and that £5,000 gets into the hands of trustees or some company that is holding Sinking Fund stocks of a secure character. The existing War Loan is redeemed, and they have to find what? They do not want an investment in an unknown textile business in Yorkshire; they want something similar to what they have given up. Has not this the effect, therefore, of increasing the growth of large joint stock companies that are able to issue well secured debentures, things of the character that these people could invest in, and depressing the growth of the smaller energetic private business?—Well, do you not think you are making the case stronger than it is when you say that the trustees will act in that way. Will it work out in that way in the end? Suppose the trustees re-invest and try to invest in the same sort of thing that they have been in before, is not the result in the end to squeeze out somebody on the margin? The trustees will go on trying to get trustee investments; somebody who has got trustee investments who is not obliged to have them will go out into something a little less gilt-edged, and somebody there will go out into something still less so. It is not really such a strong thing as you suggest.

876. I quite agree it does not act quite as directly. There is a process of moving along the line until you come to the marginal man, who does not care so much?—What happens is, you get a very slight reduction in the interest payable on the gilt-edged securities, which will eventually be rather favourable to industry. Of course it means that on the prior charges they can get money rather easier.

877. I think if the annual sum in question is not large the effect would not be large, but is it not really progressive with the magnitude of your redemptions? Supposing you had a very large redemption of 3,000 or 4,000 million pounds, would it not be important? If you had, we will say, 6,000 or 7,000, or 8,000 millions of trustee stocks, the sort of stocks that that class of people like, and you suddenly reduce them by a half, that lining up process that we were referring to just now does not seem to apply. While you will undoubtedly have a large number of these people looking round eagerly and urgently for stocks of that character, it seems to me that you precipitate the development of the large and well known public stocks to the detriment of the small and private need for capital. What I am on now is a question of the importance of this thing, if you have very large redemptions, such as for instance the advocates of a Capital Levy would consider?—I should think I would be inclined to meet that rather by the suggestion that before the War you had a very much smaller area of available investments of that kind, and it apparently went round, so to speak, and now you have got an area immensely larger and unnecessary.

878. You think the hurricane would blow in the opposite direction with equal facility? People would go out of these things into the general money market and general investment without difficulty?—Yes, I think they are doing it.

879. Coming now to your paragraph 7, in your interesting discussion about the annuity method, have you given any consideration to the proposal that there should not be any attempt to fix the annuity absolutely or to fix the kind of programme of redemption absolutely, but that you should make it fluctuate with the variation of the national income. For instance, the national income might be doubled in a few years' time by one of three methods: you might have a complete alteration in money values so that the real production that you had would be expressed in depreciated money at twice the figure; that would be one method. You might have a remarkable change in population, each person well off on the average and no better off, but multiplying it by a larger population, giving you a larger national income. On the other hand, you might have not much alteration of population but a real increase of actual wealth production expressed in present money values giving you a larger national income. Those three different methods have very different tax-paying

abilities in the aggregate. The suggestion has been put up to me that you should have a programme of debt redemption which should pay regard to the actual national income in the year in which you are applying it. If you had x per cent. per £ per head of the income in any given year, you would have a burden that would actually fit the back. That would not lead to the perils that a fixed annuity system has?—Well, is not the objection to that, that if you are going to make a good resolution you had better make it of a very definite character—to get up at 8 o'clock in the morning, for instance, rather than get up according to a sliding scale according to the weather and various other more or less attractive circumstances. If you are going to argue about these other things *ad libitum*, then you will always find plenty of arguments for altering your scale, supposing you have fixed on one beforehand. Supposing you fix on some kind of index number which is going to show you the taxable capacity and all that, you will want to alter it and argue about it, and I do not think you will get the same results out of a movable scheme as you would out of trying to pay a definite amount.

880. You do not think the risk that holding to a fixed scheme of things may mean radical alteration in the value of money, is sufficiently great to justify introducing movable elements?—If you are going to have radical alteration of money you had better give up altogether, I think. I have devoted myself to trying to prevent radical alteration of that kind. *Sir Josiah Stamp*: I suppose it is outside the scope of this Committee to discuss the management of the price level.

881. *Sir Arthur Balfour*: If we are to go on as we are at present do you think the present Sinking Fund is high enough?—I suggest it ought to be increased.

882. By how much?—Well, I suggest £400,000,000 per annum as the total for interest and redemption. The total at present is £350,000,000.

883. Another £50,000,000?—That is what it comes to.

884. Do you make any definite suggestion as to how that should be raised?—Yes. In the last paragraph I suggest that it should be raised by taking £50,000,000 off the expenditure, and of course that naturally increases net revenue.

885. You do not tell us out of what expenditure. Could you give us some kind of suggestion out of which expenditure you could save £50,000,000 a year?—I can only suggest a little here and there. For instance, as I go down Kingsway every day I see the Air Ministry spending a great deal of money putting up a chart showing the weather up and down the country. That does not amuse people half as much as a barrel organ.

886. Do you think that you can find £50,000,000 worth of those oddments?—I think I could if I was allowed free run over all the Government Departments.

887. You still think there is a real solid amount to be saved by reduction of expenditure outside interest on the debt?—Yes, and also you have to take into account that the revenue, if the taxes are left as they are at present, may be expected to rise somewhat as time goes on.

888. You speak about 35 years, which is practically within the lifetime of an ordinary person. Do you think it is quite reasonable that the present community should bear all the strain and stress of the War and should then have the whole burden cast on them in their lifetime? Do you not think there is something to be said for their having safeguarded future generations who should therefore bear some of that burden?—Well, if they had been successful in safeguarding future generations I think there would be something to be said for them, but I am not sure that they have done so.

889. Perhaps they have not been as successful as they would have liked, but they were to some extent successful?—I do not know. They have made rather a mess of it.

890. Do you not think a worse mess might have been made of it?—That is always possible, I suppose. For one thing, they should not have let the War cost so much. If they had kept their currency in order, it would not have cost so much.

891. That is too late to remedy, I am afraid. With regard to the Death Duties do you think they ought to be applied directly to the redemption of debt?—If you had as large a Sinking Fund as I suggest, they would be. When I suggested allocations as an alternative, the allocations that I made come to rather more than the figure I suggested under the annuity system. I suggested the Death Duties, the Super-tax, and the duties on the transfer of property, but I notice they come to rather more than £100,000,000 and you would have to make some reduction off those, but the scheme of allocation is a little attractive in principle, I think.

892. We have had one or two witnesses who spoke very strongly on the question of reducing the 2d. cheque stamp to 1d.; I see you are not in favour of that?—No. I think that would have exactly the opposite effect to what is usually supposed. People have the most absurd way of trying to recommend it by saying: "If you took that off it would reduce the demand for currency notes." Of course it would reduce the demand for currency notes; you would not want so many; and the value of them would be less than it is now.

893. Surely you think it would be better, and trade would be more facilitated by the use of cheques than by the constant paying of small accounts all over the country in currency notes?—I do not know. There is a good deal of book-keeping involved in cheques, is there not?

894. Yes, but still it works very usefully from a credit point of view, surely?—I do not mind about it much, provided that people realise that they have to reduce the currency notes correspondingly if they take the duty off. If the duty was taken off, I should certainly not have so many currency notes from the bank as I do now, and the issue ought to be reduced in consequence, otherwise there would be more inflation.

895. I notice you do not touch the question directly, but may I take it that you are not in favour of a Capital Levy? Is it because you consider that it would cause too great a disturbance of the country's trade?—I did not deal with that subject, because I understood it was being kept by the Committee for a future occasion.

896. But perhaps you could answer me, while you are here?—On the whole, though the thing is attractive from an academic point of view, and a great many of the arguments against it annoy one with their extreme futility, I do not think it is practicable.

897. Mr. *Hickens*: We have been told once or twice, and I am quite sure we shall be told several times more, that one ought to pay off the debt out of national savings and income and not out of capital; that it is a wrong thing to do, and not economically sound, to pay off debt out of the national capital; would you share that view? Everybody would admit that saving is a good thing, but that is not the point. The point is, supposing you have not saved enough to make any reduction in the debt, ought you to leave it alone, or ought you to be prepared to reduce it by means of taxing capital?—I do not think I quite understand.

898. The theory is that there is a national income of so much per annum and that out of that you should pay all your taxes without trenching on capital?—Yes—well?

899. Therefore you cannot pay off more of the debt than you can pay off out of income?—But you can.

900. I know. I was asking your view about it; is that sound?—I do not see any ground for the doctrine at all that you cannot.

901. Well, I would rather put the point as that you ought not to—that it is not economically sound to

do so?—I think the view is quite wrong. It seems to me quite desirable to do it whether you get it out of income or out of capital.

902. In a business, for example, if you found that your capital was inflated you would, if you could, no doubt, write it down out of profits, but if you could not, you might think that it was sound economics to write it down out of capital, might you not? It is not infrequently done; is not that so?—Well, in a business if you had a debt you would not refuse to pay it off because you had to pay it off out of capital, would you?

903. No. The point I wanted to make was, that supposing you found in your business that suddenly an asset became valueless, you would like, if you could, no doubt, to wipe it out from the profits which you made; but supposing you could not, it is very often in practice found desirable, is it not, to write it off by writing down your capital?—I suppose so.

904. Is there a very important distinction between taxation of capital and the taxation of income from the point of view of the economist?—Well, the important distinction, I suppose, lies in the effect upon the taxpayer's action. If the taxation causes him to reduce his savings, then you may properly call it taxation of capital; if it does not, then you cannot so call it. As a matter of fact, almost any taxation will cause some people to reduce their savings somewhat.

905. That is to say, all Income Tax is potential capital in a sense, is it not?—The richer you are the more likely it is to fall on the savings. Of course, if you are a comfortable person with several thousands a year, and you are saving £1,000, or £100 even, and the taxes are raised a certain amount, you are much more likely to take that off savings than to take it off expenditure, no matter what kind the taxation is.

906. So that you would not regard the distinction between the taxation of capital and the taxation of income as of great importance?—No. I should not think it is, understood in the loose way in which it usually is.

907. Although it might be desirable to see that such taxation as was drawn from national capital was applied to the reduction of debt, might it not?—Yes. Of course, you ought to take into account that the community are always saving a considerable amount, at least in tolerable times, and taxation is sure to impinge upon that amount to some extent. It is not as if you had people just living on their income and saving nothing. I do quite know what would happen then. I suppose taxation then would be met entirely by reduction of their expenditure, but as long as you do not have that situation, as long as you have a situation where people are saving, any taxation is sure to impinge on the saving to some extent.

908. Is it your view that a high Income Tax does injure business or not; have you a definite view on that point?—I do not see why it should. I should require a good deal more knowledge of it than I have to convince me of that.

909. Would you agree that it would injure business if all provision for expenditure were not met before the tax was imposed, that is to say, if some of the tax fell, not on profits, but on working expenses? To that extent I suppose it would put prices up, would it not?—Yes, so far as you tax working expenses it is practically the same as taxing commodities.

910. In theory an Income Tax is supposed to be on your profits?—Yes.

911. But in so far as it was not on profits it would pretty clearly put up prices, would it not?—Yes. In what I have said, I have, of course, assumed that the Income Tax is an Income Tax. In so far as the Income Tax is not an Income Tax my arguments do not apply.

912. The tax in the question I am putting to you is an Income Tax in that sense, when adequate provision is made for the depreciation of plant and buildings, for example. Will you go as far as this—that if adequate provision is not made, then *pro tanto* high taxation is an injury to business?—To the particular sort of business which it hurts, yes.

913. And indeed it might be the case, might it not, that a large number of factories in this country, or, you might say, the industries of this country as a whole, had not been depreciated to the extent that they ought, owing to the fact that they were not allowed to depreciate for taxation purposes?—Yes, that may be so.

914. That would be a bad thing, would it not, in so far as it was true?—Yes.

915. You are not in a position to say that that is a fact?—No.

916. But you do recognise that, if it were a fact that the allowance for depreciation, for example, were inadequate, that would be a bad thing?—Yes.

917. Then similarly you are aware, are you not, that a large number of businesses in this country, if not most, have been built up out of profits?—Yes.

918. That any prudent man extends his business not by borrowing further capital, but by a generous use of the profits that he makes That is how the industries that Sir Josiah Stamp has referred to in Yorkshire and Lancashire, for example, have been built up?—Yes. I would include that, of course, in savings.

919. If your savings are taken away in taxation you cannot do it; you have to do it out of capital?—Well, it is the same thing. It does not really make any difference in principle whether you take the savings before they have been handed over to the shareholder or take them afterwards. The same argument about the savings applies right through, I think. You may say perhaps that the companies with their undistributed profits are more certainly saving than the shareholder when he gets his dividend, and therefore it hits savings a little harder for that reason. I do not think you can go further than that.

920. I do not wish to suggest, of course, that high taxation is not inevitable, and indeed desirable, in order to pay off debt, but I would like to be clear in my mind as to whether it is at the same time inflicting an injury upon industry. It may be an inevitable injury, but must it not injure industry to some considerable extent if, instead of being able to pay your money back into your business, as you did in the past, you must rely on the whim of a banker or the general public to give you the money, on which you would have to pay interest in the future? It does restrict your expansive capacity and your capacity for improvement, does it not?—Yes; but it only does it just in the same way that it attacks the individual. It does not make any difference, it seems to me, whether the shareholder has to pay it one way or the other.

921. But the shareholder will not pay it one way; that is the difficulty. Supposing I went to my shareholder and said: "I should very much like £100,000", he might say: "Well, you can whistle for it; you are not going to get it from me". Supposing on the other hand you have made a profit——?—Which you do not pay to the shareholder.

922. You can keep it from the shareholder very much more easily than you can extract it from his empty pocket. That must be pretty clear, must it not?—No, I do not think it is. It seems to me all the same whether the company keeps back the dividend it ought to have paid me or whether I receive it. In the end I ought to be the person who settles the matter, and it depends upon how much I decide to save, how much goes into your company. Suppose I vote that you shall distribute more, you are bound to distribute it. It is really my property; and all you can really contend is that the companies make people save more by keeping some of it back; that certainly is so, markedly in the United States; some authorities seem to think the people in the United States would not save anything at all if it was not for the companies doing it for them.

923. My contention is not so elaborate as all that. My contention is that it is the normal thing for

prudent business men in this country to expand and improve their business out of profits or savings. In so far as those savings are taken away by the State that becomes impossible for them, and that is a bad thing. That is the point I want to put to you?—Yes; but I do not think it is a different thing at all from taxing the shareholder after he has got his dividends and thereby preventing him having so much money to put into the business. *Mr. Hichens*: It may be as broad as it is long, but the difficulty remains, does it not, that to that extent injury is done to the industries of this country. I think I see what your point of view is.

924. *Mr. Lees-Smith*: Would you agree with the doctrine that there should be no Income Tax on undistributed profits?—I think the State would lose too much money by exempting them.

925. *Professor Hall*: I should like to take up this question about paying off the debt in a definite period of 35 years. I should like to ask your views regarding the effect of that policy. Obviously you would have to raise £50,000,000 a year more, and if we assume that the increased income has to be derived from the present sources, it may affect the inducement to those who are already engaged in industry?—I think an increase of £50,000,000 would be rather unsatisfactory. I would prefer to see the money provided by reduction of expenditure.

926. That of course assumes that that can be achieved; but supposing that could not be achieved, would you be in favour of an increased revenue being secured for the purpose of obtaining the fund that you have suggested?—Yes, I think I should, on the whole.

927. What do you think would be the effect upon industry of raising that additional revenue?—It depends on how you did it, of course. If it was done by having kept the last 6d. on the Income Tax, for instance, or the last 9d., or whatever would make it up, I do not think the effect would be at all noticeable.

928. Then on the other side the repayment of the additional amount of the debt would presumably increase the amount of available capital?—Not very much, I think, because I think most of it would come out of savings; it would increase it to some extent. It might be perhaps £5,000,000 out of the £50,000,000. I would rather not give any estimate, but I think a very large portion would be merely a payment which would come off people's savings and go to the reduction of debt, so that you would not have a larger amount by the whole of the £50,000,000, but only by a portion of it. It would depend a good deal on what you put the taxes on. If you put 6d. on the Income Tax, that would certainly be so. If you put it on sugar again it might not be so.

929. Still you agree that there would be a certain amount of compulsory saving and that this saving would be capital and would increase the available capital of the country?—Yes, a certain amount.

930. What would you think would be the effect of this policy upon the general rate of interest in the country? Do you think it would have any important effect?—It would tend to diminish the rate of interest on gilt-edged securities as compared with others; that would be one thing; it would tend to a very slight reduction on the whole.

931. If the capital were increased, do you think that that increase and the general fall in the rates of interest which you suggest may happen, would be very helpful in assisting conversions of loans to a lower rate of interest?—Yes. I do not think the effect on the whole rate of interest would be very important, but the effect on the gilt-edged rate would be rather larger, so that you would get greater ease of conversion.

932. You do not think that compulsory saving converted into capital would really be very important, then?—It might be if it was large, but I do not think it would be very large; but I think the restriction of the gilt-edged field would certainly raise the capital value and consequently reduce the interest which you had to pay on what was left of the gilt-edged field.

933. Supposing this policy were adopted, what is going to be the effect in the 36th year? You have been taking £400,000,000 a year for 35 years and then, according to the suggestion you have made, all this is withdrawn?—I wondered if anyone would be sanguine enough to ask me that.

934. I should imagine that sudden changes of that sort are not usually good?—No. I expect, as a matter of fact, when it got towards the end, they would tail off a bit.

935. This is not quite like a municipal loan, then?—No, because, unfortunately, you have not got compulsion applicable to sovereign States. Municipalities in a high state of solvency, of course, are compelled to pay off their debts; no sovereign State is. That sudden jump comes from the thing having got so massed together. In a municipality you have a number of different loans and, consequently, you never have such a very big jump at the end of the period.

936. You made reference in your statement to the increase of capital value as the result of some of the schemes of conversion. Do you think that what you have said on this subject should affect the portions of the debt selected for repayment at the present time or in the immediate future, say Consols as against 5 per cent. War Loan, or any other specific Loan?—Of course some of them are tied up with Sinking Funds of their own. With regard to the rest, I should be inclined to take the cheapest, the one that seemed most profitable to pay off, but to give some preference to the Floating Debt because of the awkward risks connected with a large Floating Debt. I think the Floating Debt ought really to be cleared away pretty soon.

937. With £100 of income you can reduce your capital debt liability more in the case of Consols than in the case of 5 per cent. War Loan. I was wondering whether in your view the argument that you have advanced would be an argument for the selection of a particular kind of debt for repayment?—I think it is rather a question of accountancy. If you bought Consols you would knock off a larger amount of capital, but you would have to pay more at the moment to get off a certain amount of interest. I think it is considerably a matter of calculation, and of course a certain amount of prognostication of the future also, which is very difficult.

938. That, of course, would have to be taken into account—the interest that was saved?—Supposing the rate of interest was going to fall very rapidly in the next ten years, it would pay very well to buy in Consols and things of that sort, and *vice versa*. It is very difficult.

939. I take it that you have no very strong views on this subject?—No.

940. *Mr. Bell*: Will you please look at these words in paragraph 11. "But against taxation for repayment of National Debt, the objection that high taxation reduces savings has no validity at all." High taxation reduces savings, but taxation for repayment of National Debt does not reduce savings? Is that what you mean?—Yes; the paragraph goes on to explain that. It follows on from the beginning of paragraph 10, "Against taxation for purposes which are not of the nature of lasting improvements," the objection is valid; and then, in paragraph 11, I say it is not valid against taxation for repayment of the National Debt.

941. You say that taxation for the repayment of National Debt is unobjectionable because, when the money reaches the persons who are holders of that National Debt, they reinvest it?—Yes.

942. And you say that those who are taxed are sure to reduce their consumption. That is a very large assumption, is it not? It may be that they will have to pay that out of their savings?—They will, most of it, I think; but all I say is that they are sure to reduce their consumption to some extent.

943. A great many of us have not reduced our consumption to any extent, but we have reduced our savings?—We have reduced our savings chiefly, but

I think we have reduced our consumption to some extent. We should have consumed more, I think, if we had not had to pay the taxes.

944. I want to get at the real principle underlying this. We all want to reduce the debt, and we are all going to do it to some extent, but does not there come a point where, if you take money, money, money, from the taxpayer, that is, his capital or his savings, whichever you like to call it, you are taking from him the means by which he earns more in the way of interest than the State saves when it receives the money and pays off debt?—You take it away from the taxpayer and give it to the person who has got the debt, and the person who has got the debt has got to re-invest it, and the taxpayer has probably to reduce his consumption to some extent. On the whole I should say there is more capital available.

945. That was not quite my point. My point is that the paying off of 5 per cent. War Loan or any other sort of War debt may not be economically sound with money which, if it were left in the hands of the trader, would produce more interest?—It gets back into the hands of the trader when it is paid off.

946. We will come to that. I put a question to a witness last time of a firm consisting of a man and his son who had £1,000,000, and among the assets of the £1,000,000 was £300,000 War Bonds which were available for the Death Duty when the father died. The whole £300,000 was paid over for Death Duty, when the firm was left with £700,000 instead of £1,000,000, and could do considerably less work and produce less profits. Many people assume that the £300,000 is inevitably going to be replaced by some beneficent spirits who cannot be indicated precisely, and that in some way or other it is going to come back?—In that case the War Bonds were simply cancelled, I suppose?

947. What is the effect upon the earning capacity of the people who have lost that £300,000?—The people have not lost it.

948. I beg your pardon; they have given it up and it has been torn up, and they have lost it?—But it was not any addition to their earning capacity to own it.

949. Oh, yes it was. It was a thing with which they could borrow, and not only borrow £300,000, but much more?—Then it seems to me we ought all to be millionaires at that rate. We have only got to buy some Bonds and then borrow more on them and conduct our trade on that money.

950. But in such a case as I am putting, from my practical experience we know that with £300,000 a firm can borrow more, or at all events can borrow £300,000, but if it is taken from them and torn up, they obviously cannot borrow even £300,000?—At that rate, does that lead to there being more capital available somewhere, somehow? In that case it would be a good plan to increase the National Debt, would it not, if everyone could borrow more on it, the more there is of it?

951. I am asking whether it would be wiser in the long run economically that that £300,000 should be left in the hands of the people to trade with or taken away from them. Which is better for the State?—It seems to me more convenient for everyone that, when they are taxed £300,000, that amount should be cancelled. I do not see that the cancellation of that amount of stock really diminishes the capital of the country in any way.

952. Please listen: I am talking about that particular firm. Have they not had taken from them an amount of earning capacity which was greater than what the State had gained?—I cannot understand how they can have earning capacity out of holding this amount of War Loan.

953. Cannot they borrow on it for business purposes?—Well, are they any better off for that?

954. Presumably, if they want it for profitable business. These are things within my own knowledge?—Of course I can see that the State got the £300,000, and somebody else lost it, but I do not think anything further happened.

955. Really the advantages are balanced by the use of that money which those two entities make—the State and the trader?—I do not think either of them were losing it. There was not any money; there was only an obligation on the State to pay certain interest on the capital of those Bonds.

956. And when they got it they cancelled their 5 per cent. obligation?—That obligation is now cancelled. I am not prepared to think that the capital of the country is really increased by there being more of such Bonds about than if they were all cancelled.

957. I will not pursue it, because I do not think you have quite seen what I mean, and you have had a long examination. May I ask about the 2d. duty on cheques? You say that if the duty was reduced to 1d. and there were more cheques, notes would be in smaller demand, and would be still further depreciated?—Yes.

958. In what respect are they depreciated now? Do you mean for home consumption or for exchange purposes?—They are depreciated now because they are not worth whatever the number of grains of gold is in a sovereign.

959. Merely as an exchange; you do not think for internal purposes of purchase?—But they are depreciated for that. If I have the amount of gold in a sovereign I have more than I have if I have a £1 note. Therefore the £1 note is depreciated.

960. If there were fewer notes would they become less valuable?—They would become more valuable. If they were cut down by £30,000,000 or £40,000,000 they would go up to the value of a sovereign.

961. And they would be still more depreciated if they were more valuable?—I did not say that. I say, if there were fewer of them, each of them would be worth more, which is usually the case with all articles of value.

962. Which causes us to want to keep a large stock of currency notes in our pockets and tills, and therefore prevents the currency note from being more valuable than it is?—The more we keep in our pockets, the more valuable they are.

963. If they were cut down would they be less valuable?—They would be more valuable if there were fewer of them. Is it not the case with most things that are bought and sold, that if there are fewer of them they are worth more?

964. That is what I wanted to get from you?—That is just what I say. If there is less demand for a thing it will be less valuable; if there is more demand it will be more valuable.

965. Would there be more demand if there were less of them?—The restriction of supply then would bring up the value.

966. There would be more demand?—I did not say that. I said they would be more valuable. With the same demand they would be more valuable.

967. *Professor Hall*: Is not the point that if cheques were used those Treasury notes would be advanced by the banks to their customers, and get into circulation in that way, and prices would rise and the value of currency notes would be depreciated in that sense? *Sir Josiah Stamp*: That is not quite so, is it? You deal with currency notes and with cheques. If you use fewer cheques you want more currency notes. The only way to get prices reduced is to withdraw them from the market. If you do not withdraw them prices will rise. *Professor Hall*: I thought that was the point of the argument.

Witness: If cheques were only 1d. I should not take out so many currency notes, and I should not have so many in my pocket as I have at this moment, and therefore they would be thrown on the market and would be less valuable.

Chairman: We are very much obliged to you for coming. We have had a very interesting discussion.

(The Witness withdrew.)

(Adjourned for a short time.)

Mr. ARTHUR MICHAEL SAMUEL, M.P., called and examined.

EVIDENCE-IN-CHIEF handed in by Mr. SAMUEL.

Witness will state—

(1) He is Member of Parliament for the Farnham Division of Surrey, since 1918:

Member of Select Committee on Estimates of the House of Commons:

Member of Select Committee on Public Accounts of the House of Commons:

A former Lord Mayor of Norwich:

Vice-President of the Norwich Chamber of Commerce:

Member of the Executive Council of the Association of British Chambers of Commerce, since 1915:

Retired Manufacturer, connected with the Shoe Industry.

(2) Witness has no business connection with finance, but he has made a study of national and international finance and exchange. Witness has read the questionnaire issued by the Association of British Chambers of Commerce to its constituent Chambers and members.

In order to place his views before the Committee and to help it in its inquiry, he offers the following observations upon the several questions.

Witness attends before the Committee to amplify the views set out in his statement of evidence.

Question 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?

Reply: The National Debt and the Floating Debt, if held within the United Kingdom, are useful instruments of credit, and increase the previously existing supply of capital for trade and industry.

Assume that a trader has £100 in cash, and that the State has in existence a debt represented by £100 in paper, of 5 per cent. Government debt; whether long or short dated is immaterial. Here are two instruments of credit and capital. The trader uses the £100 cash for purposes of his trade, and the holder of the £100 Government debt can use the paper upon which to borrow money to carry on the holder's business. Now assume that the Government, by taxation, takes the £100 from the owner of £100 cash, and with that £100 cash pays off the £100 worth of debt, by buying up and cancelling the £100 of Government paper from the above-mentioned holder of Government paper. What has happened? The National Debt has been reduced by £100 and taxation by £5 per annum. But there is now only one instrument of capital or credit in existence instead of two, and the consequence is that, as trade is based upon capital and credit, only half as much trade can be financed as before, because one out of the two instruments of capital or credit has been destroyed. The £100 cash has been taken from its owner, and transferred to the owner of the Government paper, in payment for the £100 Government paper, which is then destroyed. The former owner of the £100 cash has been deprived of his £100 cash as an instrument of trade, and has been relieved of his share of taxation for £5 a year interest on Government debt; the £100 cash has passed to the owner of the Government paper, who proceeds to use the £100 in his business in the form of cash instead of in the form of credit based upon his £100 worth of Government paper which the Government bought of him for cash and then destroyed. The operation, if carried on to any large extent, must reduce trade and have a disastrous effect on employment, unless the instrument of credit which has been destroyed has been replaced by an equal amount of increased capital derived from saved profits. The destroyed instrument of credit was based on national credit and was supplied by the debt of the nation. Very short-dated Floating Debt, however (apart from the question of inflation) is, if inconveniently large, a source of danger, in that the State might be called upon to repay it suddenly at an inconvenient crisis, either in peace, or war, time. In such an event, mischief would result and, therefore, credit would suffer. In any voluntary repayment of National Debt attention should first be directed towards Floating Debt, after meeting obligatory repayment of other forms of debt that have become due for repayment.

Question 2: How does the National Debt affect the terms on which capital can be raised?

Reply: The lower the average rate of interest on long-dated National Debt, the better are the terms on which industrial capital can be borrowed. It is said that roughly only one-fourth of the total National Debt is in the hands of private investors. If that is so, it shows that National Debt has not competed, to the extent that might otherwise be assumed, with demands by trade for trade-capital. The character of the distribution of the holdings of National Debt shows that three units out of four units of capital invested in National Debt would in no circumstances have been subscribed as capital to be employed in trade and industry, or, if repaid, would be reinvested directly in industry. National Debt, therefore, has not increased the interest cost of industrial capital beyond the effect of one-fourth of the possible competition for capital by national loans. The rate of interest upon industrial capital is also determined by demand in relation to supply. But high interest means not only a demand for capital larger than the supply can meet; it means also that lenders have fears for the safety of their capital. Among the causes of such fears is increase of debt due to inability of a State to balance its Budget. Lenders therefore withhold capital from industry, being timid of lending it, and lend it in restricted quantities—even though they have it in plenty—and then demand higher rates of compensation from lack of confidence in the safety of their capital.

Income Tax, and other taxes for service of National Debt, diminish the supply of capital in the hands of industry, and of investors in industry, and cause a rise in the rate of interest, which, in turn, adds to the cost of production. Lower Income Tax and Death Duties would have the opposite effect on the cost of production, upon the cost of living, and upon our power to obtain orders in foreign markets. It is therefore not true to say, as is sometimes said, that Income Tax has no material effect upon industry and cost of production. Broadly speaking, the effect of Income Tax is that the tax gives rise to costs which cannot be traced home or attributed to definite units in the machinery of basic and subsidiary production. Income Tax is an expenditure which can be described as of a-sooner-or-later-type. All expenditure in industry reflects itself in the cost-results sooner or later. The effect, therefore, of Income Tax on the costs of production cannot be dismissed as unimportant.

The degree of driving-force-of-capital upon industry is governed by the weight of its aggregate volume. If that volume is tapped by various taxes, then, even though the receipts from taxes are at once disbursed by the Treasury, its driving force is weakened and perhaps dissipated. The sum total of the driving force of capital split up into numerous streams is far less than the driving force exercised when that same capital is aggregated into one stream, flowing into the market to be hired. Taxation should be checked when it draws off so much capital that the remaining free capital is not sufficiently abundant to be compelled to offer itself at low rates of interest in order to tempt enterprise to employ it. Capital always presses towards an outlet, it is always eager to be hired, and the more capital there is needing and seeking employment, the more tempting terms it will offer to get itself hired. Taxation beyond a certain rate, therefore, reduces the force in capital that

stimulates trade, the force that compels industry to hire it, viz., the force of plentifulness and cheapness, the force of need and eagerness to be hired which compels capital to offer itself at ever lower rates of interest rather than remain idle earning no interest. And the service of the debt is responsible for about half the present annual taxation.

Question 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?

Reply: In a period of trade depression, in normal circumstances, money becomes cheaper. Repayment, *i.e.*, conversion of National Debt, or the acceptance by lenders of lower rates of interest are in times of depressed trade rendered more possible than when trade needs money and when money is dearer owing to strong demands for it by trade. Repayment, *i.e.*, conversion of the debt should take place when money is cheaper. It is desirable, subject to certain considerations and reservations which have been dealt with in Reply No. 1, that the Floating Debt should be gradually but persistently reduced. But not at such a rate as to reduce the total of such credit instruments so quickly, or to such an amount, that a resultant disturbance causes a contraction of credit in such a degree as to inconvenience manufacturers, render them timid in enterprise, and throw working people out of employment. But subject to taking care of other forms of debt due for repayment, the gentle and gradual reduction of the Floating Debt out of national saved profits should be the first object of the Treasury. In present circumstances there is always a demand by banks, financial houses, insurance companies and traders, and even by foreigners, for short-dated Government securities in which to put money which is temporarily unemployed, or which has to be held available for emergencies at short notice. If short-dated Government securities are gradually reduced in face of normal demands for them which must increase with normal expansion of home population, even if the volume of trade per head does not expand, then the capital value of short-dated Government securities will rise. The Government will, on maturity, be able to renew its still unrepaid Floating Debt at lower rates of interest. In other words, the rate of interest on Treasury Bills will fall. The result of this will be that the public will become dissatisfied with the lower rate of interest on short-dated Government securities, and will turn to longer-dated Government securities yielding higher interest. The result of this again will be that the capital value of long-dated securities will rise. The result of this will be that the value of 3½ per cent. Conversion Loan will rise from its present value, say 77. Let us assume it will rise to about 88. 3½ per cent. Conversion Loan at 88 means that the Government will have its credit on a 4 per cent. basis in the market. This will enable the Government to convert large portions of the 5 per cent. War Loan, because it will be able, and certainly in 1929 by contract, to offer repayment to holders, if not in cash, in a fresh loan, let us say, 4½ per cent. stock at about 99. Holders of 5 per cent. War Loan would then prefer, presumably, to take the 4½ per cent. Loan at 99 rather than take cash at par for 5 per cent. War Loan. The reason for preferring to convert to 4½ per cent. at 99 instead of taking cash, would be that if holders desired to re-invest the cash in Government long-dated loans, the 3½ per cent. Conversion Loan at 88, for example, would yield them roughly only 4 per cent. Moreover, the price of 3½ per cent. Conversion Loan at 88 would govern the value of all trustee and gilt-edged fixed interest securities. If such a conversion could be carried out there would be a large saving which would be reflected in National Debt charges, permitting, in turn, reduced taxation. But the policy of the Government towards cheaper money is not only helpful for purposes of debt conversion. Cheap money benefits industry and stimulates it. It acts also as an attraction to foreign borrowers who have first class security to offer in return for loans from British investors. In most cases such loans do leave Britain in the form of goods, but not in all cases, as was shown in the debate on Trade Facilities Bill: see Hansard Vol. 172, No. 56, Pages 1299 to 1303, Wednesday, 16th April, 1924. Consequently it is advisable to pursue a policy of debt repayment within limits, on all possible occasions. Those limits should not be fixed by trade conditions exclusively. The relation of saved earnings to debt repayment must be considered. This particular aspect of the matter is dealt with elsewhere in these observations. In any case, however, when business is bad, when commercial confidence is impaired, repayment of debt keeps up the market price of Government securities, and, with them, the prices of every other investment. This steadying of, or support of capital values in the securities market helps to maintain national and private credit, and renders it less difficult, than would otherwise be the case, for industry to obtain capital or credit for trade purposes. The higher the capital value of fixed interest-bearing securities, the lower the rate of interest at which money can be borrowed for industry. Cheap money tempts industry to extend employment and at the same time lowers cost of production which in turn increases the purchasing power of wages and lowers the cost of living.

The words "Debt Repayment" used in this Question No. 3 should be accurately defined. Reduction of debt by cancellation of debt is not repayment of debt. For all that, many people do assume that cancellation is repayment. It is not, and for the purpose of the matters now under consideration the difference between cancellation and repayment must never be forgotten. Repayment of debt by conversion or redemption does not always mean deflation, provided the operation is effected out of saved profits, via a National Debt Sinking Fund. But in that case it must be assumed that taxes which provide the Sinking Fund are not paid out of existing capital. These taxes should only be taken out of the surplus between national consumption and production. Debt should not be repaid at a greater rate than the national capital grows through saved profits. In other words, as additional volumes of capital come into existence by savings of profits, they themselves replace by live assets the dead "assets" of Government debt, and replace, as new capital, the redeemed and destroyed credit instruments, represented by Government-paper-debt. It might be here remarked that cancellation of debt by Capital Levy would be violent, and, perhaps, rapid deflation on a vast scale, and would cause all the disasters known to result from deflation. The taking of existing capital by taxation for debt extinction instead of debt repayment by taxation of profit savings, is reduction of debt by cancellation, and, consequently, deflation, and deflation in its most harmful form. It is not debt repayment. The burden caused by heavy taxation to meet services of National Debt so far from being lightened by cancellation of debt, as distinguished from repayment, would thus be rendered heavier by the disasters and misery caused by deflation as a result of Capital Levy. Recent experience has proved that deflation throws people out of work. If a Capital Levy, as opposed to gradual repayment of debt out of saved profits, is to be used to cancel debt so as to reduce the burden of National Debt services, it is assumed that the amount of the Capital Levy must be larger than the amount now being raised annually by taxation of profits for debt services. Indeed it is proposed that £3000 millions are to be raised by Capital Levy within 3 years. To cancel National Debt to the amount of £3000 millions in 3 years would mean deflation on the vast scale of £1000 millions repeated annually thrice. Yet we have seen what mischief the disturbance of one period of deflation on a very small scale has done. Until, therefore, the advocates of a Capital Levy can show that deflation in any degree, let alone on so vast a scale as £1000 millions annually for three successive years,

will not throw people out of work and knock the bottom out of the prices of all goods and commodities, no arguments in favour of a Capital Levy are worth consideration. The injury to employment and commerce caused by deflation brought about by a Capital Levy will be far more disastrous than anything caused by the burden of taxation of profits for debt interest and sinking fund. The almost certain effects of a rapid and vast deflation provide an insurmountable obstacle to the arguments of those who would advocate a Capital Levy as a desirable alternative to the debt service policy now in operation.

Question 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?

Reply: Money in the hands of citizens fructifies. It takes risks, and asks for profit as compensation for those risks. Money spread over many such risks makes large profits on average, and becomes a revenue-yielding supply-reservoir, irrigating State needs and social reform. Money taken by the State from that supply-reservoir functions once, and once only, in the hands of the State. It functions in split-up streams as expenditure, and in the process of expenditure by the State it does not fructify in the hands of the State. The benefits conferred by the expenditure of the money by the State are finished with those operations, and usually its force is dissipated as an instrument for money profit. The money in the hands of citizens becomes a supply-reservoir providing recurring benefits by its recurrent fructifications, often in terms of arithmetical progression, and for the ultimate benefit of the revenue and the nation as a tax-yielding fountain.

Question 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?

Reply: Taxation in the form of Income Tax is felt at the end of a period of commerce; it then takes its toll off profits. Rates, on the other hand, form part of production costs at an earlier stage. Heavy taxation impedes extension of business, and hampers increase of production. It also handicaps embarkation in fresh enterprises which need capital. Larger production means less average cost of production. High rates are sooner felt than taxes as an impediment in the export markets. They operate at an earlier stage in relation to the Question No. 5, than do taxes. If taxes add to cost of production they cause restriction of the sale of competitive goods in foreign markets. The profits of a business are therefore smaller. Then, besides smaller profits, high taxation further reduces ultimate profit left in the hands of the trader. He then has little surplus profit with which to extend his enterprises, increase his production, reduce his average cost of production, and compete successfully in foreign markets with world prices. Rates add to production costs while the goods are being produced: taxes on the profits of goods so produced affect production costs of goods produced twelve months later, because taxes keep up costs by preventing reduction of cost being attained by output of increased quantity. If, owing to taxation taking liquid resources from a concern, capital has to be borrowed to finance extensions, if not normal production, then interest adds to the overhead charges on costs of production and hampers sales for export.

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

Reply: If the receipts of industry are taken to pay interest on, or to pay off, National Debt costing the taxpayer 5 per cent., only 5 per cent. is earned for industry by the reduction of debt. If the receipts of industry, except such as are necessary to pay its share of interest on the debt, are left in the hands of industry, the normal average profit earned in industry by those remaining receipts will be more than the 5 per cent. earned for industry by any debt redeemed. The citizen in industry, as taxpayer, will benefit by being allowed to retain and employ his liquid resources because he can earn and provide the State with the 5 per cent. for the purpose of paying the 5 per cent. interest on State debts, and then retain the balance for himself. That balance will add to the capital available for industry, adding by arithmetical progression to the wealth and income of the population. Increased income will reduce the strain on the taxpayer for debt service and will render possible a lower rate of Income Tax: there will be more income on which to assess tax. Industry as a whole, as a holder of debt, benefits also, as shown in answer to Question No. 1. If a National Debt is in existence, subject to reservations contained in other replies herein, the payment by industry of tax for debt interest does industry less injury than a larger tax needed for debt repayment in addition to interest on debt; but if the addition to the tax for interest is small, and it is provided out of saved profits, the injury is negligible.

The answer to Question No. 4 also applies to Question No. 6.

Question 7: What is the effect of Income Tax on companies' undistributed reserves?

Reply: *See* answers to Questions Nos. 4 and 6.

But Income Tax, under the existing principles of Income Tax law, can justly be taken from companies' undistributed reserves if they ultimately become distributed profits, or are not retained for capital purposes. In any event, if reserves, undistributed, add to the capital value and earning power of a concern, the resultant prosperity in the form of dividends is reflected in the ultimate tax revenue and Death Duties.

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

Reply: *See* answers to Questions Nos. 4 and 6.

That public, which is willing to invest in industry, as distinguished from trustee and gilt-edged securities, has not the capital to invest, and industry suffers from higher interest caused by shortage of the supply of capital. Taxation reduces purchasing power. If the power is to be exercised to obtain, or cause to be made, at home or abroad, articles of luxury or non-reproductive use, then not much harm is done to the community by reduction of that power. But if, among other things, the power of purchasing foreign investments and securities is reduced, harm in that respect, without qualification, is done. Remission of taxation which increases spending power of the citizen, for non-essential or non-reproductive objects, can be proved to be unbeneficial by the test of Bastiat's window-pane argument.

Question 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?

Reply: The foreigner does not understand the justice of Income Tax, has psychological objections to it, and even if he does not object to it in principle, fears its variation. If Income Tax does not deter foreigners from investing in this country why did the Treasury, when Britain needed money badly, find it advisable to exempt from Income Tax foreigners who subscribed to the 5 per cent. War Loan. Somerset House is convinced that heavy Income Tax does induce British residents to invest outside this country, notwithstanding foreign taxation, because the revenue authorities have found it necessary to compel British Income Tax-payers to disclose income arising from such investments. The action of Somerset House in

this connection is proof that British investments abroad, to avoid Income Tax here, have reached appreciable dimensions. It is very probable that British traders, with separated foreign branches of their concerns, do leave foreign profits abroad and re-invest them there, and leave the income to accumulate till the owners can bring the money home in the form of untaxable capital, or in such a form as will involve no dishonourable action in relation to British taxation law.

Question 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?

Reply: *See* answer to Question No. 5.

Question 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?

Reply: High taxes, as has been proved by the Excess Profits Duty, tend to extravagance in commerce, and at the expense of the State. The taxpayer is induced to say to himself: "With Income Tax (and Super-tax, if a private person) at a high rate, the State pays a good part of the expenditure chargeable to revenue in an industrial concern." Extravagant repairs and improvements and expenses are paid for and debited against profits, and, therefore, against Income Tax (and, in some cases, Super-tax), if the Income Tax law permits the slightest excuse for such debits. The State then pays a good portion of expenditure of an unnecessary kind—the State loses its taxes and fosters wastefulness in commercial life and administration. Moreover, if a man considers too much of his savings is taken from him by the State, he says to himself, "Eat, drink and be merry—before the Fisc gets the cash." Saving is discouraged. The Russian peasant refused to plough and plant when faced with partial expropriation. Enterprise was deterred.

The injury done to the whole community by discouraging the accumulation of saved profits, or by removing by taxation the funds by which trade is financed and extended, can be shown by the following example. This concrete instance will be admitted, but somehow it is not readily admitted in some quarters if it is adduced as a general principle.

The State owns land on both sides of Regent Street. It is now leasing the shopping sites on condition that firms spend large sums to build fine shops on the sites. The object of the State is that the Regent Street shopping centre shall be so improved as to increase its trading value, and, ultimately, its tax-yielding capacity for the benefit of the whole community. Here is proof that the embarkation of more money in, and the extension of, shopkeeping enterprises by the use of more capital in Regent Street, is a policy which the State regards as likely to benefit the community. How, then, can the policy of discouraging saving for investment, by drawing away, from efficient traders, money by taxation on the existing scale, be regarded as beneficial to the community? Since the absence of saved profits, or the drawing away of money, prevents people from extending their profit-earning industries and enterprises, how is this policy consistent with the theory and policy of the rebuilding of Regent Street, which are that capital is invited by the State to be employed in developing the street that the result may be beneficial to the community? If the theory and policy are sound, as shown by the concrete case of the Department of Woods and Forests in Regent Street, then the policy of preventing capable individuals, by high taxation, from saving, and investing larger portions of their saved earnings in their own industries, is unsound. It follows, therefore, that a policy of high taxation does in the long run defeat the objects for which Income Tax, Super-tax and Death Duties are imposed. What are the objects? They are to obtain increased volumes of wealth from the whole community at recurring intervals, and in such a manner as to ensure that the wealth can be taken repeatedly without drying up its source, so that the source may provide the State with funds from which to provide the increased cost of giving increased social benefits to the citizens.

The threats to private enterprise by certain phases of recent political policy, or legislation, and fears of taxation of a kind considered unfair, frighten people from investing in industrial securities, and drive them into investment in securities at fixed rates of interest. What is the result? Speculative enterprise, opening up new markets, new processes, new discoveries, new ventures, is discouraged. The prizes derived from speculative ventures in some cases in the past have been very great. Similarly, the losses in other cases have also been very great, and it is capable of proof that the average profits derived in the past from speculative ventures at home and abroad, of the description indicated above, have not yielded, on the whole, upon the total sum ventured, more than a moderate return to the original adventurers, when the great losses on some ventures have been set off against the great profits on other ventures. But humanity has benefited by the advances in civilisation resulting from research, inventions, and discoveries, geographical, scientific, agricultural, geological and mechanical. Any threat against, or high taxation upon, risky enterprise, which may deprive speculators of the bait of attractive profits, is performing a disservice to the human race and hindering its advance towards better conditions of life.

Existing taxation affects joint stock companies in this manner. Among the disadvantages of joint stock enterprise is the loss of personal and sympathetic touch between the employer and the employed. Industrial unrest is much less frequent in private firms where the partners live and work with their people, than in concerns where shareholders live at a distance, and probably never see the employees of the concern owned by the shareholders. The loss of personal supervision exercised by partners in private firms over the fortunes and administration of a concern causes reduction of prosperity. There is no doubt that a partner-proprietor whose personal interests are bound up with a firm does better for himself and his workpeople than a director, or managing director in the same firm under limited liability. Death Duties have compelled many private firms to turn themselves into limited liability concerns with outside shareholders, and often outside directors and managers. Against this disadvantage of limited liability in this connection may be put the alleged advantage that concerns working under limited liability can be more closely controlled for taxation purposes by the Revenue authorities. It may, however, be doubted whether such control for taxation purposes is, on the whole, of as much importance to the nation as are the results of the loss of personal supervision of private partners in private firms and the increased proneness to industrial unrest in joint stock concerns as compared with privately owned concerns.

Question 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?

Reply: If the policy of the State constantly taking, and sometimes at early recurring intervals, part of the existing capital of deceased or living estates, be tested by carrying it to its logical conclusion by continuing the process indefinitely, property in the hands of citizens must ultimately succumb: it will be dissipated, and then destroyed in the continually increasing non-productive cost of Government, and expenditure on social reforms. Consequently, the amount of damage caused to existing capital as the result of Death Duties or Income and Super-taxes, is but a question of degree, and if dissipation and destruction of wealth is a disaster, the policy of taking that capital from industry by Death Duties and taxes must be checked before the

point of vital damage is reached. That point is reached if the nation's saved earnings do not equal the capital taken by Death, and other, Duties and taxes. Destruction of capital then takes place. We know that industry is short of *cheap* capital, with which to extend enterprise and employment, and to earn profit-yielding revenue necessary to provide for the industrial equipment on capital account and for the needs and the increasing comforts of an increasing population. Therefore, as Death Duties and other taxes, are drawing existing capital from industry faster than industry can accumulate an equal amount of savings out of earned profits, the point of danger has been reached at which they should be reduced. It can hardly be said with conviction that the whole of the direct taxes are provided by income after making provision for the capital needs of the annual increase of population. If profits are not so reserved the average standard of living must fall.

The dead do not take their capital with them. Except when inherited by wasters and used wastefully, capital, in whatever form, on passing into the hands of heirs, continues as a producer of profit, yielding revenue for the benefit of the nation as a whole. In some cases capital, by stimulating scientific research and discovery, adds to the comforts of life, and in others cheapens the cost of existence, e.g., the sewing machine, and the Ford car, development of wheat supply in Argentina, artificial silk.

Initiative is the mainspring of progress and profitable commerce. If taxation becomes oppressive, or excessive, it has this effect—that the State has stepped in, and, by discouraging initiative, hinders the increase of national wealth. By taking discouragingly large portions of the fruits of private initiative, the State also says that a man may not devote to innocent purposes that which is honestly his own. The oppressive tax action of the State therefore clogs initiative, prevents benefits arising from initiative, and reduces incentives to increase wealth. The citizens then no longer control the State—the Government becomes the master of the citizens instead of being their servant. In a word, the citizen becomes the serf of the Government. This is the reversal of the principles on which the British Constitution is founded.

In so far as Death Duties and similar taxes involve the dissipation or destruction of capital owing to the fact that more capital than has been replaced by saved profits has disappeared over a given recent period in the unreproductive cost of Government and expenditure on social reform, the Death Duties are an injury to the nation. Capital taken by Death Duties can be said to go out of the area producing national income, because that portion of the national income which ought to be kept for the extension of enterprise and employment is diverted from it by means of Death Duties and is dissipated into channels of a non-reproductive kind, through the channel of Government and social reform. This capital is destroyed, in effect, as capital for money-earning purposes.

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

Reply: The benefits to the national revenue arising from the Stamp Duty on cheques are more than swamped by the disadvantages. What are the advantages? The £3 millions derived from the Duty, and the influence the 2d. stamp on cheques has in inducing the public to use small postal orders. If the Stamp Duty on cheques were abolished it is more than probable that an increased use of a cheque currency would take the place of a Treasury note currency, with the result that the public itself would, by its own deposits in the banks, provide its own fiduciary currency in place of Treasury notes. The Stamp Duty on cheques is detrimental to trade, industry and employment to the extent that we have a paper currency (Treasury notes) larger than would be the case were the Stamp Duty on cheques abolished. This currency needs a gold cover, and, perhaps by being divorced from the Bank of England note issue, hinders the return of a free export market in London for gold.

Perhaps the Stamp Duties on issues of capital on the London market drive away foreign borrowers. Whether harm arises in present circumstances from the loss of such business is doubtful. Some of the foreign loans alleged to have been driven away from London by high Stamp Duties were floated in New York. But it is said that New York failed to digest the loans, and that London bought the loans in New York, and brought them to London, at a cheaper rate than that at which they would have been issued in London.

Question 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?

Reply: As the Corporation Profits Tax is to be abolished, this question is not answered.

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

Reply: The tax upon imported commodities, except perhaps necessaries, if similar commodities can be produced in this country at the same price as those imported can be produced, is not borne by the consumer here. But, broadly speaking, taxes on commodities are reflected in the index figure of cost of living. Consequently, higher wages based on index figures throw the burden off one class of consumer on to another class, and on to production generally, with the ultimate result of a vicious circle in wages and cost of production, and all its attendant evils operating on the home and export trade.

Question 16: What is the effect of the Customs and Excise duties on the prices of commodities? How does this affect internal and external trade?

Reply: As Customs duties, with few exceptions, are only charged on commodities which cannot be produced at home, the burden of the duties falls on the consumer and adds to the cost of living. Excise duties also are probably nearly all paid by the consumer. The earning power of the nation is limited by the price at which our goods can be sold in the markets of the world. Higher costs of production at home, arising out of wages-scales based on the cost of living index-figure which reflects the Customs and Excise duties, are a clog on competitive export trade, the backbone of our means of living; higher cost of living adds to the cost of production and acts and reacts on internal and external trade.

Mr. Gladstone's dictum that the best place for the taxpayer's money is in the taxpayer's pocket answers broadly this, as well as other questions in the questionnaire.

General Observations on the National Debt and Taxation.

Nearly half the present taxation arises from the necessity to pay for interest and sinking fund on the National Debt. Taxation can be made lighter by reduction of interest called for by the National Debt. Any breach with the debt-holder caused by action such as forcible reduction of interest, or a Capital Levy, would have these two results, in addition to many others:—

(1) Foreigners would never again invest money in Britain. The position that Britain has hitherto held as the money centre of the world would be lost. It has in the past been of untold benefit to Britain that foreigners have left money here which was and is used for purposes of British commerce at home and abroad.

(2) The next time a national crisis arises in which the State would need large sums of money the British public would refuse to lend to the State the money needed by the State, and money would have to be raised by a forced loan, or taxation at higher rates than industry and commerce could bear and still exist.

Rapid repayment of debt, unless replaced by saved profits, is deflation, and would bring unemployment and disaster. Debt service charges can be reduced without injury to the nation if the un-repaid portion of the debt be converted at the option, and with the consent of the holder, to lower rates of interest. Moreover, lower rates of interest depend upon the value of money being cheap in the market. Cheaper money will result from a more abundant supply of money, and from the feeling of sufficient confidence by the owner of capital to induce him to offer his capital on loan at lower rates than those at present ruling. The greater the confidence investors have in the safety of their capital the lower rates of interest will they be content to take. Our policy, therefore, should be to stimulate enterprise in trade, and thus create additional capital out of saved profits. The policy of the Government should be to give confidence to owners of capital, and to give proof of intention to befriend capital and foster its increase, with the ultimate object of cheapening money so that we can convert the 5 per cent. War Loan to a 4 per cent. basis.

In following out such a policy it should be remembered that any system of degree of taxation which gives rise in the taxpayer's mind to a sense of grievance and of injustice, cannot assist the nation towards financial habilitation. Industrial unrest arising from dissatisfaction with wages and conditions of employment reduces industrial efficiency. In a similar manner, capital unrest arising from taxation which capital regards as unfair reduces still further industrial and commercial efficiency. Industrial and capital disturbances lead to economic dislocation Can that be beneficial? Cold statistics dealing with the National Debt and taxation do not provide a complete measure of the position now to be considered in relation to taxation and service of the National Debt. Sentiment, besides economics, must be given a place in the account. At present the sentiment is that injustice is being done to capital, and to those on whom the burden of direct taxation mainly falls.

It is also questionable whether the policy of the present radius of, or ratio of direct taxation to indirect taxation, is a wise one. It is conceded at once that the broader shoulders must bear the heavier burdens of taxation, but out of the 22½ million voters only 2½ millions are direct taxpayers and they contribute 75 per cent. of the national revenue. It must also be remembered that 2½ million direct taxpayers are also indirect taxpayers, while the 20 million of indirect are not direct taxpayers. The eternally necessary question "What is it going to cost and where is the money to come from?" will seldom be put to themselves by the 20 million out of the 22½ million voters, if the question of cost is not one which visibly and directly touches their own pockets. Does not the absence of the necessity that 20 million voters should put that question to themselves constitute a danger? Does not the present system of taking the bulk of taxation from one-tenth of the electorate constitute the removal of a prudent control of or check on policy leading to expenditure? May not embarkation by the 20 million voters, who are only indirect taxpayers, on policies 75 per cent. of the cost of which falls to be paid by 2½ million voters, lead to unfavourable and even disastrous effects upon those 20 million voters? Is it wise in the interests of the indirect taxpayer to deprive political power, to so great a degree as is at present the case, of the necessity to take account of the financial cost? Since national policy depends for the most part on the question of finance, it would seem that the voters who control policy should be brought face to face with what may be entailed in policy by means of the object lesson of taxation which they may perhaps see and at least feel. Such taxation need not on the whole be greater in aggregate than it is at present, but the form in which it falls upon the 20 million voters should be more obtrusive. It might be said in extension of that theory, that Income Tax could with advantage to good government be imposed upon persons whose incomes are as low as £150 per year, but that an amount of taxation equal to that raised in this manner should be taken off the indirect food taxes so that the taxpayer with an income of £150 per year should not pay a penny more in taxation as a result of the changed method than he does at present.

When one asks oneself whether the policy of imposing Death Duties, followed by heavy Income Tax and Super-taxes:—

(1) has injured or benefited our working people,

(2) brought about a better diffusion of wealth, or

(3) a fall in prices, or in the cost of living,

one is compelled to pause and examine the curve showing the real value of wages from 1834 to 1924. The reward of the worker rose between 1834 and 1900. The rise was more marked in the '70's and '80's. During those years there were no Death Duties, no Super-tax, and Income Tax was very light. From 1900 to 1913 the reward of the worker, that is to say the real value of his wages, showed little advance. It was from 1900 to 1913, and especially from 1906 onwards, that the pressure of direct taxation in the form of Death Duties and Super-tax began to make itself felt. Social Reform, free education, Old Age Pensions, and various forms of insurance were paid for by the taxpayer. Capital became scarcer and dearer for industry, and it became more difficult to equip industrially, and take care of an annual increase of pre-war population, an increase in the United Kingdom, of, say, 400,000 a year. This annual (pre-war) increase of 400,000 souls needs an addition to the capital of the nation of, perhaps, £400 for each person, to start these in life, provide these with industrial tools, and material, viz., roughly £160 millions sterling annually. Is this sum being placed at the service of the population as it increases? Where is it coming from? Has the increasing drain by direct taxation not operated disadvantageously in relation to the reward of the worker expressed in terms of the real value of wages, and in relation to the growing capital needs of the annual increase of population? The evidence with which we are confronted seems to show that the increased taxation, so far from easing the conditions of life for our working people, has rendered them harder. Is not the total amount raised in recent years by direct taxation therefore to blame in some degree? It must also be borne in mind that there is no proof that direct taxation at present rates is entirely drawn from income. It is probable that during the last few years a portion of the direct taxation has been drawn from capital. If such should prove to be the case we may expect to experience further economic mischief in the near future. (See Reply to Question No. 5). Moreover, the additional annual capital needed to finance and equip the annual increase of population can only be obtained by leaving a considerable part of the increased savings from earnings in the hands of the citizens, if a lowering of the standard of living is to be avoided.

All these points need to be cleared up if an inquiry dealing with National Debt and Taxation is to lead to any useful conclusion, and also what is the amount of direct taxation that the nation can stand without injurious re-action, and similarly what the ratio ought to be, of direct or indirect taxation.

There must also be considerable food for thought as to whether the greatly increased expenditure on education, itself a burden on the ratepayer and taxpayer, has shown the results hoped for, and, indeed, intended. Alongside of increased expenditure on education there has been an increase in the expenditure for Poor Law Relief. Poor Law Relief has increased fourfold since 1901, yet population has only increased one-fifth in the same time. Poor Law Relief has increased 27 millions per annum between 1911 and 1922, notwithstanding Old Age Pensions costing 19½ millions a year. Is not there here something to cause the nation to ask whether its theories of social betterment have been justified by results? It would appear that larger expenditure on social reforms provided by heavier taxation, in which the proportions are 63 per cent. direct taxation as against 37 per cent. indirect, have not benefited the nation in general, or working people in particular.

Expenditure in Millions.

—	Education.	Poor Relief.	Old Age Pensions.	Health Insurance.	Unemployment Insurance.	War Pensions.
	£	£	£	£	£	£
1901 ...	17	11½	nil	nil	nil	nil
1911 ...	29	15	6½	nil	nil	nil
1922 ...	80	42½	19½	26	62	80

(Some of the above figures are for England and Wales only.)

(*Hansard*, May 7th, 1924, pp. 552-3.)

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968. *Chairman*: You have submitted a paper; would you like to expand your observations?—In the first place, I would like to say that I have no contact whatever, and have never had any contact, with finance. My knowledge, little or big, such as it may be, is entirely due to the fact that I was born to the sound of a shoemaker's hammer; I have been out on the road with samples; I have helped to manage a great business, and, for more than 20 years, in another business which I have been connected with, almost entirely an export business, I have seen 600 letters a day; I have felt the pinch of business troubles, and out of that sensation, these remarks arise. Now the first thing I would like to say is this. I am often very vexed to hear bill brokers and bankers and theorists give certain opinions upon trade economics and upon commercial matters. I hear them in the House of Commons. I cannot understand their point of view; the only excuse sometimes for their point of view is, I suppose, that they have been taught to ride by looking at the skeleton of a horse; they have never been in manufacturing trade and their knowledge must be, to some extent, second-hand. Even bankers—and I say this, although there are some bankers here—are lenders; they are not in the position that we are, of representing borrowers who have to break their heads at night to know how they can get a couple of thousand pounds for the next morning's wages. Then we may have a bill broker who sometimes expresses himself, either in the House of Commons or elsewhere. Now, 90 days to a bill broker is a lifetime, 91 days is an eternity. When you talk about a year to bill brokers, they fall down with a paralytic stroke. But we who are in industrial trade have to look forward, or I had to while I was in trade, for a year or two years or three years. In dealing with how taxation may or may not hurt me, I have not to think of what 90 days means, or what 91 days means, or what a year means; I have to think what will happen to me at the end of two or three years. Now, there is no doubt that Death Duties have injured me in my particular case, extremely hardly; Income Tax and Super-tax not quite so much, but Death Duties have almost paralysed the business which I have in mind. Income Tax and Super-tax, I do not grumble at so much. I say that as a manufacturer; but Death Duties paralyse us. Income Tax and Super-tax hurt me and prevent my extension of business; they prevent me extending my business and prevent me getting down my costs of production, because without liquid capital I cannot extend and make more goods and consequently cheaper goods and I cannot compete so well in the foreign markets. But the Death Duties, at the present rate, if I am an enterprising man and keep all my irons in my own business, paralyse my business and my son's activities after me. That is the line I take. On the first question of how the National Debt affects the supply of credit and the supply of permanent capital for trade and industry, I say the already existing National Debt and the Floating Debt, if held within the United Kingdom, are useful instruments of credit, and increase the previously existing supply of capital for trade and industry. Paradoxically, the existing internal British debt is an asset. The Government has created a debt instrument which I hold and which I can borrow upon, and if you reduce those instruments except out of savings you reduce the number of instruments of credit or capital which trade can use. I assume the Committee have read the written evidence which I have submitted.

969. Yes, we have had it before us?—Then there is no need for me to read it again. I want to make this point in relation to that. If the Government takes money from me out of industry to pay off debt, it takes and destroys a credit instrument of Government security, and the tax money does not easily go back in full or any great degree into trade. In the first place, we know from "The Economist," and I must accept it, that three-quarters of National Debt securities are held by persons other than private persons, such as Government Departments, the great insurance companies and banks, and foreigners, who do not invest in trade. The result is that only one-quarter of the debt is held by private persons, and if all the money that was taken from trade by taxation for debt redemption went back into investments only one-quarter of the tax would go back into trade. What is the process? If the Government pays off debt and forces the owner of debt which has been redeemed to re-invest his money, that owner does not re-invest it all in industry. He takes fixed interest-bearing securities, sometimes of a trustee nature, sometimes of a Colonial nature, sometimes Foreign Government Bonds. He puts certainly not more than one-quarter of the cash received for debt repayment, into trade investments. You have seen an instance of that in the Amsterdam Loan. I am of opinion, as I have said in the House of Commons several times, that we have to revise our views about all foreign or Colonial loans going out of this country in the form of goods. I do not believe it. I believe in many cases they do, but that view that exported goods represent whatever Colonial or foreign loans we may re-invest this debt-repaid money in, has to be revised. I therefore make this point; that taking money by taxation from industry and paying off debt does not allow that money to go back into industry; and if all of it went back into investments only a quarter of the total debt redeemed would go back directly into industry. If you took the whole of the £7,500,000,000 in taxation from the country and paid off the whole of that debt, only one-quarter of it would be taken from private hands, and only one-quarter could possibly go back directly into trading hands. I now go on to say that I do not know whether part of the amount you have taken from industry by

taxation for Sinking Fund purposes and debt services, has not been taken from income. I give you this as an axiom:—You must not take from the taxpayer for National Debt repayment an amount which is not represented by saved earnings. By saved earnings I mean the surplus of national production over consumption, after making capital provision for the increased needs of the annual increase of population. If you trench upon capital, then you are playing havoc. I will give you an instance of what I mean. Suppose I am a shoe-shopkeeper in Norwich, and I have £1,000 worth of stock and I have borrowed £500 on mortgage of my property, for which I am paying interest upon £500 at 5 per cent. That money enables me to carry on my business—the £1,000 which is my own and the £500 of the man who lent it to me. I live on my earnings with my wife and children, and at the end of the year I have saved £100. Then the lender comes along and says: "You must pay me back my £500." "Well," I say, "I have only £100 which is my saved earnings. If I give you that £100 I have then repaid you that sum out of my saved earnings and my capital is intact; but if you ask me to pay back the whole £500, I have saved £100 which I can give you, and the other £400 comes out of my working capital; and the consequence is that I have now only got £600 to work with." Is that healthy? Now we do not know yet—the House of Commons and the Treasury do not know yet—whether in taking the money for Sinking Fund you are not taking something out of the capital of the nation, and if you are, you are doing a great mischief, even though the tax is returned for re-investment. Now the next point is: "How does National Debt affect the terms on which capital can be raised?" I say that the lower average rate of interest on long-dated National Debt, the better are the terms on which industrial capital can be borrowed. I put this out at some length in my evidence. Do you wish me to read it?

970. No. You might expand it as you go along; we have read your paper but you might mention any point that strikes you?—"How does National Debt affect the terms on which capital can be raised?" The National Debt and trustee securities of course set the pace at which other securities can be floated. If Government stocks are high in capital value the interest yield is lowered and that will dominate the cost of industrial capital. Among the causes of high rate of interest is not only a demand for capital larger than the supply can meet, but also the fear that lenders have for the safety of their capital; also the fear of political ill-treatment in trade makes interest high for trade. I am going to say two things about that which are not quite germane to your inquiry, but I would like to say them. People are not anxious to put money into trade, and have not been anxious to put money into trade for the last 25 years. I myself got out of trade in 1912. I was Lord Mayor of my own City, and I am not conscious of ever having done a man an injury intentionally. I dislike the idea of working men regarding their employers as slave drivers and blood-suckers, and the attacks by labour agitators. I said: "Take my trade and do it yourselves; I would rather go with less." That feeling has caused people to keep their money out of trade, and it operates in answer to this question. I do not put any money back into trade; I now never take an industrial security; 80 per cent. of all I have is in British trustee securities. Why? I am disheartened by these constant attacks made upon us and the abuse which we employers receive. And so it goes on through the country. That was one of the reasons of a high cost of capital, we keep our savings away from trade. I cannot think that that is good for trade; and when you ask me whether the National Debt affects the cost of capital to trade, I go further and say that there is another cause, that is to say, the abuse of capitalists and the fear of political ill-treatment of capital, which make people keep out of the industrial market. There is another thing which has done an immense deal of harm; it has nothing to do with this inquiry, but before a Committee of this kind I should like to give utterance to it. I suppose I may have no fear of saying anything that may be libellous; I can say what I like, may I not?

971. I do not know that you should make statements here of that kind. You will have to be guarded in what you say?—I will be careful. I will say this. It is to the benefit of the country to get cheap money as abundantly as you can into trade—to induce people to lend with full confidence that they will not be robbed. I think it is a grave blot upon our commercial system that there should be such a series of losses of capital as those disclosed after the promotion of certain companies in recent years. I am asked whether the National Debt affects the terms on which capital can be raised. I say such things also have an effect upon the investors' mind, by shaking confidence. I am asked whether the National Debt affects the terms on which capital can be raised. I say there are other causes which must not be lost sight of: the fear which anti-capital legislation has engendered in the minds of investors, industrial unrest, threat of nationalisation, and these company revelations. Over and over again among the people with whom I live, people express a wish to get out of trade and take their money out and put it into fixed-interest bearing, not trade, securities. That restricts employment and does not provide enough employment for the growing population. Those are points which have to be taken very seriously into consideration. Income Tax and other taxes for service of National Debt diminish the supply of capital in the hands of industry, and of investors in industry. People say that Income Tax has no material effect upon industry and costs of production. They are not quite right in saying so. A flat tax which goes on to production in the form of rates does hurt production at the beginning, but Income Tax is a "sooner or later" type of tax and gives rise to costs which cannot be traced home or attributed to definite units in the basic or subsidiary production. Depend upon it, although people say Income Tax is not passed on to the consumer, certainly a high Income Tax sooner or later indirectly does put up the price, or rather I will say, does have an effect upon cost of production. I will put it in this way. Suppose I make £100,000 worth of goods and I make £15,000 profit. I live upon some of it and I pay Income Tax. Now business must go forward or go backward; it cannot stand still. You must extend, you must repair, you must experiment, you must research, and reduce costs by larger output, and you want as much capital as you can get into your business to help you to do that—the amount of surplus over your expenditure for your housekeeping. If taxation takes most of it away you cannot make these improvements. All these extensions, improvements and experiments tend to increase production, and, if you have increased production and extended production, you will have lower costs. If you do not get those lower costs you will not get so much profit as last year. Your sales will not be so great. Other people come in; other countries are competing with you always, and as your sales and profits do not increase, so the revenue will not be benefited. So sooner or later, depend upon it, Income Tax and Super-tax, although not felt at the beginning, do come into the figures and do hamper trade. It is only a question of degree. If it is a small tax it does not very much matter, but when you have an Income Tax and Super-tax in a private business like our own, where we were paying 8s. in the £ for the two taxes, it is of great importance in hampering our future. Then I say this: I lay down this *obiter dictum*. The degree of driving-force-of-capital upon industry is governed by the weight of its aggregate volume. If that volume is tapped by various taxes, then, even though the receipts from taxes are at once disbursed by the Treasury, its driving force is weakened and perhaps dissipated. I have made that point before. I think if we have a large stream of capital forcing its way to the light to get

employed, the bigger the capital that is forcing its way forward, the more likely it is to let itself go into loans for a small rate of interest. The bigger the volume of capital that is forcing its way to market in a big stream, the more likely industry is to be able to get it cheaply. If it is taken out in trickles, industry cannot get it; there is no big supply; and the great force of a large amount of cheap capital induces men to venture. If there is a lot of cheap capital asking to be hired, people will venture with it. Human advancement has arisen out of discovery, research and speculative venture. Taxation beyond a certain rate, therefore, reduces the force in capital that stimulates trade; the force that compels people to hire it, namely, the force of plentifulness and cheapness. Then the next question is: "To what extent is it desirable to pursue a policy of debt repayment during a period of trade depression?" I say, repay within limits always and all the time. It inspires confidence. But the reservation I make now is that you must say what the limits are within which you mean to repay. You repaid last year £88,000,000. Now I will go back a bit. Take pre-war figures. I say that there is an increase of population every year of 400,000 souls. I think that for every additional soul that comes into existence, whether it be a child who is going to live one day or two days, or a child who lives to be a man of 19 or 20 or 80 (the 400,000 souls that come into existence all take their place), you want £400 for each one of those souls; for the baby you must have increased capital to house and nourish it, to educate it, to clothe it, to teach it, and then eventually to equip it with machinery, buildings and material to help it to earn its living. Therefore I am able to say: 400,000 times £400, that is £160,000,000, is required. Otherwise, if the amount of wealth which exists already in the country, is not increased by that £160,000,000 annually, it means that you are drawing upon the existing population's existing capital—a certain proportion from each one of, say, 40,000,000 souls already in these islands—to find the capital to help forward in life the 400,000 added souls. If I have a wife and three children, we are five of us, and if I have £10,000 suppose, each one of us five enjoys the benefit of one of those five portions of £2,000. Suppose my wife gives me another child, there are then six of us, and I have to divide my £10,000 by six, I have lowered the standard of life of each one of us five who were here before the other child came. I must provide an additional £2,000 of capital or our previous standard of £2,000 is lowered. So it is with the country. You put 400,000 people every year into life in this country, and unless you have annually saved earnings to provide them with capital to the tune of not less than £160,000,000, you have reduced the standard of life of every one of the persons in this country before those other 400,000 were born. Therefore I say you must have an additional £160,000,000. *Sans phrase*, that must be there. Then you have taken £88,000,000 for Sinking Fund—£40,000,000 by statute and £48,000,000 surplus. With the £160,000,000, that is £248,000,000. I do not believe we had saved earnings last year totalling £248,000,000. We may have had £200,000,000; we may have had £247,000,000; I do not know; but I do not know that we had £248,000,000. Therefore, by the amount we had less than the £248,000,000 that you had to find—those two sums of £160,000,000 and £88,000,000—you have drawn on capital, and if you have drawn on capital you have reduced the possible earning power of the country. That is what I mean when I say that a policy of debt repayment should be within limitations, and we must ascertain what we save annually out of earnings at once. The reason why debt should be repaid is this. In the first place, no country and no nation and no man was ever ruined by paying its or his debts. The next thing is this. We want to reduce the dead weight of interest charge and the best way to do that honestly is to reduce the interest by consent and the best way to reduce the interest is to drive people out of Treasury Bills by reducing the amount of Treasury Bills, after you have taken care of other maturities which are due, and to drive them into taking long-dated paper; and if you drive them into taking long-dated paper, it will put up the capital price of the long-dated paper, and if you drive up the price of the long-dated paper it will make it more easy to reduce the rate of interest by conversion, and if you reduce the rate of interest by conversion with the assent of the borrower, you will very materially lessen the dead weight of debt on the shoulders of the population. But I think it is necessary for this Committee, if I may say so, to consider what is the healthy amount that you can take for debt repayment without injuring capital. There is another reason why you should keep your debt repayment going. It keeps up all other securities. It keeps up credit. It keeps up the price of everything. It keeps up confidence, it keeps up the confidence of other countries in you. There is nothing so beneficial to a company as a small per cent. creeping sinking fund over its debenture stock. If you keep reducing your debenture stock, there is always a market for a certain amount of your debenture stock and it strengthens the company in the eyes of the people who see that there is a sinking fund. But I do not think we have yet given sufficient thought to another theory. I would rather pay the present amount of tax and have twice my present income to pay it with, than have the same old income and have half the tax to pay. Mr. Lees-Smith took me up one day in the House of Commons in debate, and he said we did not pay off the Napoleonic debt. I think it is quite true; but we replaced that water by live assets. You have got in the national balance sheet £7,000,000,000 or £8,000,000,000 as water; the only asset we got for that was national safety, our lives and honour. Now we propose to pay that off out of profits, or perhaps out of capital. I say this:—After the Napoleonic War we never paid the debt off, but we increased our earning power here by not taxing the country too heavily, and the earning power gave us a considerable income, so that eventually the weight of interest payable on the National Debt was, say, halved to us, because we had at least twice the income to pay it with. Although I am an unrepentant debt repayer, I am not quite certain whether we are right in not trying, to use the jargon expression—in not trying "to squeeze out the water" by introducing assets into our earning power. If so, we shall have to reverse our debt-repayment policy a little. Instead of finding so much money to pay off debt, take less money for paying off debt and leave more in the hands of myself and other people, and let us go on with our business, and we shall increase our income. If our income increases, the poundage of Income Tax and other taxes will go down. Why? Because there will be a larger area of profit over which to take tax. That is what happened after the Napoleonic Wars. The increased income-producing power of the nation from 1825 onwards was so great that the £30,000,000 for debt service that we had to pay on £800,000,000 eventually became negligible in its burden. We got over our National Debt of the Napoleonic Wars very much more easily by earning wealth and using our increased earnings to pay the interest, than we should have done had large sums of capital or savings been taken away from us to repay the debt. The money being left in our hands squeezed out the water. The item goodwill and national safety which we bought with £7,500,000,000 of capital in our balance sheet, we can squeeze out; or rather, I submit that it ought to be considered whether we can squeeze out that water by replacing it by live assets, if we adopt the policy of leaving more money with industry, which would earn wealth to produce income and revenue which would pay the tax for debt more easily. I have tried in my evidence to explain and define the words "debt repayment." I regard a Capital Levy as debt cancellation, and not debt repayment. There is a great deal of difference between debt repayment and debt cancellation. The taking of existing capital by taxation for debt extinction, instead of debt repayment by taxation of

profit, is reduction of debt by cancellation with consequent deflation. There are two other words which people make a very jargon-like use of. They talk about stabilisation when they mean fixity and also when they mean movement between small limits. When I am talking about stabilisation, it only means a thing that is fixed. If I want this desk to be stable, I do not want something that will jump about within limits; I want something fixed. But when people talk about currency, they make use of the word "stabilisation" in a very indefinite way and they mean "movement within limits." Similarly the word "deflation" is used in a very indefinite way. What do people mean by it? Do they mean deflation of prices or deflation of credit; do they differentiate between deflation of prices and deflation of credit? When people say that deflation in 1920 and 1921 brought great disaster: it did, but what do they mean, deflation of prices or deflation of credit; and which came first? We think deflation of prices came first. Others may say deflation of credit came first, but I submit as part of my evidence, that we have to make up our minds what economists and business men mean when they talk about deflation. They will have to define it more accurately; I am in a fog about their meaning. When I talk about deflation, I differentiate in my own mind between deflation of prices and deflation of credit. What I am certain of is, however, that if you take £1,000,000,000 by Capital Levy, annually for three years, that is £3,000,000,000, to cancel debt that means deflation at its worst and in both forms. It will bring about deflation of price and deflation of credit; it will smash the bottom out of the value of every shoe or machine in every factory; it will smash the bottom out of every stock you have on the Stock Exchange; it will play old gooseberry with the credit that every man has with his fellow, and has at his bank; it will make him throw goods on the market at any price, and it will knock the bottom out of employment. Deflation of that kind will end as I told the Cunliffe Committee. I said: If you deflate at anything like a rapid rate, you will have bloodshed and riot and misery in England because you will throw men out of employment. Therefore, unless those persons who advocate a Capital Levy as a means of cancellation of debt—not repayment, but cancellation—mark the distinction please—can get over this fence, and show that such a reduction of debt as £1,000,000,000 a year for three years is not deflation, then I think it is no good abusing our patience by asking us to discuss the Capital Levy. That fence has to be got over first, the fence of the effect of deflation. They may argue that it is not deflation either of price or of credit, or of both; I say it is both, and rapid. It does not matter which comes first. They have to show that a Capital Levy of £1,000,000,000 a year for three years is not deflation of price and credit, and previous experience has shown that that deflation hurts the very people we want to help, that is, the poor people. Unless the Capital Levy advocates can prove that that assertion which I make is untrue, then I say I am not going to waste my breath or my time in discussing the matter. If they cannot get over that deflation fence, and I say they cannot, then I say that Capital Levy is not a proposal that we need listen to unless we are willing to rush headlong to ruin. The next question that is put is: "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?" May I go back to my earlier statement. If you take money from trade and pay off debt, three-quarters of the recipients of that money which is received for the repayment of debt are not people who are likely to put the money back into trade. You know that "The Economist" has shown how the holding of the debt is distributed. The money will not go back directly into trade in any appreciable volume. Therefore a high income taxation necessitated by the debt does involve the withdrawal of income needed for trade capital. The next question is: "How far does the burden of taxation fall upon the business itself and hamper its operation?" I have explained that taxation in the form of Income Tax is a payment at the end of a period, and it then takes toll off profits. I tried then to differentiate on that question between rates and taxes. People say that Income Taxes are not felt but that rates are always felt because they are a flat tax which comes on in any case, while Income Tax is only put on if there is a profit. But you cannot work a business unless there is a profit; you cannot go on long at that game. Therefore you must presuppose that every live business will have, over a series of years, a profit, and therefore there must be Income Tax. Then you ask: "How far can the receipts of industry as holder in the debt be set against the tax paid by industry for its service?" I sum that up very quickly. If you take £100 away from me in taxation it will save me as a taxpayer my share of £5, the 5 per cent. on £100 of National Debt. If you leave me that £100 I will earn more like £10. Then I can pay my 5 per cent. for the interest and put £5 in my pocket and employ an additional man to work my increased capital. That is my answer to that question. You get back to Mr. Gladstone's old dictum: The most profitable place for the taxpayer's money is in the taxpayer's pocket; it will earn more money there for the State than the State can earn with it for itself. Then you ask: "What is the effect of Income Tax on companies' undistributed reserves?" I do not know whether my friend Sir Arthur Balfour will agree with me, but I say this. I do not see why companies' undistributed reserves should be taxed. I cannot see, in justice, why they should be taxed; I say that undistributed reserves should not be subject to tax. Income Tax, under the existing principles of Income Tax law, can quite well be taken from companies' undistributed untaxed reserves if they ultimately become distributed profits, or are not retained for capital purposes. If there is any nonsense by companies holding back money saying they are going to put it to reserve and then afterwards distributing it in the form of bonus, I say that is not straightforward and it should be taxed; but if profits are really kept back for expanding the business, I say I do not think they should be taxed. If the money is kept in the business and it adds to capital value, the Fisc sooner or later gets something of it arising out of the increased capital value of the business, and out of the increased dividend yielding powers, and then the Death Duties. So the revenue is not harmed if the undistributed untaxed reserve money is left to work in the business and is really used for capital purposes. Then it should not be taxed. I would even go so far as to apply retrospective legislation if unfair advantage is taken, and say, "If you do take that untaxed money out eventually and use it for distribution you must pay tax upon it at the same rate as the rate of the year in which it was made."

972. *Sir Arthur Balfour*: You are referring entirely, I take it, to Income Tax for the moment?—Yes.

973. As a matter of fact any profits of the year are taxed whether put into reserve or not?—Yes. The effect of Income Tax on undistributed reserves you asked me.

974. That is the same money. The reserves can only come from existing profits?—Yes.

975. *Sir Josiah Stamp*: The existing state of affairs is all right; you say they should not alter it?—I say they should alter it, if reserves are taxed as profits.

976. You spoke of distribution of bonus shares. You say in that case they ought to be chargeable?—I say if you have any jiggery-pokery, the trying to give capitalised untaxed benefits to shareholders or to an owner, in order to dodge the revenue, I am not in favour of dodging the revenue. You should pay

your tax upon what you do make and distribute but you ought not to be allowed to wrap up your distributed profits in such a wording as to allow you to escape the tax.

977. Would you tell us in what way distributing bonus shares takes money out of a business?—Capitalising and distributing reserve.

978. But you put money into machinery, and that is represented amongst your assets?—You put money into a machine.

979. That is on your assets side. Then on the other side of your accounts you have share capital and reserve, and you suddenly decide to turn the reserve into share capital and give people more shares. How do you rob the business of any capital?—You might give them a preferred stock or a debenture, which would make a further charge upon the business, which must be paid, which otherwise would not be paid unless you had given the bonus surplus.

980. You mean you increase your dividend charges?—You increase the right of the proprietor to get income.

981. That does not take the actual money out of the business; it only takes its future yield out?—It is capitalising the future yield.

982. Not necessarily, because you might have paid out exactly the same amount on the old amount of ordinary shares on a dividend of 15 per cent. You now capitalise your reserve and you pay out the same absolute sum in a dividend of 10 per cent.?—Is not that broad principle covered by Section 21 of the Finance Act, 1922? In a small company where you keep a certain amount back in order not to pay Super-tax.

983. *Sir Josiah Stamp*: That is another problem. *Sir Arthur Balfour*: That is why I raised the question whether you were referring only to Income Tax. As I understand, at the present time all the profits you make in one year, whether you put them to reserve or whether you do anything else you like with them, pay Income Tax?—That is so.

984. That being the case, when they are once in your reserve marked "Income Tax paid," you can do what you like with them?—We want to alter that law, and I say we should not tax profits reserved for capital purposes.

The next question is: "What is the effect of the existing taxes on the supply of capital from the public, and on total purchasing power?" You must define what you mean by total purchasing power. That public, which is willing to invest in industry as distinguished from trustee and gilt-edged securities, has not the capital to invest, and industry normally suffers from higher interest caused by shortage of the supply of capital. Taxation reduces purchasing power. If the power is to be exercised to obtain, or cause to be made, at home or abroad, articles of luxury or of non-reproductive use, then not much harm is done to the community by reduction of that power. But if, among other things, the power of purchasing foreign investments and securities is reduced, harm in that respect, without qualification, is done. Remission of taxation, which increases the spending power of the citizen, for non-essential or non-reproductive objects, can be proved to be unbeneficial by the test of Bastiat's window-pane argument. If you allow a man to have money which is not taken from him by taxation, and he is able to drink six more cups of tea a day than he has been accustomed to drink, that is unnecessary and unproductive expenditure, and although you have given him the benefit of reduction in taxation which permitted that, you have done no good to him or to the State, of which he is a part. Therefore it is necessary for us, when we talk about remission of taxation, as Mr. Snowden did the other day, stimulating trade and industry, to make up our mind what trade and industry we want to stimulate. If you remit taxation so that a man can buy six more cricket balls and smash six windows, you will certainly stimulate the production of cricket balls and the trade of the glazier, but that will not add to the welfare of the State, although you have added to spending and purchasing power. Then Question 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?" The foreigner, I think, does not understand the justice of Income Tax. In any case he fears the variation of it, and there is no need for me to give a reply to that. We do know that English people do invest outside this country, because Somerset House calls for a return; if the thing was inappreciable Somerset House would not call for a return. When the tax here becomes so heavy as to be oppressive and is looked upon as unjust, firms with separated departments of their business in other countries will allow their money abroad to accumulate and will buy capital assets with it and wait till it is within their power honourably to bring home their profits some years hence in the form of capital so that they do nothing dishonourable against the Fisc, and bring back their money in such a way as to avoid Income Tax. I cannot think there can be any question about whether Income Tax does induce British residents to invest outside the country. I think it goes without saying that they do so.

985. *Sir Josiah Stamp*: Do you mind repeating your answer to the question about leaving money abroad. I am not quite sure we caught it?—Supposing I have a concern called the A. B. C. concern which is in Chili. I have no shares at all, it is not under limited liability. The business makes money out there, and I do not bring anything home. There is no shareholding, but I have an interest in it. I do not know whether you are compelled to disclose the ownership, but I dare say people who dodge Income Tax do fail to disclose it, and I do not know even if they are asked to disclose anything they do not bring home.

986. Yes, by the Act of 1914, all unremitted income?—They may have some method of concealing their profits and not remitting. In a Chilian shop owned by a British subject here—I will take that as a broad instance—they may say that there are no profits; they may say they will wipe off the cost of the building in so many years, and therefore there are no profits in that business; they write down the buildings because they are frightened of an earthquake.

987. Are they in fact doing that to your knowledge?—I cannot tell you; I think very likely. I know of no case.

988. *Sir William McLintock*: The shareholders in this company are getting no dividend?—It is not a company at all that we are supposing. Suppose I am a shoe manufacturer here and say I will start a retail shop in Chili, a private firm to sell my goods in Chili. You may depend on it that lawyers and accountants will always drive a coach and horses through any law.

989. Who is instigating the lawyers and accountants to drive the coach and horses?—Those taxpayers who feel they are being unduly squeezed.

990. *Sir Josiah Stamp*: You are talking about a private firm in England running a branch in Chili and you say they will be doing things in Chili to prevent bringing the money home, in order not to pay tax on it?—They may say: "We will eventually sell the property for so many thousand pounds out there." They may then buy with the money Chilian bonds or American bonds, and then ship home the bonds. It is true the Fisc will not ultimately lose, because it will get the tax on the interest of the bonds into which the Chili profits went as capital.

991. Does it lose in that way?—It does on the profit which became capital in bonds.

992. Have you evidence of it?—No, I have not, but if I were an accountant I should at once feel that there would be a way of doing it. But I know of no case.

993. *Sir Arthur Balfour*: What you really say is that the higher the taxation, the more inducement there is for trying to escape by some means or other?

—Yes. When people feel they are unfairly squeezed, they say the Fisc does not come into Court with clean hands.

994. *Sir Josiah Stamp*: Do you think that is the most easy way to do it, with a foreign property?—I have not considered the answer to that, but I should think it is very probable.

995. If a man is making up the accounts of his business, how can he deal differently with it because the matter happens to be in Chili instead of at home?—He need not be in business. Suppose a friend of mine is in business there, and I lend him £10,000 and I trust him. I leave the money there. I could make a full disclosure to the Revenue, and I do not think the Revenue could rope me in. I say: "There is the money there. I have left it with him for 20 or 25 years."

996. *Sir William McLintock*: You do not suggest that it is anything but a very isolated thing, do you?—If you want to take a thing to its logical conclusion you must take it to the last step. It may be an isolated case or it may not, but you may depend on it that this income taxation, heavy as it is at home, is driving people to look, like rats, at every hole into which they can bolt. That is the penalty the Fisc has to pay for the legislature putting too heavy tax upon profits.

997. Will that extend to going to all the trouble of setting up a trade abroad and carrying it on for a number of years without bringing the profits home?—No, I do not say that. But lots of firms have business branches abroad. I do not think they open intentionally to dodge the Revenue, but if they do business abroad they can use those ways to dodge the Revenue, and besides, men take drastic steps if they are convinced they are being unjustly heavily taxed.

998. *Sir Josiah Stamp*: What difference does it make whether it is a case out in Chili, or a London house with a branch in Scotland?—Suppose I have a son, and I say: "Here is £10,000. Go out to Chili and start a shoe shop there; I shall not bring home any profit." He makes money, and he takes enough for his wages to live upon. He writes down the cost of the building so that no profit is shown. He goes on doing that. My profits, if they be profits to myself, are secretly in my mind accumulating in the form of the building being written down. Suddenly he gives up, and he sells something of a capital nature, my share of the building. He turns that into cash, and as the result of the sale of the building he sends a draft home on the Anglo-South American Bank of £10,000. I show it to the Fisc; I say: "Here is £10,000, the result of my son having sold my building for £10,000. Now do your worst."

999. *Sir Josiah Stamp*: Supposing the Fisc asked you, and you told them that the business is there with your money in it, and they asked you for accounts?—I can truthfully say I have none. I can truthfully say I leave the conduct of the business to my son, and let him do as he likes.

1000. You think the Fisc will leave it at that, do you?—If my son is domiciled out there I cannot see how they can go any further.

1001. What I would ask is, do you know as a fact that this sort of thing is happening?—No; I know of no case. But you asked me if our taxes induced a British resident to invest abroad.

1002. Because I should be quite happy to handle the matter from the point of view of the Revenue?—Then Question 10: "Does Income Tax enter into prices, and, if so, how?" I have answered that on Question No. 5. Then Question 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?" I think they do. When we had the Excess Profits Duty, I suppose the Revenue people will tell us that many businesses indulged in extravagant expenses, because part of that money was paid by the State. Similarly, if you have high Income Tax, and, if it is a private concern, Super-tax. Suppose my own income and Super-tax in my business was 8s. in the £. I then should not care whether I spent a little more in expenses and went into a better hotel when out on business. I should say 8s. in the £ of this hotel bill will be paid by the Revenue. If I economised a sovereign, 8s. would go in taxes. Therefore high taxation does conduce to slack and expensive administration, and to that extent is not really good for business. If a man considers too much of his profits are taken from him by the State, he simply says, as they did in Russia: "I shall not plough or plant for the State to take most of my labour's product."

1003. *Mr. Hichens*: Have you any instance in your mind of a business which is extravagant merely because it is taxed—because I have never heard of one?—You only needed to go into the Royal Automobile Club during the War and you could see what the Excess Profits Duty was doing.

1004. During the War profits were abnormal, but your suggestion, as I understand, is that people are more extravagant because they are disgorging some of their money, than they would be if they disgorged nothing. I cannot see any justification for that?—I think it is human for a man to say: "If I am making £10,000 a year and I am going to pay 5s. and 3s. Income and Super-tax, that is 8s., I will be a little more extravagant in my business expenses than I would be, because, after all, of every sovereign I get, 8s. of it will be taken away from me. It is disheartening to save £1 and have half taxed away now.

1005. *Sir Josiah Stamp*: We have had evidence before us that the effect is the reverse: that the man is so keen on maintaining a certain standard of income that he will be more careful. He will say: "I must do all I can to economise and work hard to keep up my old standard, otherwise I shall have to move out of my house and do all sorts of unpleasant things"?—It is a question of individual psychology, but I should think in many cases it would operate to make a man careless in his business expenditure.

1006. *Chairman*: That is just your opinion?—Yes, that is my opinion.

1007. *Sir Arthur Balfour*: What you are basing it on surely is the Munitions Levy. I think it had some justification in the Munitions Levy. That is perhaps what you are referring to. There is no doubt that in the Munitions Levy, where they took the whole of the profits over a certain standard, that did tend to create extravagance?—Yes. You asked me what I think these taxes have done with regard to joint stock companies. As I have said before, I attach much more weight to the injurious effect of Death Duties than I do to Income Tax and Super-tax. There is no doubt that Death Duties force men to take refuge in joint stock organisation, because they have to find Death Duties and want to make a family arrangement of capital after a death. Now that is the very point. I do dislike joint stock organisation in view of the lack of personal touch, human touch, with the men; if you have a director and shareholders and a manager who are not of the family who have built up the business—many of the shareholders have never seen the men; whereas, if a man has been brought up with the business he is in touch with them; there is a certain amount of human touch, and it does go to reduce industrial friction if you keep businesses in private firms. It is true the Fisc may tell us they would rather have big firms with limited liability because they can control the taxes more effectively by looking after them in one big agglomeration and because of the fact that they must conform to certain rules. I heard Lord Moulton say that on the whole, joint stock organisation had not been for the human benefit of England, although it may have made us money. I know that agglomerations of capital are required, but if Death Duties drive small firms, which would otherwise remain private firms, into limited liability, I think they have done harm. With regard to Stamp Duties, I think two things. I have put down a new

clause in the Finance Bill about the 2d. Stamp Duty on cheques. I think if you were to take off the duty on cheques it would very likely reduce the necessity for having so many currency notes, and would by so much reduce currency notes and would free gold for the purpose of the Bank of England Reserve; and what is more, I think you would get small shopkeepers to use cheques and put their money into banks, which they do not do at present because—it is a curious petty meanness—they do not like the 2d. stamp. I do not think Stamp Duties have done any harm in driving loan issues away from the money market, if sought by foreign borrowers. It is true bonds have not been issued here because there is a big Stamp Duty on them. They have gone to New York, but New York has not digested them, and we have been able to buy them back from New York at a cheaper price than had they been issued here. I think on that point as regards Stamp Duty and foreign capital, although it has prevented bonds being issued here, it has not done harm here in the long run, because we have bought the bonds back cheaper.

1008. I do not know whether you agree that the maintenance of Stamp Duty at 2d. would tend to prevent a depreciation of the currency note. It was represented to us this morning that the Stamp Duty of 2d. was a benefit, not a detriment—that it prevented the depreciation of the currency note?—I am not a banker; but I think if you took the Stamp Duty off cheques, people would use more cheques as their own currency, and they would provide their own fiduciary currency in the form of their own credits in the bank on which they drew, and check inflation.

1009. *Chairman*: Have you anything else you wish to say?—In Question 15 you ask to what extent, in the present depressed state of trade, the assumption is correct that the tax on commodities is borne by the consumer. I ask myself what does that mean—"the present depressed state of trade." I know engineering is very bad, I know the cotton trade is bad, I know shipbuilding is bad, but is it justifiable to speak of a present general depressed state of trade? Some trades are very depressed, but ought we to make a sweeping use of the term? Besides, is not one of the causes of our trouble now, the high standard of living brought about by inflation? I say one of the causes of the depression now is previous inflation. The public mind was stretched by a new idea of the standard of living during the War, and it has not gone back to its former dimension. That was really caused by inflation, and the resulting higher cost of production is one of the causes of the depression at the present moment. Those are my general observations. I do not think there is anything further. I think it is also questionable whether the present ratio or distributing scheme as between direct and indirect taxation is a wise one. I should like to say a word about that. So far as I have seen, from 1834 to 1900 the real value of a man's wages went up. From 1900 to 1914 it remained stationary. Some people say it was caused by the extra production of gold. I will take that into consideration also; I will give it what value I attribute to it in the account, in my mind. But still, the real value of wages has gradually gone up from 1834 to 1900, and from 1900 to 1914 it remained stationary. I think the reason for that has been that from about 1900 we began to feel the drain upon capital caused by Death Duties, Income Tax and Super-tax, and I think, coincident with that sensation, money became dearer and scarcer. Nothwithstanding that we had cheaper food from Argentina and cheaper food from India and Australia, the wages of men did not purchase as much as they did before; and I ask myself, cannot you harness up that phenomenon with another phenomenon, namely, the radius and increased ratio of direct to indirect taxation? I do not know why the Treasury indulges in a rule of thumb method of saying how much we should have for direct taxation and how much for indirect. They used to say it should be 50 and 50, now 65 and 35, and so on. I think the time has come when we must sweep away that rule of thumb and find out what ought to be the radius of, and ratio between, direct and indirect taxation. Otherwise we may do some mischief. It may be that there is nothing in the point, but we ought not to allow it to remain as it is. That is all I have to say. If you wish to ask me any questions, I will do my best to answer them.

1010. *Mr. Bell*: We have had evidence from one or two gentlemen, not engaged, as you are, in practical affairs——?—I am not now. I have been out of active business for some time.

1011. I mean with your practical knowledge. They have told us that they think Income Tax is not a burden on business. I have ventured to indicate in my questions that I thought they were wrong. Are you, as a practical business man, quite clear that Income Tax is a real burden on business and restricts export trade in any degree?—Broadly speaking, the effect of Income Tax is that the tax gives rise to costs which cannot be traced home or attributed to definite units in the machinery of basic and subsidiary production. Income Tax is an expenditure which can be described as of a sooner-or-later type, and to that extent does hurt us in the competitive markets of the world.

1012. In your answers you have said rather clearly that you think any reduction of the National Debt by way of taxation should only come out of savings?—Saved profits.

1013. And in no case would you say out of any of the capital of the country?—No, certainly not.

1014. You are quite clear upon that?—It would be disaster, I think.

1015. In your judgment is £50,000,000 a fair amount to try to keep up, year in, year out?—I should not object to £50,000,000.

1016. Do you think it trenches upon your principle that it was possibly not all out of savings?—I should think we saved last year £97,000,000 out of our foreign trade, and I should say we saved another £150,000,000 on our home trade. That is £247,000,000. That is what I put it at. But no one knows for certain.

1017. Broadly, you would take it that £50,000,000 was a practical figure that we could go on with now?—Yes.

1018. You would not feel inclined to raise that to £100,000,000 to get through this reduction of National Debt more quickly?—Unless you could prove to me that we had enough savings.

1019. If there were enough savings, you would not object?—If there were enough savings to provide for the £160,000,000 needed for the increase of population as well, that it is necessary to have.

1020. You have no alterations to suggest to the Committee, have you, in the way of taxation for the reduction of the debt?—The other alternative is a very platitudinous one, and an obvious one; earn more money and create a greater revenue.

1021. I can follow that, but no alternative apart from that?—No, I do not know of any other.

1022. There is just one point, which is not quite relevant—as your remark was not quite relevant—about private firms and limited companies. The bank with which I am associated has absorbed, I suppose, 30 or 40 private banking firms. There is not a single employee of those private banking firms who does not feel himself better treated, safer, better remunerated and better pensioned, and his widow and orphans are looked after,—he never had any of those benefits under the old private system. Do you really think that in all cases the alteration from a very often rather precarious employment under private enterprise to employment by a limited company has not been for the better?—When you take a bank's employees, they are not rough men, rough-and-ready, good-hearted fellows, like those we have in industry, with the grime of their labour on their hands. You have educated men as bank officials. To deal with them is quite another pair of shoes to

dealing with an artisan. I do not think it is a parallel case.

1023. Is it not the case in great firms, like Lever's and Cadbury's, that the benefits that they receive under the limited régime are much better than when they were private concerns?—I have not considered the case. I should think both of them are quasi monopolies and I am not prepared to give an opinion. I was brought up under Gurney's Bank; I knew all the Gurneys. When they were absorbed by Barclays, I know the City of Norwich was very upset.

1024. I will get away from the banks; do you think that limited companies with very large new ideas are doing less or more for their employees to-day than the old private firms did?—My own family's firm was and is a private firm and my uncle's and my grandfather's, and their own capital was in it, and I knew nearly every man on the place by name; they attended at our funerals, our weddings and our births. We laughed with them, and we wept with them and they with us. For 21 years I have been a director, of a company with £3,000,000 capital. I have been 21 years a director and helped to manage it, and I do not think we work in that company on the same scale of efficiency and economy and personal touch that we did in my grandfather's firm. We have many clerks and I do not know the names of many of them. I knew every one in my grandfather's firm. That human touch I am perfectly certain was of much more use; and after all, we are not all mere machines and money makers; we have to live and die. I think my grandfather's firm was on human lines and that was very much better than the condition of affairs set up by limited liability.

1025. That depends upon the type of the people. I suffered greatly at times when I was a boy. They never had any respect for me or for anybody in my place at all, but I found myself very much better under a broadminded man? It depends very largely on the personal qualities of the people who run the private firms, does it not?—I can only speak from my own experience.

1026. *Sir Charles Addis*: You told us some very good reasons for objecting to higher taxation in general, but does that extend to the particular taxes or do you draw a distinction between the kinds of taxes that are now existing?—I am shocked when I see, as I think, the Governmental folly in keeping Death Duties so high. I do not mind so much the Income Tax and the Super-tax, because, after all, you pay as you go; but I think the Death Duties are a folly at their present height, so far as business is concerned.

1027. Your objection rests upon the tax being levied upon capital which is going to be used for revenue purposes?—That is an extension of my answer. I did not consider that. Of course that is so. I considered the prime step; that is to say, the injury that it does to a business by taking resources in so large a bulk and often at an inconvenient time.

1028. Would it mitigate your objection if the amount so taken was earmarked for reduction of debt?—Of course, that would be a step in the right direction.

1029. But not sufficient to justify it?—My primary objection is that it paralyses a business.

1030. Generally you would hold, as I have followed your replies, that any form of taxation, whether it is in the form of Death Duties or of Income Tax, which trenched upon capital, is in itself a bad tax?—You knock the tools out of my hand. A husbandman's capital is his scythe. If you take the scythe away from him, how is he going to reap? My capital is my scythe. It is better to tax my harvest.

1031. You see the difficulty in discriminating between different taxpayers. In many cases, perhaps, Death Duties will come out of capital, but in some cases they will come out of income. Must you not take the broad generalisation?—I do not grasp your question, because I assume business capital is not in a liquid form and available to pay large Death Duties.

1032. Your objection to Income Tax is that it may come to a point where it would be paid out of capital, but so far as it concerns the general taxpayers as a whole, you would not make that objection?—So long as it leaves that £160,000,000 which I ask for.

1033. You would apply the excess over that to the reduction of debt?—Yes, in part.

1034. That is to say, that upon the whole, so far as assets are represented by goodwill, as you have described it, it would be better to leave the money in the pockets of the people to earn a higher rate of interest?—You do not repay if it is taken out of capital. The State and I are man and wife, and one. If you cancel debt in order to reduce the amount at which the debt stands, my wife and I myself, between us, lose. The only way that my wife and I can repay debt owed by one to the other is by our adding to our savings in such a way that we can pay off our I.O.U. The State and the person are one. Cancellation of debt is not repayment, and if you take capital from one of us and hand it to the other that is cancellation of debt and not repayment.

1035. The return on the money so left in the pockets of people would in nearly all cases be higher than if you give it to the State?—It is not worth while working for 5 per cent per annum over a number of years, and 5 per cent. or less is what the money would earn if used for debt repayment. In trade it would earn more and give employment too.

1036. Would not the effect of that be to postpone indefinitely the repayment of debt?—Not indefinitely. It would be slower—and what would it matter if, in the meantime, the income of the country were higher? The debt burden would be lightened.

1037. I just want to get the fact. It would postpone it considerably?—It would slow down the rate at which debt would be repaid, not indefinitely, but it would slow down the rate.

1038. In your view, then, the effect of existing debt upon trade and industry is not very serious?—No; it is a question of degree. If trade were better, and if I were earning twice as much income as I am now, the effect of the National Debt would be halved on my shoulders. If you leave the money with me to work with, I can earn more income in my shoe factory, and if I double my income in my shoe factory the burden effect on me of the National Debt is at once halved. Besides, I could employ more more men, and they consume taxable items and add to revenue.

1039. You draw a distinction in the case between internal and external debt, I suppose?—Yes.

1040. Do you think, upon the whole, that the argument in favour of the repayment of the internal debt is exaggerated, and that, upon the whole, one might very well postpone it?—I think we can be in too much of a hurry. I would keep up the repayment of debt, because it steadies prices and creates confidence. Everyone likes to see debt repaid. How good it is for the credit of a company if there is always a small creeping 1 per cent. or ½ per cent. Sinking Fund to reduce the debentures. The credit of the company is always improved, and the price of its securities is improved. You will do good in another way if you keep a Sinking Fund going. You are bound to support your 3½ per cent. Conversion Loan. You are bound to support the market now and again, when you want to make some conversion or some worthy manipulation of Government issues; then that Sinking Fund comes in very useful sometimes.

1041. I really wish to get the opinion of business men like yourself on the effect of the magnitude of the debt upon the industry of the country. With regard to the liquidation of the debt, you would be in favour of that at a reduced rate?—No; I have advocated in the House of Commons on several occasions to repay as quickly as you can, compatible with the views I have just now given; so that you reduce the amount of Floating Debt in issue and drive

people who require first-class securities to go into longer-dated British loans. The consequence is you may force up the 3½ per cent. Conversion Loan to 90, in which case you could refund your 5 per cent. Loan at a very much less rate of interest.

1042. Will not the effect of that be to increase the amount of the debt?—If it is irredeemable debt, what does it matter? It is merely an annuity. The capital need not be repaid, although nominally increased by conversion.

1043. You do not consider that, from the point of view of industry, it would be of importance to the country?—I do not think so. If it is a perpetual annuity like Consols, only redeemable at the option of the Government, I do not think it would hurt very much. I do not like it, but it is a sentimental dislike. I do not think it would do any harm.

1044. So far as the repayment of debt is concerned, that does not of itself, in your view, reduce the national capital?—How can it? It goes out of one pocket into the other. I speak of repayment, not cancellation.

1045. So from that point of view there would be no objection to the reduction of debt?—Unless you destroy the instruments of credit, which are not replaced by increased savings or unless you take capital.

1046. So far as it is a transfer from one member of the community to another, in your opinion the effect upon industry is not serious?—Oh, yes, it is, because if you take by taxation money from industry for repayment of debt, it does not all go back directly into industry.

1047. Where does it go?—It goes to the holders of debt, three-quarters of whom are not men who are engaged in industry at all, as "The Economist" has shown.

1048. What do they buy?—They do not buy industrial things again.

1049. What do they buy?—They buy trustee securities, or some Colonial 3½ per cent., or for instance, Amsterdam Bonds, if they are not trustees, and if they are not Government Departments; and I have sought to prove in the House of Commons and I think I have proved, that the idea is not right that if you subscribe to foreign loans the whole of the proceeds of those loans goes out of the country in the form of goods.

1050. You give some illustrations in the paper that you have circulated?—Yes.

1051. You say that it is well known that industry at present is short of capital. Would you be good enough just to amplify that a little? What are the signs by which we may know that industry is short of capital?—I give you our own case. I was short of capital after paying Death Duties and therefore I had to shut up a building.

1052. Is that the only illustration you can give?—I think if capital were very abundant and I was not afraid of confiscatory legislation, or as my workmen now say: "We are going to take over your factory sooner or later," I should feel inclined, as I have children coming on, to put more money into the business and try to make different types of articles and open up new markets. Capital is not being pressed upon me; if it were pressed upon me, if I myself had lots of capital which was not taken away by taxation out of my private investments, I might say to my relatives: "Here, take £10,000 and put up another shed," but you do not leave me any savings to invest in business and I fear risking money, if I bear the loss and the State takes so much of any profit.

1053. If capital were short, would one of the signs be that a high price would be paid for it?—No, I do not think so always.

1054. The demand for capital does not necessarily raise the price of capital?—Where there is no confidence there is no demand for capital, scarce though it be; therefore price is not affected.

1055. But do you mean that the demand for capital does not necessarily raise the price of it?—Oh, yes, it does, undoubtedly.

1056. Has it done so now, and if not, why not? You do not mind me pressing you; I want just to clear up the point. We are talking about the shortage of capital for industry, and I am suggesting that one of the signs of that would be that capital would command a higher price?—Have not the industrial ventures which have been advertised recently in the papers given very high rates of interest? Look at the new Lever issues, and look at the recent 8 per cent. debentures, and look at the 7 per cent. things. Look at the issue quite recently of a security like debentures of the Industrial and General Trust, a first class thing, 4 per cent. now at £80, a debenture secured upon some of the finest securities in the world, yielding 5 per cent. For us to sit down to receive 5 per cent. on debentures of that kind I think the money is very dear, but there you have confidence plus demand.

1057. I thought you were referring to private firms and manufacturers?—I have no public evidence as to private manufacturers; they do not publish their affairs in the papers; I can only see what public firms do.

1058. You mean you do not know what private bankers charge for capital?—I have no means of knowing.

1059. *Mr. Hichens*: You deprecated paying up the debt in too much of a hurry?—Yes.

1060. Everybody would agree, of course, that if you paid it off in too much of a hurry, that would be bad. But do you think that we have paid up too much up to now?—I do not think so, for another reason. I think we ought to have paid every sixpence we have paid off, because I think it was very wrong to use the money which we received from the Disposals Board otherwise than by paying off debt.

1061. So that we have not paid off too much up to date, anyway?—No. You have my point about the Disposals Board.

1062. Yes, I know that; I am a member of the Disposals Board, and I was going to take that point, if you had not made it yourself. Is it your view that £50,000,000 a year would be a fair figure?—Yes, I think at present £40,000,000 to £45,000,000 would be safer, but I should not object to £50,000,000. How can one judge to £5,000,000 more or less?

1063. I am not asking you about £5,000,000; I wanted to know as between £50,000,000 and £100,000,000?—I should think £50,000,000 would not be much, if at all beyond the limit of what was right.

1064. No doubt you would agree that you cannot regard one aspect of taxation in isolation. What matters is what the taxpayer has to pay in the aggregate. If a great deal of taxation is required for housing, education, and the rest of it, then *pro tanto* one must reduce the reduction of the debt?—You mean, invest your Sinking Fund in housing?

1065. What I mean is this. Is it possible to consider what repayment you will make of the National Debt in isolation from the rest of the taxes? Does not the ordinary man think to himself: "I am paying 4s. 6d. in the £ now, and that is as much as I can bear"?—If you could take that £50,000,000 and put it into a very first-class business belonging to the Government, yielding a profit to the country, I say it would be better to do that than to pay off the debt.

1066. I did not quite mean that. What I meant was this. Does not the ordinary individual look upon his taxation as a whole? Does he not say: "I am paying 4s. 6d. in the £ Income Tax to-day, and that is as much as I can afford, whatever purpose you use it for"?—Yes.

1067. Therefore it is no use advocating that you should have a higher Sinking Fund unless you are prepared somehow to equalise his burden, or at any rate not to make it any more severe?—I think he would have cause for complaint if you put up his total taxation for the purpose of Sinking Fund now.

1068. Unless you could reduce it in some other way?—Unless you could give him some relief he could feel.

1069. And similarly, supposing you wished to increase taxation in some other direction, then he would feel it *pro tanto* harder to contribute to the Sinking Fund?—If you leave the money with him he can much more easily pay his 4s. 6d. in the £, because he will earn more than 4s. 6d. in the £ with the money you leave with him, and he will put something in his pocket which again would yield profit and revenue

1070. It will depend on the kind of business he is engaged in, will it not? He might lose more?—We do not lose money in efficiently managed trade, over a long period.

1071. You are in a sheltered industry perhaps?—No, I am not. My life has been spent in highly competitive trade.

1072. Have you ever heard of an industry that has lost money?—I know some do. I know the engineering and shipbuilding and cotton trades are doing very badly, but I say that the country as a whole is not losing money.

1073. Therefore, if they are losing money to-day, it might be more profitable for them to invest their money in a Sinking Fund?—But you are taking the taxpayers as a whole, and they are not losing.

1074. You referred to 400,000 as the increase of population?—I believe during pre-war years the population at home has increased by 400,000 souls annually.

1075. That, you would agree, is due to the fact that the death rate has gone down rather than that the birth rate has increased?—I do not know about that at all.

1076. That is an important point, is it not? Do you know this, or would you agree with this: That since 1903 there is only one year—namely, 1922—when the birth rate has been higher than it was in 1903; that every year the birth rate has been lower. Do you know that?—I am quite prepared to accept it from you. I did not know it.

1077. It surely is an important factor in this particular argument about £400 per head?—I do not quite see how the two things are cognate. If the population has gone up in one year 400,000, whether from a lower death rate or a higher birth rate, so long as the population is greater my point is made. First I must ask you, do you deny that the population is greater?

1078. What I wanted to ask you was this. I gathered that your point was that a capital of something like £400 was necessary for those individuals concerned?—Yes.

1079. But it would not be necessary for you or me, because we are grown men who presumably do not require that capital?—No, I say every soul that comes into the world in this country.

1080. But fewer souls are coming into the world. That is my point. Did you know that?—When I say the souls who come in to swell the number of souls that are in Britain, are 400,000 or say 300,000 or say 200,000, I say that every soul that is born into this world alive requires £400.

1081. I am not denying that, but what I want you to consider is this. The position is that your soul and my soul remain longer in the world than they did before. There is not this additional number of new souls in the world every year. Your soul and mine, for better or for worse, remain here longer than they did. Therefore they do not require the capital. *Sir Josiah Stamp*: May I take up this point? Let us take 400,000. What does that mean? Do you mean that there are 400,000 excess of births over deaths?—I say the increase of population was 400,000 in this country.

1082. *Sir Josiah Stamp*: Is that a fact?—It was, before the war

1083. Is that the net increase or the gross increase?—The net increase.

1084. After allowing for emigration?—Yes, I believe that is so. Let me put this point. I am quite willing to concede it may be 300,000, but my point is this, that whatever number you take, let it be x, it must be multiplied by y, pounds, which is the amount of capital that is required for each person.

1085. I will come to that point when we have seen the figures. Let us get the figures which are on record. The figures before the war from 1911 to 1921 were 344,000 natural increase, less 150,000 outward balance of emigration; that comes to rather under 200,000. In 1911-12 and 1912-13 respectively you had 393,000, less 210,000, which gives you 183,000, and 430,000, less 219,000, which gives a little over 200,000. For 1921 to 1923 the figures were 372,000, less the outward balance of emigration 98,000. It is two years' average. Those are the figures given by the Registrar-General's note on increase of population in the Report of the Overseas Settlement Committee. Now if that is so, you have an average increase of something like 174,000?—You must multiply that by £400.

1086. Has that anything to do with capital? These population statistics are very deceptive. You have to pick out the mean age of the population. These figures do not tell you anything about increase of adults and working population which requires the assistance of capital?—No, but when a child is born into the world it requires so many cubic feet of house room. It may be that a man may have to take another house. I think I put it in the best way in my argument about my own family. I have a wife and three children; that is five of us. If I have £10,000 we have £2,000 each of us, therefore, from what can we draw the benefit when another child comes to me? Either I have to reduce the benefits which my three children and my wife and myself get, in order to provide for the new child, and we must go without something or I must find an additional £2,000.

1087. *Mr. Hichens*: What I wanted to put to you was that since 1903 the children that have been born into this world are fewer in this country?—I am willing to accept that.

1088. That being so, if your argument, as I understand it, was that for every child that is born you want a capital of £400, you want less capital now than you did in 1903? *Sir Josiah Stamp*: No, he says the population is still increasing but it is increasing at a lower rate. *Mr. Hichens*: The population is only increasing at the higher end, that is to say, there are more people of 70 alive to-day than there were then, and so on. The shifting age comes in. The statistics seem to show that in 1930 the increase in the working population of this country from year to year will at the maximum be not more than 40,000 per annum. If that is so, this statement of yours requires some modification, does it not?—No, in principle I do not think it does, for this reason. There are ten loaves of bread and there are ten people, age immaterial. Each one of those gets a loaf of bread. If you have eleven people each one of those gets only ten-elevenths of a loaf of bread.

1089. *Sir Josiah Stamp*: It is a question of the provision of income and the provision of auxiliary capital. The question of auxiliary capital necessary to produce the income is one thing, but the division of commodities is quite another matter?—I was talking about capital. You must provide him with capital to build a house, to build a school, to provide him with old age pensions and the other things, to find him a seat in the clicking shop of my shoe factory, to provide him with material to work up, to provide him with credit for selling his goods, and to provide him with office staff. You must provide each human being that is added to the population with £400. He will require £400 for him to work and live. If he has not got it himself it must be found by his employer or by his father at whatever age he may be.

1090. *Mr. Lees-Smith*: What was the original number of increase you gave us?—I thought 400,000. I took it as before the War.

1091. *Mr. Lees-Smith*: But surely it is nearer 40,000. *Sir Josiah Stamp*: Mr. Hichens was asking about working population, which the witness will not admit. He says it is the actual increase whatever it is.

Witness: I say every human being and of any age. I do not care what figure you take. I concede the figure; say it is 100,000, say it is 50,000 people; I do not mind at all; but if you have ten loaves of bread and ten people each one of those ten persons has one loaf of bread; if there are eleven people and ten loaves of bread, each of those people only gets ten-elevenths of a loaf of bread, unless you add another loaf, or capital to produce it.

1092. *Mr. Hichens*: I will leave that particular point and come to this population question, because it is rather important to our investigation?—I think it is a key-note of this investigation.

1093. If it is true (and the statistics can be verified) that the number of births is on the whole going down and certainly has not increased since 1903—the actual births of people into this world—and that the increase in population is merely due to improvement in the death rate, there must clearly be a time when the improvement in the death rate ceases and the population, so far from increasing, becomes either stationary or decreases. You would agree with that, would you not?—That is hypothetical, and I want to take the actual case. The population does increase by x. I do not mind what the increase is at all; x must be multiplied by so many pounds. It may be £400 or it may be £600. The increased population needs increase of national capital and that need does not seem ever to have been allowed for in the consideration around debt repayment.

1094. I want you first of all to understand, if you will take it from me, that the statistics of actual births have been stationary. I think you will agree with me that the improvement in the death rate, whilst it has been very marked so far, cannot go on indefinitely. Therefore unless there is an increase in the birth rate, unless we alter the existing conditions as they are to-day, our population will before so very long become more or less stationary?—I accept that from you; I did not know it.

1095. It is a very important point, and the thing I want to ask you is this. When we think of the tremendous increase in the National Debt as the result of the Napoleonic Wars, we picture the great expansion in trade and population which took place after that. Now, if the figures that I have given you are at all correct, we cannot expect such an expansion, can we?—Yes; if based on increased population.

1096. Therefore, it is more incumbent upon us to take steps to pay off the debt now than it was then, if that is right. Is not that so?—Because you would have less persons upon whom to put the burden of it, you mean.

1097. Yes. We have the possibility, whatever it may be, of improved methods of production, and so forth?—That is the answer to your question. If those people in this country do not increase in number, but increase in earning power, then your question has been sterilised.

1098. But at any rate, one of the advantageous factors which existed then would have disappeared—namely, the great increase in population?—If the increase in population becomes a parasitic, subsidised, population it is better that it should not increase.

1099. The point I merely wanted to put to you was that there are strong arguments for supposing that we cannot treat our debt to-day as lightly as events showed we could treat it after the Napoleonic Wars?—I do not think so. I do not believe human progress has stopped; and just as much as we found steam and electricity, there are other things that are going to be found, which may increase our productive power just as much from 1927 as the productive power was increased from 1827. I am not going to admit that we are going to stand still.

1100. I do not know that anyone suggested that we were; I did not. But I suggested merely that we had not got the same probability of expansion of population now as we had then, and that for that reason we have to consider the problem in a rather different light?—But I think the expansion of population, then, was not of so much importance as the expansion of productivity per head of population, and if we can increase the productivity per head of population, as I think we shall, that will have the same result.

1101. What is your reason for thinking we shall increase that?—Because of the whole history of 4,000 years of civilisation.

1102. I suppose you would agree, would you not, in that connection that the rest of the world is a more serious competitor now than it was then?—But there is a bigger world open and people have more wealth to buy with, and they are more willing to buy manufactured things. There are more people in the world. You have opened the whole of South America; you have opened the whole of the northern part of North America, and you will probably open the whole of China, and you have 300,000 people in India who are learning to take European goods in a way they did not 120 years ago.

1103. Your point, as I understand it, is that there is great scope for the expansion of our trade, which will enable us to pay off the debt more easily in the future than to-day. Is that right?—I have no fear for the progress of Britain, none whatever; I think we shall weather the storm. I look through the records of my own great-grandfather's firm from 1799 till now, and I see continually progress going on. I have no fear. Nearly all I can save I am going to invest in this country just as my great-grandfather did. Britain is a great deal better than some of the people in it. We shall go ahead, we shall pay our debt, we shall increase our productive activity, and I believe we shall shoulder the burden all right.

1104. I do not quite understand your horror of paying off a certain proportion of the debt out of capital. You suggest that unless it is paid out of income or profits, no good service has been done?—You knock the tools out of my hand. I am just a symbol of the backbone of Britain which makes the wealth of Britain, the manufacturer, whose tools are his capital.

1105. But have we necessarily knocked your tools out of your hand?—Yes, you have. You compelled me by the Death Duties to shut a branch of my family's business. You knocked an instrument of production out of my hand.

1106. If your business was one with a good credit, you could easily have borrowed money?—Yes, but we would not borrow to pay taxes. I myself do not borrow; I prefer to go without. We built up our firm without borrowing.

1107. If you would not borrow, that is a different story; but you might have done so, if it had been any good. Your business may have been a bad one and no banker may have wanted to lend you money, in which case, of course, you may have had to shut up, but if it was a good business in which people had confidence, you could have borrowed the money and you could have gone on. If you did not want to borrow the money, that is your own affair. *Sir Josiah Stamp*: He has a constitutional objection to borrowing. *Mr. Hichens*: But that is a purely sentimental thing; it does not concern us. I want to know this. In business, supposing you find that you have a heavy liability for goodwill or for some buildings which have become obsolete, I suppose you would write that off out of profits?—*Witness*: Yes.

1108. But if you cannot, is it not sometimes wise to write it off by writing down your capital?—Whether you write down or write up does not increase the earning power or lessen the earning power of a business.

1109. It does not, but my point is that just as in business it may be sometimes wise to write down

your assets, so, when you have an enormous debt which is represented by what at best we can call goodwill—namely, having won the War—it may be worth while sometimes writing it down out of capital?—The economic disturbance caused by that would be immense.

1110. Would it; that is the whole question. Is it necessarily immense if you take a steady sum out of Death Duties, for example?—That is a different thing, but it causes disturbances.

1111. Just put it in that way?—Yes; if it was a small amount, it would not matter, it would be negligible.

1112. Would you agree with me that things having gone as far as they have to-day, you want some steady and consistent policy?—Yes, above all things; let us know where we are.

1113. But that must envisage paying off the debt within some visible time; at any rate making a marked impression upon it year by year?—I agree. I have said so to-day, if out of saved earnings. I would go so far as to say this. I am not quite certain that this would be a good policy. Give 5 per cent. debt holders £102 of stock for their £100 stock on condition that at the end of 100 years the whole thing disappears. Supposing you say to a man: "You have £100 5 per cent. War Loan; I will give you £102 stock so that you get interest on £102 instead of £100, but the condition will be that after the year 2024 you do not get a penny," that would do it; you would have a continual Sinking Fund going on. But the objection to this would be that no trustee would hold the stock; they could not hold it for the Norwich Hospital or the Norwich Infirmary, and I would not like to hold it for my sons or daughters, because it would be a wasting asset which many people would not have strength of mind to replace; but it would continuously pay off the debt all right.

1114. *Sir Arthur Balfour*: Just one more word on your theory about £400 per head. Do you not think that perhaps a much greater factor than the necessity of keeping surplus production in this country is the increase of population by nearly 700,000 owing to non-emigration during the war; because these are really adults who did require working capital?—Undoubtedly.

1115. We have had a witness here this morning who told us that he thought £50,000,000 could be saved. Have you any idea how £50,000,000 could be saved, or part of it?—I am on the House of Commons Estimates Committee and the Public Accounts Committee, and we work there day and night, as it were, to try to save money, but I do not really see where we can save much money. It is a question of policy. In administration I do not think you can save much. I can give that as my considered opinion. I do not think you can save much in administration. The only place where you can save is in alteration of policy.

1116. Over what time expressed in years might we reasonably spread the repayment of debt? It has been suggested to us this morning that we in our lifetime, say 35 years, could repay it?—I do not see why you should. Why should I strain myself further and go without more things for the sake of my son and grandson? Let them shoulder the burden as well as ourselves. I do not see why you should limit it to 35 years. They have gained by our sacrifices already.

1117. Have you any fixed idea in your mind as to 100 years or what time would be reasonable to aim at eventually? *Mr. Hichens*: He said £50,000,000 a year.—*Witness*: £50,000,000 a year at cumulative interest. £1 a year at 5 per cent. cumulative compound interest will bring £2,600 in 100 years. £50,000,000 annually would bring a tremendous sum if you could reinvest it at 5 per cent. cumulative compound interest for 100 years.

1118. *Mr. Hichens*: But you did not suggest that it should be cumulative, did you? You suggested you should pay off £50,000,000 a year?—It is cumulative, as a matter of fact, because in the financial statement of the Chancellor of the Exchequer it is £40,000,000, then £45,000,000, then £50,000,000. We are putting on 5 millions every year to represent the extra saving of interest.

1119. *Mr. Lees-Smith*: But it stops at £50,000,000?—It stops temporarily at £50,000,000; it does not follow that it will not increase.

1120. *Mr. Hichens*: Do you agree that it should increase?—I should. I certainly should put it up £5,000,000 after two or three years.

1121. *Sir Arthur Balfour*: Regarding the Capital Levy, is it your view that the most serious objection to it would be the causing of unemployment?—I say it would cause economic confusion beyond all words, and the first breath of confusion is at once wafted over the poor. They are the first people who would feel it. I think I said that when I was before the Cunliffe Committee.

1122. Would it not also result in that capital which was left in this country trying, by every means possible, to get away from the country?—Of course it would.

1123. Would not that be perhaps the most serious result?—The whole thing would cause such a confusion that anybody who was able would struggle to get out. Suppose I knew you were going to take my capital, or some of it, what should I do? I should sell what I have, and put the cash in the bank, and I should buy a cargo of tea and ship it to the United States and sell it there and keep the proceeds there.

1124. You said something about the effect of high taxation by restricting industry, and so on. Is the most serious effect of high taxation that it leaves less liquid reserve or capital in business?—Quite so.

1125. And therefore if anyone wants to extend their business, they have to issue debentures or preference shares on which they pay direct interest?—That is so. I should think in the last two or three years a good deal of Income Tax has been paid out of capital or borrowed money; it has not been paid out of profits.

1126. But that is generally due to false valuation of stocks, is it not? I mean valuation of stocks at prices which they never realised, without reserve against the fall, which cast a liability on the business which was never realised?—I thought that was all washed out by about 1923.

1127. It was eased, but not wiped out?—I think in the last two or three years there have been falling profits and the taxable average has been higher than the profits would really provide, and therefore money has had to be borrowed.

1128. *Sir Josiah Stamp*: In the latter part of your paper you deal with the question of direct and indirect taxation, which are matters that we have an immediate interest in, and you mention the fact that there are 22½ million voters. Where does that figure come from?—It has been stated in the House of Commons.

1129. Does it include the most recent extension of the franchise?—Mr. Lees-Smith can help me there. I think he would say that the electorate is now about 22½ millions. *Mr. Lees-Smith*: Yes, that is right.

1130. *Sir Josiah Stamp*: Where do you get the figure of 2½ million direct taxpayers?—The number of Income Tax payers was given by the Chancellor of the Exchequer, or an earlier Chancellor of the Exchequer, in the House of Commons.

1131. Does that figure include the wives?—I cannot tell you. I have taken the figures as they were given in the House of Commons.

1132. I suggest to you that there are only a portion of the taxpayers, whether married or not, in that, and if you are going to get a proper comparison between 22½ and 2½, you have to put in all the wives.—That is a thing I cannot say.

1133. *Chairman*: You can perhaps tell us the figures, Sir Josiah?—*Sir Josiah Stamp*: I suggest the true figure should be about 4½ millions.

1134. You were dealing with the point of policy about watered assets and having light taxation. You said that that was the policy after the Napoleonic Wars and it had the effect of reducing the burden per head and increasing wealth. Could you put a date on that?—Did not Sir Robert Peel say that he was going to take taxation off large numbers of things? I think it was in 1848 or 1849.

1135. I was going to ask you whether your generalisation would be correct that it was that policy which led to the increase in wealth. I suggest to you that it was another cause which led to the increase in wealth, not light taxation, and that the real diminution in the burden per head came after rather than before the increase of taxation?—I have in mind what was said, I think, by Sir Robert Peel—it may have been by Mr. Gladstone; but I rather think by Sir Robert Peel—when he was going to reduce taxation.

1136. It has been commonly said that you can deliberately take the risk of not taxing heavily, in the hope that money would be left to fructify in the pockets of people, and that that would give you such a taxable area as would give you the whole sum you wanted?—Yes, and I take a further *obiter dictum* of the same kind, of Lord Cromer, with regard to Egypt.

1137. I would like you to be more precise about what happened after the Napoleonic Wars in that matter, if you are relying on that as an historical illustration?—Quite close to the Napoleonic Wars? I should think after Goderich's time, 1830, 1840 and 1848.

1138. But for the first 20 years you had no relief?—No, in 1826.

1139. And you had no relief per head in the burden of tax?—There was a transition period. People had to accommodate themselves and had to settle down till 1826.

1140. I suggest to you that when the prosperity did come and reduced the burden per head, it was not due to light taxation, but it was due to the improvement in the industrial arts and to the improvement of transport by railways?—They could not have been vivified had it not been that the capital was left in the hands of trade and the citizen.

1141. Have you compared the rate of taxation per head during that period of prosperity with the rate of taxation before?—I should think it was lower, was it not, in 1826?

1142. During the period of prosperity?—I should think so, in Goderich's (Robinson's) time.

1143. I suggest an examination of facts will not bear out this theory at all. *Mr. Hichens*: Similarly in regard to Egypt, I happen to have been in the Finance Ministry under Lord Cromer. *Sir Josiah Stamp*: I only want to know what the facts are.—*Witness*: I can only say that I cannot put myself up to contradict men like Peel and Cromer, and I have their statements.

1144. *Mr. Hichens*: I think you want to take their acts, too?—Did not Cromer succeed?

1145. Cromer succeeded, but the reason why he succeeded in establishing good financial order was because he kept taxation high and because he established law and order. *Sir Josiah Stamp*: On the point you make about Income Tax giving rise to costs which cannot be traced home or attributed to definite units in the machinery of basic and subsidiary production, I take it that in the costing systems with which you are acquainted, the whole of the expenditure which appears in the manufacturing and trading account is accounted for in the costs, and is such that you cannot allocate into direct and overhead costs, and you allocate upon some general principle?—*Witness*: No accounts that I know include charges for Income Tax.

1146. This increase in costs is entirely then something that is, so to speak, reflected in an alteration in the balance of trade or in the quantity of production?—In quantity of production.

1147. Does it mean that if a man has a high tax to pay, he will be a smaller producer of goods?—Yes.

1148. If it means anything at all, does it not rather mean that his customers will have less money to spend, his demand will be less and his production will be less, and his overhead charges will be less?—No. Besides, suppose his customer is the export market. Take the linings of shoes: suppose that the tax is very hard on the cotton spinner, he will not be able to extend his works, he will not be able to produce more and he will not be able to get the costs down, and therefore I have to pay more for my linings, for export in my shoes.

1149. It would take too long to pursue that, I am afraid?—Surely you will not contest this view; that greater production will bring down the costs, and you cannot produce more unless you have more sheds to produce in, and you cannot put up more sheds unless you have the money.

1150. I only think it is beginning at the wrong end. Nobody wants to produce more things unless there is a demand for them?—Yes; but the less the demand is, the more anxious will we be to produce more to get the price down.

1151. Why is the demand less?—It may be from some extraneous reason, but if we find difficulty in selling for export on account of cost, the first thing we will do is to seek to produce more so as to get the price down.

1152. Which manufacturer suffers most from that particular disability, the manufacturer who has to pay 9s. 6d. or 10s. in the £, or the one who has to pay 2s. 3d.?—Is not the answer to that this: that the less capital a man has to put back into his business, the more he suffers?

1153. Then your answer is that it is the big manufacturer who is penalised and whose costs are higher, and the small manufacturer whose costs are lower?—No.

1154. Does not that follow logically?—No. Income Tax is paid at the same number of shillings and pence per £.

1155. Pardon me; it falls at the rate of only 2s. 3d. on small people, and at the rate of 9s. or 10s. on higher people?—Is not that low-scale class of taxpayer rather negligible? That 2s. 3d. advantage is sterilized by the fact that they are small producers and cannot produce in the same way as men who have a large plant.

1156. I suggest to you the difficulty is of putting Income Tax into the costs?—I do not think any attempt, so far as regards people I have met, has ever been made to put Income Tax into costs.

1157. But you say that it gets there somehow. I want to know whether it gets there, and if in different degree as between a big manufacturer and a small manufacturer, and if so, is that borne out by the actual facts of extension of trade? Are we finding that big manufacturers are cramped by reason of a high rate of tax?—The very small manufacturers have not the opportunity of producing goods largely and cheaply, because they have not the large plant that a reasonably solid manufacturer has. That factor has to be taken into consideration in the argument.

Chairman: Thank you, Mr. Samuel.

(*The Witness withdrew.*)

(*Adjourned to to-morrow morning, at* 10.30.)

FOURTH DAY.

Thursday, 5th June, 1924.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman.*
SIR CHARLES ADDIS, K.C.M.G.
SIR ALAN ANDERSON, K.B.E.
SIR ARTHUR BALFOUR, K.B.E.
MR. HENRY BELL.
MR. J. W. BOWEN.
PROFESSOR FRED HALL.
MR. W. L. HICHENS.
MR. H. B. LEES-SMITH.
SIR WILLIAM McLINTOCK, K.B.E., C.V.O.
SIR JOSIAH STAMP, G.B.E.
MRS. BARBARA WOOTTON.
MR. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

Mr. R. S. WRIGHT, M.I.E.E., representing the National Union of Manufacturers, called and examined.

EVIDENCE-IN-CHIEF HANDED IN BY MR. WRIGHT.

NATIONAL DEBT.

1. In dealing with this matter it will perhaps be convenient to take the list of suggested questions, more or less, as a guide, though I do not propose to deal with all of them at any great length.

2. I notice that in one or two cases a question is asked regarding the effect of the National Debt on specific matters, and later on the same question is asked with regard to Income Tax. For the practical purposes of this inquiry, I think these questions may be considered as one, as the National Debt and the heavy income or other tax necessary to defray the interest on same are, obviously, bound up together.

3. As regards *Question No.* 1, the portion referring to the supply of credit and the special effect of the Floating Debt are matters on which I think the opinions of bankers will be of more value than those of manufacturers, and, therefore, I propose to leave these alone, but the remainder of *Question* No. 1, No. 2, No. 8 (1st part), and No. 9 can, I think, advantageously be considered together.

4. These questions all refer to the same thing, viz., to what extent does the national indebtedness prejudice the attraction of additional capital? I would point out, in reply, that the investor, be he at home or abroad, naturally considers two things—first, the safety of his investment, and second, the net revenue that he can obtain. The first consideration may, and probably does, incline the investor to prefer a country like Great Britain in preference to investments in Poland or China (to take two countries at random), but the fact that he has to pay an income tax of 4s. 6d. in the pound on investments in this country must, necessarily, be looked upon as a drawback.

5. *Question No.* 3, regarding repayment of debt. I take the view that for any present-day business man there is little or no advantage and considerable disadvantage in paying off debt at all. The amount that can be paid off within the lifetime of the generation is comparatively small, and the sacrifice entailed is relatively so great that it would be to our interests to make no effort to repay debt, even though our doing so undoubtedly enhances the credit of the country. The same argument can, however, be applied to an individual; any man can live in greater luxury if he makes no effort at all to provide for his children, yet all right-minded men do make, or attempt to make, some such provision. I take the view that as a nation we owe it to posterity to make all the provision we reasonably can to lighten the burden of debt that they will have to bear, and, therefore, I urge that regular and steady efforts be made to extinguish the debt. The amount of such effort may be a matter of opinion, but, personally, I have no quarrel with the scales of Sinking Fund rising to 50 millions a year, provided for in the Finance Act of 1923, which seems to me reasonable and proper. If we adopt the system of not reducing the debt during periods of depression, I fear that we should soon cease to make any effort whatever.

HIGH TAXATION.

6. *Question No.* 4.—There is no doubt that the high Income Tax does very much affect the supply of capital for business enterprise, and especially enterprise that breaks unknown ground. It is not, I think, sufficiently realised that progress has chiefly been made in the past by a certain number of citizens who have money they can spare and, therefore, are willing to risk. Take, for example, the Tube Railways of London. To-day they are an established fact and in applying for additional capital the return in dividends can more or less be reckoned upon. But beyond all question the money for the first tubes was found by wealthy men who could afford to risk a substantial loss, and the same may be said of the first railways, aeroplanes, wireless, and, in fact, all important scientific and industrial developments. I believe that a proportion of individuals with *surplus* money is an absolute necessity if similar progress is to be looked for in the future.

7. *Question* 5. I believe that it is most detrimental to industry to tax the profits of a business until these profits exist in actual cash and if a firm are willing to re-invest their profits in expanding the business they should be encouraged to do so by leaving that portion of the profits untaxed. Take, for example, the case of a firm whose total net profit for one year is, shall we say, £10,000. Now suppose that instead of paying away that money in dividends the firm decide that the time is ripe for development, and that they are willing to spend half those profits, *i.e.*, £5,000 in factory enlargements and additional machinery. It is obvious that in so doing they are increasing the trade of the country and employing additional men, and it is also obvious that, although they may look forward to additional dividends in the future (which will of course be taxed), yet at the present they are making a considerable sacrifice. Now under present conditions this firm will have to pay Income Tax, not only on that portion of the profits that they distribute in dividends, but they will also have to pay 4s. 6d. in

the pound, or in rough figures, another £1,000 in Income Tax on the profits they are leaving in the business. It is quite certain that this must be a grave deterrent and that even from the point of view of the tax collector it would be better to encourage such a firm by not taxing profits so invested until the results of such investment materialise.

8. It is, I think, more unfortunate still that, if for any reason a firm's outcome for any year results in a heavy loss, it is not allowed to liquidate such loss without paying Income Tax on the profits which go to balance it. The present regulation as to a three years' average is a partial, but only very partial, alleviation of this hardship: what is wanted is to allow a firm that has had an unfortunate year, or succession of unfortunate years, to liquidate its past losses before it is considered to be making profits at all. In suggesting such a reform I quite realise that the necessary legislation would have to be so framed as to exclude "watered" capital. In general I believe that Income Tax should be levied on dividends and not on profits. The latter part of Question 5 I propose to deal with under Question 10.

9. *Question* 6. Undoubtedly the fact that the bulk of the National Debt is "all in the family" is an alleviation of the burden, but to ascertain the extent to which this is so would entail the tabulation of most exhaustive statistics and without this an individual opinion would be worth little.

10. *Question* 7.—This, again, is difficult to answer in the abstract, but I would repeat once more that Income Tax levied on *cash* profits, whether distributed as dividends or kept as reserve, is not nearly so destructive of business enterprise as Income Tax levied on profits that only exist in stock or machinery.

11. *Question* 8.—(2nd part). The heavy taxation affects purchasing power in two ways, (*a*) by directly draining the income of the individual, and (*b*) by increasing all prices (*see* Question 10).

12. *Question* 10.—Beyond all doubt, a great portion of the Income Tax is passed on to the final consumer in the shape of an addition to prices. In fact, I hold the opinion that the difference between direct and indirect taxation hardly exists in actual fact. A loaf of bread may be taxed, or, alternatively, the baker who bakes the loaf, the miller who grinds the corn, the farmer who grows it, and the landlord who owns the land, may all be called upon to pay Income Tax: in either case, I am convinced that the burden becomes automatically distributed by a law of Political Economy that defies all Acts of Parliament.

13. It is also beyond question that high taxation handicaps the exporter, because even if the final manufacturer cuts his profits for export markets, the firms who supply him with raw material do not cut theirs. The engineer, for example, cannot buy cheaper steel, and the steel manufacturer cannot buy cheaper coal, because the goods are finally going abroad.

14. *Question* 11.—I doubt if there is any direct effect except the obvious one, that if an individual is heavily taxed he has not so much money to spare, and also the considerations discussed in Question 5, which perhaps particularly apply to joint stock companies.

Death Duties.

15. *Question* 12.—There is no doubt that these are paid out of capital, and therefore unless they are used purely to extinguish debt, or for revenue producing purposes, they must in the end diminish revenue.

Stamp Duties.

16. *Question* 13.—In my opinion the existing Stamp Duties relating specifically to industry are not unduly burdensome.

Tax on Commodities.

17. *Question* 14.—A tax on commodities is, I think, practically always borne by the consumer unless there is a competitive article that is untaxed, in which case it is necessarily borne by the producer, provided that the producer of the untaxed article does not raise his prices.

In the Tariff Reform controversy it is usually assumed by the Free Trader that the home manufacturer would raise his prices by the amount of the tax, in which case the whole amount would undoubtedly be borne by the consumer, and it is equally assumed by the Tariff Reformer that he would not raise his prices at all, in which case the tax would as certainly have to be borne by the foreign exporter. The actual truth probably lies between these two views.

18. *Question* 15.—The first part of this question is already answered in Question 14, but as regards the second part, it may be pointed out that Customs and Excise duties are essentially taxes on *Turnover*, and this raises too big a question to be discussed in this précis.

General.

19. However taxation is levied it must, I fear, be taken as an axiom that the average standard of comfort in a country with so heavy a burden cannot possibly be so high as in a country, for instance, like the United States, and I believe we should have far less industrial trouble if an authoritative statement to this effect were made. It is amazing to me how few people, even well educated people, seem to recognise this elementary fact. It is a question of making the best of a bad situation, and we could do far better if this were properly appreciated.

1158. *Chairman*: Mr. Wright, I think you represent the National Union of Manufacturers?—Yes. I may take it that the précis of my evidence has been circulated, so you will excuse my going through it verbatim. The view of my Committee and the main point that they wanted me to urge on this Committee is that, as business men, we all realise that the position broadly is that of making the best of a bad situation, that is to say, we know we have gone through a terrible war, we know we have paid a terrible price in blood, and we know that there is a terrible price in money that, to a great extent, still has to be paid. I think business men as a rule realise that. I wish, and I think my Committee wish, that it was more generally realised in the country than it is. That is to say, we have to bear a very heavy burden which, in meal or in malt, has to fall, broadly speaking, on every man, woman and child in the country, in some degree or other. The view my Committee hold very strongly is that so far as possible that burden should be levied more on what is taken out of a business than on what is left in a business. They take the view that a business man, or a board of business men, or the business men represented by shareholders, can take two different attitudes towards profits. They can say: "My business last year was a profitable business, therefore I will take out a bigger income, I will move into a bigger house, I will buy a new motor car, I will take on new servants, I will do this, that and the other." That is one view, and it is a legitimate view. A man has a right to do that, if he wants to. On the other

hand, he may say: "The business has made some profits, there is a certain amount of surplus cash available that I did not have last year; I will not take that; I will live on what I did live on and I will devote that surplus money to enlarging the factory and putting down more machinery and taking on more men and developing the business generally." The very strong view of my Committee is that those two men ought to be treated in two very different ways. The one is quite legitimately taking his surplus profits for, if you like to put it so, his own selfish pleasure; the other is using those surplus profits to employ more men, to develop and expand the business of the country, and is performing a public service to the country. To go to both those men and say: "You have made the same profits; you shall both be taxed 4*s*. 6*d*. in the £ on those profits," or more if it is a question of Super-Tax, is, we feel, a handicap to the development of business. In other words, everybody wants to develop the resources of the country, and the man or men or firms who leave capital in the business for that purpose are serving the country better than the man who takes it out. So my Committee have asked me to urge very strongly that taxation should, as far as possible, be levied on money that is taken out of a business and not on money that is left in a business. Furthermore, there is also this very important matter. A great many businesses, especially perhaps manufacturing businesses nowadays, have been passing through a bad time. There are many businesses whose balance sheets for year after year have shown a considerable loss. Under the present law, if a firm has lost, say, £10,000 in one year and makes up that loss in future years, except so far as the three years' average covers them—it does not cover them very far—as they make up their past deficiencies they have to pay Income Tax. The view of my Committee, again, is very strongly that so long as a business firm's balance sheet shows legitimately a balance on the wrong side—I use the word "legitimately" because we all know what can be done in the way of colouring balance sheets—it should be allowed to make up those losses without paying Income Tax on the profits that go to make them up. I think that is the main gist of what I was asked to put before you There is a further question that this Committee ask with regard to Customs and Excise duties, and I have contented myself in my evidence with simply pointing out that they are essentially taxes on turnover. Taxes on turnover are a very big subject. On that point, perhaps I may frankly say my Committee are not unanimous. Therefore, they asked me, in my written evidence, not to put anything very strongly with regard to those particular forms of taxes. I have fairly strong personal views on the question of a tax on turnover, but they are not necessarily the views of the National Union of Manufacturers. My Committee are somewhat divided on that particular point; but they are quite unanimous on the points which I have been asked to put before you.

1159. Have they given any time to the consideration of the question of the National Debt? I quite understand the objection to taxation, but is there anything on the other side? Have you considered that question?—We have certainly considered it, but beyond the remark I have made in one of these paragraphs, I am afraid we have nothing very much to say. My Committee feel with me that as far as this present generation is concerned, we should all be better off if we made no effort to pay it off at all. But we all feel that for the sake of posterity it should be paid off and paid off as fast as we legitimately can; but I do not think any of us have any golden recipe for doing it; I wish we had. We are doing it by slow degrees, and I think it is the opinion of all of us that the present rate—not the rate during the last few years, largely abnormal through the sale of assets, but the rate of to-day—in the judgment of my Committee, is a fair rate; but we have no heaven-sent recipe; I only wish we had.

1160. I was only wondering whether, as your Committee are men who are engaged in business, they could help us in that matter. You say that you think the present taxation is wrong, but that is not much use to us. Have they given deeper consideration to the whole question of the finances of the country? Have they any idea to put forward as to how further money could be raised? Have those points been brought into consideration?—We have considered those things very fully, but I rather took it that with regard to this Committee we were debarred from suggesting further methods of taxation. I hope I could give you an eloquent speech on the advantages of taxing foreign imports, but I rather took it that that question was barred from this Committee. I know my Committee feel very strongly on that subject.

1161. You may give an expression of opinion if you like.—I think you may take it that the whole of my Committee are quite unanimous on the main question that a tax on imports would be beneficial to the country and the easiest way of raising some part of the taxation necessary. Having gone so far, up to that point we are all unanimous.

1162. *Professor Hall*: All imports?—No; on imported manufactured goods only. When we come to details we are not unanimous. There is a section of my Committee; and a very strong section, I think the majority, who agree with the view that I have put forward in the National Union of Manufacturers for some years past, that it is against the interests of this country or any country to make violent changes. Now England has been a free trade country for a great many years, and although the majority of the Committee agree with me that a change of that policy would be beneficial to the country, the majority, I think I may say, also agree that that change ought to be brought about very gradually.

1163. *Chairman*: I think that will be sufficient on that point. Have you anything further to say on your paper?—I think not.

1164. *Sir Alan Anderson*: Of course, it is a very heavy burden, but you do not suggest that we ought not to bear it?—No.

1165. You have no suggestion for a particular way of lightening it or throwing the burden on to someone else, except possibly this way of taxing imports?—No. I think the view of all of us is that the burden has to be borne. I should be very sorry to see this country try to dodge it, as some countries have.

1166. Not merely as a moral effort, but, from a business point of view, you think the credit of the country is a very important asset for every manufacturer in it?—Yes, I do.

1167. And worth paying for?—Yes.

1168. In paragraph 4 of your evidence you are talking about the effect of Income Tax in making people invest here or abroad. You say the investor is inclined to prefer Great Britain to China because he is safer, but the fact that he has to pay an Income Tax of 4s. 6d. in the £ on investments in this country must necessarily be looked upon as a drawback?—Yes.

1169. But unless he makes a false declaration the British investor has to pay Income Tax on his Chinese investment, has he not?—Yes, to a great extent he has; not, of course, immediately if he leaves a good deal of that money invested abroad; he can avoid it for a great many years in one way or another, as we know, by leaving the money abroad.

1170. *Mr. Hichens*: Not honestly?—Well, it can be done.

1171. We are talking about honest men?—Excuse me. I think we are getting on to side issues. I am referring in this paragraph more to the question of the foreign investor. I understood the question referred to that. The foreign investor has not to pay

Income Tax in this country. The American who invests money in China has not to pay the English in the case of the honest British investor?—No.

1172. *Sir Alan Anderson*: But that would not work in the case of the honest British investor?—No.

1173. Because he would have to make a false declaration to escape the tax?—That is so. Of course, his temptation is to invest his money abroad and to go abroad with it.

1174. In paragraph 5 you say that the paying off of debt is of little or no advantage to the present generation. You have already agreed that the credit of the country is of very great importance to the individual. Would you not agree that paying off the debt was the best way of improving the credit of the country?—Yes, I think that is really the one and only advantage to the present generation of doing it.

1175. It is a pretty substantial one, is it not?—Yes, I think it is a fairly substantial one. I think our credit stands higher probably because we are doing it. I think that is the one solid advantage.

1176. I think we can console ourselves that we are not only being generous to our descendants but we are doing something for ourselves too?—Only, from the point of view of the present generation, I think it would do us more good to keep the money.

1177. It is rather dearly bought credit, you think?—Yes.

1178. With regard to your paragraph 6, of course high Income Tax must affect business; but would you say that it affects business more than any other tax? You agree that we have to carry the burden; we have to raise the money somehow?—I think it does if it is put on profits that do not exist in cash. What I mean is this. If a works manager comes to his directors and wants to put down some additional machinery to the extent, say, of £500, they have to consider whether they can justifiably spend that money. Now the fact that it is not £500, but in rough figures £600, since the money will be part of their profits and they have to pay Income Tax on it, makes a very serious difference to the decision. I can answer that as a matter of fact. When any request is made by the foreman or works manager or other official of my own business it is always looked at in that light. It is remembered that it is not only the money spent, but 4s. 6d. in the £ on that money as well that is involved, and you quite see that does make a difference.

1179. You have to pay away that 4s. 6d. whether you put the money into the business or not?—Yes, but if you are paying your shareholders that money in dividends then they must not grumble at paying 4s. 6d. in the £ on it, but if they are not handling that money and they have to find that 4s. 6d. in the £ out of the dividends they have got, it makes a very big difference.

1180. Of course, they are not quite going to do that. Your investment is going to be improved by a lesser amount. That is all that happens to them?—The money for Income Tax has to be found in cash.

1181. Instead of being paid to them?—Yes, and they have to pay it out of what are already diminished dividends, because you have taken part of the money that really would be given in dividends to pay for this additional machinery. You have, so to speak, provisionally earmarked that item. Now you have to ask them for a further item to pay 4s. 6d. in the £, which certainly is a most serious consideration to the majority of manufacturers.

1182. Then paragraph 7 is your main point really, is it not: that profits that are re-invested should not be taxed?—Yes, or if taxed at all, should be taxed more lightly; if possible, should not be taxed at all.

1183. Should be favoured, anyway?—Yes.

1184. Of course, certain classes of business escape Super-tax, and that money you will have in your business. That is a very big thing, is it not?—Yes, that certainly is.

1185. Then if you went further and did what you are suggesting, would you not be favouring one class of organisation at the expense of others? You are favouring the thrifty business. Would it not be rather unjust not to favour also the thrifty individual?—We are favouring the man who is using his resources for the good of the country, and it seems to me that man ought to be favoured.

1186. Would you not have to do that with the individual? Supposing the individual saves his money and uses it for the benefit of the country by putting it into more machinery for his firm, or puts it into industrial shares, would he not have to escape too? (*Mr. Hichens*): A private individual might invest in industrial shares and the money might be used for buying machinery?—(*Witness*): Yes. The essential thing is that he has had it out of industry in the first place. He may like to put it back again, but he has had it out.

1187. *Sir Alan Anderson*: I suppose from the point of view of the tax-gatherer the profit has come out of industry. It has been realised as profit, and then it has been put in again. The only real difference, I think, it that in one case you are advocating that it should escape when this re-investment is done by the business; and it suggests itself to my mind that it would not be quite fair unless you extended the principle and said that the individual should escape too if he re-invested?—It seems to me that would be an almost impossible thesis, because nobody keeps all his money in a silk stocking. If a man has more money than he wants he invests it in something, but the point is, he has had it out in cash first; he has drawn it out of industry. The man who draws it out of industry, whatever he does with it afterwards, I think should be treated differently from the man who leaves it in.

1188. Then on your paragraph 8 will you tell me what exactly that means? If a man has made a loss which he is unable to pay off by his three years' average out of profits would he carry forward his loss?—Yes. There are many firms to-day who made a loss during 1920 and 1922 that it will take, in some cases, ten years to liquidate. It seems to my Committee a very great hardship that while they are liquidating those losses they pay no dividends, they have made no real profit, their balance sheet still shows a balance on the wrong side—they should be asked to pay Income Tax on profits that do not really exist. They may have made £1,000 profit this year, but that only goes to make up part of the £10,000 loss they made three years ago. It seems to us a great hardship that they should be asked to pay Income Tax on what is only making up back leeway.

1189. You would carry that on indefinitely?—Until the balance sheet equalises.

1190. Without any time limit at all?—Yes, practically without any time limit.

1191. Then on your paragraph 15, regarding Death Duties. Of course, Death Duties are inevitably paid out of the capital of the individual, out of profits that he has saved; but if you look at it from the national point of view, do you think there is any distinct line to be drawn between a heavy collection on Death Duties and a heavy collection on some other head? Do you think it really matters to the nation's position which way the nation collects it?—I am not prepared to say it does, at any rate in moderation. There is no doubt that at present the Death Duties are so high that in certain cases they act as a block to industry. I am not prepared to say they do in every case. I think we all know cases where business has been seriously handicapped by the death of a partner and the necessary payment of Death Duties. Of course, in some cases where a business is in a thriving state, additional capital can be got, but that cannot be done in every case. But, broadly speaking, I do not think it can be denied that Death Duties are essentially a tax on capital. Of all forms of tax on capital they are probably as little felt as any, but that they do to a certain extent drain

capital I think must be taken as a fact. Therefore my Committee feel that so far as possible money levied in that way should be used either to extinguish debt or for revenue-producing purposes; otherwise you are to a certain extent living on the capital of the country. If you take that money to extinguish debt or to invest in some national scheme that is going to produce revenue, then you are doing nothing of the sort from a national point of view. You are using your national capital as a man uses his private capital, to produce revenue.

1192. It is possibly a little academic to talk about whether it is national capital any more than a big sum levied for Income Tax, but what you say is that it is very inconvenient to the persons and that the individual business has to get it out of its capital?—Or get additional capital in.

1193. And that it is particularly inconvenient because it comes in a lump?—It comes in a lump and comes, in some cases, when the active head of the concern is taken away.

1194. And as the active head knows that he will be taken away before it comes, he may not have made the same provision as he would otherwise have made?—He may not, or he may; that depends on the character of the man.

1195. *Sir Arthur Balfour*: How many members are there of the National Union of Manufacturers?—A good number, a fairly big membership; but I am afraid I could not give it to you offhand.

1196. Perhaps you would let us know that?—Yes*.

1197. You refer to the swelling of the reduction of the debt by sales of assets. Do you refer to the Disposals Board sales?—Yes, primarily. It is well known, of course, that for several years after the War we did pay off debt to a very considerable extent largely by the sale of surplus stores, and I refer to that as an abnormal state of things that obviously cannot continue.

1198. Would it not have been better if we had paid it out of the sales of assets? As a matter of fact we paid off very little by the sales of those assets, because the money was taken as general revenue. It was only a slight surplus that really fell in?—I agree; I think the proceeds of the sale of those assets should have been almost entirely devoted to paying off debt.

1199. You say in your paragraph 7 that it is detrimental to industry to tax the profits of a business until these profits exist in actual cash. What do you mean by that; do you mean until they exist in actual cash in the bank?—I mean cash. If I find on getting out our next balance sheet, that my firm have made a profit of £2,000, and the whole of that £2,000 exists in stock which we hope to sell some day, I draw a sharp distinction between that and profits that exist in the shape of £2,000 in the bank.

1200. In other words, you say that if a firm had made £50,000 profit and they have overdrawn the bank £50,000, they ought not to be taxed at all?—Either not at all, or, as I said before, lightly. They have left their profits in the business.

1201. Surely that would not be fair to taxpayers as a whole?—I think it would.

1202. You might accumulate assets in that way and avoid taxation for a very long time, and throw the burden on to others?—Yes. That means in effect that those men, or those shareholders are presumably working very hard and they are not reaping the results of their industry; they are unselfishly leaving those results in for the prosperity of the country. I believe it is a sound doctrine. I read a book on political economy when I was quite a small boy, and I came across a phrase that struck me, and has been more or less working in my brain ever since, and I believe it is correct; that the best service a rich man could render his country, or any country, is to collect all his gold into a bag and take it out to sea and drop it overboard. He has put in a lifetime slaving for the country and he is practically making a present to the country of the whole benefit of his work. Now I think that shareholders who do as you say, until they take it out in dividend, are doing the same thing.

1203. You must see that the differentiation, from the point of view of the tax collector at Somerset House, is an impossible one?—I do not think so.

1204. You get an individual who has a sum of money paid to him. He goes out and buys industrial shares. Is he doing a less service than the other one? Your suggestion that he is taking money out of industry does not hold good in that case?—You can always find cases of a man who takes out £1,000 in dividends and immediately invests it in something else and does not spend a penny of it on himself. I agree, in a sense; but I think you would be up against an impossible problem if you tried to levy your tax according to the way a man uses his wealth.

1205. Surely that is what you are suggesting?—No, I think not. I think there is a distinction between leaving money in an industry to develop that industry, and taking that money out and then, having taken it out and spent whatever you want to spend, at the end of a year saying: "Now I have got so much left over that I have not been able to spend, and I will put it back into something." I think there is a very sharp distinction there.

1206. *Sir William McLintock*: In paragraph 4 you refer to the investor at home or abroad being affected by a high tax. Have your members or you personally any instance that you can give us where a foreign investor, by the lack of his capital, makes much difference to the expansion of trade at home?—No, I do not think I could, and I think it would be very difficult to get definite evidence on a point like that.

1207. Is there any indication from the industrial investments that are offered week by week in this country that people with capital here are in any way afraid to invest their money in industrial undertakings, where they are sound and there is a reasonable rate of interest?—The difficulty in answering a question like that, I think, is that since the War conditions have been so abnormal that it is a little difficult absolutely to apply cause and effect. It is, of course, common knowledge that if you want to get money to-day for any business, you have to pay a higher rate of interest than before the War; but I do not think I can from that fairly reason that that is purely due to the cause suggested here. In fact, I think I may almost say that a great part of it is not. A great deal of it has to do with the decreased value of the sovereign. That, to a certain extent, has remedied itself since the value of the English pound recovered to a certain extent. I think we shall all remember that only two or three years ago firms of the very highest standing and good security, literally gilt-edged, had to ask for debentures at 7 per cent. or even 8 per cent., whereas those same firms to-day could probably get those same debentures at 5 per cent. That 5 per cent. is somewhat higher than it would be before the War. But that is rather what I mean; there have been so many causes at work. It certainly is a fact that a firm trying to get capital to-day would have to pay a higher rate of interest than they would have to pay, say, in 1912, but with a dozen causes all affecting that position, I should not like to try to advance any definite proof, and I do not think any of my members would, as to how far one cause has affected it more than another.

1208. So far as the higher rate of interest is concerned, it is discounted to some extent by the higher rate of tax which is deducted?—Undoubtedly.

1209. As a matter of fact, in this country it is not the high Income Tax that will prevent the

* The membership was subsequently stated to be about 1,700 individual firms besides 20 affiliated associations with a considerable membership.

investor putting his money into industry, because the interest on that money will have to bear Income Tax wherever it may be invested?—If it is owned by anyone resident in this country, yes; but I took it that this question rather referred to the point of getting capital from abroad. I read it so.

1210. In paragraph 6 you say: "There is no doubt that the high Income Tax does very much affect the supply of capital for business enterprise and especially enterprise that breaks unknown ground." I suggest that the fear of not getting a return on money for new enterprise may prevent capital being forthcoming, but not the tax on the revenue from it?—You misunderstand me a little there, I think. When I say a high Income Tax does very much affect the supply of capital for business enterprise, I am referring more to the fact that the high Income Tax acts as a deterrent because few people have so much money to spare.

1211. You mean the savings available are not so great?—Yes; and when I speak of new enterprise that breaks unknown ground, I mean, in other words, that you do not in the least know whether it will return a revenue or not. I think the bulk of that money in years gone by has been largely found by well-to-do men who can afford to risk a few hundred pounds. If they lose it, it does not particularly cripple them. I think as a general axiom it may be taken that the majority of small investors who have saved up a little, prefer to put that little into something gilt-edged, whereas the man who has a good surplus, if he is asked to contribute to some new enterprise that may bring in a fortune or may mean the loss of every penny, is more inclined to risk money that he can spare. I think it is almost obvious that that should be so.

1212. With regard to your views as to taxing only dividends, or, in the case of unlimited companies and private firms, taxing only so much of the profits as are in the business in actual cash at a particular date, you are aware, of course, that you pay your Income Tax on a three years' average?—Yes.

1213. And that the actual payment of the tax on the profits earned in the past is at a period of time long after the profits have been earned?—It is broadly at the close of the three years' average. The Income Tax you pay to-day is based normally on the average profits of the three past years.

1214. Carry this principle of yours a little further. You decide to spend £2,000 out of your current earnings on extensions of plant; that is one part of the profit you say should not be taxed. By extending that plant you have to carry more stock, you are going to sell more goods and you are going to carry a greater amount of debts owing to you. Where are you going to stop this principle of yours? It is cumulative. Every time you make an extension, you want more stock and you have to give more credit for the extra goods you sell. Do you suggest this should go on rolling up like a snowball year after year?—If you have philanthropic and patriotic shareholders who will be content to go on year after year without getting any dividends, and who will say: "It is for the good of the country, leave it in," I should suggest, Yes. In actual practice it will not be so; the shareholders will soon begin to howl and want some return.

1215. I suggest to you that the average manufacturer, when he decides on an extension, has primarily number one in mind, and not the good of the country?—Granted. I think we shall get on best if we assume that, practically speaking, everybody is going to be selfish.

1216. But any business man who extends his plant or his buildings says: "How much extra profit can I make by this extension"?—I quite agree that is the main object. At the same time, he performs a public service in so doing. It may be for his own selfish interest; I do not say it is not; but the fact remains that he is acting as a philanthropist to the country, probably because he thinks it will pay him to do it.

1217. Assuming that what you are contending for were to be put into force, do you agree there would be a tremendous shrinkage in the revenue from Income Tax?—I think I should agree if you leave out the word "tremendous."

1218. You are enlarging on the burden that it imposes, so that it must mean a big drop in Income Tax?—It would certainly mean that for the first year, or possibly a year or two. It is my opinion, and it is the opinion of my Committee, that after a year or two the thing would balance out; that is to say, I think you would relieve industry of a very considerable burden on it, and it is our opinion that within a year or two you would get as much increased revenue as to-day you are losing; but for the first year or two I think it would mean a shrinkage.

1219. They get that increased revenue in any event by reason of the extensions?—I do not quite agree there.

1220. Assume there is a shrinkage of revenue, would you have it made up by imposing a higher rate of tax on the balance of the existing cash, or on what members of the community are you going to throw this burden on which you wish to be relieved?—That question is very difficult to answer. In the first place, we should have to ascertain what the amount of the shrinkage would be. You have put it as tremendous; personally I think that is an exaggeration; I do not think the shrinkage would be so enormous. So far as there is a shrinkage, it would obviously have to be made up by increasing the tax in other forms, either by increasing the Income Tax on the money that is paid out in dividends, or by increasing the Customs and Excise, or by doing what most members of my Committee would like to see done—putting a certain amount of tax on imports. It would have to be made up in some way; that is agreed; but as to what the sum is that would have to be made up, I do not think perhaps we are agreed.

1221. As long as somebody else pays it, your members do not very much mind who pays?—I think you are rather overlooking the fact that most business men take out dividends as well as leave their money in the business. I do not think it is a question of us or somebody else. I think the majority of businesses pay something out in cash, and some businesses, not all, keep something in. If you will allow me to say so, I do not think you can fairly go to the manufacturers or any other large body of business men and say: "You are a man who kept your money in the business; you do not pay it out in dividends." I think the majority of manufacturers do both, and I think you may take it that it is not every manufacturer who leaves his money in, but it is every manufacturer who takes some of his money out, or else he could not live. Therefore we are certainly not suggesting that you should not tax us but that you should tax somebody else; we are suggesting that you should tax one form of our profits and not another form.

1222. In paragraph 8 you refer to the liquidation of a loss and no relief in regard to Income Tax. Are you aware that if a business makes a loss in a particular year, it is entitled to claim back the tax on that loss? Assume a business has had three years of profits and then a year of loss, you are not asked to pay tax except on the average in excess of the loss?—Not for that year; that is so.

1223. Then your contention is that losses should be carried forward for all time?—Yes, broadly. I would not say that there should not be any time limit, but, broadly speaking, yes.

1224. At present, with the three years' limit, there is no hardship for a period of three years?—Well, there is, if you will excuse me. If you take the case—I will not say such a case actually exists, but supposing it does—if you take a case where a business alternately makes an equal profit and an equal loss every successive year, we will say it makes £1,000 profit one year, and the next year £1,000 loss, and the next year it makes £1,000 profit, and so on indefinitely, that firm, after a long period of years, we will say 20 years, is neither a penny better off nor worse off than when it started, but it will have had to pay a considerable amount of Income Tax.

1225. I do not think that is so, but in your paragraph **8** you have a statement which ignores the taxpayer's right, in a year of loss, to claim relief to the extent of that loss. You are aware of that?—Yes.

1226. In paragraph **12** you say, "Beyond all doubt, a great portion of the Income Tax is passed on to the final consumer in the shape of an addition to prices." Will you just say very briefly how the manufacturer recovers that tax in the price of his goods? Is it put in as an element of cost when he is arriving at his price?—It is a very difficult question to answer in the abstract.

1227. Are you a manufacturer?—I am a manufacturer.

1228. When you examine your own costs, is there an item in them for Income Tax?—There is not an item for Income Tax as such, but we do certainly have to allow more for what are known as overhead charges to-day than we did before the war. There is no question about it, overhead charges have gone up. They have gone up partly because not only the workmen—the workmen do not, as a rule, come under overhead charges, they come under direct charges—but the supervising staff, the managers, the clerks, everybody has to have higher salaries. Of those higher salaries, a part is undoubtedly caused by taxation; their cost of living is higher. Nobody can live on the same income as they lived on before the war.

1229. I suggest to you that the overhead charges to which you are referring do not include Income Tax as a specific item of cost?—As a specific item, I agree with you.

1230. What you do is this, if I may put it. You arrive at the cost of the article allowing for all the increased overhead charges, and you then find this particular commodity will yield you a given rate of profit; but Income Tax does not enter specifically into the question?—Not specifically, I agree. Specifically I doubt whether any firm allows an item in its balance sheet for Income Tax, but in the way of increased overhead charges, I have no hesitation whatever in saying that it comes into practically every business calculation.

1231. *Mrs. Wootton*: You say in paragraph **5** that you see no particular advantage in paying off the debt and possibly some considerable disadvantage. That is from the point of view of the present-day business man? Would you, however, agree that the debt involves a very great burden, so long as it is there?—Undoubtedly.

1232. And that is, as far as it goes, an argument for making an effort to repay?—Yes. My point there rather is that at any reasonable rate, we will say £30,000,000 to £40,000,000 a year, which, broadly speaking, I suppose is the rate to-day, the amount of difference it will make in the lifetime of any present-day business man is comparatively little, and is little, I think, in comparison with the effort needed to do it. That is a rather important point.

1233. Therefore if the burden of repayment is small, altogether negligible, as long as you keep it to a comparatively small scale you can afford repayment on that scale?—Yes, that is what it comes to, and I certainly think it is the duty of the country, for the sake of posterity, to make the biggest effort it reasonably can.

1234. The country is not taking its duty very seriously, perhaps. On your view, it is the duty of the country to make the smallest effort that it reasonably can, from one point of view?—No; I think it is the duty of the country to make the biggest effort it can. It is to the immediate benefit of the country to make the smallest effort, but it is the duty of the country to make the biggest effort.

1235. You are suggesting that the country should make a small effort, although you desire that it should, from the point of view of the future, make a big effort. I put it to you that £40,000,000 to £50,000,000, which is the figure of to-day, is not going to have an appreciable effect on the debt in the lifetime of many of us?—No, unfortunately, not.

1236. So that it is really not helping any posterity that we shall see?—Posterity is another thing. The present generation and the next generation, and the generation after that, are not the same thing. In the lifetime of the adult business men of to-day the present rate of paying off the debt will not make a very big difference, obviously.

1237. You say there is a duty of the country, but the way you propose to carry out that duty will help the future of the country after we are all dead?—Yes; it will begin to help us before we are all dead.

1238. But not to any very large extent?—That is right.

1239. As to this burden of the debt, you represent manufacturers, and I want to ask you whether you think that the debt is a serious factor in present-day unemployment. Supposing that the debt were removed, not by any special means, but supposing some beneficent power came and paid off the debt for us, do you think that would stimulate employment?—Undoubtedly.

1240. So that you would include the burden of debt among the causes as far as our present-day unemployment is concerned?—Yes, most decidedly. The main cause of the present unemployment, I am convinced, is high prices. There is any amount of work needed in the country. You can go down any middle-class street you like to find and knock at every door and ask the lady of the house whether there is not something she wants, a new carpet or a new armchair, or new crockery, or something, and three times out of four she will tell you, yes, but she cannot afford to buy it. Unemployment is not due to want of demand; it is due to high prices to the general public, and I mean by that the whole world, not only this country—high prices which the market cannot afford to pay.

1241. Then you take the further step that high prices are connected with the debt?—Partly; I will not say wholly, but partly.

1242. But you would agree, would you not, that the debt is a serious factor, shall I say an appreciable factor, in causing the present unemployment?—I think so, undoubtedly.

1243. All those considerations rather suggest that if we can do something towards repayment, it is a very beneficial thing?—I think that may be granted.

1244. We had a witness here yesterday from whose evidence it appeared that there might be a distinction between the payment of interest on the debt and the repayment of the debt itself, in so far as money required for both those purposes is raised by taxation but is used differently in the two cases. Let me consider them separately. If money is raised by taxation to meet interest on a debt, that money comes to the debt-holder as income; probably he is in the habit of saving part of it, probably he spends part of it. The money is taken from the taxpayer who, if he had not been so heavily taxed, might, and pretty certainly would, have saved some of it. There is a transference as to the nature of which we cannot be quite clear. That may be disadvantageous to national savings, or it may not. When it comes to the repayment of debt, the amounts which are taken from the taxpayer are exactly the same, but when they are handed over to the debt-holder, they come to him as a capital payment, and if he is an ordinary person, he probably seeks another investment. I put it to you that from that point of view the taxation involved in repaying the debt is less burdensome, less injurious to the increase of national capital, than the taxation involved in paying interest on the debt. Would you agree with that?—I think in the main I do. It is one of those very broad questions which it is difficult to answer too minutely. For example, the man who gets interest on the debt may have surplus money and reinvest it; but broadly, I think you are correct. To take an individual case, I think a man who buys a house and pays a small deposit down, and, to put it colloquially, pays the remainder as rent, and who feels that

every year he is paying something to his landlord but the property is becoming his, has a more satisfactory feeling than the man who goes on paying rent year after year and the house is no more his than it was when he started; and I think what applies to the individual applies to the nation. To strip ourselves as far as we can in the way of taxation and to pay out money and to feel that we are paying off the capital, is, I think, a more satisfactory state of affairs than if we are merely paying interest on it. Broadly, I do not think that theory can be challenged.

1245. That gives us some little encouragement or consolation perhaps in our efforts to repay the debt?—We want a little.

1246. *Chairman*: Have you really followed the question that Mrs. Wootton put to you?—I think I have. It is one of those broad questions that are very difficult to answer except on broad lines, and I think I quite take that in.

1247. *Mrs. Wootton*: I suggest to you it may be a point of some importance, because I think you would agree that the normal person who has a debt repaid does not spend the money?—Of course you must remember that you are dealing largely with a transference of capital, after all. You take so many thousand pounds from A and pay it to B. B may have the money to invest, but A has no longer got it. You are simply transferring the money, provided that A and B are both residents of this country.

1248. *Professor Hall*: Is not the point rather that you are transferring from income to capital: taking from income by taxation to repay a debt holder who is going to use that as capital?—Of course that depends how you take it. As I remark in this précis, if you take it in the way of Death Duties, you are essentially taking it from capital to pay capital; if you are taking it out of Income Tax, you are taking it from income to pay capital. That is why I rather suggested here that if you are going to levy anything in the way of Death Duties, which is essentially a capital levy, money levied in that way should be devoted either to reduction of capital debt or to some revenue producing purpose.

1249. *Mrs. Wootton*: Let me put the point once more. You take it from A and give it to B. We do not know what A would have done but he would probably have saved some of it. If you give it to B as interest on the debt he probably spends some of it; if you give it to B as paying off the debt he is almost certain not to spend it. Therefore the injury in giving it to B to repay the debt is less than the injury in giving it to B as interest?—Unfortunately you are up against the fact that you have to give it to B anyhow. If you give him something in the way of paying off capital, it is ultimately for the good of the country, but the two things are in different categories. You can pay back the capital as fast as you can or as fast as you think fit to do so, but you have to pay the interest. You come again to the allegory of the man with the house. He has to pay rent for it; if he can afford more than that to buy the house, so much the better for himself.

1250. The quicker you pay off the capital the less time you have to pay interest?—Certainly.

1251. That may be a reason for taking a more rapid rate of repayment than one otherwise might?—Agreed. If we could pay off the debt at such a rate that 20 years would see the end of it, I think everybody would say it would be joyful: but I am afraid we cannot.

1252. The other question I want to ask you arises on paragraph 12 of your evidence on Income Tax and prices. You take, if I may say so, rather an extreme view there. You say that the difference between direct and indirect taxation hardly exists in actual fact, and you go on to point out that the burden becomes automatically distributed by a law of political economy that defies all Acts of Parliament. I do not yet feel quite clear as to how you think the Income Tax gets into prices. Can you tell us more about that?—I have already in a sense tried to answer it, but it is very difficult to do so except by writing a complete thesis on the subject; but I think it must be taken for granted that everybody concerned, if their revenue is depleted by Income Tax or any other reason, tries to get more to make it up. Shareholders to-day expect to get more for their money than they did before the War, as I pointed out just now. If you try to get money by debentures or anything else you have to pay a higher rate of interest for it. I have no doubt that is largely because the cause and effect have acted and re-acted. If I may refer to a political matter for a moment, we all remember the famous Budget of 1909, that was going to put all the burdens on the broadest shoulders. I was one of those who said that will simply react on prices, which will go up everywhere. Well, it did. We are rather inclined to assume that the high rate of living was absolutely caused by the War. In the main it was, but if you study industrial conditions between 1909 and 1914 there had been a gradual all-round rise of prices. I am giving this, I may say, more or less as my personal opinion, not necessarily as the unanimous opinion of my Committee; but my own opinion is very strongly that however you levy taxation, in the end it gets levelled round by a law of political economy which, as I said, I do not think Acts of Parliament or any other Act can permanently alter. They may alter it for a year or two, and they may alter it with regard to any special commodity. At present our legislators are endeavouring by Acts of Parliament to affect the price of houses. Well, in one particular thing I grant you they can do it, at any rate for a space of time; but in the long run and on broad lines applied to every branch of industry I am quite satisfied that things level up. However you levy taxation, direct or indirect, in the course of years I am convinced it re-adjusts itself.

1253. It may be said that is a very revolutionary doctrine. I do not know whether you are aware that it is also a doctrine commonly put forward by the rather more advanced Socialists, namely, that all taxation eventually gets shifted and comes out of the pocket of the working class somewhere?—Yes, I think they are quite right in that particular point.

1254. I want to put to you that, if that is so, it makes the burden of the debt a very serious thing, because it means that the ordinary consumer is bearing that burden largely in proportion to his consumption, and that, you would agree, is not a particularly equitable method of spreading the burden?—I made the remark early at this meeting, and I had in mind that very point, that the burden of the debt had to be borne by every man, woman and child in this country; I do not say in equal degrees, but it has to be shared by every unit of the population, rich or poor, in some degree or other.

1255. *Mr. Lees-Smith*: Upon this question of the taxation of the profits of a business, I want you for a moment to consider the position of a professional man. Take the case of two professional men earning £1,200 a year each: one of them spends his £1,200 and the other spends £800 and uses the remaining £400 in capital investment with all those beneficent results to the community that you have been explaining to us. Will not that man who spends his £400 on capital investment be helping industry in just the same way and to just the same extent as if you put £400 from the profits of your business back into your own business? Will not his £400 increase the capital of the community as a whole just as your £400 does?—Yes, in a sense it will. It is one of those questions that make us realise that you cannot legislate for every individual in the country, but at the same time there is the difference that he has had the revenue in cash. That, I think, is the broad distinction that wants bearing in mind. I think if you go into the question of what a man does with money he has got, you will be entering into all kinds of questions. You are dealing with a man who has handled the money

in cash; to my mind that is a very different matter from the firm, or board of directors if you like, who say with the consent of the shareholders: "We will never give them this in cash at all; we will keep it in to develop the business and find more employment." I think there is a very solid distinction there.

1256. And yet in the case of the professional man who invests £400, in fact, he can claim to have performed as great a service to the community as is performed when it is put back into a private business?—If you go into what this man does with his money——

1257. I would like an answer. Is your view that he can at any rate equally claim that and justly?—Yes. I think there are thousands of men in the country who could claim a rebate on the score that they are doing something useful with their money.

1258. Is not this really the difficulty of your proposal: you are proposing to give to a special small class of the community, represented by your own Committee, a concession which can equally justly be claimed by everybody who saves part of his income and invests it for capital purposes, and when once that follows you arrive at what you yourself say is an impossible position. Is it not the fact that your proposal cannot be carried out without leading the Revenue authorities into an impossible position, and therefore you are continually led to explain how you are to have a certain concession which other people can equally justly claim, but which you are not willing to extend to them?—No. I do not agree, and the Committee does not agree to that, because in the one case you are dealing with a body of men who never touch the money. The point I want to bring home is that revenue should not be taxed until it is revenue; that is the broad line.

1259. *Sir Arthur Balfour*: Until it is profit?—Until it is profit in cash—until it is revenue.

1260. *Mr. Lees-Smith*: I should like to follow up this point made by Mrs. Wootton with regard to the payment of the Sinking Fund on the National Debt. If you impose, we will say, Income Tax and use the proceeds of that Income Tax to repay a portion of the National Debt, the point Mrs. Wootton put was that the money that you obtain from your Income Tax does not all come from capital payment, but it comes from what would otherwise be spent in ordinary comforts and ordinary expenditure. Partly it may come from capital, but partly it comes from ordinary expenditure. If the money so obtained is used to repay debt, the whole of it is used for capital purposes. Those whose debt is repaid will take that money and will use it for other capital investments, and so in this way you are able to obtain a certain sum of money which comes from the diminution of expenditure and use it to add to the sum total of capital?—Yes, I think that is agreed; I think that certainly is so. The point I tried to make clear to Mrs. Wootton is, that you have to pay the interest on the debt anyhow. Anything you pay off for capital has to be additional. If we can afford anything from our revenue to pay off capital, so far as that actuates, it is undoubtedly freeing the country from a very serious incubus. Unfortunately the capital amount of the debt is so colossal that the amount we can possibly spare without hopelessly crippling enterprise is so comparatively little; that is the trouble. I think we all wish it was bigger.

1261. You see, your expressing that view on behalf of the National Union of Manufacturers gives it special importance, as the discussion will show.—It seems to me an axiom that cannot be disputed that if you can afford to pay off your capital debt out of revenue so much the better. I do not think anybody can disagree with that theory.

1262. You yourself in your earlier evidence have emphasised as the chief feature of your evidence that anything we can do to divert money from expenditure to capital investment should be encouraged by Revenue and by this Committee?—Yes, I think so; I think that is quite correct.

1263. *Mr. Bell*: I want to ask one or two questions about the taxation of profits which are not used in dividends: do you apply that principle to all joint stock companies?—I think I would.

1264. To insurance companies?—I think so. I will not say you could not find possible cases, but broadly speaking I think so. I do not think I have any exceptions in my mind.

1265. Investment companies; investment trusts?—I think so. I think it is a sound policy.

1266. Then those large accumulations which those three entities very rightly and properly make in the way of reserves, which are now taxed, would escape taxation altogether?—You are coming on to another matter now.

1267. Oh, no.—Excuse me, in a great many of those concerns you are speaking about these profits exist purely in cash.

1268. No; that is just what they do not exist in; they exist in writing down buildings very largely, and they exist in certain allocations for possible losses in the future, and in various ways which are not cash. The fact that a thing is cash is really, if one may say so, a confusion in your mind. A thing that is cash in your mind in my mind may be a building. The word "cash" means nothing to me. The mere fact that it is a Treasury note which I can pick up and put in my pocket makes no difference to me. In liquidity for payment out, of course it would.—Exactly; it is the liquidity of the thing we have got in our minds.

1269. If I have a cargo of tea worth £10,000, do you mean to say that really there is a distinction between cash and the cargo of tea which I can turn into cash next week for £10,000?—Yes, I think so. I think there is all the difference between a cargo of tea that you can convert into cash or may get shipwrecked before you can do so, and that same item when you have converted it into cash.

1270. In practical business we do not regard the difference between a cargo of tea which we have contracted to sell next week and £10,000 as a difference in kind?—Well, I do not like to contradict you, but I should have said that the average business man regards liquid capital that he can put into anything he likes—he can put it into tea, he can put it into cocoa or anything else he likes—in a totally different category from a cargo of tea which he cannot do anything with until he has sold it.

1271. Then the Revenue is to look upon these two things as two different things. Although the tea to-day is sold next week for £10,000 and the cash in the bank is £10,000, the Revenue is to look upon them as two different things?—No, I do not say that. I say, from the point of view of the business man, they are two different things. The essential difference that, I think, wants to be borne in mind is this: are those assets left in the nebulous thing, the joint stock company, or distributed personally to the shareholders? To my mind the essential difference is there between the individual shareholder getting the money——

1272. I quite follow your point, but do you mean to say that Somerset House would regard the cargo of tea as left in but the £10,000 cash not?—No, not from that point of view.

1273. How would Somerset House make the distinction?—I do not think the distinction is there. My point is, that if you have a number of shareholders to meet next week, if you have that £10,000 in cash, you can distribute it to them in dividends; if the £10,000 is in a cargo of tea you cannot; you have to sell the tea first.

1274. I am talking of Somerset House for the moment; how are they to distinguish?—I want them to distinguish between paying that money out in dividends and keeping it in, no matter in what form it is kept in.

1275. You said there was no distinction at all; it was a question of the cash?—No; you misunderstood me—not from the point of view of Somerset House.

1276. If we have misunderstood one another we get back to the original question: that you are going to allow banks and insurance companies and trust companies to make large profits, but because they do not distribute them but put them into reserve they are not to pay Income Tax on them; do you really mean that?—Yes, I think so.

1277. Very well. I want to come back to a question that has already been put to you, and that is, how is the revenue to be made up? The bank with which I am connected has to pay a very large sum in Income Tax upon that amount which we keep back; how is that to be made up?—I am not a banker, but you do not keep on doing that year after year at a very rapid rate.

1278. Yes, at a very large rate; that is our practice and always has been, and always will be, I hope. How is that to be made up by other people?—I have tried to answer that already. My view certainly is that after the first year or two it will liquidate itself. Up to that time it has got to be made up, of course, by increased taxation on something else, but I think that you are a little overstating the case. Of course, we all know when you speak about a bank that the assets of banks are very big, but, broadly speaking, there are only five big banks; there are not a million of them. I am not inclined to think that the amount involved would be so tremendously colossal as one or two members of this Committee seem to think, but it would certainly have to be made up by an increased tax on something else.

1279. *Mr. Bowen*: In paragraph 4 you point out that an investor naturally considers two things, first the safety of his investment, and secondly the net revenue that he can obtain. How does that square with your idea of philanthropy in business?—My idea of philanthropy in business? I do not quite see the point of your question at the present moment.

1280. My point is this: that you have said a good deal about philanthropy in business and the philanthropic desire of manufacturers and other people to do the best they can in the interests of the country, yet in paragraph 4 you seem to suggest to my mind that what they are really concerned about is the safety of their investment and the net revenue they obtain?—I do not think I ever talked about philanthropy in business for its own sake. I think I made it quite clear that if a man leaves money in his business he is doing so because he thinks it will pay him. It does not affect the point that if he leaves it in the business he is performing a service to the country, but I think it would be nonsense to suggest that in 99 per cent. of the cases it is being done for philanthropy.

1281. In that case we need not be very much concerned about the man's service to the country. If he becomes a unit of citizenship and he is performing a service to himself by obtaining what he can from industry and production, need we be very much concerned whether he puts his money back in industry or expends it in some other way which might mean the purchase of manufactures and the creation of employment in other directions?—I am not suggesting for a moment that he should be considered, because he is deliberately being unselfish. I am suggesting that he is making such a use of his money that he is immediately benefiting the country and not himself and while he is doing so my point is, leave his money alone. He may be benefiting himself in 10 years' time, and when he is, tax him. I am not making any case on sentimental grounds, because I think one man is deliberately a philanthropist, but at the same time he is, *pro tem.*, not using his money for himself, but leaving it to develop the business of the country. I say, while he is doing that leave it alone, because it is going to bring in far more revenue to the country by that means than if you tax it now.

1282. Do you include in that category people who would not invest their money unless they are quite sure that they have a safe security of nothing less than 7 per cent., 8 per cent. or 10 per cent.?—I think again you are rather getting away from the point, because the man you are speaking about has first of all had that money out personally. I am speaking about the firm that leaves that money in, that deliberately decides to spend half its profits on putting down additional machinery. That is not the same thing as going to an outside man and saying: "Now lend me money at 7 per cent."

1283. No, I see the distinction made there?—There is a big distinction there.

1284. There is very little distinction in my own mind; however, I will not press that on you. The point I want to get at is this: the man who puts his money back into industry does not do so primarily for the benefit of the country or primarily in the interests of anybody else but himself?—I think that is right.

1285. He would not do so unless he felt he was going to do something of advantage to himself; I think you admit that?—I think so.

1286. That being the case, I cannot see that you have established the point that such a man should be relieved from taxation, and I should be glad if you could add to what you have already said?—I am not putting that in the very least from the point of view of any consideration of the man; I am putting it purely from the point of view of the good of the country; that while that money is being used for the development of the country and the man is not touching it, for the sake of the country it should be left alone. You must remember that apart from anything else you cannot entirely assume it is being done voluntarily. There are many firms—my own was unfortunately one of them—who three years ago were making goods in the ordinary way of business, not making undue stocks, but the slump came along rather suddenly and we were left with stocks on our hands that we had not anticipated. It was bad enough to find at the end of the year that we had a great deal of stock that we should not have had because the slump had occurred, but it was a very great drain to have to pay Income Tax on it as well.

1287. You told us about the losses of 1920 to 1922; will you tell us something of the profits of 1918 to 1920?—I mentioned the losses because I think there is a strong case for a firm, while it is liquidating its losses, being able to liquidate those losses without paying Income Tax. I do not think anybody suggests that those firms that made big profits should not pay a heavy Income Tax and in individual cases Supertax. I am not querying that. What do you want me to say about profits? When a firm makes big profits and pays those profits out in cash, I do not think you will find anybody who will suggest that the shareholders should not be taxed.

1288. I see, you agree?—I agree; when they have the income out, tax them.

1289. On paragraph 5 a question has been put to you in two or three different forms, but I would like just to put it to you in my own way. You, like other witnesses we have had, have talked about the provision for children and how difficult it is for a man to meet heavy taxation and to make that same provision for children which every beneficient parent should endeavour to make. I want to put it to you that your suggestion here is that we make little or no effort to pay off National Debt, but that we transfer the burden of the debt of our own creation to a very large extent to posterity. I would like you to tell us whether it is of real advantage to transfer certain assets to posterity, but with larger liabilities which will outweigh any advantage which those assets will give?—In the first place I do not think you have quite taken me correctly. Here are my very words: "I take the view that as a nation we owe it to posterity to make all the provision we reasonably can to lighten the burden of debt that they will have to bear, and therefore I urge that regular and steady efforts be made to extinguish the debt." I go on to say I am afraid it is a fact that, burdened as the country is just now, there is a limit to what can be done, but

I certainly think we do owe it to our children and to our grandchildren to do what we reasonably can. If the time comes when the industrial condition of the country gets appreciably better, I hope that reduction will go on faster, but I think it would be a dangerous policy to arm every future Chancellor of the Exchequer with a right to say: "We have had a bad year; therefore we will pay nothing off the debt." I think that would be a dangerous policy, therefore I think the payment off ought to be regular whether we can afford it or whether we cannot, but that does not mean to say if in 10 or 20 years time we can afford to increase that rate we should not do it.

1290. You have told us this morning that the amount you suggest, £50,000,000 a year, would hardly be felt during our present lifetime. If that is the case what real effort are we going to make to clear off the debt for posterity?—You do not take the view surely that because it is not particularly felt in our lifetime it should not be done. I am talking about business men of to-day, the man we will say between 40 and 50; how many years of business has he got in front of him in the ordinary way—say 20 years? That is a comparatively short period. What we are doing now will not have a tremendous effect in the lifetime of the present day business man, but then his son will be in business for another 20 or 30 years. I think we usually reckon three generations to a century. In a century's time we shall have our present great grandchildren of the age we are at present.

1291. If the present day business man and other people who form the community have become responsible for the creation of debt, do you agree with me that it is their responsibility to see to the clearing of the debt of their own creation?—In part, yes.

1292. And not passed on to our children and great grandchildren in the same way as there has been passed on to us the cost of the Napoleonic Wars, for example?—In part, I think, certainly. I think the only possible difference of opinion is what the parts should be. I think, as reasonable business men, whatever our ideas are on various subjects, we must agree that there is a limit to what can be raised. If we are going to spend so many millions on housing, obviously we shall have less millions to spend on something else. I think it is a matter of how far we can reasonably go. If we like to take the view that every man, woman and child in this country has to live in semi-starvation for the next 50 years to pay off the whole burden of debt, I quite see the point of view, but I do not think many of us would agree with it. I think we must do what we can to secure reasonable comfort for the present-day population as well as bear posterity in mind. I think it is entirely a question of how much we can reasonably do in this generation without unduly burdening the community and making living almost impossible.

1293. *Mr. Lees-Smith*: Might I ask this question: have you formed any idea in what period the debt ought to be paid off? Here you say it should not be paid off in 20 years, in the lifetime of the present business man, but do you think it should be paid off within 50 years or 60 years?—I would like to say, yes, it ought to be paid off in 50 years, but as a business man with, may I say, some common-sense, I fail to see how it can be done.

1294. One hundred years?—Or even 100 years. At the beginning of this War in 1914 we had not paid off the debt we incurred during the Napoleonic Wars. Possibly we ought to have done it, but we had not done it.

1295. You think that was a good precedent?—No, I do not, but my point is that during the intervening century we had not succeeded in paying off those few hundred millions, and I fear that in the next century we cannot liquidate this much larger amount. I wish we could.

1296. *Mr. Bowen*: In paragraph 12 you say: "Beyond all doubt a great portion of the Income Tax is passed on to the final consumer in the shape of an addition to prices." If this is true, and the tax is passed on to the consumer, what is the real complaint of the manufacturer?—I do not know that I have come here charged with any particular complaint. The suggestions I have made are not, as I have said before, out of any sentimental feeling that manufacturers leaving their money in the business should be favoured, but merely the point of view that it would be to the interests of the country not to tax money that is not being paid out in dividends, but is being kept in to increase the industry of the country. But I am putting up no particular case for the manufacturer as a manufacturer.

1297. If you agree that our burdens should be borne equitably by all units of the community, but if you say that your taxes are passed on to the consumers, how are manufacturers going to contribute to the national income?—Every manufacturer is an individual.

1298. But if he in his corporate capacity passes off and relieves himself of all taxation, as you admit he will, through Income Tax, and places it upon prices, what contribution does he make to the national Exchequer?—Excuse me; I did not use the word "all." I said, I think, that taxation gets passed round equitably, and I think the manufacturer as an individual pays his share, and I think he would pay his share however you levy it.

1299. But you say here: "Beyond all doubt a great portion of the Income Tax is passed on to the final consumer"?—I think it is a great portion but not all.

1300. *Mr. Bell*: The manufacturer is equally a final consumer?—Of course he is.

1301. *Mr. Bowen*: As an individual?—Yes.

1302. You would not think that in such case his capacity should be to bear as an average consumer?—I think it should be, and I think it is. When I say I think the burden of taxation gets more or less shared round I think it more or less gets shared round by the law of political economy in proportion, I will not say absolutely, but more or less in proportion to the ability of the man to bear it; that is to say, I think the man with a big income who lives in a big house and keeps servants does pay a bigger share than the man who lives on £3 a week. I think he will and does, however you levy that taxation, pay a bigger share; that is my view. I think if you decided to-morrow to levy all the taxation of the country on a certain class of the community, within ten years it will more or less get equitably shared round, whatever you do to prevent it.

1303. If he bears that extra expense in the form of servants and big houses he does get an extended service from the community which the average individual cannot have?—Yes.

1304. Therefore he is not inequitably taxed?—No.

1305. You would agree that in such circumstances those people would have an ability to pay beyond that of an average consumer?—Yes, but my point is that if you tried to make that class of people pay it all, within a very few years you would find that everybody was paying part in the shape of increased prices, or some other way, and whatever you did I do not think you could prevent it

1306. Whatever we do, you do not think we can prevent the consumer paying it all. Just let me supplement that: do you not think we ought to make some effort to prevent everything being passed on to the consumer as you say it is?—I must remind you once again that we are all consumers, and therefore the consumer means everybody. I think we should aim at distributing that burden as equitably as we can according to a man's means, but personally I hold the theory very strongly that that automatically gets done for us whatever we do. I instanced the case of the 1909 Budget which was supposed to put all the burden on the broader shoulders. The cost of living went up in a few years, and the lowest paid labourer in the country had to pay a share of it.

1307. *Professor Hall*: You say in your evidence that there is little or no advantage to the present-day business man in paying off debt at all, but you rather qualified that later by allowing that something should be done to repay the debt?—That is so.

1308. I take the view from what you have said that you have no objection to a Sinking Fund provided the amount is reasonable?—Yes, provided it is not such as unduly to impoverish the country, which means every individual, or, at any rate, the poorest individuals in the country.

1309. And that you think the present amount is not unreasonable?—In my judgment, having regard to the burden on the country, I think the present amount is a reasonable amount with regard to what we can bear at the present day.

1310. But, of course, that is not the total burden of the debt, is it? We have in addition a large amount to pay in interest.—Unfortunately that is far the biggest; that is the trouble.

1311. That leads me to this question: do you favour the increase of the Sinking Fund in proportion to the reduction of interest charge, that is to say, supposing we have this year a total charge for interest and Sinking Fund of £350,000,000, would you favour the retention of that total annual charge for interest and Sinking Fund so that as the interest falls yearly the amount of Sinking Fund will increase automatically?—Well, I rather answered that just now when I said that if within a number of years the condition of the country gets better I think that rate of repayment should be expedited. The question rather puts the same thing in another way, and I should answer yes, because, not having to pay so much in interest, other things being equal, the country ought to be better off, but if for any other reason the country is not better off I should say no, I do not think so.

1312. I would rather have a more definite answer to the particular question that I have put. You said that we can maintain a Sinking Fund of £50,000,000 at a time when we are paying this present-day amount of interest. Assuming conditions remain the same, you would be in favour of the retention of the same total annual charge for interest and Sinking Fund?—Yes, provided other conditions remained the same I think I should.

1313. So that the amount of Sinking Fund would increase annually?—Yes, I think I should.

1314. You will agree, of course, that it is desirable that the debt should be written down as early as possible having regard to the future needs? For example, supposing that quite unexpectedly we were involved in a further war, unless we had been doing something to reduce the debt drastically it would affect our credit, the rate of interest we had to pay, and the taxation, and therefore would hamper manufacturers in their operations?—I agree; I think that is a very serious consideration.

1315. With regard to your answers on Question 5, I do not want to pursue those much more, but I want to ask you how you would deal with private firms. You mentioned companies who would distribute part of their profits as dividends and retain part as reserve, but how would you treat private firms; would you allow the members to make very large drawings and tax them on what they drew out of the business, and not tax them upon what they left in?—I think so.

1316. Suppose you imagine a business which uses its own profits for development purposes; would you exempt that company from taxation upon the part of its profits it employed for development?—Yes.

1317. You think that would encourage enterprise?—I think it would very largely.

1318. Suppose you had another company that was even more enterprising and wanted to borrow capital for development purposes; that capital which was borrowed for the purpose of development would not be exempt in the same way. The people who invest it will already have paid Income Tax upon it?—Yes.

1319. To that extent the two businesses are not being treated on the same basis exactly?—Yes, I think so.

1320. In the first case every pound counts as a pound, but in the other case every pound that has been earned in another business is taxed, let us say, at 4s. 6d., and only 15s. 6d. is then entered as capital for the second company?—That is so.

1321. So that the second company is not treated on quite the same basis as the first, or the shareholders are not on the same equitable basis?—They are not on the same basis, but I think they are on an equally equitable basis.

1322. You think as taxpayers they would be satisfied to be treated in that fashion?—Well, if you are asking me who will be satisfied you are asking a very hard question. I think they are fairly treated; they put their money into a business as capital; they have it out in the way of dividends again and they pay taxation on it, whatever they do with it afterwards, but until they have it out, until they get some return on their money, they should not have to pay on it.

1323. That might not satisfy other people as being equitable, but it satisfies you?—I think so. I think it is right and fair that a man should be taxed on the profits he gets paid to him and not on the profits he does not see.

1324. That point has been pretty well dealt with by other members of the Committee; I will not pursue it further. The present method does simplify the operation of the practice of taxing large concerns, does it not?—It does simplify that, but at the same time, there is a point I have not made clear yet but I think must be admitted, that there are ways of drawing balance sheets and disguising profits, and it is very much easier to disguise profits than it is to disguise dividends—infinitely easier. The same thing, I think, should be borne in mind in discussing the danger of a tax on turnover. There are some forms of revenue which it is comparatively easy to disguise, and there are others which it is very difficult to disguise. It is comparatively easy for a firm that wants to be dishonest to value its stock unfairly and disguise its profits; I will not say it is impossible, but it is almost an impossible thing for a firm to disguise what it is paying out in dividends. I think that is a point of view that is very much worth bearing in mind, because I have no hesitation in saying that there are hundreds of firms in this country that do not pay the Income Tax they ought to pay.

1325. You realise, of course, that it is possible for a company to build up a very big capital in the form of a reserve fund from a very small amount of share capital by the method you describe?—I quite realise that, but I also realise that they are not touching the money while they are doing it, and nobody is individually getting any revenue from it.

1326. In answer to Question 10 you say: "The difference between direct and indirect taxation hardly exists in actual fact. A loaf of bread may be taxed, or alternatively, the baker who bakes the loaf, the miller who grinds the corn," and so on. You want us to assume there that it affects the price of the loaf, do you not?—I am sure it does.

1327. How does that affect the price of the loaf in the case of, say, the small baker, or small miller, who may not be liable for Income Tax?—It is difficult to answer that question shortly, because Income Tax is charged in some way or other, I am convinced, on everything that a man buys and lives on.

1328. But if the baker at the corner shop buys his bread from a small miller who is not liable for tax and he gets his wheat from a farmer who is not liable for tax, I cannot see how that is going to enter into the price of the loaf at all?—But that baker has to buy a perambulator for his children and he has to buy that perambulator from a big firm; that is taxed, and he has to pay more for that perambulator. He has to pay more for everything he buys; therefore, like everybody else in this country, he says: "The cost of living is higher; I must have a bigger income." Even if he does not pay Income Tax himself, broadly speaking everything he buys and lives on is taxed.

1329. So that the import duty that you recommended would send up the cost of everything, not only the goods that were imported but other things as well?—That is asked in Question 14, and I think I have tried to answer it clearly. A tax on commodities is, I think, practically always borne by the consumer unless there is a competitive article that is untaxed.

1330. Yes. The point I want to bring out is that it not only affects the price of the things imported but that you acknowledge that it affects the price of other things. You said the loaf is dearer because the perambulator is dearer?—Yes.

1331. Therefore, these import duties which make some articles dearer would also make the non-imported articles dearer?—Unless there is an untaxed article to compete with it, it will undoubtedly spread round as, I think, every other form of taxation does, but if there is an untaxed article to compete with it, and the maker of that untaxed article does not charge more for it, then I think it is obvious that the tax must be borne by the producer and not by the consumer.

1332. But you took perambulators, and you said that inevitably the perambulator was dearer, and everything else that the baker bought; you did not make any exception there when you were discussing the question of the loaf?—No. We were not discussing import duties, or other duties, that only affect one particular line of supply of the article and not all lines of supply. I was assuming all lines of supply. If there are so many thousand perambulators coming in from abroad and so many made in this country and you only tax those that come in from abroad, then it will depend entirely on the price of the home article, I think, who bears the tax on the foreign one. I think that is agreed to by Tariff Reformers and Free Traders alike.

1333. It is a difficult question to pursue, but I do not agree with your conclusion. With regard to the effect of the debt on unemployment, do you consider that the burden of the debt is a serious cause of unemployment?—I do.

1334. Would you expect that if the debt were removed there would be no unemployment, or very litle unemployment?—I will not say no unemployment; there always has been unemployment, I am afraid; there was unemployment before the War; but I am satisfied it would make a very great difference to it.

1335. So that would be an argument in favour of reducing the debt?—Undoubtedly.

1336. If the policy which you mention here were carried out, namely, maintaining the debt in order to promote the advantage of the present-day business man there would be no improvement in the position regarding employment?—I will not say that. I think we should be wrong if we said the debt was the only cause of unemployment. It is undoubtedly a very great cause, and the faster we can clear off the debt the faster it will affect the prosperity of industry.

1337. So long as the debt remains we are going to have a very serious cause of unemployment?—It is going to be a burden on industry, and every burden on industry is going to militate against employment; that is the answer, I think, on broad lines.

1338. The only other question I have to ask is one which is not really touched upon in your evidence, but it bears upon the subject: would you agree that variations in prices affect the burden of the debt? Suppose, for example, the total annual income of the community, just to use round figures, is £100. Of that a quarter, £25, is paid as interest upon the debt; that is a fixed charge of £25?—Yes.

1339. But owing to the fall in prices the annual income, which remains constant, is now valued at only £50; still the people receiving interest on the War debt are receiving £25. At first they were receiving one-fourth of the national income; now they are receiving one-half?—Of course, there you are raising another very big question. If the cost of living falls it is almost another way of saying that the £ rises. Therefore, obviously, if somebody is getting £25 a year interest on debt and that £25 a year is worth so much to-day and worth twice as much in ten years' time, obviously they are getting a bigger slice. We all know what Germany did. She depreciated her currency to such an extent that a debt of so many millions of marks was almost non-existent.

1340. I want to point out that if the persons receiving interest on the debt are receiving an increased proportion of the national income it is leaving very much less for the rest of the community?—That is quite true.

1341. That is to say, the people who are not receiving interest on the debt?—Yes.

1342. I was wondering if you had considered that question, and whether you have any views upon it?—I have considered it a good deal. Undoubtedly it is one of the very difficult factors in this question of debt that the money was borrowed when the £ was worth, shall I say, 12s., at a fixed rate of interest, and it has got to be paid back when the £ is worth a lot more. It is one of the most serious factors. I fail to see how it can be done, but if it could be arranged that, as the value of the £ rises the interest paid on the debt should diminish, it would be an equitable thing.

1343. *Mr. Bell*: If the holders were the same?—Yes. The whole question of the inflation or deflation of currency is a very controversial subject, and it is a very big one, and it has a tremendous bearing on this question.

1344. *Professor Hall*: I only wondered whether manufacturers as a class had any view on this aspect of the debt?—I think we all realise that the big question of the value of the £ is one of the most distressing things about it. Broadly speaking, we have only incurred half of this debt in actual value.

1345. *Chairman*: Where are the central offices of your Society?—At Holborn Viaduct.

1346. How is your Society formed? Do you represent a great number of manufacturers, and in what part of the country?—We represent manufacturers, I think I may say, all over the country. We have two definite sub-branches, one a very live one in Birmingham, and the other at Sheffield. We have membership literally all over the country.

1347. How do you come to be the representative; were you appointed by a Committee?—The Administrative Committee received your invitation to send a representative or representatives, and had two or three meetings to discuss the matter. Rightly or wrongly, I am credited with having studied political economy to a certain extent, and the Committee honoured me by asking me, first, to draw up a précis of my evidence, which I did, and it was discussed by the whole of the Administrative Committee, and then, with one or two very minor alterations, they sent it to your Committee as the opinions of the National Union of Manufacturers, and I was asked to come here to give effect to them.

1348. How many members comprise the Committee that examined your paper?—I forget how many were there at the Committee meeting, but there were, roughly, 12 to 14.

1349. In your answers to-day you really are representing the manufacturers?—I think I may say so, my Lord.

1350. In all the questions that have been addressed to you?—Broadly speaking, I think I may say so. Of course, nobody could foretell exactly what questions were going to be asked, but, broadly speaking, I think the views that I have put before this Committee represent the opinions of the National Union of Manufacturers.

Chairman: Thank you.

(The Witness withdrew.)

(Adjourned for a short time.)

The Hon. Robert Henry Brand, C.M.G., called and examined.

Evidence-in-chief handed in by Mr. Brand.

The Committee on National Debt and Taxation having asked me to give evidence, I comply with their request. I think it right, however, to state that I do not regard myself as an expert on taxation or as a professional economist. I can only express such views as I have acquired during about 12 years spent in Government Departments in this and other countries and a similar period spent in international banking. I have assumed that in a brief written statement the Committee require only the most general views. Those I hold I have summarised in the following Memorandum.

1. In my opinion by far the most important object for a country, situated as ours is, and with its existing burden of taxation, is to increase the total of the national production, upon which our standard of life depends. I need not go into all the causes which are tending to restrict that production, of which the burden of taxation is only one; I would merely lay stress here on the undoubted need, with the object of increasing production, of (1) encouraging enterprise and initiative and (2) increasing the saving of capital. It is therefore from these points of view that I consider below the question of taxation and the burden of the National Debt.

2. The most serious result of very heavy direct taxation is that it tends to discourage *enterprise and initiative*. The productive classes of the community and those anxious to develop new enterprises are undoubtedly handicapped. All business enterprise involves risks of greater or less degree. In all new development it is necessary for those undertaking it to balance the chances of loss against the chances of profit. But while the profits of any enterprise are reduced by the amount of direct taxation, 100 per cent. of the risk always remains to be borne by those engaged in it. While it is difficult to say to what extent existing taxation depresses enterprise, and while its effect may be greater on individuals or private companies than on big joint stock companies, it undoubtedly exercises a general influence in that direction. The reward of enterprise is now much less than it was ten years ago. While, as stated in the next paragraph, the effect on that portion of the taxation burden representing the service of the National Debt may not be so great on *saving* as some imagine, it does not differ so far as its effect on *enterprise* is concerned from the taxation burden necessitated by any other form of Government expenditure.

3. So far as *saving* is concerned, there is clearly an important difference between taxation which is required to raise revenue for the ordinary purposes of government, including the Army, the Navy, etc., and taxation, the proceeds of which are, as in the case of the service of the National Debt, simply transferred by the Government from the taxpayer to the debt holders.

In the latter case it may be argued that the receiver of interest will save and invest as much of it as the taxpayer would have done, had he been left with his money. From this point of view the effect of the existing heavy taxation may be exaggerated. The whole question of the motives which lead different classes of the community to save is, as Sir Josiah Stamp has shown, a very difficult and complicated one. What makes one class save may have exactly the opposite effect on another class. Nevertheless I hold the view that the taxation necessitated by the National Debt reduces saving as a whole by rendering accumulation by the active part of the community more difficult. Moreover, if the view expressed above is correct, that very heavy direct taxation affects enterprise, then indirectly it must also prevent the growth of saving.

4. Undoubtedly the high level of taxation, as well as high local rates, and other such charges, involve the withdrawal of trade income which could otherwise be used in any particular company for the expansion and greater production of wealth. The taxation to which any company is subject reduces the amount which it has available either for dividends or for reserves. On the other hand I doubt if an exporting manufacturer, who is competing against a foreign exporter, for a particular contract, takes into account, in quoting prices, Income Tax, since Income Tax, being only paid on profits, is not a true overhead charge. But if a company in this country pays heavy Income Tax, and a company in similar circumstances abroad does not, then, other things being equal, the latter over a period of time must be in a more favourable condition to strengthen its position, to provide itself with more capital, to spend more money on keeping its plant up to date, and generally to compete on more favourable terms. I regard it as very important that the British investor should look with at least equal favour on investing his savings in British industry and enterprise as in foreign investments. In the main the investor is guided by the return he gets as against the relative risk involved. There are other causes more important still than the Income Tax that make him more shy than he should be of British industry. But anything which makes it more difficult for British industry to flourish tends in the same direction.

5. My general conclusion, therefore, is that our present heavy taxation does affect adversely the national production of wealth, both by deterring enterprise and by diminishing savings. Any increase of direct taxation over the present level would have progressively serious effects. I regard it therefore as very important for the Government to pursue a policy tending to the reduction of taxation. In fact I find myself out of sympathy with a great deal of modern thought which regards very large expenditure by the Government on social schemes of all kinds as synonymous with progress. In all taxation, after the minimum requirements of Government have been met, one has to consider whether the probable or possible social advantages of the proposed expenditure by the Government more than outweigh the certain disadvantages of less saving and less enterprise, leading in their turn to a lower standard of life all round and less employment. In general I support the somewhat antiquated Gladstonian idea of allowing as far as possible the money of the country to fructify in the pockets of the people.

Indeed, I regard with alarm the enormous growth of expenditure, central and local, on public assistance, which shows no sign of slackening. There is a risk that it will ultimately endanger the stability of our financial system and end in inflation. This in turn would destroy the stability of our exchanges and prevent a return to the gold standard.

6. Notwithstanding the disadvantages arising from high taxation I am not in favour of any reduction which is to be secured by merely abandoning a Sinking Fund and postponing debt redemption to a more convenient period. There are, so far as I am aware, if we ignore anything savouring of repudiation, only three ways of reducing the burden of the National Debt.

(1) A Capital Levy.
(2) Inflation.
(3) The provision of a Sinking Fund, together with measures of conversion when possible.

I am against a Capital Levy for various reasons, the main one being that it would bring an enormous disturbance to the whole financial, industrial and commercial structure of the country, just at the moment when stability and confidence are above all things needed. The relief afforded by any Capital Levy at all within the bounds of practicability, even if it were likely that it would result in a permanent reduction in taxation, would, it seems to me, be quite incommensurate with the damage that would be caused.

I am equally against inflation. I take it that it is unnecessary to argue in detail against any such policy, and its demoralising effects, both social and economic.

But, if we put on one side these methods, we must either abandon all attempts for the time being to reduce our debt, and thereby diminish our national credit, make our future task more difficult and the ultimate avoidance of inflation more doubtful, or we must deal steadily with the problem by gradual and uninterrupted repayment. By this means we maintain our credit, and we make measures of future conversion, to which we must look for relief, more feasible. The money taken for this purpose from the pockets of those who pay direct taxation is directed to supporting the securities in which they as a class are interested. For these reasons I am of opinion that the maintenance of a proper Sinking Fund is of the utmost importance. I would add that of course this presupposes the Government pursuing such measures of economy as to have a real surplus out of which to provide the Sinking Fund.

7. I turn now in a little more detail to some of the Committee's specific questions. It is asked

(*a*) 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?

(*b*) How does it affect the terms on which capital can be raised?

(*c*) What is the effect of the existing taxes on the supply of capital from the public and on total purchasing power?

In general I am of opinion that the National Debt only affects the supply of capital and the terms on which it can be raised by its effect on saving. I regard the rate of interest paid on capital as merely expressing its price (subject of course to the differences due to the different risks involved), or in other words as reflecting its supply as compared with the world demand. So far as it has any effect in reducing saving it increases the cost of capital, and raises the rate of interest.

I would distinguish between the Funded Debt and the Floating Debt. The Funded Debt, *i.e.* War Loan, Conversion Loan, etc. affords a useful banking security. I do not consider, however, that a reduction in the Funded Debt out of the real savings of the country is harmful to the supply of banking credit. It would be replaced by other forms of wealth, which would serve the same purpose. It cannot be argued that the existence of a huge National Debt is essential to the working of a modern banking system. The Floating Debt stands on a different footing. A portion of it serves as an integral part of the mechanism of the money market, and could not be very rapidly reduced without a serious disturbance to that market. Before the War the banks were accustomed to keep part of their liquid assets in the form either of short-dated commercial bills or of loans to the discount market secured on commercial bills. But since 1914, owing mainly to inflation, banking deposits have more or less doubled, while it is doubtful if the supply of commercial bills has yet risen in nominal value to the pre-war level, although, of course, owing to higher prices they would require to be much greater in nominal value to finance the same volume of trade. There is, therefore, a gap which has been supplied by Treasury Bills. If these Bills were to be very rapidly redeemed, and commercial bills did not as rapidly increase to take their place, the reserves of the money market would be *pro tanto* reduced. While, therefore, it is desirable that the present large Floating Debt should be ultimately much diminished, its reduction should be gradual.

8. It is asked:

"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?"

The Income Tax in my view practically prohibits the foreign investor altogether from investing in securities in this country, though it may not prohibit the establishment of businesses here in cases where the chances of profit-making are considered sufficiently good. It only induces the British resident to invest abroad in so far as he thinks he can evade his legal liabilities.

9. It is asked:

"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?"

It does not seem to me that any very definite reply can be given, as the answer depends on the character of the Government's whole expenditure. In general, it seems difficult to draw a hard and fast line between the effect of Death Duties and the effect of a very high Income Tax. Both will, except in so far as the Government's revenue is spent upon or results in the creation of additional capital assets, prevent the national capital being as great as it would otherwise have been, and pushed beyond a certain point may actually cause a diminution.

1351. *Chairman*: Mr. Brand, I should like my colleagues to know something of your financial activities. You are partner in Lazard Brothers and Company, merchant bankers; a Director of Lloyds Bank, Limited; you were Financial Adviser to Lord Robert Cecil, when he was Chairman of the Supreme Economic Council at the Peace Conference at Paris in 1919; Vice-President of the International Financial Conference of the League of Nations at Brussels in 1920; Financial Representative of South Africa at the Genoa Conference in 1922; Adviser to the German Government on Stabilisation of the Mark in 1922; and author of "War and National Finance." We shall be very glad to hear you now, if you will give your evidence?—I might just add that I had a good many years in Government Departments in South Africa, this country, and other countries. My experience is therefore partly of Government activities and partly of private business, but, as I say in my written evidence, I do not hold myself out to be a professional economist or an expert on taxation. I will start with paragraph No. 1; shall I read the paragraph?

1352. As you please. The paper has been circulated?—I start with stating what in my opinion is the basis of my evidence, namely, that I look at the problem from the point of view of the national production of wealth. That, I think, is the vital thing—that this country should increase its total production of wealth; and I consider the question of taxation mainly as it affects that. As I say, I regard the burden of taxation as one, though only one, of the causes that are tending to restrict the production of wealth at the present moment. For the purposes of increasing the production of wealth, I think you want particularly two things: one, to encourage enterprise and initiative, and the other, to increase the saving of capital. I personally regard the first at the present moment as even more important than the second, for reasons that I will come to. Then in the second paragraph I state my view that the most serious result of the present very heavy taxation is that I think it does tend to discourage enterprise and initiative by companies and private persons. All business of every kind involves risk, and when people go in for enterprises they first calculate the risk. They know that they will have to stand the whole loss if the enterprise goes wrong; and therefore it becomes a question, if a large proportion of the profits are taken away from them, whether it is worth while to undertake the enterprise that they have in mind. I

remember, that coming into enormous prominence, as, of course, Sir Josiah Stamp will remember, under the Excess Profit Duty. One used to sit in an office and calculate whether it was really worth while to do things, and very often made up one's mind that the things one had been doing for many years were now absolutely ridiculous to do because the chances of loss remained the same and the chances of profit were enormously reduced. I point out at the end of that paragraph that while one may differentiate as regards its effect on saving between the taxation which arises owing to the necessity of paying interest and redemption on the debt and that which arises owing to ordinary Government expenditure, one cannot differentiate as regards the effect on enterprise. Whether the money is raised to meet the redemption and the interest on the debt, or whether it is raised for any other kind of expenditure by the Government, the effect on enterprise is the same, because as much of the reward of any particular enterprise is taken away in any case. Then in paragraph **3**, I come on to the question of saving; there I draw a distinction, which I think is correct, between the taxation required for the ordinary purposes of government and the taxation required simply to meet the interest and redemption of the debt. The second case really concerns more or less only the Income Tax paying class; what is taken out of one pocket is put into another. There is no doubt a good deal of loss and friction in the process, but personally I do not see why a great deal of the money paid in that way should not be saved and go back into investment, whether industrial investment or other investment. But of course that does not apply to the money which the Government actually expends on its own purposes. Therefore I think that possibly some people incline to exaggerate the effect of what you might call the debt part of taxation, so far as its effect on saving is concerned. In paragraph **4** I deal with the question which the Committee put as to the effect of taxation—whether it involves a withdrawal of trade income which otherwise any particular company would use for expansion and greater production of wealth. I am not nearly so well acquainted with industry as some of the members of the Committee are, but I take it that the serious effects of taxation are rather indirect than direct. For instance, when a manufacturer quotes a price for Argentine rails, or something like that, he does not take Income Tax into account; it does not affect his price, because he pays the tax on profits. But if you compare an industrial company in this country which pays heavy taxation and also heavy rates, with a company, say, in Germany or France or Belgium or elsewhere which does not pay anything like the same amount of taxation, then over a series of years the position of the company in this country is likely to be much weakened as against the position of the company abroad, because that company abroad can more easily build up its reserves. That enables it to pay bigger dividends, it enables it to raise the capital that it requires for expansion and gradually puts it in an entirely different position from a company in this country which has to pay a great deal of its profits away in rates and taxes. So over a series of years I should say that heavy taxation has a very serious effect. I mention another point which I consider very important. There is a good deal of discussion at the present moment as to whether we lend too much money abroad or whether we put enough into British industry. Anything that tends to make the ordinary investor here shy of British industry as an investment is very bad, and as the investor is guided by the return he gets compared with the risk which he considers is involved in the investment, if British industrial companies get in a weak position as compared with other countries, he will be more inclined to fight shy of British investments than would otherwise have been the case. My experience is that very often it is very difficult for companies in this country, which have to incur yearly a great deal of capital expenditure, to pay a sufficient dividend to attract the investor at the present moment. Therefore, in paragraph **5**, I come to the general conclusion that our present heavy taxation does affect adversely the national production of wealth both by deterring enterprise and by diminishing savings, and that any increase of it would have progressively serious effects. This leads to the further conclusion that it is very important that a policy should be pursued tending to the reduction of taxation. I go on to express the opinion—I do not know whether it comes within the Committee's purview, because it is an opinion on expenditure, not on taxation—that the central point of the whole problem is economy in all Government expenditure. I do not take the view which is very common in these days that expenditure by the Government on social reform is synonymous with progress. I think when you reach the point that we have reached now you have to remember that in all expenditure there is the disadvantage that it will tend to diminish savings and to decrease enterprise. That is absolutely certain, in my opinion. You have to start with that; and on the other side you have to consider whether the advantages which you are going to get out of the Government expenditure more than outweigh the disadvantages. I think there is a great tendency to overlook the first point altogether, and merely to consider the possible advantages of further Government expenditure. I just mention at the end of that paragraph the purely financial aspect of the question which is exceedingly important. The general opinion in the world, of course, is that the pound sterling is going to return to par; that it is pre-eminently one of what are called the hard currencies, and that it is going to continue one of the hard currencies of the world. If our expenditure goes on increasing, my own opinion is that we shall either be faced with taxation which is too heavy to be borne or we shall have to pursue the policy, which many other countries have pursued, of relieving ourselves and making our Budget balance by some inflation. That will lead, of course, to a depression in our exchange, and we shall be much further away than ever from a return to stability and a possible return to a gold standard.

Then in paragraph **6** I say that, notwithstanding the disadvantages arising from the present high taxation, I personally am not in favour of abandoning a Sinking Fund, and our efforts to pay off debt. I state, however, that a Sinking Fund, of course, presupposes the Government pursuing such measures of economy as to have a *real* surplus out of which to provide it. It is useless, of course, to borrow on the one hand and have a Sinking Fund on the other. I am very much in favour of a Sinking Fund, because it is the only method I see of maintaining our credit and of enabling us in the future to do what is very important, namely, to go in for sound and profitable schemes of conversion of the debt, and generally to maintain our credit in the world. As far as I can see there are only three ways of dealing with the problem: a Capital Levy, inflation, or the provision of a Sinking Fund, together with measures of conversion when possible. I personally, from a practical point of view, am entirely against both a Capital Levy and inflation, for reasons which perhaps it is unnecessary to argue. Therefore I come back to the only other solution, which is to go on with the gradual reduction of the debt. It is an enormously long process, but personally I see no other way.

Then I deal with a certain number of the Committee's specific questions. There are three which seem to me more or less on the same point: that is: "How does the National Debt affect the supply of credit and capital?" I say that I consider it only affects the supply of capital in so far as it affects saving. If it decreases saving, it increases the cost of capital because the interest on capital merely expresses the price of capital according to the world demand for it as compared with the supply. Then I go on to the question of the Funded Debt and the Floating Debt. I do not consider that there is any case for not redeeming the debt—as some people argue—because you would thereby reduce the amount

of War Loan as a banking security. I think while it is a useful security it could be easily replaced by other kinds of security. The Floating Debt is on a different basis, because it is part of the very delicate mechanism of the money market. I think it should gradually be reduced, but not too rapidly, because it would narrow the freedom and the elasticity of the discount market if it were done so rapidly as not to give that market time to adjust itself. The last two questions I deal with are these: "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?" My experience is that the present Income Tax practically prohibits the foreigner from buying ordinary securities in this country. It may not stop Mr. Henry Ford from building a factory and seeing whether he can make profits out of an industry; but as for the man who wishes just to invest his money and get a fair return on it, I should say it practically deters him. As far as I can see, it only induces the British resident to invest his money abroad if he thinks he can, by so doing, evade his legal liabilities.

On Death Duties I do not profess to have a very expert opinion as to whether they involve a destruction of capital or not, but it seems to me that when taxation is as high as it is now, it is rather difficult to draw a line between the effects of the Death Duties and the effects of Income Tax and Super-tax. They certainly both of them prevent the national capital being as great as it otherwise would have been, except in so far as the Government spends the proceeds by increasing the capital resources of the country. If you push them beyond a certain point I think they actually diminish the capital of the country. Whether we have reached that point I should hesitate to say. That is my general evidence.

1353. *Mr. Bell*: I think it is clear that your opinion is that whether Income Tax is a true overhead charge or not, which is a pure technical question, it is in the long run a charge on industry and handicaps it especially as against foreigners who are trading with countries similar to ours but who have not got that burden upon them?—Yes.

1354. The Committee have had various views about reducing the debt. It has been put with some force that the reduction of debt can only be wisely made out of savings which would not take the people's capital away. On the other hand it is held that it might be necessary to make an effort so as to overtake this awful debt in a reasonable time; that we should double, say, the Sinking Fund that exists to-day. You say in paragraph 5: "Any increase of direct taxation over the present level would have progressively serious effects." Would you say that even if the increase was for the reduction of debt?—Yes. If I knew that a Sinking Fund of say £100,000,000 a year would actually increase the present taxation, I should be inclined to say that the present taxation is high enough. My view of the Sinking Fund is that the Government should regard it as an essential part of their expenditure, and should do everything they can to diminish other forms of expenditure in order to maintain it.

1355. Would you be in favour of keeping up a payment of £50,000,000 a year, which is the figure that has been suggested as a reasonable one, equally in bad times as in good times?—Yes.

1356. Though it might trench upon your principle? —Yes. I think if you were going to lay down that you would in bad times do away with the Sinking Fund and only keep it on in good times, in practice you would never keep it on at all. I think you must go on with it from year to year.

1357. Generally are you in favour of the figure of £50,000,000 as reasonable in present circumstances when capital is so much required, and keeping to that figure, although it would take a very long time to overtake the debt?—Yes, I should say that £50,000,000 is a reasonable amount now.

1358. *Mr. Bowen*: Just a question on paragraph 5. You speak of economy in Government expenditure, and you suggest that the Government should not expend money on social schemes. I should like to ask you how far you would commit the Government in that connection. What social schemes have you in your mind?—I do not know that I can answer that in detail. It leads to a very broad question. I hold a view which is perhaps not very much in favour at the present moment. I consider that very broadly the best way for a Government to encourage the prosperity of a country is to see, not how much it can spend, but how little it can spend. For the purpose of increasing national wealth it is desirable that the Government should as far as possible limit its activities, and not extend them. I consider it probable that the total of our national wealth is reduced, and not increased, by the amount spent by our local and central authorities on public assistance, that enormous sums which in various directions are spent on public assistance, though no doubt there are great difficulties in largely reducing them, do actually diminish the well-being of our people and not increase it.

1359. Would you leave it entirely to private initiative to readjust those conditions?—I would leave practically all industry to private initiative. All competitive industry, in my opinion, must be left to private initiative.

1360. You would not think that the present experience of the Minister of Health in regard to housing would have any influence on the problem?— I would say that we have got into this extraordinarily difficult position in housing because, owing to the War, probably necessarily, we got on entirely wrong economic rails, and have been driven further and further on the wrong line; that it was because we had to abandon, or at any rate did abandon, the normal economic method of finding houses that we find ourselves in this position now.

1361. Will not that apply fairly generally? So long as you have conflicting interests in the country endeavouring to shape the course of national things to their own liking, you are bound to have that crop up again?—I do not quite follow that.

1362. There is a suggestion that I see in your paragraph, which I think is practically the heart of the whole subject, that you would limit Government expenditure, and that you find yourself out of sympathy with a good deal of modern thought, and so on. That to my mind is the main part of your very useful and very able paper, if I may say so. That suggests to my mind the need for examining it as fully as possible, so that I can quite understand what you have in your mind. If you agree that the Government of the day should endeavour to secure such a balance on the Budget as would produce a Sinking Fund, I do want to know how far you would limit that Government in taking any part in the working out of social schemes of welfare, or what you call public assistance. You cannot give a guarantee of private enterprise in all these things which is going to give satisfaction?—No, of course you cannot. Certainly I do not mean that private enterprise should take up such a subject as old age pensions, and so on. There are certain things which, if they are to be done at all, must be done by the Government. I merely made a general observation that our Government will have to study first of all economy unless we are to be driven into a position which we have never been in before, namely, either to put on such taxation as will entirely hamper all our industry and commerce or else to do what is done in other countries, to meet the problem by inflation.

1363. I think there can be hardly any disagreement between us at all as to the need for economy. You might regard, for example, the expenditure of huge sums of money on a housing scheme as being uneconomical, but it might not appeal to my mind in the same way. So I am led to ask you the question, if you really believe that a Sinking Fund is absolutely necessary, would you think it proper that the Government should charge a Sinking Fund as a first charge upon the community, not, as you make it, a

secondary consideration, provided they are economical?—By first charge do you mean before all other expenditure?

1364. That there would be a definite charge upon the nation for a Sinking Fund. The question of economy being maintained would be a question at the time for the Government that is in office. Let me put it in another way. I am asking you whether you would agree that if a Sinking Fund is essential, whatever happens, whatever the Government does, the country should stand up to such taxation as will meet that Sinking Fund?—No, I should not say that. Of course there are certain Government charges, very large charges, which must come before Sinking Fund. The Government must be carried on and the defence of the country provided for, and no doubt things like education, and so on. I think it is very difficult to state in the form of an absolute principle what you ask. I should say that it is very important to maintain a Sinking Fund, but if our Government were largely to increase their Budget now on expenditure that the community could not stop, and if I were then asked, with another £100,000,000 or £200,000,000 of expenditure, should I still think it necessary to add £50,000,000 for a Sinking Fund, I might say no. I might say that the direct taxation would be so high that a Sinking Fund would be a farce; you would simply be damaging industry by raising a Sinking Fund more than by not doing so. I should say it all depends on the scale of expenditure.

1365. Even though we face the burden of a National Debt and heavy taxation; even though that still exists?—Yes.

1366. *Professor Hall*: I would like to ask you about paragraph 4, in regard to taxation affecting businesses in this country. Would you agree that roughly all industries and all businesses are similarly affected by the rate of taxation?—You mean industrial and financial.

1367. Let us say industrial; confine it to industrial. Roughly speaking they are all affected in a similar manner by the rate of taxation?—They are affected very differently, I think, in various ways. For instance, supposing a company is faced with large capital expenditure for the purpose of development, and it must issue shares to provide that money, it is more affected by taxation which prevents it paying a sufficient dividend to enable it to issue that capital, than an extremely rich company which can easily pay the taxation. It depends on where you stand in the level of prosperity, I should say.

1368. But that being allowed for, would you say that roughly speaking there is no favouritism between different industries?—If the rate were the same for all of them, yes.

1369. And that in some foreign countries the conditions would be somewhat similar?—Yes; I should say in all countries one industrial company would be charged the same rate as any other, but, of course, the rate would be extremely different in different countries.

1370. That being so, I would like to ask if your argument here does not cut across the accepted theory of international trade, that international trade depends upon differences in comparative cost rather than in absolute cost?—I would take first the direct effect. If you take the power of a company in this country to compete, not in this country but in some foreign country, with, say, Germany, then taxation does affect it. If it is a question of a German company competing in the Argentine against a British company, the financial strength of the German company, due to the fact that it has not suffered from the same taxation and has been enabled therefore to improve its works and generally to get into a position of strength, may enable it to quote a lower price than a British company.

1371. That is in that particular case?—Yes.

1372. Would you say that it affects our total foreign trade?—I should say in diminishing enterprise here, it would.

1373. That seems rather to upset the usually accepted theory of international trade, that if prices all round rise equally, you will have no difference in the volume of exchange?—But would prices rise equally?

1374. I am assuming that what you said means that the effect upon prices would be the same in all industries relatively?—The effect on industries in this country would be the same. I do not know that it would be the same in Germany.

1375. The point I want to bring out is this. The taxation in operation in France or Germany would affect all the producers in those countries similarly and would therefore affect in the same manner the level of prices in those countries. Our own taxation affects the level of all prices in our country and if international trade depends upon differences in comparative cost, then, while there may be perhaps some variation in the nature of the international trade, the total volume will remain approximately the same?—Might there not be a very great variation in the nature? Might not you be forced out of a particular industry altogether in this country into something where you had some greater comparative advantage?

1376. That is the point I want to bring out. You do not mean to assert here that the total foreign trade is affected?—I think in the process of readjustment you might lose a great deal of trade. Supposing we were forced entirely out of the iron and steel trade and had to employ ourselves on some other trade where we had some comparative advantage, we might find some considerable time elapse before we adjusted ourselves to that situation and got into this other trade, whatever it was.

1377. But you do not want to assert that in the long run the volume of international trade would be less?—I certainly would not like to assert that it would not be less.

1378. It seems to be a general assumption that high taxation kills foreign trade. That is the point I really want to settle. If it is true, then it upsets all the accepted theories of international trade? *Sir Charles Addis*: But does it, may I just ask? Would you, for my own curiosity, amplify that? If it depends on the difference of comparative cost and if the comparative cost in one country of a series of articles is raised as against the other, that would diminish the total volume of trade, would it not?—*Professor Hall*: Not necessarily; I do not think so. It may change the nature of the goods exchanged, but it would not necessarily change the total volume. *Sir Charles Addis*: I would like to have that point considered. Have you considered that point, Mr. Brand?—As I say, I certainly would not like to say that taxation does not diminish the total trade.

1379. *Sir Charles Addis*: Might I ask Sir Josiah about that at this point? *Sir Josiah Stamp*: As I understand the operation of the law of comparative cost, it is quite true you do not alter the relation with regard to producing particular things in one country; neither do you alter them in another country for that country, but you do alter the relations of the respective parts to the different countries and you so throw them out when you have more taxation in one country than in the other that you destroy the whole relation between the two and the foreign trade between them might even cease altogether. *Sir Charles Addis*: You do not accept Professor Hall's statement about international trade at all?—*Witness*: No, I do not accept it.

1380. *Sir Josiah Stamp*: The fact that you do not alter the relation between the production in the one country in that country, and do not alter it in the other country, does not say that you do not alter it as between the two countries. That is the distinction. *Sir Charles Addis*: I thought we ought to make that clear, otherwise it might be taken that the Committee had accepted that theory. *Mr. Bell*: Surely the total volume of international trade is affected by high taxation in all countries?—*Witness*: Yes, I should have thought it was.

1381. *Sir Josiah Stamp*: If the taxation was equal in all countries and had an equal effect in all countries, it would not alter it. *Mr. Bell*: But as it is, high taxation must affect consumption and therefore it does affect the volume of international trade. *Sir Josiah Stamp*: Supposing, for example, in a given country the weather suddenly became so bad that all your crops were razed, that country could not be in the same relation to another country where the weather conditions remained the same?—*Witness*: May I go further? Let me reduce it to an absurdity. Supposing all your profits were taken away by taxation in every country, you would have the same level but you would have no trade at all, because nobody would go into enterprise of any kind.

1382. *Professor Hall*: The fact remains that if you had to pay twice the price for boots in one country and only half the price for boots in the other country, surely some exchange would still continue. I am assuming that the increase is equal in both countries. *Sir Josiah Stamp*: Equal taxation. *Professor Hall*: No; equal as between the articles. If boots are the articles we select, and the price of boots is double in one country and half the price, let us say, in the other, now by reason of the alteration in taxation the whole of our prices are altered, but still the relationship between those two countries remains the same and we would still be able to exchange with the other country. *Mr. Lees-Smith*: I think Professor Hall is right. I have always understood this doctrine to be that the reason that a poor country can, in spite of its being generally poor, carry on a considerable foreign trade, is that the measurement is not between the absolute cost of production in that country and the absolute cost in another, but is between the comparative cost and therefore, if anything happens to that country even to make it poorer, still it would not necessarily diminish its foreign trade. It would alter the relation of comparative costs, but that alteration of relation might lead to an increase of foreign trade. It would not necessarily lead to diminution. We have heard about wiping trade out altogether as the result of the operation of costs. It might equally have the effect of increasing the volume of trade as the effect of the alteration of costs. *Sir Charles Addis*: It might decrease the volume. *Mr. Lees-Smith*: It might diminish it or it might increase it. Therefore an argument which says that it will diminish it, is an argument which only gives one possibility and leaves out of account the other possibility. *Mr. Bell*: But the argument which says that it does not alter it at all is also wrong. *Sir Charles Addis*: That is the point. My intention was to correct the original statement, which said it did not alter. *Sir Josiah Stamp*: On the whole, the *prima facie* case is that it would decrease it. *Mr. Bell*: Suppose one country was taxed 20s. in the £, and the other was taxed at 1s. in the £, is the country which is taxed 20s. in the £ under no disqualification in relation to the other country?—*Sir Josiah Stamp*: I should like to enter a caveat on the fundamental assumption that you necessarily increase prices by the amount of the tax *pro rata*.

1383. *Professor Hall*: You say you do not think the present Sinking Fund is excessive?—Yes.

1384. That, of course, is quite additional to the amount that we provide for interest upon the debt?—Yes.

1385. Would you favour the policy of making an equal annual provision as the years go by? Suppose, for example, the total amount of provision made to-day is £50,000,000, would you be in favour of having that provision although the debt itself is becoming smaller?—If the debt became smaller and if our taxation were not increased or were even reduced by smaller expenditure of the Government in other directions, I should be in favour of increasing the Sinking Fund. I think it is all a question of comparison.

1386. So you would be favourable to an increased rate of redeeming the debt, provided there was no increase of expenditure calling for taxation?—No, I would not say that I would be in favour now of taking any possible reduction in our present expenditure and lumping it all on to the Sinking Fund because I think there is a good case to be made both for a big Sinking Fund and also for reduced taxation, and it is a question of the comparative advantage as between the two; but I should be generally in favour of increasing the Sinking Fund if our Government became much more prosperous than it is at present, either by reducing expenditure or by the country becoming so much richer that our taxes were more productive.

1387. Would you favour a policy which included the committing of the country to the redeeming of the debt within a definite period, say 35 or 50 years?—No, I do not think I would. I do not think we can look as far ahead as that.

1388. Do you think that collective spending may ever be more economical than private spending?—I would like you to define collective spending a little.

1389. The provision of a library?—You mean whether it is more desirable that the community should provide itself, either through the Government or some local authority, with its necessities, rather than that each individual should?

1390. Yes. I want it just as a general question, just as to principle: instead of myself buying books and yourself buying books, and other people buying books individually, if we were to pay rates and taxes to maintain a library from which we could all borrow, might not that be more economical for us as citizens, rather than to buy the books individually?—In theory I think it might be. In practice I am not in favour of collective spending of that kind, because I think private spending is more economical on the whole than collective spending. That has certainly been my experience—that collective spending is not as well directed to economic ends as private spending. A private man knows exactly where the shoe pinches, whereas the collective man does not.

1391. Would you admit that collective spending may on occasion be more economical than private spending?—I would like to consider an instance of it. You mean, for example, a Government or local authority making roads instead of a lot of private citizens making each yard of road opposite his own door. That I agree would be so. *Sir Alan Anderson*: Waterworks.

1392. *Professor Hall*: I gave the case of libraries, and Sir Alan Anderson has mentioned the case of waterworks?—There are certainly cases. Roads I should take as a case.

1393. Every case nowadays should be examined on its merits?—Yes.

1394. You cannot condemn wholesale the spending of money by a municipality or by the central Government?—No, certainly not. Certain services have to be communal.

1395. Therefore an increase of taxation for that reason may be economical?—Yes, it may be.

1396. It is merely a transfer of spending from the individual to the group?—Yes.

1397. *Mr. Hichens*: I understand your view is that our national credit was seriously impaired as the result of the tremendous increase of debt due to the War?—Do you mean in foreign countries and in the financial world at large?

1398. In the financial world at large. This country would not find it as easy to raise another £7,000,000,000 as we did before?—No, that is clear. But speaking generally as compared with all other countries, I should not say that our national credit is impaired in the world. I should say it stands very high.

1399. But you could not say that one could talk about our bottomless purse quite as freely?—No.

1400. Would you go so far as to say that it is of vital importance that debt should be paid off in order that our credit may be strengthened?—Yes, I think myself it is.

1401. Your view, I gather, is that taxation to-day is about as high as it should be?—Yes.

1402. Supposing it were possible for the Government, by means of various economies in other directions, to save the equivalent of 1s. in the Income Tax, would you be in favour of giving the whole or part of that to fructify in the pockets of the people, or would you apply it to the Sinking Fund?—As an Income Tax payer I should like to get it all myself.

1403. But as a witness before this Committee?—The question is extraordinarily difficult to answer without being in the Treasury and having examined the whole situation.

1404. But as a practical proposition if to-morrow or next year it was suggested that there was a surplus of 1s. in Income Tax, would you think that it was more in the public interest that that should be applied to the reduction of debt or that it should go into the pockets of the people?—I should be inclined probably to do half and half; increase the Sinking Fund and yet reduce a certain amount of taxation.

1405. I suppose it is the case, is it not, that if you collected that 1s. and paid off debt with it, it would find its way back into the pockets of the people just as much as if you left it there in the first instance? Yes, I should say so.

1406. Therefore there is no serious objection to taking it and giving it back, is there?—No, except the objection, of course, that the taxpayers have to go on paying the same rates of taxation as they do now.

1407. The incidence affects individuals in different ways?—Yes.

1408. But if you are looking at the country as a whole?—If you are looking at the question of saving, I myself do not think there is much difference. It is possible you might save more by increasing the Sinking Fund than by letting the Income Tax payer keep the money to spend.

1409. That is what I wanted to get at. It is possible?—Yes.

1410. Therefore it would be to the interest of the country to maintain a high rate of Income Tax in order to pay off debt?—Personally I do not think it affects the question of saving very much. I think it does affect the question of enterprise. I think from that point of view a fall in the rate of taxation is very desirable.

1411. On that question of enterprise, which you deal with in paragraph 2 of your memorandum, I understand your view is that a high rate of taxation restricts enterprise?—Yes.

1412. With that I think most people would agree, but can that statement be qualified in certain ways? I should like to know your view, for instance, as to whether there are not certain kinds of enterprise where the profit accrues more from an increase in capital values, in which case, I take it, that a high Income Tax would not affect the position very much. For example, take the case of sinking a shaft for a coal mine. The problem may be as to whether the coal is there in payable quantities or not. Speculation consists in the sinking of that shaft. If you once get to the coal the capital value of that is immensely increased and you can realise a great profit on your capital value. Now that kind of enterprise is not restricted in the same way, is it?—Not if your intention was to realise your profits.

1413. And that is to quite a considerable extent the intention of certain speculators, is it not?—Yes, to sell the shares of the concern.

1414. So that may qualify it to that extent?—Yes.

1415. Similarly what you say would apply, would it not, more to the big owner of capital than to the small investor. Would you think that was true? Are there not a large number of small speculators to-day who, owing to the high cost of living, are pushed by economic necessity to try to get somehow a higher rate of interest on their money than they did before? —Undoubtedly.

1416. And they are tempted into paths of speculation at any rate, are they not?—Yes.

1417. And the same class of small speculators, I suppose, is fairly large, is it not?—Yes, it is growing, certainly.

1418. Is it not probably true to say that if an enterprise starts, it is started by the big capitalist, who in the course of time probably disposes of his shares to the smaller individuals, who take them up in small parcels?—Yes.

1419. So that in time one has rather to look to the small man than to the big man?—I should say that in nearly all, or in the great majority of cases, the intention is finally, when the thing has got to a certain point, to interest the public in it; and by the public I mean the speculator, or, rather, investor, small and large.

1420. But very largely the small speculator who puts in his £100 of his £200?—Yes. In a company, of which I am director, we have about 10,000 to 12,000 shareholders, and I think the average holding is about £200 or £300. That is very usual, I should say.

1421. Has that class, do you think, been deterred or encouraged by high taxation, bearing in mind that the small man very often does not pay Income Tax or pays it on a lower scale?—I should say that it affects the original speculator more than that class of investor.

1422. So there is some qualification?—Yes.

1423. There is only one other question, and that is in regard to the Floating Debt. Your point is that that ought to be paid off gradually so as not to cause any serious dislocation?—Yes.

1424. Are you satisfied with what is being done to-day?—I think the money market is not being upset to-day by the reduction. My feeling is this—I do not know whether Sir Charles Addis agrees with it—that if you suddenly reduce the amount of Treasury Bills a great deal you reduce the elasticity of the discount market, because you will take away from the discount market certain securities that at this moment are essential so long as banking deposits are on the level they are on now.

1425. I should agree to that personally. I wanted to know whether you thought that what was being done to-day was satisfactory?—I have certainly no objection to what is being done to-day.

1426. So one might really proceed on the same scale as we are to-day without interfering in any way with it?—At present, as far as I know, the reduction of Treasury Bills is being replaced by the growth of commercial bills. Provided that the commercial bills grow, there is no harm done.

1427. Finally, your broad position would be that you cannot consider the reduction of debt in isolation from the rest of taxation?—No.

1428. That the ordinary man thinks in terms of an Income Tax of 4s. 6d. in the £ or 5s., or whatever it may be?—That is so.

1429. That it is not practical politics to increase the payment required for reducing the debt unless at the same time you can do something to alleviate the calls upon him in other directions?—Yes.

1430. The two have got to go hand in hand?—Yes.

1431. *Sir Alan Anderson*: In talking about communal spending, what you said was you had a predisposition to let individual enterprise have its head? —Yes.

1432. Do you agree you should look at each separate possible way of spending and judge it on its merits?—Yes.

1433. I suppose you are applying really the same sort of business tests to these two other ways of reducing the burden of National Debt; you simply do not like them because you do not think they would work?—You mean a Capital Levy and inflation?

1434. Yes?—Yes. My general feeling is that you want to give at the present moment as few shocks as possible to the business and industrial world; that a huge shock such as a Capital Levy would certainly be—and you cannot help it being so, however it is done—is absolutely not worth while owing to the enormous disturbance it would produce in all business relations and the whole of production.

1435. I did not want to go into detail about it, because we are leaving that till later, but just to get the general idea. Your objection is because you think they would not pay?—They would not pay.

1436. Not because you think inflation would pay but it is dishonest?—No.

1437. But because you think it may be honest and would not pay?—It has a great attraction in some respects.

1438. *Sir Arthur Balfour*: You raised a very important point, perhaps the most important point, that the great thing for this country is an increase in production?—Yes.

1439. Is it your view that one of the greatest helps to increase production in this country would be reduction in taxation?—Yes, certainly; it is very desirable to have a reduction in taxation.

1440. As regards the National Debt you think it is better not to have any settled policy; it is right to have a minimum Sinking Fund, if you like?—Yes.

1441. But no settled policy further than that?—Well, I do not think myself it is worth while either Parliament or the Government saying: "We will undertake or as the Americans say we will obligate ourselves, to pay it off in 35 years." You can say: "We will place so much to the Sinking Fund every year as a minimum."

1442. And then trust to the good judgment of the people at the time to see that we increase it when we can?—Yes.

1443. As regards a Capital Levy, there is one point you do not mention in connection with it: would not a Capital Levy cause vast unemployment in its application?—In so far as it disturbed everything and led to still less confidence in the business world than exists now, I think it would. I look at it much more from the psychological point of view than from any other, and I think it would have very serious effects in that way.

1444. Of course, you agree, and I think we all do, that the Sinking Fund and the gradual paying off of the National Debt has had a great effect on our national credit?—Yes.

1445. Surely in addition to that it is our general policy of balancing the budget and so on which has had an effect on our national credit?—Yes.

1446. It is not only paying off the National Debt?—No, it is the English financial policy. We may not think so ourselves, but it is a source of envy to every other nation in the world, and every banker in the world considers it is a most marvellous feat to have performed.

1447. And not least in that policy is our straightforward way of paying or arranging to pay our external debt?—Yes.

1448. *Sir Josiah Stamp*: I understand you think that with our present amount of national expenditure a £50,000,000 provision for Sinking Fund is just about bearable?—Yes.

1449. You could not greatly increase it?—No.

1450. On the other hand, you do not think we ought to go below it?—No.

1451. In the event of a considerable change in prosperity, if the £50,000,000 now represents a unit burden per head of X it would represent at some time something less than that?—Yes.

1452. Would you give the community, so to speak, the benefit of that and maintain your total sum at £50,000,000, or would you say: "The community has borne this burden of X and shall continue to bear it, and the Sinking Fund shall be increased as the prosperity of the country increases"?—I think I would repeat what I said to Mr. Hichens. Perhaps it is a sort of compromise, but I would reduce taxation to some extent and increase the Sinking Fund to some extent.

1453. You would contemplate in some circumstances an increase of the Sinking Fund?—Certainly.

1454. Have you considered the advantages of that type of conversion which increases the nominal amount of the debt but with a more distant period of repayment in order to secure present relief in the annual charge?—You mean reducing the interest and giving a man £100 instead of £50?

1455. Yes?—No, I have not considered that.

1456. We had a witness here who was condemning that policy rather roundly; I wondered whether you had any views upon it?—No, I cannot say that I have considered it.

1457. Do you hold that there is the same amount of profit in every £100 worth of goods sold on the average, whether diamonds or wheat or boots?—If you take individual transactions, certainly not.

1458. No, taking whole trades, if you like. Supposing £1,000,000 is received for a particular product in six different industries, is the profit on that £1,000,000 the same throughout?—I should say in the long run it would be because the people would transfer their activities from the business that did not pay to the business that did pay.

1459. Does it mean therefore that there is the same unit of capital employed for every corresponding unit of sales; that would be necessary surely to make your theory complete?—I think it would.

1460. Is it not a fact that the unit of capital employed for £1 of output varies very largely?—If you tell me it is a fact I will accept it.

1461. Assuming that it is, then the theory that there is the same amount of profit in the sale of every £100 worth or every £1,000,000 worth of goods would break down?—Yes.

1462. Assuming that is so, if taxation on profits enters into price either in some mysterious way unknown to the cost accountant, or by a straight addition to the cost, or in an indirect way by acting as a depressant of industry and thereby raising the ratio of overhead costs, is the addition that is made a percentage addition to every article, or is it a differential addition? This is not a riddle although it sounds rather like one?—I do not think my answer would be worth much on that, because I believe you already know much more about it than I do.

1463. The point is, if it is a straight percentage addition to the cost price of all articles, then the proposition that has been discussed a little while ago about the effect on foreign trade is one thing; but if it is a differential addition to the different articles according to whether they are diamonds or boots, and so on, that does completely alter the whole ratio of comparative costs?—Yes.

1464. *Sir William McLintock*: On the question of the exporting manufacturer, do you agree that he often does not expect any profit on his export; he merely does the additional volume of trade in order to reduce his overhead charges as a whole?—He would not go on doing it without profit. He may in order to keep his men going accept contracts without profit, but certainly not in the long run.

1465. I am assuming that he has both a home and an export trade, and that the benefit of the export trade at no profit at all has the effect of increasing his home trade profit?—Then I would say if he cannot get profit he would do it without profit, but he will certainly get profit if he can.

1466. You do not think an exporting manufacturer in his price expects, after allowing for the high rate of tax, a net return corresponding to what his foreign competitor will expect?—I should imagine that in deciding what price he can come down to if necessary in order to get a contract he will exclude Income Tax, because if he makes no profits he will pay no Income Tax. On the other hand, if he makes profits he will pay Income Tax, but he will keep 15s. 6d., or whatever it is, of every £1 of profits, so that it is unnecessary for him to include Income Tax in order to arrive at a price which it will pay him to accept.

1467. You do not think that he specifically includes it in his price?—I do not see why he need.

1468. The suggestion is put forward, that when one is competing with Germany they have their plant, their fixed assets, written down to such a ridiculously

low figure that they can afford in their cost to leave out of account depreciation, which is a very heavy factor with the British manufacturer?—Yes.

1469. What is you view about that: if the foreign manufacturer obtains these orders at the same price as the Britisher he has the Income Tax in his pocket as an additional profit and it enables him in that way to write down, we will say, the value of his plant till ultimately he has it written down to a nominal sum?—Yes.

1470. Then in the long run the fact that there is depreciation on that plant is bound to be an element in his cost?—Yes.

1471. Do you agree with that?—That is what I intended to say generally. I think those are the things that would ultimately put an industry that did not pay taxation in a better position than an industry that did. They will find that they can make bigger reserves and get into a generally stronger financial position and reduce their costs, and still pay a dividend sufficient to attract capital.

1472. *Mrs. Wootton*: On this question of increased production you do not suggest that an actual scarcity of capital or difficulty in raising new capital is one of the main factors in restricting production at present, do you?—No, I do not.

1473. I gather from the trend of your argument that you think that our present problem is more that of encouraging initiative in the use of capital than it is perhaps of encouraging saving?—Yes. I think the problem in this country at the present moment is to make capital remunerative. I have not gone into that point about the remuneration of capital, but the trouble to my mind is how to make capital remunerative in this country.

1474. Do you think perhaps the fear that one hears a good deal that we are not saving enough is exaggerated?—Yes. I think the rate of interest on capital is high, but it is high because the rate of interest is a world rate largely. I do not think that the lack of savings in this country is a vital point at the moment, although I would like to see more. I think there are savings that might go into British industry if it were remunerative, but which do not for other reasons.

1475. Which perhaps go elsewhere?—Yes.

1476. It is not so much that the savings are not made, as that they are invested elsewhere?—Yes.

1477. You suggest that the effects of taxation are different according as the funds so raised are used for the ordinary purposes of government or according as they are used for the service of the debt?—So far as saving is concerned.

1478. Still, so far as saving is concerned, do you think that there is any difference, so far as the funds are used for the payment of interest on the debt and for repayment of the debt? Do you think you could say that either of those is more or less conducive to saving than the other?—I suppose, so far as the interest is concerned, the recipient considers it part of his income which he can spend or not as he likes. Whether he spends the interest or not may be said to depend on what proportion of his whole income he saves. If, on the other hand, he gets some of his Government securities redeemed, he will probably save the entire amount and buy something else.

1479. And the taxpayer probably would have spent a certain proportion at any rate of the funds that are taken away from him?—It is very difficult to say. It will be part of his income and he will spend a certain portion of his income.

1480. Some of it will be taken from consumption and some of it from the taxpayer's potential saving; but when it comes to the debt-holder it will probably all go into saving?—You mean redemption of the debt?

1481. Yes?—I should say so, yes.

1482. Would you agree that on the whole taxation for debt redemption is decidedly less injurious to saving than taxation for payment of debt interest?—Yes. I do not know that I should say decidedly less, but it is less.

1483. It tends to be less?—Yes.

1484. There is one other point that arises on paragraph 7, and that is on the question of the use of the debt as a banking security on which credit is built. We have had rather conflicting evidence on that point from witnesses. We have had witnesses who have suggested to us that the debt is almost a very useful asset because the individual holder of debt is able to borrow upon it, and that, consequently, all debt repayment has a dangerously deflationary effect. We should regard your opinion naturally as very important in this matter, because of your exceptional experience, and I see that you say that you do not think a reduction in the funded debt out of the real savings of the country is harmful to the supply of banking credit; could you develop that point at all?—I suppose if it were made out of real savings there would be other assets to take the place of the debt.

1485. Is the point, perhaps, that the taxpayer who is relieved by debt repayment of the obligation to pay taxes for interest puts his released funds, as it were, into some new security?—Yes, if his debt is redeemed he has so much capital which he can invest in something else.

1486. I am not speaking of the debt-holder so much as the taxpayer. The debt-holder whose debt is redeemed as an individual finds himself with free cash for which he seeks an investment?—Yes.

1487. But of course, if the debt is reduced, until some new security is created the total volume of money securities is reduced?—Yes.

1488. If £1,000 debt is cancelled there is £1,000 less securities on which you can borrow?—Yes.

1489. Is the point that, while that happens, as a result you get reductions in taxation, the taxpayer being relieved of an obligation to pay interest, and then you get your point that enterprise and initiative are encouraged as well as saving, and therefore you get fresh investment in new securities?—Yes.

1490. With expansion of existing businesses and new businesses formed?—Yes. From a general point of view the banking system worked perfectly well without a National Debt of £8,000,000,000 before the War, and it never seems to me to be the case that the banks would find it difficult or impossible to lend their money and make advances if the War debt were redeemed at anything like the rate we are likely to redeem it at.

1491. You do not think then that the deflationary effect is likely to be pronounced?—Not by a gradual reduction by a Sinking Fund as we have now.

1492. *Sir Arthur Balfour*: A sudden large reduction might affect it?—An enormous reduction by a Capital Levy would have that effect for the time being at any rate.

1493. *Mr. Lees-Smith*: This point that Mrs. Wootton has asked you is a very important one, because it rather contradicts the evidence we have had up to the present moment and I should like to have your development of it clearly. The argument put before us yesterday was that the holders of War debt pledged it for credit purposes?—Yes.

1494. Your reply to that, I gather, is that if their War Loan were paid off they would have some other security; they would in fact have cash instead of the actual War Loan?—Yes.

1495. And the banks would adjust themselves to that position?—Yes.

1496. That is broadly your point?—I have no figures to show how much of the War debt is used actually as banking security. I should say there is a very large amount of it which is not used at all—I do not know whether Mr. Bell would agree.

1497. *Mr. Bell*: Obviously there is a great amount not used?—If you take Lloyds Bank or another bank, you would find that the War Loan pledged, I would say, did not play a large part in the security taken, except from the money market. When you come to industrial borrowers and so on, I would not think that it played a very large part.

1498. *Mr. Lees-Smith*: We have had some evidence which you do not, I think, deal with in your memo-

randum that money taken in taxation for the purpose of repaying debt is taken from active firms which are really making the industry of this country, and it goes to passive recipients who will re-invest it in some fixed interest security; therefore the taxation for this purpose is taxation of the active factors in the production of wealth for the sake of the passive recipients of its products, and therefore is unhealthy. Do you consider that an important argument, and do you consider that there is any method of dealing with it? Do you think there is any development of the banking system which could be made useful to the purposes of the taxpayers of that sort?—I do not quite follow the last part of your question.

1499. I am only thinking of a proposal of yours that I read a little time ago, and I wanted you to develop your proposal for industrial banking?—That is, of course, rather a different question. I do not think it bears on the question we have just been considering, but if you would like to hear my views I will tell you them.

1500. I should?—I have always thought for some years that British industry suffers to some extent as compared with, say, German industry or Swedish industry, from the fact that our banking system, while the best in the world, does not provide certain services for industry which I think are provided in those countries, and that while our banking system is much the best banking system for pure banking, it is, as a Swedish banker said to me the other day, a luxury which could not be afforded in Sweden and was not able to be afforded in Germany. Although it is no doubt a matter of great difficulty, we might develop another kind of institution, which would of course have to be supported by our big banks, but which would perform services for British industry not performed by our banks, but performed by the ordinary banking system in Germany and other countries.

1501. Your answer has some bearing on our inquiry, because it means that one of the difficulties in the way of dealing drastically with the National Debt which has been put before us is one not really inherent, but due to certain defects in the banking system which might be corrected?—I do not see how the two things follow on to one another; I do not see the connection between the banking system and the National Debt.

1502. The argument has been that the repayment of the National Debt does, so to speak, unlock certain capital owned by those who now have fixed interest bearing securities, and that there is no machinery for transferring that capital from their hands into the hands of the enterprising private business in, say, a place like Leicester?—I should think the machinery exists now. I do not think that the machinery of investment does not exist at all; I think it does. I do not think the British investor fights shy of British industry, because there is a lack of machinery; I think it is because of strikes and all sorts of troubles in this country.

1503. What would your proposal be?—My proposal is simply that there are certain functions of fostering and developing new enterprises and assisting existing ones, and acting as a sort of adviser to industry which are performed abroad and are not performed here. I do not disguise the difficulties. I was discussing the matter with a Swedish banker just a day or two ago; he had read the article I wrote which you referred to, and he said: "I think you will find it very difficult in this country to create such an institution, because it is very difficult to have two kinds of banking systems in the same country." At the same time he said: "Our banking system performs services for industry in Sweden which are not performed here"; and I think personally he is right.

1504. *Mr. Bell*: How many Swedish banks have been embarrassed by their action in that direction?—One or two small ones may have been.

1505. *Sir Arthur Balfour*: Do you not think also, looking at it from to-day's standpoint, that the methods of helping industry by banks in Germany and Sweden were finally very detrimental? Do you not think it caused a great many people to go into business who would have been better out of it?—No, I do not go so far as that. I can put my argument in a nutshell. It is this: if you look at the concerns in London that really stand sponsor to the public for British industry, though I do not say anything whatever against them, you will find that they are not the strongest and most prominent concerns in the country. You will find the big joint stock banks naturally do not take that responsibility. You will find that all the first-class private banks and accepting houses stand sponsor for foreign Government and municipal loans, but not very largely for British industrial loans. It is not the business of either of these classes of institutions to do so, and rightly, as they must keep very liquid. But there should be some other class of institution. I have always thought there is not the same really close connection between the first-class financial world in London and British industry as there should be.

1506. My experience is that the German method of banking, and also the Swedish method, has led to a most unhealthy form of trade all over the world; that is to say, it has led to the Germans ruining credit by extending credit abroad to an unreasonable extent merely because they were assisted by banks of that description. If they had been assisted by banks of a more sound description they would not have damaged the credit of the world as they have done?—I think to some extent it is true that they gave too long credit.

1507. *Mr. Lees-Smith*: I would like to have your view of the proposal put forward a couple of days ago in the debate on the Finance Bill by Mr. Asquith as a simple means of dealing with this problem, the proposal that the taxpayer should be entitled to pay down a lump sum to the Government and in return for that should be guaranteed exemption from Income Tax up to a certain amount. Of course, if you have not considered the proposal at all I will not press you on it?—No, I have not considered it.

1508. But it happens to be a new proposal before the country?—I should think there would be some difficulty about changes of taxation in future.

1509. But you have not considered it?—No.

1510. We are not discussing the Capital Levy in detail, but I understand what you consider is the primary objection to it would be the shock that it would give under existing industrial conditions?—That is the one I have mentioned. I think there are a great many other arguments on both sides, but the one that would, apart from anything else, weigh with me is that one. We have so many causes of instability in the world at present, so much uncertainty and risk in business, that to add an enormously large additional one would certainly be very undesirable.

1511. That is an answer which refers to the conditions which prevail at the present moment. It is an answer which you might qualify if the time arrives when we get into easier and more established conditions?—It is true that we might get other causes of uncertainty reduced in time, but I think I should still feel the same in any period that I can foresee about a Capital Levy.

1512. You seem to give rather more importance to that than to the ordinary general economic objections to it which are more usually urged?—Generally speaking, I should say in theory there is much to be said for a Capital Levy; in practice I regard it as unworkable. That is my general reply.

1513. *Sir Charles Addis*: I want to make clear this one point: you have no objection to Government expenditure on social objects as such?—No.

1514. It would be a question of the relative advantage?—Yes.

1515. Would it modify your opinion as to whether the expenditure was made out of savings, or by way of loan?—Yes.

1516. *Mr. Bell*: We had a semi-serious suggestion at the end of the evidence of one of the witnesses that

the Government might conceivably, by offering a slightly higher interest on the existing War Loans, also stipulate that in respect of that added interest the War Loan would be automatically paid off at the end of 100 years; that is to say, that there would be no obligation at the end of 100 years to pay anything. Is that a suggestion to be taken even semi-seriously? Suppose you are offered to-day for your War Loan of £1,000 or £10,000 another ½ per cent. interest on condition that you and your heirs in 100 years should cease to have any debt against the Government?—Well, if I were certain that I should hold it for 100 years, or whatever the time was, I suppose it would be a matter of calculation whether it would pay me or not.

1517. Of course, it would be a falling value all those 100 years until it approaches maturity?—I should say it is absolutely impracticable for any purpose that we might consider; I do not see how it would possibly help the situation.

1518. *Sir Arthur Balfour*: On that banking question I would like to know whether you consider that the present banking facilities have failed to supply reasonable accommodation for trade?—No, I do not.

1519. So the kind of bank you had in mind was one that would take on something a little more risky?—Well, it would have to perform different functions; its operations would not always be very liquid, and it would undoubtedly have to take risks which the big banks would not now take. Its relations with industry would be somewhat different. It would participate more in risks and profits. It would act as financial adviser. For instance, it seems to me at the moment that certain industries in this country want bringing together by the amalgamation of interests. There are too many different concerns in some of them. It seems to me much easier for some outside authority which has no special interests to protect to formulate a scheme to bring all those interests together, and so on. That is done abroad in other countries by the banking authorities who are closely in touch with that sort of work; here it is not done in the same way.

1520. Is it not done more by accountants and people of that kind here?—Yes, to some extent, but while accountants may be just as good on the one side, they cannot have so much financial responsibility and power of bringing assistance.

Chairman: Thank you very much for your evidence.

(*The Witness withdrew.*)

Mr. Alfred Hoare, called and examined.

Evidence-in-chief handed in by Mr. Hoare.

1. National Debt.

The American debt having been more or less satisfactorily provided for, the points to which I wish to direct the Committee's attention are as follows:—

1. The desirability of a scheme dealing with the whole amount of the various loans falling due up to the year 1932.

I do not develop this, it comes out from the rest of my paper.

2. The impossibility of returning to an effective gold standard for a long time to come.

3. The vital necessity for a substantial annual surplus.

4. A tax free 2½ per cent. stock. (Mr. Hoare added in a covering letter that, if a tax free stock is objected to, his argument would be the same with 3½ per cent. stock substituted for 2½ per cent. tax free stock.)

5. The inflational effects (if any) of the 2½ per cent. stock.

2. Return to the Gold Standard.

I assume (though some good authorities dispute it) that this return, with a free market in London for gold, is desirable.

At what date? I am very sceptical whether it can be before the 5 per cent. War Loan 1929-47 has been dealt with. Down to the year 1932 we have the following debts maturing in shape of National War Bonds, Treasury Bonds and Exchequer Bonds.

	Millions.
In 1925	£191
1927	396
1928	483
1929	113
1930	152
1930/32	109
Total	£1444

Average per annum £180 million for the 8 years, to which should be added provision for the outstanding Treasury Bills and Savings Certificates which, spread over 8 years would be about £120 million annually. This makes an average annual sum to be repaid or re-borrowed of £300 million.

I cannot conceive that it is possible to return to the gold standard effectively, till all this £2,400 million has been arranged for, and I am extremely doubtful whether it can be arranged for except by successive series of new short-dated Bonds, which would again postpone the date of the restoration of gold

However, I submit the suggestion below:—

3. Need for Annual Surplus.

The first big block falling due is some £135 million on February 1st, 1925, followed by £8 million in April and £14 million in September, to which may be added £23 million of Treasury Bonds 1925-35.

If recent precedents are followed an issue of Conversion Loan will be made. If it be by way of addition to the 4½ per cent. Loan lately offered in exchange at 103 we should not make much addition to the gross debt and should effect a slight saving in interest.

But I believe we could do much better than this; the position is to a certain extent analogous, as regards the State and the fund-holder, to that of the year 1888, when Mr. Goschen converted Consols from 3½ per cent. to 2½ per cent. (with an interim period of 2¾ per cent.). He forced the conversion upon holders by offering to pay them off if they did not agree, though he had not the money for doing it any more than we have now.

We can take a similar course to-day, but seeing that we have to provide £300 million every year to 1932, we must look carefully ahead.

Take the whole 8 years together; we have to meet £2,400 million, the present rate of interest upon which is rather under 5 per cent., less tax and Super-tax. But the bulk of our debt is held by banks and corporations not liable for Super-tax. I will, therefore, call the tax five shillings, *i.e.*, allow sixpence for Super-tax. This reduces the interest to a little under 3½ per cent., but it should be possible to reduce it at any rate to 2½ per cent. if not lower.

It will be of immense advantage to have a substantial surplus for paying off. Without it we have nothing but the alternative of not paying off, which means renewing at about 4½ per cent., or paying off by inflation. We should no doubt adopt the former.

But with a surplus say of £80 million we could face a very considerable inflation with impunity and gain considerably by reduction in interest. £80 million for 8 years pays off £640 million; this leaves 3¾ per cent. on 640 = £24 million. If the rate of interest on the £1,760 million remaining be reduced to 2½ per cent. as suggested above we also save 1¼ per cent. on 1,760 = £22 million, making a total saving of £46 million, whilst, if unfortunately inflation had occurred, the saving would have been increased. As to the suggested rate of 2½ per cent. see Section (4) below.

Of course there is risk that if we allow ourselves to taste inflation we may like it too well and go too far

with it, but it should be possible to take measures which would make it difficult for future Parliaments so to behave. The situation is not easy and there are objections to every course.

4. A TAX FREE 2½ PER CENT. STOCK.

Writers who have defended the deflation we have been undergoing have regarded the processes of inflation as something essentially poisonous to the body politic. It is poison no doubt, but poison sometimes has its uses, and inflation, used after the fashion of a reserve for equalising dividends, and made good in a reasonable time out of revenue, may be quite defensible. Even the Cunliffe Committee would in practice, if not in theory, be perfectly willing to inflate credit upon suitable occasions, and the judgment of the members of that Committee upon the expediency of reducing the Bank Rate would in normal times be the best judgment obtainable. But the year 1918 was not a normal time and we are still a long way from normal times.

My suggestion, therefore, is to offer the holders of maturing debt a new stock with an intimation that they would have the option of being paid off, the conditions of the new stock being that it should be redeemable upon demand at any time by any holder, with interest to date, and until discharged should bear interest at the rate of 2½ per cent. free of Income Tax and perhaps of Super-tax, and should similarly be redeemable by the Government, either with or without the consent of the holder. It would, as a rule, be always on tap.

I should expect that few holders would accept the new stock in 1925, the £191 million falling due would be provided for partly by the budget surplus, which my suggestion postulates, and partly by Ways and Means advances. In 1926 there is nothing to pay and most of the Ways and Means advances would be repaid out of the budget surplus. The real difficulty would arise in 1927 and again in 1928. But the difficulty would be like that foreseen and faced by Mr. Goschen in 1888. The holders of the maturing bonds would feel that they had no option but to take the stock at any rate in the first instance. If paid off in cash how could they reinvest? *See* Section (5) below.

It might be argued as it might have been argued in 1888, that payment in cash not convertible into gold would be a breach of faith, but it is admitted that so far as National Debt is concerned there is no breach of faith in deducting Income Tax or enforcing Super-tax upon the interest or levying Death Duties upon the principal, and payment in Treasury notes is in much the same category. Goschen could certainly have defended his transaction against the charge that it was a sort of veiled partial repudiation. He could not have prevented an opponent from attacking it upon this ground nor from making out some sort of case for the attack. So it is with the conversions here suggested. They can be successfully defended provided that the annual budgetary surplus is properly maintained and properly used to the extent necessary for sooner or later raising and keeping the Treasury note to a par with gold and, therefore, at the corresponding parity with the dollar. I do not pretend that this can be the case before 1930 at the earliest, but the London money market would foresee parity coming and there would be no flight from the pound.

After 1932 we ought to be in smooth water, we shall have the experience of eight difficult years to guide us and show what will be the best course to take with regard to the big War Loan 5 per cent. Stock, and the other matters incidental to our debt.

5. THE INFLATIONAL EFFECTS (if any) OF THE 2½ PER CENT. STOCK.

Suppose the holders of the maturing bonds all decided to accept repayment rather than take the new stock; they could not invest such enormous sums in securities except by slow degrees, and in the meantime would place the money on deposit with the banks. In either case it would pass into the custody of a bank, there would be nothing to take it into industry, and the banks, unable to employ the money in the money market which could not absorb such a flood, would themselves take up the new stock.

The effect would be that of substituting the new Stock for the present Bonds in the resources of the banks and bill brokers. These resources would be depleted of the bonds they formerly held so that at the end of the eight years instead of £2,400 million in the shape of War Bonds, Treasury Bills and Savings Certificates, belonging partly to private owners but chiefly to banks and other large institutions, there would be £1,760 million, all in the shape of stock repayable on demand, belonging in less part than before to private owners, who would have reinvested most of what they received, and in greater part (proportionately) than before to the banks and big institutions.

I do not think there would be any inflation of the currency except quite of a temporary character, and there should equally be no damage done to the dollar exchange, the transactions would be entirely domestic.

Future pursuit of gold parity could be continued, I believe, with less difficulty than at present, but I have no qualification for forming a considered opinion upon this matter. I must admit, however, that gold could not be attracted by raising the bank rate while there was a low rated Government stock repayable on demand by the holder.

1521. *Chairman*: Will you kindly take the points in your evidence-in-chief and address the Committee upon them?—The chief thing I have to urge upon the Committee is that the Government have been borrowing at a very much higher rate than they need have done. The last offer of 4½ per cent. practically at 103 seems to me an enormous rate to offer. I was very much influenced in writing my evidence by the example set by Goschen in 1888 when he converted Consols. I cannot see why we should not do practically as well to-day. It appears to me that if you offered terms which are not very attractive and the result is that you have to pay off the stockholder, there is no great harm done. Suppose that you do have to inflate, say, to a very considerable extent even to £50,000,000 or £100,000,000, provided that you have an adequate budgetary surplus every year that will soon be wiped off. Recent discussions in the papers and the journals seem to me not to have allowed adequately for the effect of a budgetary surplus operating year after year. Writers have rather divided themselves into pro-inflation and pro-deflation. I should have thought that a moderate amount of inflation was a possible instrument or tool to be made use of. To put it by way of analogy, inflation is a kind of forced draught to the engine; it is not a good thing in itself, and you cannot go on with it, but, if it is constantly watched and kept under control, it seems to me that it is quite possible to use it and make good use of it. I am not at all sweet upon having a tax-free stock. It is substantially the same thing whether you have a tax-free stock at 2½ per cent., or an ordinary stock at the equivalent higher rate subject to tax, but I rather fancied that if you had a tax-free stock it would be not at all unlikely that you would be able to get a slight benefit to the nation in that way. Writers seem to me also to have neglected another feature, and that is the possibilities contained in having a taxation higher than strictly necessary and using the surplus so obtained in deflating the currency when deflation seemed desirable, and the consequent bearing of such taxation upon the question of returning to the gold standard. There was an interesting discussion the other day, which is reported in this month's Economic Journal, between Cannan and Keynes, and one or two others, about the gold standard, and Keynes' idea of monetary reform, but none of them said a word about taxation, and I should have thought that taxation was a pretty considerable factor in the matter. I do not know that I have anything

more to add. These things seem to me very difficult and more easily dealt with on paper, but if you will put to me any questions I will try to elucidate the matter as far as I can.

1522. *Mr. Lees-Smith*: Do you anticipate seriously that this proposal will be taken up by the public?—Not at first—not willingly. My idea is that the first offer would not be taken up by the public, and the effect would be that you would get very considerable ease in the money market. People would be at their wits' end to know what to do with the money which they had been repaid. It would find its way back to the banks, and the banks would invest in the new stock. My idea is that it is very essential that the new stock should be repayable on demand on either side. That evidently is open to inflationary risks, but my belief is that if you have an adequate budgetary surplus it will not occur in practice.

1523. I see you quote as your precedent the Goschen conversion?—Yes.

1524. We have been supplied with a series of particulars with regard to the Goschen conversion which make it evident that the position which faced Mr. Goschen was very different from the position which faces us at this moment?—Certainly, but the principle appears to me to be the same. Goschen's main argument was that people must convert, because if they do not convert, what will they do?—and he was right.

1525. Well, these particulars indicate that they had more inducement in Mr. Goschen's time than they would have now. I gather your proposal is that we should face the dangers of inflation, and we should depend for meeting those dangers upon the provision of a budgetary surplus of £100,000,000?—Well, I suggested £80,000,000.

1526. And if the Chancellor of the Exchequer did not provide that budgetary surplus then there would be no method of dealing with the effects of the inflation?—Then you would be unable to deflate the inflation you had made.

1527. So your proposal means another variation in prices, an inflation followed by deflation, together with the prospect that unless this budgetary surplus is provided the inflated position would continue?—That is so. But if you do not provide a budgetary surplus how are you going to pay your debt?

1528. *Sir Josiah Stamp*: Does it not seem that really the proposal amounts to reducing the funded debt and increasing the Floating Debt?—For the moment I should depend on the budgetary surplus for reducing the Floating Debt.

1529. Later?—Yes.

1530. Meantime it is increasing the Floating Debt?—Yes, just as if they had not my scheme.

1531. You say you do not care for technical reasons for a tax-free stock?—I do not think there is a very much in it whether you take a tax-free stock or the equivalent at a higher rate subject to tax.

1532. By a tax-free stock you mean not merely paid without deduction of tax, but actually not liable in the hands of the recipient at all?—Yes. I should have thought that there would be a slight advantage in a tax-free stock, that is to say, if on one stock your net interest paid was, say, 2½ per cent., then you might pay 2¾ per cent., or something like that, i.e. a trifle less, on a stock not subject to tax.

1533. Have you studied the experience of tax-free stocks in this country from a fiscal point of view as to whether the disadvantages might not outweigh any advantages that they have in your eyes in this memorandum?—The only thing I have studied at all is Mr. Otto Kahn on the extravagance of the United States.

1534. You know the agitation that is going on on the whole subject in the United States now?—Yes, because they did not issue their stock at low enough rates.

1535. But apart from that, having regard to the way in which in any accredited system of income taxation it introduces anomalies—of an extraordinary description in America and to a less extent, but an important extent, in this country—is it not a serious disadvantage?—It is a great disadvantage.

1536. So much so that the opposition on the part of the Revenue to any policy of issuing tax-free loans has foundation in experience?—Yes. I quite understand that, and I should be perfectly content if the Government would borrow, say, at 3½ per cent. subject to tax.

1537. You would convert your scheme into an ordinary scheme?—Yes.

1538. But the principle would remain?—Yes, the principle that I am sweet upon is having a stock repayable upon demand so that it would in effect be a sort of continuous Treasury Bill, every pound of the stock being convertible into a Treasury note.

1539. How much of it would you be prepared to see repayable on demand at any time?—That is a very difficult question. I should try it on with the first lot, that is next year, 1925, £191,000,000. If it succeeded at all I should try it on with the next.

1540. The experience of early 1920, when it was a peril to national finance to have such an enormous sum continually coming into competition with industry for re-subscription on the market, does not frighten you at all?—No, I do not think it does.

1541. *Sir Arthur Balfour*: In your scheme, inflation would come first and the adjustment of it through taxation would come afterwards?—Probably, yes. If inflation came at all it would come first.

1542. Do you not think the very idea of inflation in this country would upset our credit all over the world and possibly cause us to pay much higher prices for our food in exchange?—No.

1543. Do you remember when a speech was made by a Cabinet Minister a short time ago?—Perfectly.

1544. Did you notice the effect of that all over the world instantly?—Yes.

1545. Do you not think this would have a very much more serious effect than even that subject has?—I should not have thought so.

1546. *Mr. Bell*: Why do you make such a point of this new stock being repayable on demand; if you could get out the same stock with a maturity of 50 years or so, would it not be an improvement on your scheme?—I do not think that could be done. The advantage is that you get your money at a cheaper rate. If you do not make it repayable to the holder on demand you will not be able to borrow at the present time at less than 4½ per cent.

1547. I agree that you might have to pay more, but would not that be off-set when you consider the tremendous danger of this scheme in time of unrest? There is, on these figures, £1,444,000,000 which at any moment of unrest could be presented at a Government office, or at the Bank of England to be repaid?—It would not occur in practice.

1548. You still maintain this suggestion against a slightly higher interest stock with a longer date so that the Government would not be embarrassed?—Yes.

1549. I think you have answered by anticipation the other question I wanted to ask you, but there is £2,000,000,000 of 5 per cent. stock which the Government might treat similarly in 1929?—Yes.

1550. Would you have the courage of your conviction here and say: "For the great saving of the nation we will make £2,000,000,000 Treasury notes if necessary, and if you do not want to convert into this new stock we will give you these £2,000,000,000 Treasury notes"?—No, I would not be prepared to say that now; I would wait and see.

1551. You would, in fact, go very tentatively and try the £191,000,000 and see if it would be a success?—Yes.

Chairman: Thank you, Mr. Hoare.

(The Witness withdrew.)

FIFTH DAY,

Wednesday, 2nd July, 1924.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman.*
SIR CHARLES ADDIS, K.C.M.G.
SIR ALAN G. ANDERSON, K.B.E.
MR. J. W. BOWEN.
PROFESSOR FRED HALL.
MR. W. L. HICHENS.
MR. H. B. LEES-SMITH.
SIR WILLIAM McLINTOCK, K.B.E., C.V.O.
SIR JOSIAH STAMP, G.B.E.
MRS. BARBARA WOOTTON.
MR. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

Mr. J. A. HOBSON, called and examined.

EVIDENCE-IN-CHIEF handed in by Mr. HOBSON.

1. Income-taxation for service of the debt does not (except so far as American interest and sinking fund is concerned) reduce the amount of new capital available for expansion of business, for there is no reason to suppose that a smaller proportion of this income will be saved and invested after its journey from the taxpayer to the interest-receiver has been performed.

2. The rate of debt-repayment should vary with trade prosperity, as indicated by price of War Loan on the one hand, public revenue on the other. (With prosperous trade surplus revenue should accrue for purchase of War Loan, and the price of War Loan should be low.)

3. The existing taxes must, especially in the case of large trade incomes, be paid to a large extent out of funds which otherwise would have been saved and invested. This, however, does not involve a reduction of total purchasing power, but only a transfer from one set of persons to another, or to the State.

4. At the present time of depression there is no evidence of a shortage of capital. The instruments of production exist in excess of any effective demand. Working capital is available for all sound business propositions. More abundant and therefore slightly cheaper supply of new capital would not appreciably improve the situation.

5. Income Tax enters into prices so far as it raises costs of production, *i.e.*, by raising the price of capital, labour, management, land, etc., employed in industry or trade. For the income that is taxed consists of prices paid for these factors of production.

6. The incidence, shifting, and final settlement of a tax will vary with the different kinds and sizes and economic situation of these constituents of income.

7. If the owner of any factor of production is, by reason of its monopoly or scarcity of supply, getting a price larger than is necessary to induce him to apply it to production, a tax imposed upon his income will lie upon, and be defrayed out of, this surplus payment.

8. If there is no such surplus element in the taxed income, the tax will be paid, either by raising the price of the factor of production (*e.g.*, rate of interest or wages) or in part by stimulating a greater productive activity in the owner of the factor.

9. If the tax is paid out of the value of an increased product, no question of incidence, or price raising, need occur.

10. But when a tax is imposed upon a subsistence wage, or a minimum rate of interest in a growing business, or upon any other necessary cost, it must, unless there is some surplus-receiving factor upon which it can lie, result in a rise of price of the goods or services produced by the business in question.

11. When a business, having some monopoly or advantage in methods of production, or in markets, has been able to fix its selling-prices at a profitable level, the tax, shifted from the factors of production without ability to bear, will usually be paid out of profits.

12. In closely competitive businesses, all subjected to the same tax conditions in the incomes they afford to their agents of production, high income tax must enter prices, except so far as it can rest upon rent of land or some other scarcity payment, or can stimulate better organisation or other improved efficiency.

13. When some competitors are not subject to the same amount of taxation, as in large parts of our export trade, the inability to raise prices, especially in trade depression with a restricted market, may seriously cripple an industry, as in our engineering trades.

14. The taxation of wage-income, unless it contains a surplus beyond the requirements of family efficiency, is economically unsound. In normally good times it will be shifted by a rise in wage-rates, in bad times it will reduce efficiency. This applies also, though with more elasticity, to taxes on commodities upon which workers' incomes are expended.

15. Neither a tax on commodities, nor any other tax, can be rightly regarded as borne by the consumer. It is the purchasing-power, *i.e.* the income, of the consumer that is taxed. Whether a particular class of consumers submits to a reduction of its real income by a tax on commodities depends on the ability of that income to bear or shift the tax.

16. During a depression it will be more difficult for workers to shift a tax on commodities which raises their prices because their trades will not easily bear a rise of wage-rates. The same holds of most of the other classes (*e.g.*, professions, interest-receivers). The tax will lie upon them, not, however, as consumers, but as income-receivers.

17. Custom duties will raise the price of commodities by reducing the volume of imports, except when the foreign exporters are close monopolists, in which case it *may* pay them to bear the tax, or most of it.

18. If the imported goods are produced under freely competitive conditions, their price will rise, usually to the full extent of the Customs duty in the case of manufactured goods, to a somewhat less extent in the case of most foods and raw materials. In every case the extent of the rise of price will be affected by the elasticity of demand for the respective classes of goods.

19. When Customs duties are imposed without corresponding excise, in articles produced both here and abroad, prices of the articles in question will rise to an indeterminate amount, and the preferential flow of capital and labour into these protected industries will (except during a general depression) cause a rise in the prices of other goods produced in this country. This latter effect of Protection must injure our exporting trade.

20. The general long-range effects of taxation upon trade largely hinge upon the uses made by the State of the tax revenue. When used productively and economically for health, education, etc., the revenue may be regarded as income earned by the State and needed for her performance of economic services.

The State is a Factor of Production.

1552. *Chairman*: We were denied the pleasure of your company on the Committee, so we have availed ourselves of the opportunity of having you as a witness. We have your evidence in chief before us, and perhaps you will deal with each point in it in turn?—(1) May I be allowed to say at the outset that I should not have volunteered to give evidence here, because I feel that in most respects I am singularly ill equipped for doing so, but I felt I could not decline your courteous invitation. My ill equipment is simply from the fact that I have had through my life no close personal contact with either the world of business or the world of finance. That may seem to cut me out altogether; probably it does. I have always regarded myself as a sort of middleman in these matters, and such opinions as I express are generalisations which I form upon contact with those who have more immediate business relations. Many of the points in the questionnaire sent to me I have not attempted to touch, knowing that I could not form any reasonably sound opinion about them, and I have therefore confined myself mainly to certain questions regarding the incidence of taxation.

(2) May I say at the outset, referring to the two or three opening paragraphs in my evidence in chief, that it seems to me that if the present taxation is crippling to industry and commerce, that crippling will take one of two forms. Either it will mean that it interferes with the necessary and useful supply of capital or that it interferes with markets. Those two questions, although related, may be treated to some extent separately; and I have attempted to do that in the propositions which I have set out. I do not know how far it is necessary for me to develop the first proposition to show that income taxation for service of the debt does not reduce the amount of new capital available. I have given the reason which seems to me to be adequate, namely, that the persons who, as taxpayers, pay the portion of the tax allocated to this purpose, would not have saved a larger proportion of that income had it remained in their hands than the persons who receive it as interest upon war-debt. I should suppose that in either case the bulk of the money in question would have been saved and applied to capital. The £305,000,000, which I think is the debt interest, and the £40,000,000. which I believe is the sinking fund, would, with the exception of the £30,000,000 paid to America, have been in either case available for increased capital, if there was an opportunity to invest it advantageously. I find on inquiry among business friends and financiers a general opinion that there should be some relation between the rate at which debt repayment should take place and the condition of trade; in other words, that there is not merely an ability to bear in relation to different forms of income, but there is an ability to bear in relation to time. In times of prosperous trade, when revenue will be higher, it is not only more possible to set aside a considerable surplus for debt repayment, but at that time War Loan will be apt to be cheaper in the market, so that there is on both sides support for the proposition that a time of trade prosperity is a good time to attempt to pay off a considerable portion of the War Loan. Of course in stating that, I bear in mind that the Income Tax does not necessarily reflect immediately the reviving or higher prosperity of trade, because a large part of it is assessed upon a three years' average basis and if it were technically otherwise possible to assess it upon last year's basis it would make this mode of repayment more advantageous. I think I make that point intelligible, if not quite clear, in the second of my propositions.

(3) The third statement brings in the question of purchasing power. A very large proportion of what is raised by taxation for revenue involves a redistribution of purchasing power—income if you like. That is to say, not only the interest and sinking fund on the debt but service pensions, old age pensions and even out-of-work donation are a transference of income and purchasing power from the taxpayers who pay them to the classes who receive them. There of course I cannot pretend that the same proportion will be saved out of the income when it has been thus transferred. My point there is that it is not so injurious as it seems at first sight in its total interference with industry and commerce, because, in my judgment, at any rate, a better distribution of wealth is one which helps to support trade by securing a larger current demand for commodities than would otherwise exist. In stating that, I am aware that I am contradicting some of the accepted doctrines of most political economists, but I appeal rather to business men in support of that view on the ground that experienced men far more than theoretical economists are inclined to see that the difficulty of maintaining full trade for any long period of time is derived from the evident inability of markets to expand as fast as the means of production, capital and labour, expand in productive capacity. There is, apparently, not only an abnormal but a normal tendency of productivity in the best modern industrial equipment to outpace the development of markets for the final commodities which it is the object of the capital structure to promote. On that ground I personally hold that a better distribution of wealth, in the sense of taxation, which takes money away from the relatively well-to-do classes—for I do not pretend but that taxation falls chiefly upon the well-to-do—and thus transfers a certain amount of purchasing power from them to the working classes—on the whole the weaker classes of the community—and so helps on the whole to maintain their standard of comfort, is really assisting to maintain a fuller use of the existing capital structure than would be the case if that measure of transference did not take place. In other words, I think that we should be worse off at the present time if, other things being the same, there had been no re-distribution of income as between the wealthier and the poorer classes by means of service pensions, old age pensions and out-of-work donation. I believe that those measures are justifiable not merely on what we may call eleemosynary grounds, but that they have an economic justification. I am afraid to deal at length with that subject, it might take all the time available, so I simply want to record my view that, if the present system of taxation does interfere to some extent with the saving fund but consolidates the purchasing power of the working classes, it is not disadvantageous to the industrial system as a whole. Obviously there is a limit to that, but that limit, I

suggest, has not been reached in the comparatively small transferences of purchasing power employed upon the services that I have named.

(4) In the fourth paragraph I suggest that there is no evidence—perhaps I ought to have said there is not much evidence—of a shortage of capital. What I mean is this. If you take the existing plant and fixed productive power of our industrial system, it is quite evident that there is no shortage there, because a great deal of it in most industries stands either unemployed or only partially employed at the present time; that is to say, there is unemployment of existing capital corresponding to the unemployment of existing labour. Nor can it be said, I think, that the working capital required for running that unemployed plant is wanting. I am informed that there is plenty of working capital available upon reasonably cheap terms for any business which can show that it has got contracts ahead which will cover cost of production and yield a reasonable margin; that is to say, any business which can show that it has got sound markets for the goods that it would produce, could get working capital to continue to finance its operations and to make productive the plant and the labour which is unemployed. That is, of course, only one part of the question. There is the question whether there are or are not new business propositions which cannot be financed because of shortage of capital due to oppressive taxation. I am informed that in recent times every business proposition in this country which is put up on what would be considered in ordinary times a reasonably sound basis can get investment capital, that most issues of this nature have been fully subscribed or over subscribed, and that there would be no difficulty in floating new businesses for constructive work, assuming that the state of confidence as regards future markets was such that it was believed that this constructive capital would be able to justify itself by furthering production of a kind which would find an expanding market. In other words, it seems to me at the outset that a fuller use of existing capital equipment is the chief need of the time in which we live. I may say that what I am now arguing would apply perhaps not at all, certainly not with the same degree of power, if we were in the midst of a considerable and secure revival of trade. When that happens it may be that some shortage of capital in the real sense would be manifested; but at the present time to argue that there is any shortage of capital either for the operation of existing productive plant or for the establishment of new productive plant, does not seem to me to be supported by any considerable body of evidence. Nor am I sure that if that new capital could be got at a somewhat cheaper rate than is available at the present time, that degree of cheapness would make any large difference as regards the attainment of business in the markets of the world. I admit that there must be some advantage in being able to obtain capital at a cheaper rate, and that *pro tanto* there will be some improved opportunity for us to outbid some other people for the restricted market of the world which exists at present. My point is that a more abundant and slightly cheaper supply of new capital by itself would not do what was needed to stimulate industry. In so far as that is true, it cannot, I think, legitimately be urged that a shortage of capital due to the pressure of taxation is a considerable interference with the revival of trade.

1553. You could have an abundance of capital caused by bad trade, could you not?—Yes; that is my case.

1554. If you are working half time in one of the great industries the capital that you generally employ there would be either in the bank or in reserve because it is not in use?—Yes.

1555. You could have a large amount of capital and yet you could have bad trade, could you not?—(1) That is so, and that is what I think is happening at the present time. Purchasing power received in income may be either spent immediately in demanding commodities for consumption, or it may be applied immediately to pay people to make new forms of real capital and operate them; but it may do neither of those things; it may be kept waiting, that is to say, the purchasing power may be moving more slowly than normally, and, in so far as it does that, it is crippling industry. That, I think, is the state of things to a considerable extent at the present time. That is where I come into contact with the money side of the thing. I object very strongly to treating unemployment as if it was merely what is called a credit cycle. But credit has a considerable part to play in it, and I do think there is a movement towards slower use of purchasing power and a corresponding lack of stimulation of industry at the present time.

(2) Then I come to the beginning of my statement of views upon the incidence of taxation. Income Tax, I suggest, enters into prices so far as it raises costs of production, that is to say, by raising the price which may be paid to the owners of some factor of production. I add that the income which is taxed consists of prices paid for these factors of production. I object, among other things, to the view that the consumer is taxed The consumer is taxed only as an owner of certain income derived from selling his labour, or his ability, or his use of land, or capital; that is to say, he is taxed in respect of his ownership of some income received as a price for the factor of production which he brings to bear. That brings me to the view expressed in proposition No. 6, that the incidence, shifting and final settlement of a tax will vary with the different kinds and sizes and economic situation—perhaps I should have said economic bargaining strength—of these constituents of income. There I come to a matter which I admit to be highly contestable, namely, the distinction which in some of my writings and elsewhere I have drawn between what I call costs of production and surplus. Political economists have always admitted that economic rent of land will bear a tax, and that if a tax is put upon economic rent or if a tax shifts from some other body on which it is put so as to fall upon economic rent of land, it will lie there, because by being put there it will not induce any owner of land to withdraw from production the supply of land which he commands. I need not argue that; I think that is commonly accepted. My view is that there are other factors of production besides land which temporarily—and, after all, we are living in a world of temporary conditions—may be in the same position; that is to say, a particular factor may be able, by scarcity and the bargaining power which scarcity involves, to extract a price for its use which is larger than would suffice to induce the owner to apply this factor. A man may have business ability of a high order; in one country, and under certain conditions, he may be able to receive £5,000 a year for the full use of his business capacity; in another country he may be able to receive £10,000 a year. I suggest that if the conditions were such that this man receiving £10,000 for his business capacity were only in a position to receive £5,000—if, in other words, the market were not so good as it is in his case—he would still give out the same amount of business capacity; he would apply his gifts in the same way. He would not, of course, if he had some other opportunity of applying it which was more favourable. Perhaps that is not the best case to take, but, in general, where there is the power to market certain kinds of things by reason of superior marketing power in the shape of combination or access to raw materials upon a preferential basis, or in some other way, wherever you get capital or business capacity favourably placed in the world, that favourable placing will mean the power to earn a rent of ability or rent of something else, but at any rate some income which essentially corresponds to the rent of land in that a tax, if it is laid upon it, or if it shifts on it, will be borne by that income. I think there is some support of that in recent experience. There are difficulties in the application of the principle, but if you could put a tax upon high

profits, so far as they do not mean high risks, you can get out of a surplus a tax which will not by its incidence disturb the application of any productive power. In regard to incomes, it is sometimes held that the only way you can proceed is by reference to the diminishing utility of the higher incomes. On that view I would put this case. Supposing you had two incomes, one of which was £10,000 derived from ground rents, and another was £10,000 obtained as professional fees by a high-class lawyer or doctor. If you were to consider those in regard to ability to bear, you would see that there was a wide discrepancy between the two cases, that the mere size and the real diminished utility of the last £1,000 of income did not enable a taxing system to be applied equally to both cases. In the case of the man who received £10,000 from ground rents, he could not resist that tax; it would lie upon his income; it would not prevent him from applying his land as he applies it now. On the other hand, if you put it upon a lawyer or a doctor who was earning very high fees it might very well induce him to say: "Well, of the last £1,000 that I earn, not only will there be comparatively little left to me when the taxes have been borne, not only will the utility of spending that be much less than the utility of spending the other thousands of pounds, but I shall have to earn that last £1,000 by the hardest portion of my day's work, and therefore I will not do this last and heaviest portion of my day's work; I do not get enough out of it in the spending on the one hand, and the earning takes too much out of me on the other." I fully admit the difficulty involved in finding and assessing these surpluses. If you could do that accurately I should be in favour not of a single tax, but of a variety of taxes aimed specifically at measuring and taking as much as was required for the public service out of what I call surplus, leaving the elements which I call costs untouched, on the ground that any attempt to touch a real cost of production is obviously interfering with some productive agent. But of course I am not so ignorant as to suppose that you can do it precisely in that way. It may be possible to put certain taxes on land values, and it may be possible to make measurements of certain other elements of surplus income, that is to say, unnecessary income, in the sense that they are not required to stimulate production. But generally speaking, I have assented to the proposition that you must tax incomes for general purposes by progressive taxation of high incomes, and I have assumed that my rule was validated by the view that the larger the income, on the average the larger the element of what I call surplus it contains. That may be disputed, of course. It may be said that a very rich man investing all his earnings in gilt-edged securities can get nothing but a minimum rate of interest. But I would plead against that, that the man with a large income, at any rate if the large income is got in the business world, is, generally speaking, in a better position to discover and take advantage of the most profitable opportunities for investment than the small man. Of course if you take the very small saver, we all know that he makes very little out of his savings. But I would rather insist that the progressive taxation of income is justified not merely by diminishing utility, but by diminishing cost involved in it, that is to say, by the amount of surplus or high income which is obtained from investing in forms of enterprise which are favourably placed, and which will give a larger return. But I would like to see, if it were possible, the progressive taxation of income accompanied by certain specific taxes upon specific surpluses as in the case of land values, where they can be ascertained with reasonable accuracy. If there is no such surplus element in the taxed income, the tax will be paid, I say in proposition No. 8, either by raising the price of the factor of production, that is to say, by raising the rate of interest or wages, or in part by stimulating a greater productive activity in the owner of the factor. You can no doubt under certain circumstances put a tax upon a man which will have the effect of stimulating him to the better use of the factor that he possesses, whether it is land or ability or labour power, in order to pay the tax. I think myself there is an over stress upon this productive power of the taxing system, and one ought to consider very seriously whether, if you are levying a tax designed to fall upon a person or class earning what one may provisionally call a bare subsistence, you are not doing a dangerous process; whether, instead of stimulating higher activity, you are not going to depress the productive capacity of that man or that class, partly by diminishing his actual physical efficiency and partly by the moral effect of depressing the confidence and security of a man who is in a small way of life and is only just able to make both ends meet.

(3) I need not dwell upon proposition No. 9, that if a tax does create or cause to come into existence an increased product, it may be borne by that increased product, and that no problem of incidence need arise then. But No. 10 I want to lay stress upon. Where a tax is imposed, or falls, or is shifted upon a subsistence wage, or a minimum rate of interest in a growing business, or upon any other necessary cost, unless there is some surplus-receiving factor upon which it can lie—such as rent of land which will, when new contracts take place, be able to be reduced in rent—the tax will result in a rise of price of the goods or services. Whether a particular tax will have that effect depends upon whether a business is in a condition to raise prices or not.

(4) I deal in proposition No. 11 with the case of a business which has a strong element of monopoly, that is to say, which is able within limits to fix its prices; either a monopoly or a business in a combination or in a price-fixing arrangement, accompanied, as most of these arrangements are, by restriction of output. Will businesses which are in a monopoly or advantageous position, earning a higher rate of profit than is necessary, raise the price if a tax is put upon them? Generally speaking, I think economists would say that they would not. In proportion as their agreement is skilfully worked out, they have already fixed the output and the price which will yield them, according to their calculations, the largest net income, and a tax put upon that income would not cause them generally to raise their prices. But no absolute rule can be laid down there, because it will depend to a very large extent upon what is called the elasticity of demand and the power of substitution in markets. It comes down to the simple proposition that if there is an element of surplus, whatever that surplus consists in, a tax which is either put upon it or shifts on to it is likely to stay there and be borne by the owner of that factor. In other words, if you suppose a monopoly in some necessary of life, a tax put upon the large income derived from the skilful use of that monopoly would not be able to be shifted, because it would not pay the monopolist to raise his prices generally. That, of course, is not the condition of a very large proportion of the businesses of the world. There is more or less competition, and when you get to closer competitive businesses which, as I say in proposition No. 12, are all subjected to the same tax conditions in the incomes which they afford, that is to say, which are not engaged in external trade, then the tax will raise prices except as far as there is some limit of rent or other scarcity entering into the case of one of the factors of production. But the general position would be that in fully competitive industries the competition has kept prices and profits down towards what we call the necessary minimum, and that such businesses will not be in a position themselves to bear a tax, and they will tend to raise prices. How far they will do so will depend a great deal upon the character of the goods and services which they sell, in other words, upon the elasticity of demand. In all these cases in so far as a tax can be shown to act as a stimulus to efficiency, to cause better organisation in a business or to promote new economies, there is a counteracting influence; and some capacity to bear a tax even in hitherto competing businesses may be obtained under those circumstances. But where you are dealing with the condition of export trade, where

some competitors, foreign competitors let us say, are not subject to the same amount of taxation, the inability to raise prices, especially in a time of trade depression, may seriously cripple an industry. On that point there can be no difference of opinion, I think.

(5) Coming to No. 14, I have already spoken of the taxation of wage income beyond the reasonable requirements of what I call family efficiency, which means not merely the physical efficiency of the male wage-earner, but the income required to bring up under reasonably sound economic efficiency such family as is calculated in the terms of the wage bargain—exactly what that means neither I nor anybody else can say at the present time—but there is something beyond the efficiency of the actual wage-earner which has to be taken into account in dealing with what we call the minimum wage. Any attempt to put a tax—either a direct tax by stoppage out of wages, or an indirect tax by taxing any commodities which are firmly rooted in the standard of comfort—will, I think, tend to be resisted in one of two ways. Either it will break down the actual productivity of the worker and the working-class family, or it will induce a certain amount of withdrawal from regular labour. If you took the lowest grade of workers in regular employment and you attempted to put a tax, direct or indirect, upon their real income, you would, I think, get both those consequences. You would get a reduced efficiency of labour and you would get a tendency for a certain portion of that labour to withdraw from regular employment and to become irregular, beggars, or people living from hand to mouth in such way as they can manage to scrape along—such conditions as you find in a considerable section of workers in great industrial cities to-day. I do not think it can seriously be argued that it is a good economic policy, setting aside all we may separate as human conditions, to attempt to put taxation upon the workers who are not earning more than is enough to keep them in efficiency. Nor do you meet that argument by saying, as you well may, that some of the income which those working classes receive is not used in the most beneficial way for their efficiency. They may spend an unnecessary amount of their income upon drink or amusements; but if that is a rooted part of their standard of comfort, a certain amount of damage is likely to be done by interfering with it. You might, of course, break down a standard of comfort by stopping certain waste expenditure, but it is a difficult process, and it would be one likely to be attended by a great deal of what is called social unrest. It is only by better education, I suggest, that you can improve very greatly and rapidly the mode of expenditure of the minimum income. Therefore there is an economic danger in attempting to put any amount of direct or indirect taxation upon the workers in the position which I have described. It does not seem to me that that is met by saying that, as those people have votes, they ought to be made conscious that they are directly contributing to the revenue of the country. That does not seem to me to carry very much weight. In the first place, I suggest they would not actually pay most of it, because it would be moved. By inability to get a tax borne by a necessary cost of production, they will only appear to pay it. The tendency would be, under normal trade conditions, for them to raise their money wages in order to maintain the current standard of comfort which they insist on having or which they stubbornly attempt to insist on having. You will find it very difficult, in other words, to prevent them shifting a tax first of all upon the employer in the terms of wages, and if the employer was in close competition with other employers, and there was no margin there by which he could bear the tax, then of course, under the conditions I have described, he would try to shift it on the consumer. The consumer, so called, for the purposes of the incidence of taxation, does not exist, because the consumer is the recipient of some element of income, and it would go circulating round until it found some place where it could lie. You may think that that is purely theoretical, and perhaps it is if you take an immediate view; and immediately it may be possible to get something by taxation out of even the low grades of workers; but I suggest that it is a very precarious, expensive and unprofitable way of raising public revenue. Public revenue should be raised as far as possible from sources with the greatest ability to bear, whether that ability is tested in the way I described, by possession of a surplus, or whether it is tested in the rough-and-ready way of the size of the income. Other workers above the grade with which I have been dealing may often be in a position to make some contribution to the revenue, not as large a contribution proportionately as they were making before the war, perhaps not as large a proportion as they are making now. I do not pretend to know what that proportion is, but the bulk of the taxation must obviously fall, if it is to be safe in its character, upon the larger incomes. During a depression, as I say in proposition No. 16, you may get a great damage to whole classes of industry, and unless we had had an improved insurance policy to deal with the long and deep depression through which we have been passing, there would have been very grave injury done to the productive power of the working class, not to speak of the social unrest that has been averted by means partly of what is popularly called the dole and partly by the fact that pensions and other portions of the redistributed wealth of the country do fall into the hands of a large number of working-class families, which, if these sources had not been available and the post-war conditions had otherwise prevailed, would have been in very dire distress, worse than any that has been experienced since the Hungry Forties.

(6) Then I come to Customs duties. I do not know that I have anything to say there which is highly disputable, or which is very informing, but I felt that as the questionnaire did include some reference to the effect of Customs duties it would be right that I should say something about it There again I raise the question: if the foreign exporter is a monopolist, or in proportion as he is a monopolist, and is therefore able to charge a higher price for his goods when they come into this country than he would consent to take if he could not get any more, a tax put upon the entrance of those goods will *pro tanto* tend to lie upon him. I think to that extent it is true that you can shift a tax upon the foreigner, but only to this extent, and even there, of course, it depends upon what alternative market he has. He may say: "If you put this tax upon the oil or other strongly placed commodities coming into this country we will send our oil to other countries and we will neglect the British market." In that way he may avoid bearing a portion of the tax which, if this was the only market for the goods, he might be called upon to pay.

(7) No. 18 is the statement of the orthodox free import view. If the imported goods are produced under freely competitive conditions, their price will rise, usually to the full extent of the Customs duty in the case of manufactured goods, and to a somewhat less extent in the case of most foods and raw materials. The difference there is that if you stop, or in proportion as you reduce, the imports of manufactured goods from some country, say America, supposing that interfered considerably with the production in America, it would raise the cost of production in America of those goods. That would not be the case in regard to foodstuffs, where a reduction in the amount of food imported would mean that the worst growing land was released from growing and that the produce was on the whole produced under conditions of more fertile or more accessible land. That view is worked out, I think, by Professor Marshall, so far as the theory is concerned: that there will be a certain difference in the proportion

of the tax which will be borne according as it is in the case of manufactured goods or in the case of other goods. I do not pretend that that is very clear. If, by means of a heavy import duty, you stop the entrance into this country of large quantities of manufactured goods from America or Germany, instead of those goods being produced to a less extent by all the competing businesses, you might simply knock out the weaker businesses in the exporting country, and there might still be competition among the exporting businesses, but there might be no reduction in the cost of production on that basis. I do not know whether that point is intelligible. It depends upon whether the result of taxing is really to disable the foreign businesses from producing under the most productive conditions, or whether it is not.

(8) Then in No. 19 I say: When Customs duties are imposed without corresponding Excise, in articles produced both here and abroad, prices of the articles in question will rise to an indeterminate amount. It is indeterminate on both sides, because one does not know what the cost of production in this country would be and what the elasticity of demand would be. It will depend upon the markets for the different classes of commodities. It will cause a rise in the price of other goods. If you protect certain industries, you cause capital and labour to flow into the protected industries, if they are rendered more profitable, and so you reduce the available capital and labour in the non-protected industries and the price of the goods and services produced by those non-protected industries will tend to rise. So you will get damage done indirectly by protecting certain industries.

(9) The last point I regard as one of the first importance. I contend that the general long-range effects of taxation upon trade hinge largely on the uses made by the State of the tax revenue. I have laid stress on that because it is sometimes ignored. People often speak as if, when the State has got hold of the income of somebody and expended it, its economic advantage to the individual trader was gone. I do not think that at all. It depends upon whether the State makes a good use of the money which it receives for the purpose of public services. For example, an intelligently administered State (if such a thing was possible) might raise more money and spend it wisely upon education, upon hygiene, or upon transport (for instance, if we could improve the cheap access to large towns, it would do a great deal not merely for hygiene, but for the reduction in the total rent of land by putting larger portions of land upon a more equal basis of access). Those are illustrations of what I mean by the last point—that we ought to consider that the State may possibly be a productive factor and may have a legitimate claim to this income on the ground that it is performing productive and protective services fraught with economic utility. All those services, if they are economically administered, do come back in the shape of improved safety, improved efficiency, improved productivity of the general business of the community.

1556. *Mr. Lees-Smith*: On your second point, have you thought of the political possibility of the proposal to vary the rate of debt redemption from year to year in accordance with the state of trade?—No.

1557. I can understand your giving it as your opinion that that would be advisable from the point of view of economic theory, but, if you take the actual position of the Chancellor of the Exchequer, are you sure that when he had lowered his debt redemption during a time of depression, it would be raised during a time of prosperity?—I should have thought that unless he was an excessive optimist, he would find that more revenue was coming in than he had anticipated, and that he would therefore be in a position, at the end of a good year, to apply a surplus, and I should have thought that, as a politician, he might desire to plan that that should take place, gaining a legitimate popularity from having a large surplus and applying it to reduce debt and to relieve *pro tanto* future taxation.

1558. If you are merely referring to the existing practice with regard to the use of a surplus on the Budget, that is not my real question. You propose that the New Sinking Fund, instead of being at the rate of £40,000,000 to £50,000,000 a year, should be a variable instead of a steady sinking fund from year to year?—Yes, I am inclined to say I would.

1559. You do not agree with the view that a sinking fund that remains steady from year to year is more likely to be maintained than a sinking fund which is lowered in bad years and is left to be raised in good years?—I think I would risk that myself, on the ground that the ability to bear is greater in some years than in others, and I want to raise the money with the least aggregate difficulty over a period of years.

1560. The evidence which you have just given in regard to the amount of capital in the country and its use bears a good deal on evidence that has already been given. A great deal of this evidence has been in the direction that the Income Tax, for example, is chiefly disadvantageous because it limits the amount of savings and therefore diminishes the amount of capital available for industry?—New capital?

1561. Yes, new capital. I gather that your whole view would rather contest that position. Do you consider that at the present moment we do not need any new capital for industry? Is that your view?—Yes, that is my general view, so far as I can gather from consulting various sources.

1562. I think you also consider that even in normal times, taking the existing distribution of wealth, there is as much danger as advantage in the piling up of new capital?—I think so, on the general ground that the capital which is piled up is not nearly fully used, that it is only fully used during certain brief periods which are called boom periods, and at other times a great deal of it lies half idle, and the fact that it cannot be fully used drives a great deal of excessive productive power into the distributive trades; a great deal of unemployment is concealed by the abnormal development of employment in the distributive trades.

1563. I want to put to you a point which is important. In regard to the disadvantages of the present high rate of taxation, we have had two arguments brought before us. One is that it is a curb upon enterprise and the willingness to take risks, but the second, and the one which seems to me has been more stressed, is that it diminishes the amount of new capital that is saved. You apparently attach very little importance to the latter argument?—At the present time, yes.

1564. And very little under the present organisation of society?—Well, yes, I would say that.

1565. Now may I come on to your evidence with regard to the question of Income Tax entering into prices. Your argument, I think, is that there are a great many surpluses obtained in competitive industry, and that if Income Tax could be laid simply on those surpluses, it would not enter into price. I think that is a summary of your view?—Yes.

1566. But in the case of ordinary Income Tax, not Income Tax on high incomes, but Income Tax on moderate incomes which did not contain any element of surplus, do you hold that under those conditions Income Tax enters into price?—Are you thinking of small business or professional incomes?

1567. I will put this. As you know, the general economic view has been that Income Tax does not enter into the cost of production and therefore does not affect prices. That has been the orthodox economic view. Now you accept that view so far as it applies in regard to your special surpluses?—Yes. I certainly believe that if an Income Tax is taken from a person whose income only just suffices to support and stimulate his present use of his factor of production, whether it is labour or ability or the capital that he has, there would be a tendency

to raise prices, for him to shift the tax on to the price of what he is selling.

1568. That was the point in your written evidence that impressed me, because that really is antagonistic to the ordinary orthodox economic view?—Yes, possibly. I was not quite aware that it was entirely unorthodox, but I have several views which are not orthodox, and that may be one of them.

1569. Will you just develop how that happens?—Let me take the case of interest. Supposing people are living upon interest derived from businesses which are engaged in free competition, and where the conditions are such that the profits are kept down to a competitive rate. Any attempt to tax that income will be an attempt to reduce the actual rate of interest upon capital and an attempt to reduce the income that I shall receive from my saving, and will upon the whole prevent me from saving as much. I admit of course that the whole question of the incentive to saving is an elaborate one, and there are people who hold that the fall in the rate of interest will not cause any interference with the quantity of saving. But I do not hold that view. I think, if you attempt to tax an income which is derived from minimum rates of profit or interest in business, it will tend to deter a certain amount of saving. That is what I mean. There will be an insufficient supply of capital for that kind of market.

1570. You are basing your argument on what I should call the indirect effects of an Income Tax upon the factors of production?—Yes.

1571. But the evidence that has been put before us has been very much more direct than that. Some of the witnesses have claimed that a business man, in making up his costs, says: So much Income Tax?—But can he do so? That is just the point. I say he cannot do it if he and his fellows have already been in the position to organise to fix prices at a price which is somewhat more than the free competitive market would have fixed them at. If he is not in that position, if his prices are fixed by free competition, I think there is some ground for supposing that he can put it on to what he calls the consumer, by raising his prices—that it would be necessary for him to do so.

1572. *Mrs. Wootton*: I take it from your evidence and your replies to Mr. Lees-Smith that you do not think a shortage of capital plays any part in the present trade depression. It is not a cause of the present trade depression?—I do not think so.

1573. I gather from your other writings that you go so far as to say that we have too much, rather than too little?—There is too much, in a sense; there is a large quantity of unemployed capital.

1574. Would you say that taxation, in any way other than through the limitation of the quantity of new capital, is responsible for the present trade depression?—Do you mean through the expenditure of the funds raised in taxes?

1575. What I meant was the burden of taxation, the effect on purchasing power?—I am in a little difficulty about answering that question. I think the matter of maintaining a high internal standard of consumption is of quite primary importance in keeping active all the sinews of commerce and industry, provided of course that that does not go so far as to cause what I should admit to be a shortage of saving and of capital.

1576. You do not think we have gone as far as that up to the present, but you think there may be a case for arguing that existing taxation is injurious to trade, not because it restricts the supply of new capital, but because it restricts the power of the community to purchase goods at the present time?—Yes, I think I would admit that.

1577. Then there is a question arising out of your argument about incidence of taxation. Do you think that your doctrine, the necessity of taxing surplus, gives us any guidance as to the total burden of taxation that the country can bear?—No, I am bound to say that I cannot make an even approximate estimate of the amount of surplus. I am not in the line of succession with those single tax people, who find exactly the amount of rental value of the country and would fix on that the total expenditure of the country, regarding any other form of tax as an obvious interference with trade and prosperity.

1578. You could give the theoretical limit, I suppose?—"Surplus," I have used in what is admittedly an elastic way, in the sense that I believe that in the bargaining processes by which industry and commerce are conducted there arise certain positions of superior bargaining power, sometimes in the hands of capital placed at a particular point, sometimes in finance, sometimes in certain conditions, we will say, of the building trade or the printing trade in the hands of certain groups of strongly placed workers. You may have, in the owners of any factors of production, under certain conditions, a power to take what I should regard as surplus, in the sense that it is really a payment in excess of what they would consent to take if they could not get this higher price. That is going on all the time and it is moving, in most cases. In the question of rent of land, you get it in a relatively fixed form, although even there there are great fluctuations. The fluctuations are very much greater in most industries and only in the case of land values and certain strongly placed and more or less abiding monopolies or combinations do you get any large body of surplus which even theoretically could be measured as a lasting basis of special taxation.

1579. Theoretically at any one moment the State ought not to take more than the total surplus in taxation?—If it could know it, certainly.

1580. That is the theoretical position?—Certainly.

1581. Do you think if it does not give us any practical guidance as to the amount of taxation, it gives us practical guidance as to the kind. I follow your argument that it is desirable to impose a tax on surplus when you can identify it. Have you any opinion as to how that affects the case for and against taxation of commodities?—I ought to have added, in trying to explain my views on taxation, that while a tax does tend to be shifted from where it is put, if it falls upon what I called a cost, it tends to be shifted upon some factor with more ability to bear it; there is also a tendency to stay where it is put until it is shifted, at any rate, and the shifting process may be slow. That is why I do not myself like taxes on commodities. There is something to be said for taxes on certain luxuries, on other grounds, but I do not like to see taxes upon anything in the nature of a necessary of life or a prime element of standard of comfort. Because if you put a tax or raise a tax on those things, it will stay on certain goods, perhaps inconveniently damaging the purchasing power of the community.

1582. The argument then is that we ought to put the tax on surplus income when we can identify it?—Yes.

1583. If we cannot identify the surplus income, then we have to adopt such other principles as may be equitable. If you have taxes on commodities, you are not only not putting them on the right element of income, but you are abandoning the attempt to adjust them to income at all?—Directly to adjust them to income, yes.

1584. So that you are really two removes from your ideal system?—Yes, I think so.

1585. *Sir William McLintock*: How would you measure this surplus income? By the volume of the profits on the sales of commodities?—I suppose I could measure it by the rate of interest on the subscribed capital.

1586. Without having regard to the reserves that may have been accumulated in the business? Let us assume that you take the total available capital, consisting of subscribed capital and reserves accumulated, would you measure it by a return on that capital?—I do not feel competent to answer that question offhand. It is an important one.

1587. The point I was going to make is this: Suppose that increased returns arose from a reduction of prices accompanied by an increased volume of output, does the surplus income still exist, and should it be specially taxed?—You mean a business in a position to dictate prices, more or less?

1588. No, not so. A business that reduced its prices and had a bigger volume of trade, and so made a bigger amount of profit?—It would not do so if it had been in competition with other businesses. That competition would have fixed prices at a minimum. I cannot quite see how the particular case could arise.

1589. *Mr. Bowen*: Would it not arise where one firm cut another? *Sir William McLintock*: It is surely quite common experience that big companies make big profits by reason of the volume of production rather than by the price they charge?—In a normal industry to-day, which is not a new industry, and where you have more or less what is called a representative business, you will find nearly the whole of the business in that industry in the hands of a certain number of firms which are equipped more or less on the same level. The cost of production will be a normal cost of production, and the price will be fixed by competition on that basis.

1590. And Income Tax will not enter into that price?—Yes; Income Tax, as I tried to point out, under these conditions would lead to a rise of prices in order to maintain the necessary minimum profit or rate of interest.

1591. Then will you take the case of a limited company which passes on the burden, or a large portion of the burden, of Income Tax to the individual shareholder who receives the dividends?—If they want to raise more capital they may get into difficulties. If they have reduced the actual rate of interest received by the dividend-receivers to what is insufficient inducement to bring in new capital they will not get new capital.

1592. But will not the incidence of that tax vary according to the income of every shareholder who receives the dividend?—Yes, the incidence of that tax as far as it passes through the particular business.

1593. And it will therefore enter very little into the cost of production?—It will only enter indirectly into the cost of production in the way I suggest, by making it difficult to enlarge that business.

1594. *Sir Josiah Stamp*: It acts as a differential against large businesses, does it?—Yes.

1595. *Sir William McLintock*: Let me put another case that presents a difficulty to me. Supposing you have, in a given industry, a small producer of a commodity as compared with the large producers, and though the small producer pays little or no Income Tax at all, yet the large producer is probably able to undersell him. Do you suggest that he bears the full effect of the tax?—I do not understand how that small producer has managed to exist at all for any length of time.

1596. You get them on the fringe of every trade; take the tobacco trade, for example?—And they deal with the same sort of thing exactly as the big producer?

1597. Selling the same type of commodities?—At a higher cost of production?

1598. Without paying any Income Tax or a very much lower rate of Income Tax?—You mean a case in which the differential Income Tax enables a somewhat smaller man just to survive and charge the same prices as his larger competitor; that is the only kind of case that I can conceive. If you take the case of the big businesses and small businesses, the big businesses being able easily to out-compete the smaller one, the smaller ones, unless they have some special market or some special advantage, cannot survive any length of time, and no tax differentiation, so far as I can see, would be likely to keep them alive.

1599. My difficulty is to see there at what point the Income Tax enters into the costs of production of the various classes of producer. You may quite easily have, as I put it to you, a small producer carrying on business on his own account who is paying practically no tax?—You are taking the case of the individual who gets his income from carrying on a small business in the same industry in which there exists a large company and the large company is able, by reason of its size and other advantages, to produce more cheaply. The only difference you suggest is that one is taxed at a different rate than another.

1600. I suggest that the price at which the two businesses sell does not contain the same element of Income Tax, and probably in one case none at all?—I am afraid that my brain is a little bewildered by this case. I cannot give you a satisfactory reply. I do not understand the conditions.

1601. *Sir Josiah Stamp*: Shall I just take up that point and suggest to you that what might be true, given the rest of your theory of surpluses, about a flat rate of Income Tax upon everybody, is rather complicated or spoilt by a highly progressive system proceeding from nothing, if you like, upon a very large business which is not making much profit, or nothing, upon a very profitable small business, up to a very high figure, not upon the largest business but upon the largest income from this business. Now, how can you get a kind of centre of gravity of that particular tax in order to introduce it in the price?—You mean, here is a company, and some of the shareholders are very rich men with large incomes, and here in the same industry is a small business in which the owner or little group of owners are small people, and they are paying Income Tax at different rates. Is that the point?

1602. They are paying no Income Tax, or very little Income Tax?—It will give a certain advantage to the survivor of the small business, if the small business otherwise could survive. My difficulty was to understand how that small business could have survived any length of time at all, but if it could survive, there is a differential advantage in favour of the survivor of that small business.

1603. Is not that practically all that you can really allege with firmness—that you had two natural differentials, a differential against businesses capitalised by rich people, and large businesses versus small businesses; the latter is not my point, but businesses capitalised by rich people and businesses capitalised by poor people?—I am inclined to say Yes to that. I had not thought about it.

1604. I am merely trying to follow up Sir William McLintock's point. I would like to approach the thing in another way. I do not want to take you over your exposition of the general theory of surpluses, because we know that so well from your books and also from your theory of taxation in relation to those surpluses. Should I be putting it fairly accurately if I tried to put it in a sentence in this way: that in so far as Income Tax comprises and covers a minimum economic interest and minimum subsistence rewards to effort and other factors of production, all Income Tax bounces off those hard surfaces and continues to bounce until it finally rests on what you would describe as the "soft stuff," and it must rest there?—That is a picturesque way of putting it. That is in general what I hold.

1605. Supposing that you have a very large amount to be raised in taxation, that amount of soft surplus must be limited in any given national income?—Yes.

1606. I think you said, in answer to Mrs. Wootton, that you do not measure it?—It is limited, obviously.

1607. Have you considered it, by taking the present assessable income and analysing it and subtracting from the total the minimum rewards to get the "soft stuff," and seeing the nature of the magnitude of the surplus?—No, I have not.

1608. Should you think it was adequate to cover the present national Budget?—I have not made an attempt to calculate even approximately. I should have thought that it would.

1609. If you take the hard capital that exists in fixed assets, buildings and dwelling houses and so on, and take as low a rate of interest as you like upon that hard capital—not the capital value of it calculated in the market, because that is arguing in a circle, but the capital that we are dealing with just now—and take the economic return upon that free from Income Tax, and then take, if you like, a minimum wage for every kind of effort, professional and manual, and then you deduct those two from the present assessments to Income Tax, have you got a margin big enough to allow of your rewards being free in practice?—You mean, may not the present tax revenue be larger than what I should show on those lines to be a surplus?

1610. I will put it in a totally different way. Supposing that the development of society is such that differentials become of decreasing importance, that men become very much more alike in their ability, and that differences of situation do not matter very much, and all the things that we have hitherto regarded as important differentials giving rise to *quasi* rents, are very much reduced and we are all very much handicapped alike, and then supposing there is practically no differential income at all, where will the tax rest if you impose a heavy tax? It is the same question as the previous one, put in another way?—Taxation under those circumstances, as it seems to me, might cripple individual productivity.

1611. It will in fact rest upon the people who pay it, will it not, if there is any surplus from which it can be found?—Yes, it must do so, under those circumstances.

1612. Therefore, the extent to which your doctrine is true to-day depends upon how far surplus exists?—Yes, that is so.

1613. And you have not attempted to measure it statistically?—No. If there were no surplus, it is quite clear that my explanation of a good taxing system would no longer hold.

1614. Do you suggest seriously that, apart from the long-run tendency, this is a correct proposition—that a high Income Tax is passed off into prices? Let me put it in this way: There are a very large number of people receiving rents from dwelling-houses, many of them on long leases or ground rents and so on. Suppose that the rate of Income Tax is doubled to-morrow, your doctrine is going to be very slow in getting to work to relieve those people?—Yes, those people.

1615. Is it not equally true, though a little more obscure, of business profit too, and salaries?—You were taking the case of buildings. Of course, it would have an immediate effect upon the supply of new buildings unless they were supported out of Government revenue.

1616. I agree there is the long-run effect in that way?—You would have a short-run effect, too. It would immediately check all new building, and the price of existing buildings would begin to rise.

1617. That brings me to my next question. Have you taken sufficient account of the effect of the universality of Income Tax on all classes of rents? Professor Seligman, for instance, in dealing with the doctrine of incidence, draws a very sharp distinction between the case of a specific tax as a tax on the rents of dwelling-houses and a tax where all the rents, wherever you like to put your money, are affected. In these things that we were speaking of—I am speaking of the tax on rentals of houses—it would be very strictly and strikingly true if there were a tax on those things alone, but since every opening for capital in which a man might wish to put his money would be equally affected, does not the tendency become rather washed out? It becomes a general deterrent to a much less marked extent?—A deterrent to the supply of capital.

1618. To the supply of capital at all?—By reducing the available rate of interest, the reward for saving.

1619. Nothing more than that?—Supposing that the taxation system is part of a system which is leading to what I should call improved distribution of income altogether, you are enabling large new classes of savers to come up. Assuming this was part of a system leading to better distribution, more equalisation and larger security of income, you might offset that by a consideration of the larger number of people who would be brought into the possible saving class. I can conceive that a lower rate of interest accompanied by those conditions might stimulate as large a rate of saving. If not, then you have to raise your rate of interest until the point when it does. You would get the necessary capital; it is simply a question of price.

1620. You do not suggest that if the rate of Income Tax were doubled to-morrow, any considerable degree of passing that Income Tax off in the price would be feasible for a long time to come?—I suggest that it would begin to operate at once, if you like, by restriction of the supply of new capital to all businesses that require new capital.

1621. Which, of course, is equivalent to saying that the lower net rate of return upon capital is in fact reacting on the saving of capital?—That would be so.

1622. I understood you to say you do not fully balance the counteracting influences?—My own view is that a lower rate of interest will deter the supply of new capital and that a higher rate will stimulate it, which is the ordinary view.

1623. It has not a uniform effect over the whole thing?—No.

1624. There are some cases in which it has the opposite effect?—Yes.

1625. It is only a balance?—Yes.

1626. May I put another difficulty which I always feel in following your exposition of this. You speak of rising prices. I take it you mean prices not in other commodities but in gold?—Yes.

1627. I suppose you accept the quantity theory as expounded to-day, within limits?—Yes.

1628. Supposing that under existing circumstances the total amount produced and purchased is a certain sterling figure, then the Government imposes a tax of 25 per cent. on everybody's income, they take away from the spender 25 per cent. of his purchasing power, and then they expend that themselves. Is that right?—Yes.

1629. What puzzles me is, where is the room for the increased price. You get the same quantity, the same purchasing power and the same quantity of gold?—But there is no less purchasing. The State purchases instead of the individual.

1630. On the assumption that the purchasing power remained the same, you have the same quantity of commodities as measured against the same quantity of gold?—Yes.

1631. How do you get an increased price without increasing your currency?—That is bringing me on to the relation of currency to credit, I am afraid. I do not say that it is not a perfectly legitimate line.

1632. It has puzzled me for a long time, if taxation is merely the abstraction of a certain quantity of purchasing power from the individual, neither less nor more?—Is it a question of the rate at which the purchasing power moves?

1633. It need not be. Instead of everybody spending £1,000 of their income, the State collectively spends 25 per cent. for them. In order to do that, they would have to tax them 25 per cent. You have the same quantity of credits and the same quantity of currency. Where is the room for the increased price?— I do not think on that phase of it that you are justified in assuming that there can be the same pace of movement of purchasing power, seeing that you have inserted an extra process, namely, that of removing by taxation. Here is A, who is about to spend his money at the ordinary rate, and the Government comes and takes it away and hands it over to somebody else. That taking away and handing over to somebody else to spend is *ipso facto* a retardation of the movement of purchasing power, it seems to me.

1634. It need not be. You can postulate the payment of a weekly tax, officials paying it out and

handing you the goods. It is possible, as I understand it. I do not think that really answers my difficulty. *Mrs. Wootton*: The retardation would act the wrong way, would it not? *Sir Josiah Stamp*: I am afraid it would.

Witness: You mean that in that condition it would be impossible to raise prices.

1635. *Sir Josiah Stamp*: I cannot see how prices could be raised?—There is no raising of prices.

1636. General raising?—If that be so, then of course the attempt to do so is spoiled, as it were, and it is sent back until, according to my view, it finds, if it can find, some surplus upon which it will lie, such as rent of land or some superior earning power.

1637. It seems to me that there must be unequal vulnerability of prices if your theory is true. Some prices must go up and some prices must go down, but the general index number would not be affected.—It seems so.

1638. I know it is a very difficult and rather abstruse economic consideration. I do not want to face you with it now, but if on reflection you see any answer to my difficulty, I would be very glad if you would send it in?—It is a new point in the form you put it, but I should be glad to consider it.*

1639. Let me put another difficulty that I feel. Does it not come to this, that if your doctrine is true and the taxes will find their way to the surplus somehow or other, does it matter what kind of system you have at all? If you put taxes on people twice as heavy as you intended, they will simply get that much more in their rents and interests and so on, and they will find it falls on the surplus somehow?—If you had an infinite elasticity and mobility you would get it in that way, but of course you have got a sticky system, and things do tend, as I suggest, to lie for a time, and there is the difficulty of shifting them.

1640. I suggest to you that the time element is so sticky and so important that it practically makes the theory almost in the millenium, or at any rate in a vacuum that we never reach in this world. I understand that in vacuum the forces that you speak of would be at work?—Yes.

1641. Your feeling is that the stickiness is so great that that force might just as well not exist?—At a time when there is so much new growth of application of capital and labour in the industrial system? I should have thought there would be some tendency immediately to begin to shift in accordance with the changes in the relative desirability of different applications of capital and labour. It may be that I have under-rated the stickiness, but I cannot easily accept the view that this is so immobile as you suggest.

1642. In order that we can consider it quite dispassionately let us look at Germany for the moment. There is great complaint at the present time that the taxation of the poorer classes is much too heavy, and that there has been altogether inadequate taxation of the richer classes. If your theory is correct, that is a mere delusion?—I would not say that. I say it would take some time anyhow to shift a tax. The tendency would be to break down the productivity of certain low paid grades of workers in Germany in order to provide against the obvious inefficiency of labour, and there should be a tendency among independent employers to raise their wages to maintain something like a decent standard of living, and so to take over immediately some of the tax and try to shift it as might be. At any rate it would not be advantageous to the German employer to depress wages in certain hard or fairly skilled work below a certain point or to allow taxation to do that.

1643. All I am suggesting to you is that as regards the measure in which you are rather shy, shall I say, of agreeing with the proposition that the form of taxation does not matter a bit, it all comes to the same in the end; that is a measure of the theoretical importance of the doctrine of surplus and taxation?—If I may correct myself, I do not wish to convey the idea, and I thought I had guarded against it, that it did not matter at all how you put on the tax because it would shift on to surplus. I certainly did not intend to have that meaning.

1644. It does mean, does it not, that the stickiness is so great that the theoretical gravitation, so to speak, is unimportant for our practical purpose at the moment?—In proportion as the stickiness is great.

1645. The stickiness is great. The greatness of the stickiness surely can be judged by the extent to which you will accede to my proposition?—I feel that you have had very much more practical experience in watching Governments and taxes than I, and I am in a weak position, I admit, to put in any disclaimer on that basis.

1646. You remember the form which the Excess Profits Duty took in America?—Yes.

1647. It was as near the taxation of what I may call without offence the Hobsonian surplus as any tax that has ever been proposed?—And you approved of that in principle.

1648. When some discussion was proceeding with regard to superseding the Excess Profits Duty by some other tax I did come out and openly defend it, you remember?—Yes.

1649. Can you suggest any other scheme than that which I put forward of making your surplus a practical way of taxation?—No, I do not think I can. I think that was a good way to approach it.

1650. There are one or two points relating also to the matter of taxation of the subsistence wage and what I might call your reversion to the eighteenth century doctrine that it was impossible to tax the wage-earner. You would not go so far as to say that you do not succeed in taxing him?—You could get a tyrannical or foolish Government which would try deliberately to break down the standard of comfort in a class, or would persist in a taxing system which had that result.

1651. What I am struck by in your proof, and also in your remarks, is that you treat efficiency as though it were a hard, absolute thing, and not a relative thing. May I explain myself by an illustration? Supposing that a manufacturer could see that adding 5 per cent. to a worker's wage would add 6 per cent., we will say, to that worker's efficiency, it would be a business proposition to make the difference. If he could see that by adding 5 per cent. he would only get 4 per cent. extra efficiency it would not be a business proposition. That is only another way of expressing the fact that wages tend to be the marginal production. Supposing the tax has the effect of reducing the wage by 10 per cent., and the abstraction of that 10 per cent. from the wage reduces the efficiency by 1 per cent., how much has got to be made good? So long as your doctrine means that the abstraction of a certain percentage of tax reduces the efficiency by a corresponding extent, I understand it; but supposing it reduces the efficiency to a far less extent, how much then is shifted?—I do not know that any certain answer could be given to that.

* NOTE—Mr. Hobson subsequently submitted the following reply:—

"The case put was that, since the State might spend the "money taken in taxation as quickly as it would have been "spent if left in the hands of those who paid the taxes, there "might be the same amount of purchasing power set to buy "the same quantity of goods. In that case no rise of price, "and therefore no passing of the tax, was possible. My "answer is that the rise of prices would occur through a "shrinkage of supply of goods. For *ex hypothesi*, the com-"petitive price that prevailed was such as enabled only a "minimum rate of profit and of interest to be earned. The "tax imposed on such incomes would not only check the "flow of any fresh capital, by reducing the rate of saving and "investment, but, if persisted in, would cause a letting down "of productive plant. In either event there would be "reduced rate of production, as compared with what would "have taken place had no tax been imposed. This reduced "supply with no reduction in the quantity of purchasing "power signifies a higher price level."

1652. It is a very important element in the doctrine?—I do not know that I have really quite grasped your point. Do you mind repeating it?

1653. The addition of 5 per cent. to the wage would not be a profitable investment to a manufacturer looking merely at efficiency if 4 per cent. extra were returned, but it would be if 6 per cent. were returned?—Yes.

1654. Now take the converse case of subtraction from that wage. Your point is that if 10 per cent. is deducted from the wage, and that reduces a man's efficiency, more will be paid to him in wage to make up the subtraction in order to get his efficiency where it was?—Or to enable, in any moving industry, a fresh supply of labour to enter at the required rate.

1655. All other labour being equally taxed; one has to remember the universality of the tax. I put to you the question that if the abstraction of 10 per cent. of the man's wages reduces his efficiency by 1 per cent. what then would be the alteration in the wage?—I presume that it would only be 1 per cent., or something about 1 per cent. under those circumstances.

1656. Then the 9 per cent. would stick?—The 9 per cent. would stick under those circumstances.

1657. Have you, other than in theory, formed any idea as to the practical effect of taxation of a wage-earner from the point of view of efficiency?—Is it possible to form any?

1658. After all, both standard of life and efficiency are relative terms. You have only to compare what men would live on and work on 100 years ago?—Quite so, but it is not merely a question of physical efficiency, of course.

1659. It is a question of temperament and psychology?—Of temperament and the acceptance of the traditional standard and refusal to work well unless you obtain the traditional standard.

1660. A gradual change of taxation, as distinct from a sudden change, is comparable with that kind of historical evolution in the standard of living which men do not notice?—You might break down the standard by a gradual process.

1661. Need it necessarily be a breaking down? Could it not be a mere retardation of that improvement in standard which otherwise would take place?—Yes, if it was not resisted, of course. You had such a movement at the beginning of this century, when real wages, which had been moving up so long, were suddenly retarded, for reasons which it is not needful to examine. It was a great cause of unrest.

1662. You have stated this doctrine in paragraph **14**: "The taxation of wage-income, unless it contains a surplus beyond the requirements of family efficiency, is economically unsound." I find very great difficulty in using that as a practical guide in taxation unless you mean that all taxes should be taken off the working classes. Until you get to a very considerable income in the case of a family, it is very difficult to point to any stage at which you could say that an additional pound well spent would not improve efficiency in some degree?—Yes, I know that.

1663. It is because you have not attached any quantitative test to efficiency in relation to the wage, that I get into difficulties with the evidence?—I have yet to find measures of quantity.

1664. Supposing that the men were all producing loaves and a man in a given time was producing 100 loaves, and that was his reward. You take away from him by taxation, 10 loaves, and in so doing you lower his efficiency so that he now produces three loaves less than he did. Now, how does your theory work?—He must have those three loaves made up. He produces three loaves less.

1665. I have deliberately put the case where the change in the efficiency is less than the change in the wage, because that after all must be the common case. You cannot have it that in every case what you abstract by taxation is the exact difference in the man's margin of net product. That must be a very rare case?—I am afraid I dare not attempt to answer. I see the difficulty, I may say, and I do not want to commit myself now.*

1666. *Sir Alan Anderson*: In regard to paragraph **2**, if you were Chancellor would you reduce the debt repayment now, or would you keep a minimum of the present figure and put it up in a good time?—I should be inclined to do the latter.

1667. In paragraph **4** you say there is no evidence of shortage of capital. Do you mean that at present things that want financing can be financed in the City at reasonable rates?—Yes, so I understand.

1668. Then you say there is a good deal of capital which is lying half idle. I do not quite understand what you mean by that?—I mean the real existing plant and productive capital.

1669. That is because of the state of trade, is it not?—Yes. I was not there alluding to what is called monetary capital, but to actual plant.

1670. That is quite a different thing?—Yes.

1671. It is simply another way of saying that we are having a bad time in trade?—Yes, and emphasising the fact that facing unemployed labour was unemployed plant and capital.

1672. Then you say that the purchasing power moving more slowly, crippled industry. Is it not really the other way round—that when industry is in a crippled stage, purchasing power is not tempted to move?—Yes, that is so.

1673. It is not that the owner of capital is shy of lending it when he is tempted to lend it, but at the present time he cannot see any temptation to lend it. Is not that the trouble?—Yes, I suppose so. He keeps it waiting until he sees some better opportunity, and that better opportunity is really a better market.

1674. So that it is trade that is the initial thing?—Yes.

1675. In paragraph **6** you speak of the incidence, shifting and final settlement of a tax. Do you mean Income Tax or any tax?—I mean Income Tax.

1676. ——" will vary with the different kinds and sizes of economic situation of these constituents of income." That was just another way of saying that if you put on a tax in an ideal state of the community it would be borne by those who could afford to pay?—Yes, that is only another way of saying that.

1677. I confess I do not understand all the discussion that has been going on, but I understand you think that would be the ideal thing, but it cannot exist in the imperfect state of our society?—It can only exist as guidance to a limited degree.

1678. But it would be ideal?—Yes.

1679. You would not definitely seek to avoid it?—No.

1680. Then you spoke of certain investments which would be remote from that fluidity, such as land values?—Yes.

1681. If you threw a tax on land values, it would not shift in the way other taxes would? As I understand, you spoke with approval of doing that?—Yes, I should limit that when I came to practice, because land has been so mixed up with the general conception of capital that it might be unfair to put any large sudden tax upon land values, which are mixed up with other values and have been allowed by expectation to become the basis of ordinary income.

* NOTE—Mr. Hobson subsequently submitted the following reply:—

"Suppose a tax of 10% on wages reduced the efficiency of "labour by a less percentage than 10, how would my theory "that a tax cannot be borne by a wage-income containing "no 'surplus beyond the requirements of family efficiency', "work? My answer is that, in the case taken, there does "exist a surplus upon which the tax can lie. If a tax of 10% "only reduced productivity by 1% that statement assumes "the existence of a tax-bearing surplus of 9%. But it should "be added that the reference to 'family efficiency' takes a "longer view than that of the immediate effect on the pro-"ductivity of the wage-earner. If he were to keep up his "personal standard of efficiency at the expense of his family's "efficiency, the effect of such taxation would be seen later on "in reduced efficiency of labour."

1682. It would, in fact, be just confiscating capital?—It would be a selective confiscation of capital if it was applied suddenly in any considerable amount.

1683. It would all fall on the then holder of the investments?—Yes.

1684. Is not this your argument: That the ideal system is the most fluid; the more that the whole community will bear the burden, the better that system is?—Undoubtedly.

1685. So that you would seek to get that?—Yes.

1686. I think I understood what you were saying about Income Tax being an addition to selling prices, but I do not follow the difference between the class of businesses in paragraph 11 and the class of businesses in paragraph 12. As I understood you, you said in paragraph 12, "competitive businesses" because it was more difficult for them to raise capital for one reason and another, and the prices would probably rise because of the Income Tax?—Prices would not rise where competitors are subject to foreign competition, where it is a question of the export trade, and where the competitors are not all subject to the same tax conditions as would be the case in international trade.

1687. Are those the businesses in your paragraph 12, "closely competitive businesses"?—I was then thinking within the national market.

1688. All subjected to the same tax conditions, it would rise?—It seems to me that it would tend to rise.

1689. Those are less favourably placed than a business having a monopoly?—Yes.

1690. It struck me as very curious that the unfavourably placed business which was in full competition all the time, would be able to raise its prices, whereas the monopoly, which was a stronger thing, would not be able to do so?—The monopoly has already raised its prices up to what it has calculated will give the largest net income, and therefore cannot raise them further if a tax is put on them.

1691. On the then conditions?—Yes, normal.

1692. So has the competitive business?—If you have got freely competitive businesses, their prices are fixed generally at the lowest prices that will maintain business.

1693. And they have to put their prices as high as they can. Their consideration of what is the highest they can get is determined by something?—By what is called the law of supply and demand.

1694. Exactly, but they are governed by something, and so is the monopolist?—Yes.

1695. I think you told us that the competitive businesses would be by far the larger in volume, and, therefore, surely, if they all put up their prices, the monopolist would be able to put up his, too. He will level up to the rest?—The monopolist would not be able to put up his prices, I think.

1696. I should have thought it was a most curious thing, if the general conditions were such that the competitive people had all put up their prices, that it should still be impossible for the person who had had special advantages?—In another business.

1697. In another business—not to be able to do so, too?—He has done so before. My view is that he has put up his prices to a point which yields him the maximum net income, and if a tax is put upon him, it will not be to his interest to raise his prices more.

1698. Even if all his neighbours are doing it?—He could technically do so, but he would have to keep account of the elasticity of the demand.

1699. In regard to paragraph 14, in good times if a wage earner is taxed, his union would try to get more money?—That would be the tendency, for the union to exert itself.

1700. Why would not that obtain in bad times, too?—In bad times you would have unemployment and it would be much more difficult for him to get any back.

1701. But surely there would be exactly the same stimulus working in good times and in bad times. The power to insist upon something might not be as great?—But that is the difference. In bad times the power to insist upon maintaining the existing wages will be inadequate. They will be crippled by the fact that there are unemployed.

1702. That would vary with the variations of the badness of the times, would it not?—Yes.

1703. There is no sharp line?—No sharp line.

1704. And in fact this would be an argument for having more wages or for resisting a reduction of wages, and further, they could carry the argument to supply and demand?—Yes, perhaps.

1705. *Mr. Hichens*: You say that there is a sufficiency of capital at the present time, and you have given reasons for that. Would one reason be, do you think, the fall in wages and prices? From the point of view of business, it is obvious that if wages and prices went down, the working capital required would be much less?—Yes, much less.

1706. That would be an important factor, would it not?—It would be a factor.

1707. Of some importance?—Yes.

1708. You are aware that in a big business the amount of working capital required is very large. If then, owing to a sudden fall in wages and the cost of materials, your working capital were halved, that would make a very material difference to the supply of capital required, would it not?—Yes.

1709. So that if wages went up and prices went up, and at the same time, as would probably happen, you had an improvement in trade, you might find that there was a serious shortage in capital, quite suddenly, might you not?—You might.

1710. That would be the position. It is the kind of thing that happened, from rather different causes, in Germany, is it not? They suddenly found themselves very short of capital?—Yes.

1711. Because prices went up, owing to inflation, but they went up all the same?—Yes.

1712. The result of that has been that the rate of interest in other countries has gone up to figures that are quite unknown in this country?—Yes.

1713. 18 per cent. for a first class investment in Germany is a very low figure, is it not?—Yes.

1714. And 100 per cent. has been known in some of those countries?—Of course that is interest plus risk. There is enormous risk.

1715. But largely shortage of capital at the same time?—Yes.

1716. So that it is a great advantage to have a large margin of capital to fall back upon, is it not?—It is an advantage, assuming that you are going to have the markets to take the goods that you are going to produce.

1717. Your point applied to the capital which is locked up in machinery and plant, rather than to savings of liquid capital?—I attempted to distinguish the two. I thought it was admitted that there was plenty of capital in the form of plant.

1718. There is too much, rather, from your point of view. Is not that so?—Yes.

1719. But there is not too much liquid capital?—I understand that liquid capital is available upon quite moderate terms.

1720. I was not disputing it; I was making the point which I think you rather agreed with, that we want a large reserve for contingencies in case wages go up, and prices go up, and trade improves. We want a large reserve of liquid capital?—We have it, I think.

1721. We have a reserve which may or may not be large enough. But would you argue that saving at the present moment was unimportant because we had an adequate supply?—No, I would not go so far as that.

1722. You would hold that saving was one of the important duties of those who are able to do it, would you?—Yes; I hold that if there was a better distribution of income, and a more steady reliable large pull upon the demand for commodities, you would then have conditions which would give validity to the largest mass of savings, and that you would then have capital fully employed, and a large quantity of capital fully employed. It is simply a question of proportions.

1723. I do not wish to raise that point, because I understand you. I only wanted to get it from you clearly, as I thought it was your view that saving in itself was a virtue which should be encouraged?—Yes; it is a necessity.

1724. It has been put to us that one of the results of high taxation has been an alteration in the amount of investment that has taken place, that owing to high taxation which took away a large amount of profits, people were not prepared to take the risks to-day that they used to take. Would you agree with that?—Yes, I am told that is so; that is my information.

1725. Coming on to the question of the repayment of the debt, am I right in understanding that you would agree that there should be a minimum provision each year of £40,000,000 to £50,000,000 regardless of whether trade was good or bad?—I have not pledged myself on that view. I have no objection to providing a minimum and letting the good trade or bad trade deal with the surplus above that.

1726. You think it right that there should be a minimum?—Yes. I think probably I should compromise on that position.

1727. Would you think that taxation to-day, speaking generally, is about as high as it advantageously could be?—Yes, I think I might say that.

1728. And therefore that if any further provision were thought necessary for the repayment of debt, it could only be secured at all by improved trade conditions and improved prosperity or by reduced expenditure in some other direction?—Or by a measure such as the Capital Levy.

1729. *Chairman*: We propose to deal with that question a little later on; but as you will be abroad then, you are quite at liberty to say now what you like in answer to Mr. Hichens' question.—I may say that I did not come here with the intention of saying anything about a Capital Levy, and it is a little difficult for me.

1730. I think then perhaps we will defer that, if you like, or perhaps you would like to put in a paper before you go away?—I would like to put in a short statement in writing.

1731. *Mr. Hichens*: At any rate I think I may take it, in answer to my question, that another exception would be the Capital Levy?—Yes.

1732. That is to say, that unless there were an improvement in revenue due to prosperity, or unless there was some saving in expenditure, or unless there was a Capital Levy——?—Or a conversion, of course.

1733. Or a conversion. You do not think it would be practical politics for the moment, at any rate, to increase taxation?—No, I think not. I think it would be unsafe.

1734. I understood you to say that the redistribution of wealth involved in Old Age Pensions and Unemployment Benefit and so forth is not disadvantageous to the State?—I do not think it is.

1735. Would you qualify that to this extent—that it is not a disadvantage to the State unless it can be shown that such payments restrict the activity or the enterprise of the recipients?—Certainly I would accept that.

1736. If it could be demonstrated—I do not mean to suggest that it can—but if it could be demonstrated that a man did not try to get work because he was getting Unemployment Benefit?—Obviously I should consider that.

1737. And you would consider that that was a point which required very careful watching in any scheme that was put forward?—Yes, I think so.

1738. Have you examined the matter, and are you satisfied that there is no such restriction to-day?—No; I do not know at all. I am not satisfied in the sense of having made any personal inquiry.

1739. So that that statement of yours will have to be qualified to that extent?—Undoubtedly. I should have thought there was some risk unless very close safeguards were maintained.

1740. *Mr. Bowen*: You talk of workers' subsistence limit. Will you tell the Committee whether you have formed any definite opinion as to what that subsistence limit is?—No. You mean in relation to such computations as were made by Mr. Rowntree before the war.

1741. I have seen those, and I did not know what your views were about it?—No; I thought that the sort of meaning that he gave to subsistence wage was a reasonable one when I read his analysis at the time. I would still accept that provisionally as a sort of sound basis.

1742. Have you any views as to the capacity of the worker to bear Income Tax or any tax, having regard to his family obligations and his rate of income? By the worker I mean the manipulative worker, the industrial worker?—It would come to this: Do I think that a worker with a normal family getting less than £3 or £3 10s. a week had any real capacity to pay a tax? Is that the sort of question?

1743. If you would like to take Mr. Rowntree's figure for a man, wife and three children, what standard of income do you think that man should have before he is charged to tax?—On Mr. Rowntree's basis I do not know; it would be something like 45s. a week, I think, under those conditions. I am speaking from my recollection.

1744. I think his figure was 35s. as an absolute poverty level?—With three children? Then it would be more than that; it would be 50s. a week now. Assuming that that was as correct a computation as one could get, it would be unwise to attempt to impose any tax, either direct or through general commodities, upon that income.

1745. *Professor Hall*: In reference to the transfer from the well-to-do classes to the working classes, do I understand your criticism to be a criticism against undue saving? Suppose there was a transfer of income to the working classes, and they saved the amount instead of the richer classes, would that effect the purpose you have in view, or are you thinking that if the increased share of the national revenue went to the working classes they would spend more, and thus maintain a better market?—I was taking the case that there were two charges in regard to the crippling results of taxation. One was that it stopped saving, and the other was that it checked markets; and I was arguing then that this transfer, although it might to some extent reduce the total rate of saving, was compensated in a sense by stimulating the internal markets. I think, if the workers all saved all they could, and if everybody else saved all they could, the thing would be impossible, and very little reflection would show that. There is a limit, in other words, to the proportion between saving and spending in any intelligent community, having regard to the existing arts of production.

1746. It is really a criticism against undue saving?—Yes.

1747. In reference to the abundance of capital, you were thinking, I suppose, principally of home needs, and ignoring political conditions abroad and the possibility of large demands being made upon British capital for investment abroad?—Of course a good deal, as you know, does go abroad; in fact some people say too much, and that it ought to be stopped.

1748. Supposing that political conditions improved and there was an increased demand for British capital abroad, do you think that there would still be sufficient capital to meet the demands that might be made?—That I do not know. It depends upon whether this country was producing full blast. What I want to see is a development of industry to the full here and the maintenance of that full industry, and in that case we should have so large an income that it would be possible to keep the standard of living of all classes fairly high and at the same time to supply a larger quantity of capital which would be more fully utilised owing to the full maintenance of demand.

1749. I quite agree; but I understood you to suggest that we have an adequate supply of capital at present, no emphasis being laid upon the necessity for increasing the supply of capital?—Yes. At the present time more capital would be wanted if you had better general trade conditions.

1750. You did not make much reference to the conditions of trade abroad, in the remarks you were making when you spoke about capital being only partly employed?—No.

1751. Take, for example, the cotton industry. I think I should probably be right in saying that there has been very little addition to the number of mills or the amount of machinery in the cotton industry during the last 10 years, certainly there has not been the increase there was during the previous 10 years?—No, nor are you likely to get it.

1752. What do you think is the stumbling block there?—It is partly foreign markets and partly the American cotton situation.

1753. Then in reference to the same question, what do you think is likely to be the effect upon the policy of conversion of the retardation of the increase of capital?—I did not make any allusion to that in my evidence, because I did not care to go into it. I do not feel myself competent to discuss that particular question.

1754. You favour the varying of the amount applied to debt redemption according to the state of trade?—Yes.

1755. Have you any suggestion as to the method by which we could tell what were the right times to increase or reduce the amount?—I suggest in my evidence-in-chief that there would be two primary tests; there might be others. One would be the price of War Loan and another would be the yield of the revenue from Customs and Excise and more or less from Income Tax, having regard to the three years' basis of computation for Income Tax.

1756. Nothing beyond that?—No.

Chairman: Thank you, Mr. Hobson. We are very much obliged to you for the trouble you have taken.

(*The Witness withdrew.*)

(*Adjourned to to-morrow morning, at* 10.30.)

SIXTH DAY.

Thursday, 3rd July, 1924.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman*.
SIR CHARLES ADDIS, K.C.M.G.
SIR ALAN G. ANDERSON, K.B.E.
SIR ARTHUR BALFOUR, K.B.E.
MR. J. W. BOWEN.
PROFESSOR FRED HALL.
MR. W. L. HICHENS.
MR. H. B. LEES-SMITH.
SIR WILLIAM McLINTOCK, K.B.E., C.V.O.
SIR JOSIAH STAMP, G.B.E.
MRS. BARBARA WOOTTON.

MR. G. R. HAMILTON, *Secretary*.
MR. G. ISMAY, *Assistant Secretary*.

The Right Hon. REGINALD MCKENNA, called and examined.

EVIDENCE-IN-CHIEF handed in by Mr. MCKENNA.

Question 1 (*a*).—How does the National Debt affect the supply of credit, with particular reference to the effect of the Floating Debt?

The question assumes that some relation exists between the supply of credit and the National Debt. To determine whether there is such a relation it is necessary to examine the conditions which govern the supply of credit.

In this discussion I understand credit to mean loans made by banks. Private credit given between traders and individuals—by shopkeepers to customers, merchants to shopkeepers, manufacturers to merchants—is to some extent dependent upon bank credit, but does not appear to have any direct connection with the National Debt.

The first condition governing the total volume of credit is the limit which each bank prescribes to its loans and investments. In every case banks keep some definite ratio of cash to deposits, and they will not allow their reserves to drop to a point which would give them a ratio below the required minimum. As every bank loan or investment creates a deposit but does not, except in the case of a loan by the Bank of England, create any more cash, it follows that every increase in the supply of credit lowers the ratio of cash to deposits throughout the banking system. When this ratio is at its minimum no additional credit will be given; when the ratio is above the minimum banks are sure to increase their loans.

It is possible that if there were no National Debt banks might be unwilling to invest as freely in other securities as they do now in Government loans, and in consequence would be able to give additional credit without reducing their proportion of cash. But a condition of this kind cannot arise now, as in any circumstances a considerable National Debt is certain to exist.

The first control then on the volume of credit lies in what may be called the policy of sound banking, which conforms to a definite ratio of cash to liabilities. There does not appear to be any connection between the considerations which dictate this policy and the existence of the National Debt.

The second control on the volume of credit is the aggregate of the cash held by the banks. Two factors operate to increase or diminish this aggregate: first, the amount of currency retained in circulation by the public; and, secondly, the variation in the amount of loans outstanding at the Bank of England, including variations in the balance of purchases and sales effected by that institution.

While it is obvious that the great increase in the amount of currency in circulation to-day as compared with the pre-war period is a result of conditions which gave rise to the increase in the National Debt, it is no less obvious that the existence of the National Debt can have no bearing upon the currency in circulation amongst the public. Variations in the amount in circulation depend upon the price level, velocity of expenditure, customary pay-days, holiday seasons and national festivals, but have no connection with the National Debt.

There remains for consideration the question of loans by the Bank of England and their repayment as causes of an increase or decrease in the cash held by the banks. When the Government incurs debt we generally find that Bank of England loans are increased. It is not necessary that this should be the case, but it would be quite easy to show that in practice it is so. The Bank of England loans may be made direct to the Government or to other persons who wish to lend to the Government, or may be the result of market pressure which forces borrowers into the Bank of England. Equally when the Government repays debt it is generally true that loans by the Bank of England are diminished. Movements in the National Debt consequently affect the volume of credit inasmuch as they are usually a cause of fresh borrowing from the Bank of England or of the repayment of old loans. The existence of the National Debt has no tendency to cause a variation in Bank of England loans, and consequently has no influence upon the aggregate of cash held by the banks. Variations in the National Debt only affect the supply of credit according as they increase or diminish Bank of England loans.

We must therefore in considering the question of the supply of credit look primarily to the operations of the Bank of England, and only in a secondary sense to the movements in the total of the National Debt.

With regard to the effect of the Floating Debt on the supply of credit, the same considerations apply as in the case of the rest of the National Debt. If the repayment of the Floating Debt leads directly or indirectly to a reduction in the loans outstanding at the Bank of England, the aggregate of cash held by the banks will be reduced, and the supply of credit proportionately diminished.

Question 1 (*b*).—How does the National Debt affect the supply of permanent capital for trade and industry, with particular reference to the effect of the Floating Debt?

This question must be considered under two heads: first, the effect of the interest paid on the National Debt; and, secondly, the effect of redemption.

Taxation to meet the interest on the National Debt may, like taxation for any other purpose, diminish the incentive to save and thus reduce the supply of capital.

Money raised by taxation may be assumed to be drawn partly from funds which would have been saved, that is, which would have been expended on production and therefore have increased the supply of capital, and partly from funds which would have been expended on consumption and which therefore would have diminished the supply of capital. The money received in interest on the National Debt may also be assumed to be partly saved and partly spent on consumption. I do not know of any means of forming an estimate of the proportionate use of the money in each case.

Taxation for the purpose of redeeming National Debt takes money from the taxpayer which is withdrawn partly from savings and partly from expenditure on consumption. It would appear from this that as the whole amount of discharged debt is held by investors who may be assumed to re-invest the money they receive, the effect of debt redemption will be to increase the amount of capital available for use in business by the amount withdrawn from consumption. It must be borne in mind, however, that taxation diminishes the incentive to save, and that debt redemption on a large scale could only be effected by very high taxation which might result in a final net reduction in the supply of capital. It is obvious that if taxation is carried to extremes there will be no saving at all. But we should be taking a very imperfect view of the matter if we had regard only to the quantity of capital. The use to which capital is put is more important than its quantity, and infinite harm may be done if capital is transferred from those who are able to employ it to the best advantage to less competent control. We have therefore to take account of the effect of the displacement of capital caused by the redemption of debt.

Anyone who makes a wide survey of our industry and commerce cannot fail to be struck by the difference in the productivity of capital according to the ability with which it is handled. Much of our capital will be shown to have been wasted from its first employment; another part will appear to have been used in a way which can never bring more than a trifling return; only a portion of the whole will have been put to the best advantage. Successful production depends upon the energy, enterprise and capacity of the persons by whom capital is employed, and if a firm is making considerable profit and paying large sums in taxation it is evidence that the capital engaged in the business is in competent hands. It is here that the danger of excessive taxation lies, and particularly of graduated taxation. Most is taken from those whose capital is being used most efficiently. The rule with successful enterprises is to build up reserves in order to enable them to extend their business and meet growing requirements. Heavy taxation retards the growth of these reserves, and it is no compensation to the highly efficient firm or to the country that the total of the capital in other hands less capable of using it well is not diminished. The ultimate effect of any great transfer of capital due to a big scheme of debt redemption must be seriously to impair the national prosperity.

The question in every case is one of degree. Repayment of National Debt in proper circumstances may be advantageous in increasing the supply of capital available for business. It is further desirable in maintaining the credit of the country and thereby assuring that any future borrowing which may become necessary can be done at a low rate of interest. But if the repayment is on a great scale, rendered possible only by very burdensome taxation, it causes a grave displacement of capital, the evil effects of which may far outweigh the advantages of debt redemption, and tends to reduce the supply of capital by destroying the incentive to save.

With regard to the Floating Debt, I do not think that the particular form of the national obligation introduces any material distinction. Floating Debt I understand to be debt in a form which is always of short maturity. It does not appear that the date of the maturity is a relevant factor in considering the effect of the National Debt upon the supply of permanent capital.

Question 2.—How does the National Debt affect the terms on which capital can be raised?

The National Debt affects the terms on which capital can be raised only through the influence of the taxation which must be levied for its service. The existence of the National Debt has no effect on the supply of capital or the terms on which it can be raised.

Question 3 (*a*).—To what extent is it desirable to pursue a policy of debt repayment during a period of trade depression?

There does not appear to be any necessary relation between trade prosperity or depression and the repayment of debt.

In times of trade depression when production is less than normal, if other factors remain unchanged, production will be stimulated and trade improved by an increase in the aggregate purchasing power of the public. Variations in the amount of public purchasing power, however, depend ultimately upon an increase or decrease in loans or purchases by the Bank of England. Consequently, repayment of debt, if the debt be due to the Bank of England, would tend further to depress trade.

The argument in the reply to Question 1 (*b*) is applicable to this question.

Question 3 (*b*).—To what extent should a policy of debt repayment wait upon the prosperity of trade?

I am unable to give a precise answer; it is a question of degree. It is preferable to effect repayment during a period of trade prosperity when profits are larger and revenue is increased and Government securities stand at a lower price.

Question 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?

Here again I can add nothing to the statement in reply to Question 1 (*b*).

Question 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?

In the first place, the trader who pays high taxation has a diminished power to save and build up the capital of his business.

In the second place, high taxation reduces the incentive to risk capital in the extension of business or to undergo the labour and anxiety accompanying new enterprise.

For these reasons high taxation is injurious to export as well as to all other business.

Taxation which is not based upon profits earned, but which may be properly regarded as an expense in production is, of course, detrimental to the exporter in competing in foreign markets against world prices.

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

The meaning of this question is not clear to me.

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

The effect of Income Tax is to reduce the power to build up reserves.

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

The supply of capital from the public is determined by the amount of present saving. Existing taxation transfers what might, in part at any rate, be saved by the public to the Government, which spends it upon consumption, except so far as it is used for payment of interest, redemption of debt, or for reproductive expenditure.

Existing taxation does not affect the total of purchasing power unless it leads to an increase or decrease of borrowing from the Bank of England.

Question 9 (*a*).—How far does the heavy Income Tax deter the foreigner from investing in this country?

The answer to this question can only be a matter of inference. An investor seeks security and interest for his money. Inasmuch as the Income Tax reduces the interest, it will presumably have an effect upon the foreign investor, unless the excellence of the security compensates for the reduced yield.

Question 9 (*b*).—How far does the heavy Income Tax induce the British resident to invest outside this country?

If by this question it is intended to ask how far there is illegal evasion of Income Tax, it is difficult to form an opinion, but there is no evidence to show that such evasion is very great. Apart from illegal evasion, it is difficult to see how a British resident could be induced to invest abroad merely on account of heavy Income Tax.

I have no information as to the extent to which British subjects are induced to reside abroad in consequence of heavy Income Tax.

Question 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?

Prices are determined by the amount of purchasing power in circulation, its velocity, and the volume of goods and services available for purchase, and taxation can only affect prices so far as it disturbs the existing relationship between these factors. If for example a high Income Tax is levied with a view to the redemption of external debt, the repayment will involve a reduction in the volume of goods available for internal consumption and prices will consequently tend to rise unless there is a counterbalancing reduction in purchasing power.

Income Tax is assessed on net profits, and does not handicap the exporter. He may be deterred however from competing in foreign markets, since the net profit earned may be insufficient to compensate for the trouble and risk of foreign business.

Question 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?

Existing taxes act as a deterrent to saving.

The effect of Income Tax on companies' accumulated reserves is to entrench upon the additions made thereto from time to time out of a restricted net profit. As in the case of individuals, high taxation stifles enterprise.

Question 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?

Death Duties do not involve a destruction of capital, though they may affect future conditions and renewals so far as they involve a redistribution of the national income between saving and consumption.

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

The Stamp Duty payable by companies issuing new capital may to some extent deter the raising of funds in this country for use abroad by good borrowers. I have not sufficient evidence to enable me to judge whether the postage rates and the Stamp Duty on bills of exchange are detrimental to trade, industry or employment.

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

The truth of the proposition that the tax on commodities is borne by the consumer is unaffected by general trade conditions. The tax may be regarded as an additional element in the cost of production, and the ability of the producer to recoup himself for this element as for the rest of the cost of production depends upon—

(*a*) the relative elasticity of demand for the particular product;

(*b*) the conditions of production, that is, whether under diminishing, constant, or increasing return;

(*c*) whether the commodity is produced under monopoly or competitive conditions.

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

This question has been partly answered in the reply to Question 15. The effect of Customs and Excise duties is usually to raise the prices of the commodities on which they are levied. As a result of the higher price consumption is reduced to an extent determined by the elasticity of demand, and trade is correspondingly restricted.

1757. *Chairman*: We have your memorandum before us. Would you like to expand it?—I understand that I am to look through my replies and to make any observations on them which I may think necessary in order to make them clearer. I would like to say that I have taken great pains to make my statement as intelligible as I can and I do not know at what point I am to give further explanation. It just occurs to me, however, that in the fourth paragraph of my first reply, in which I refer to the possibility of the banks using more of their money in giving credit and less in investment, a further explanation might be necessary. In determining how much a bank will lend to trade or how much it will invest, different reasoning guides different banks. If you look at the balance sheets of the five big banks you will see that no two banks invest quite the same proportion of their resources and no two banks lend quite the same proportion. Each bank is guided by its own policy; but it will be found that in the aggregate of investments and advances to trade the banks conform to nearly the same proportion. In the paragraph to which I am referring I explain the conditions under which banks might invest less and advance more to trade. No doubt at the present time, owing to the ready market for War Loan and other Government Loans, and to the fact that there is a very large amount of Government debt with an early date of maturity, banks are possibly investing more than they would in ordinary circumstances, though the proportion of what they would invest and of what they would lend to trade would not vary very much under any conditions. Consequently I think it will be found that the banks' proportions of investments are rather higher to-day than they usually are. That is the only explanation upon that point that I thought it might be necessary to give.

1758. *Sir Josiah Stamp*: Could you put a limit to the figures of that? Would there be a margin of as much as 5 per cent.?—Oh, no, nothing like a margin of that sort. You may say roughly that the proportion of their resources which banks lend and invest is about two-thirds of the whole. They may divide that two-thirds in different ways. There is more than 5 per cent. difference between the policy of different banks.

1759. But not in the action of one bank?—I do not think there would be 5 per cent. difference in the action of any one bank. The difference in the policy of the banks is, of course, necessitated by the circumstances of the different areas in which the banks are operating. Some of the big banks are operating more in industrial areas and therefore have more opportunity to advance money in trade. Other banks, while they receive large deposits, are in areas where they do not get the same facility, and consequently are inclined to use their money more in the purchase of bills or in investments. That will continue whether there be or be not a National Debt or whether the National Debt be £3,000,000,000, £5,000,000,000 or £7,000,000,000. My only point in this paragraph is that so long as there is a National Debt of considerable magnitude, there is not likely to be much change in the form of the use of their resources by the different banks.

1760. *Mr. Lees-Smith*: Broadly, is this intended to show that under these conditions banks slightly diminish the credit to ordinary business? Is that the application of the point you put before us?—I should say that the banks are not seeking to lend so fully; there is not the pressure on the banks to lend when there is a good opportunity for investment, as there would be if there were not. Banks have to use their money or they cannot pay their way. I do not say that a bank does not meet any pressure upon it to give credit. It does. But this is more a question of tendencies than of anything that you can describe in definite figures.

1761. *Sir Arthur Balfour*: It does not seek to lend to the same extent?—It does not seek to lend money to the same extent as it would if there were not equal facilities of investment.

1762. *Sir Alan Anderson*: This would not have such a great effect on the banks as a bigger demand from trade?—Nothing like it. If there were a bigger demand from trade, that would have quite a different effect upon banks.

1763. *Mr. Lees-Smith*: What you were saying seems to some extent to modify or to be antagonistic to what we have already been told. Is your general conclusion that the existence of a large National Debt diminishes the amount of credit that banks will give?—No.

1764. Or are you merely modifying that general conclusion by certain exceptional circumstances?—In reply to the questions put to me I have endeavoured to state the whole case as I see it. I have described here a tendency which does exist when there is an easy opportunity for investment; and I point out that that easy opportunity is bound to exist under present conditions in any circumstances; and therefore I come to the conclusion that no practicable alteration in the amount of the National Debt is likely to have any effect on this point.

1765. But the fact of the existence of this National Debt as a collateral leads to other results with which we are not dealing at the moment?—That affects the direction in which credit goes. That does not affect the volume of credit.

1766. You are not dealing with that point?—Not at all. The direction in which credit goes has nothing to do with the volume of credit. I did not deal with the direction of credit, because I assumed the Committee would not be likely to think for a moment that it makes any difference in the volume of credit whether you lend to A or to B. If A has got as collateral Government debt, he may more readily get a loan from a bank than B, who has not, but the money will be lent in either case; you do not affect the volume of credit, but merely the direction which the credit takes.

1767. *Mr. Bowen*: For the best looking article?—Yes. There is no point in the question of Government debt being used freely as collateral. That does not increase the volume of credit; obviously not.

1768. *Mr. Lees-Smith*: If the National Debt were halved, would that have any effect upon the volume of credit that banks would give?—Not the slightest. The volume of credit does not depend upon the actual amount of the National Debt. The basis on which the volume of credit essentially stands is the amount of loans and purchases and sales by the Bank of England. It has nothing to do with the volume of the National Debt.

1769. *Sir Alan Anderson*: Do you think the volume of credit depends on the bank's assets?—The volume of credit depends upon the cash resources of the bank, and the cash resources of the bank are a function of the loans of the Bank of England.

1770. If the banks hold a lot of War Loan and if half of it was taken away, they could not give the same amount of credit?—It would not affect their cash. Their cash would be the same.

1771. If they had invested large sums of cash in War Loan and half of that was taken away, without

getting anything in return? (*Sir Arthur Balfour*): Confiscated.—(*Witness*): If half their War Loan were confiscated the effect upon the balance sheet of the bank would be that their assets would be reduced by *x* and their liabilities to depositors would remain the same.

1772. *Sir Alan Anderson*: They would be in a bad way?—They would be in a bad way.

1773. So that they would have to reduce their credit?—I think the depositors would begin to draw from them. They would reduce their liabilities, too. Of course it is an inconceivable proposition.

1774. *Sir Josiah Stamp*: Take it from the other end, the end that is most familiar to us. Your trader has a very large amount to pay as a special levy or tax, and it is most convenient for him to hand it over in the form of War Loan. He has to get that from the bank, and once his collateral is reduced, the bank will not find him such a good borrower, and the credit in that sense is said to be reduced in area. Your answer so far would be that *pro tanto* with the reduction of area to him, there is something more for somebody else. Is that the end of the result of the cancelling, the Government receiving that stock in payment of taxation and cancelling it?—No; it is not the end. The end is that there is a transfer of credit from the person who had it before, to somebody else, and presumably, as we assume that the credit is given first in the direction where it is most wanted, the transfer of credit will be detrimental, because A, who had got it, can no longer get it, and A presumably was the best man to get it at that moment.

1775. Is there not, in your judgment, an actual annihilation of the basis of credit?—It would depend. A customer has got a loan from the bank. How does he pay off his loan? I do not see how he does it.

1776. Suppose that the trader himself draws on his own circulating capital for the purpose; he restricts his business?—He has not got money; he has got a loan; he has got a debit.

1777. He may have a large business employing a certain amount of circulating capital in goods?—He sells goods to other people.

1778. He sells goods and he restricts his business in future. He has been carrying on a larger business on bank credit. Now he reduces the size of his business. That is the primary effect on him?—If he reduces the size of his business, he will reduce the size of his business by selling his goods. He sells his goods to other people and that will reduce their deposits, and he uses the money he receives to pay off his loan. Then there will be a reduction of the bank's liabilities and therefore a reduction of the bank's loans.

1779. *Sir Arthur Balfour*: If that was done on a large scale, it would cause unemployment. (*Mr. Bowen*): No; because, I take it, the bank would have the money to lend to somebody else. (*Witness*): They would still have the same cash. I do not think it would of itself affect their resources.

1780. *Mrs. Wootton*: And that cash ratio would be more favourable for use in other directions?—The ratio would be more favourable unless at the same time the Bank of England reduced its loans, which it would do.

1781. *Sir Josiah Stamp*: It always comes back to the Bank of England?—It always comes back to the Bank of England. You have to carry your process further and see whether loans to the Bank of England would be paid off. Well, they would be, and that would reduce the ratio. But the operations between the customers and the banks of themselves have no effect upon the volume of credit; they merely change the direction of credit. What affects the volume of credit is what is done at the Bank of England. Now would the effect of this operation lead to the reduction of loans at the Bank of England? Yes, it would, and in that way it would reduce credit.

1782. *Mr. Bowen*: Would the Bank of England be affected by Government policy or by some national disaster? I had in mind the possibility of the Government deciding to embark upon some huge venture, if you like, for argument, to make a very big extension of its housing scheme. Would the Bank of England be affected in that way; would its credit be affected or would it affect its customers in any direction?—Probably if the Government borrows heavily, even though it does not borrow directly from the Bank of England, the consequence would be that other people borrow from the Bank of England and therefore you would increase credit.

1783. *Sir Josiah Stamp*: If the Government borrow for the purpose of spending money something which has not been taken from the people's purchasing power either by saving or taxing, then somewhere or other at the Bank of England there must be expansion of credit?—It must come back to the Bank of England; it always does.

1784. Even after the coffers of the Treasury would have suffered contraction?—Yes. It always comes back to the Bank of England. Therefore, when you are considering whether there is or is not an increase of credit, you must look at the operations of the Bank of England and see how the Bank of England is affected. You may take it as invariable that when the Government borrows you get an increase of loans at the Bank of England. Market pressure forces people into the Bank of England. And equally when Government repays, you get a reduction of loans of the Bank of England and a reduction of credit. That is unavoidable. I say in my memorandum that it is not necessarily so. You can perfectly well argue a case in theory in which it would not be so. If every person in this country spent on his own consumption less by an amount which together would make up what the Government spends on consumption, there would be no change in the volume of credit.

1785. That is a provision of the necessary borrowing out of savings?—Yes, but that never happens, in fact. It never could happen, in fact, and though there is no direct borrowing from the Bank of England, or even no direct borrowing from the banks, the effect of market pressure is always to force borrowers into the banks if there is considerable borrowing from the public, because the public borrow from the banks in order to lend to the Government, and the banks take money back from the market, and the market is forced into the Bank of England. That is on the question of credit. I do not know if I should now refer to the next point, the supply of permanent capital.

1786. *Chairman*: You will be asked questions on all the points. Will you proceed now with your memorandum?—On the question of permanent capital, I have had, of course, to condense; it would take a book to deal with the subject properly. I would like to begin by stating my conception of money in relation to capital. Although one ordinarily speaks of money as capital, and even in what I have written here it is unavoidable that I should for brevity refer to money as capital, I do not regard money in any sense as capital. Money is the agent for the creation or the destruction of capital, but it is not capital itself. If I have money and I spend it on production, it is an agent for the creation of capital; if I have money and I spend it on consumption, it is an agent for the destruction of capital. It is not capital in itself; and it is quite obvious that it could not be so. Money is only the resultant, if I may so call it, of a credit and debit account. Whoever has money may be said to have a credit against which somebody else has a debit. If I have £100 in a bank, I think of myself as having £100 of money; but all that I have is a debt from the bank to me of so much money. The bank is a mere intermediary, however; somebody else owes the bank that £100; so if I were to call my £100 capital, the person who owes the bank £100 would possess a minus capital, which cannot be. Even with currency notes it is not capital, because there again you have a debt of the Government for the currency notes. Even if you have currency notes convertible into gold, again it is not

capital. The gold is capital, but not the notes. Then we get to the next question: How does the National Debt affect the supply of permanent capital? I lay stress upon the fact that the quantity of capital is not so important as the use of capital. When the proceeds of taxes are used for the repayment of debt, *primâ facie* there is an increase in the volume of capital available for trade. It is assumed, and I think the assumption is justified, that all the money paid to a holder of debt will be reinvested by him. It is assumed that he is an investor who has saved the money, and therefore will save it again. Although it might not be absolutely true, it may be assumed to be so nearly true as to be accepted. On the other hand, money raised in taxes will be partly raised from money which would have been spent on consumption, and therefore to that extent the capital available for trade and commerce will be increased. The amount of that increase diminishes as taxation rises, because as taxation rises, less is taken from consumption and more is taken from production, until you finally get to a point at which all taxation is taken from production and none from consumption.

1787. *Mr. Lees-Smith*: On the statement you are making, that as taxation rises more would be taken from savings, are you speaking from banking experience or just your general impression?—Both from banking experience and from personal observation.

1788. I should have thought that you were pronouncing on a psychological phenomenon?—No, it is much more than that. We find that firms have to borrow from us to pay their taxes. That is not money taken from consumption, and the higher the taxation the more they borrow from us. We find our debits, that is our advances, go up automatically every year when the Income Tax is being raised. That is a question, not of psychology, but of experience, is it not?

1789. It is a question in which you are pronouncing judgment for a long run result from only a short run experience. I can understand during the process of the rising taxation, before firms and people had accustomed themselves to a new system, these things might occur; but when you are accustomed to a new system I do not know that experience, up to the present, would entitle you to judge what the result would be?—I quite accept the criticism. I cannot say what would happen 50 years hence, but I can say that in the period intervening between now and 50 years hence a very large number of traders would be ruined by high taxes. It is quite true that I cannot say whether the State which might emerge 50 years hence, when I am afraid a great many of us will have passed away, might be a happier and better State; but I am perfectly certain that in the interval those of us who were left would be in a worse condition.

1790. You say some would be ruined?—A great many would be.

1791. When you say that, you are rather assuming the rate at which such a process would take place. Suppose the process were gradual but continuous?—I am judging from what I have seen in the last six years, and I see it happening now. I see industries which are on the border line of paying or not paying driven over the border line by having to pay heavy taxation.

1792. *Sir Arthur Balfour*: Liquid assets being absorbed in paying taxes?—If you reply, as it may be immediately replied, that they only pay Income Tax out of their profits, and therefore they must have earned something before they paid, that is not really correct. Such an answer does not really relate to what happens in trade. A firm is always using its liquid resources in its business; unless it is allowed to have ample liquid resources, it cannot take advantage of the opportunities of the market, and it cannot make its way. Now if the tax collector comes and seizes such liquid resources as the firm has got, it loses its trade; and where the trader is on the border line of success or failure he is pushed over. As regards Income Tax having to pay upon past years' profits—whether it is three years or one year—makes no difference. The firm has got to pay tax out of resources which it has at the moment, and the exhaustion of those monetary resources is very oppressive to industry when it is on the brink, and I have seen many firms go under. When you go through their accounts over a period of years you find that what they have had to pay in taxes has been a material fact in their undoing.

1793. *Sir William McLintock*: Their profits must have been used for productive purposes at the time they were earned?—That is so; their liquid resources are always being used in their trade. Ultimately, whether they have made a profit or not made a profit is ascertained by a valuation of their assets. At the moment it is a paper profit only. You take their stock and book debts as being worth so much and their outgoings and liabilities so much, and the difference you call their profit. But in the course of their business they may never have been able to realise that in the form of liquid money. Yet when they have to pay taxes they have to find the money.

1794. *Sir Arthur Balfour*: In fact, they may have owed the bank money practically during the whole of the period?—They do often owe the bank money during the whole period.

1795. *Professor Hall*: That would mean that part of their profits has been invested in the form of fixed capital?—No—usually liquid capital, stock and book debts. Their profits have gone back into stock and book debts, which is a condition of their carrying on their trade at all.

1796. May we assume then that there was an addition to their liquid capital as the result of the profit?—Very likely there would be an addition for the time being. Under one condition of trade, prices might be rising, and then their stock and book debts would be worth more. When they have to pay their Income Tax, prices may have been dropping and they have to write down all their stock.

1797. *Sir Arthur Balfour*: That is exactly what happened under the Munitions Levy and the Excess Profits Duty?—Certainly.

1798. We had to come to the 31st August settlement to save many of the firms in the country?—Yes.

1799. *Sir Josiah Stamp*: It is quite a separate phenomenon, I think, from the rise and fall in prices?—I am only giving an illustration of how their book assets might increase.

1800. I want to clear up what I think is a little misapprehension. Borrowing from the bank to pay taxes does not necessarily mean that the total capital is being reduced. It means that what would have been potential capital does not come into existence in the hands of that man?—That is right.

1801. You are speaking now of the case of a business where normally a man would make, we will say, £40,000 profit a year, and would leave £10,000 for the expansion of the business. He may still continue to leave £10,000, because the business demands it, but he comes to the bank and borrows £5,000 or £6,000, and therefore on the balance he is only £4,000 or £5,000 better off, and in that sense his potential capital is less?—Yes, that is right.

1802. I was rather afraid that some of us might get the notion that borrowing from the bank meant that there was a capital reduction?—No, it is potential capital. I do not know if the public appreciate what an enormous proportion of their profit a young and growing firm often put back into the business. I knew a case some years ago of a man—he is not doing it any longer—who, when the business was making £40,000 a year, only spent on himself £400, and put back everything else, less taxes, into his business. It made an immense difference to the business, and consequently to the wealth of the country whether you took from that man 10s. in the £ Income Tax and Super-tax or whether you took from him 1s in the £.

1803. *Mr. Lees-Smith*: In the cases you have quoted of the businesses on which you are building your experience, apparently you have taken businesses

which three years ago put money into stock, and so on, and which have then found, as the result of the fall in prices that their stock has diminished in value?—No, I did not mean to put a case of that sort. I am not dealing with great fluctuations in price. I am only dealing with quite slight fluctuations which may put a man's profit up, though a year hence, when he has to pay his tax, the price may have gone down. In such a case he has not got the liquid resources and he has got to borrow to pay. I did not mean cases of big fluctuations.

1804. Surely the cause of his misfortune is the fall in the value of stock and not taxation. (*Sir Arthur Balfour*): Surely the real fact is that he is taxed at a certain time on certain assets of a certain value and his assets then disappear and he is still left with an obligation to pay the taxes to Somerset House?—(*Witness*): That is right.

1805. *Mr. Bowen*: Does it follow that taxation is responsible for the very large majority of our failures?—I did not say that.

1806. You did not say that, I agree, but we have been pressed with statements that very many of these failures are due to high taxation?—Quite a number of them are. Of course that applies not only to Income Tax, but to taxation which comes under the head of overhead charges and which enters into the cost of production.

1807. Then, again, may I not put it to you that while we quite accept your statement that there will be some individuals who will put a large amount of money back into business, is it not also true to say that there are a large number of individuals who draw as much out of business as they possibly can and who get into difficulty in that way?—There are some who do, but I should say that a characteristic of English business is to put back into reserve as much as possible.

1808. *Sir William McLintock*: I was going to put it this way: that the net effect is this: that if there was an expansion in business, instead of the trader finding the necessary capital out of his accumulated profits, he borrows from the bank?—Yes, that is right.

1809. *Sir Arthur Balfour*: But if, on the other hand, the fact is that he is not able to keep the same amount in his business through high taxation, and therefore is unable to extend his business and his organisation generally, that must lead to reduction of employment?—It leads to a cessation of increase of employment, and that is what we are suffering from now. There is no reduction of total employment compared with pre-war, but there is a cessation of increase. We do not afford the opportunity for increase of employment.

1810. *Mr. Lees-Smith*: The argument that you have been putting now seems to me rather to have concentrated, not on the point specially of the rate of taxation, but on the fact that the taxation may be levied upon the value of certain stocks, which value was taken two or three years before. That is the case you put?—No. I would not like to make a mistake about that. The question was put to me as to how the figures could be higher in one year than the other, and I simply said that the rise and fall in prices would make a variation in the return on the balance sheet. I make no point about it otherwise. It was merely explaining that point.

1811. *Professor Hall*: I take it that you mean that in some businesses continued expansion is a condition of continuation of the business?—Yes, undoubtedly.

1812. And high taxation prevents that business retaining such an amount of capital as is necessary for its expansion?—That is so.

1813. *Mr. Hichens*: And it is not even expansion only, is it? A business must have new machinery to keep up to date?—Yes.

1814. It may not imply an expansion of its business, but it does imply that if it continues with its obsolete machinery it will die the death?—Yes. Of course, this is a matter of opinion purely, and I do not speak of it as anything but opinion, but I think in competitive business it is only the expanding businesses which can survive. The natural growth of overhead charges is always going on. As people employed in the business get older and their salaries rise, the expenses are always increasing, and that can be met only by drawing in new people in an expanding business. It need not be so, but I think in the actual experience of life it is only the expanding business which is able to survive.

1815. *Mr. Bowen*: Have you any views as to the limit of taxation which we can stand? You speak of high taxation, but the word "high" is quite relative, of course?—Quite relative. Upon that I would say two things: that up to a point taxation, in my judgment, is very largely a matter of custom. What would have been considered impossible taxation 30 years ago we could to-day submit to, because we are more accustomed to it, without the same resentment. It is only a relative term when you speak of high taxation, and it must be related to what the people generally are accustomed to bear. Taxation, in my judgment is too high when any large body of people in the country are forced to borrow in order to pay the taxes. That is my test. I think taxation is too high. I could not say how much it is too high, but in my judgment it is too high, and I think the Income Tax and Super-tax make it beyond the capacity of the taxpayer to meet his liabilities, and to save what is necessary for the expansion of our business in world competition. For that purpose taxation to-day is too high. I judge of that because of the great number of people I find who only pay their taxes by borrowing at the bank and the difficulty they have in repaying. That is the best answer I can give.

1816. Surely they do pay off their borrowings from the bank. They cannot accumulate their borrowings?—That is quite true, but they pay by absorbing their liquid resources during the year, which prevents the expansion that is necessary. They never can make provision during the year for the tax which they have to meet; it is too high for that; and they are forced, therefore, to push it forward. I am afraid that the tendency to borrow for taxation is increasing rather than decreasing, which shows that the effort to push the tax forward is continuing; they are not catching up with the taxes.

1817. *Mr. Bowen*: May I not put it to you, that there is a very practical reason why they borrow for the payment of their taxes. Most people hold off paying their taxes until the very last minute. They use their money in various ways because they have a natural indisposition to pay money for Income Tax. I think that is a very general and understandable feeling. The result is that, when the money becomes due, borrowings are made from the bank in order to liquidate this particular liability, and these borrowings are met afterwards in the ordinary course of business?—It is a question of degree always. I am dealing now, not with private borrowing, I am dealing only with traders, with businesses, firms who borrow from us, and who cannot meet their taxes, and who have to borrow in the first quarter of the year in order to pay them. It is a question with us from our observation how easily they can pay back what they have borrowed for the purpose of paying taxes.

1818. *Mr. Lees-Smith*: Is not all this that you are putting to us simply the experience of a time of slump? Supposing taxes remained at their existing level, do you anticipate that firms and companies would still borrow if we arrived at a time of boom?—If anything, they would borrow more; because in a boom their resources are all being used more in their trade. We expect traders' accounts to run more into credit in slump times.

1819. It would not then be a result of high taxation; it would be one of their forms of borrowing. It would mean that instead of borrowing from you for other purposes, they are borrowing for the purpose of paying Income Tax in order to invest more money in their business?—I am dealing only with the question of when taxation is properly called high. Because we all agree it is a relative question.

1820. But what is high?—I say, first of all, custom is a main factor in determining whether taxation is high, in the sense of too high, or not. Secondly, I say that taxation must be regarded as too high when business firms are driven very heavily into the bank in order to meet the taxes, and when year after year taxes are not paid out of the accumulated funds which have been put by in the past, but are pushed forward. That, I find, is happening to-day.

1821. But what I submit to you is that when you apply your test to a time of boom you come to a position in which the reason for their borrowing is not that taxation is high, but is because they wish to borrow in order to take advantage of the boom?—They borrow more.

1822. Then it is not due to high taxation; it is due to some other cause. I submit that the argument shows that the borrowing is not necessarily always due to high taxation, but it is due to the fact of there being a boom?—I take the conditions for the last six years. We have had a boom and a slump and what might be termed, except in individual trades, normal trade. To-day, except in individual trades, over the bulk of the country we have normal trade.

1823. *Chairman*: I think there are two classes of borrowings. There is one when firms borrow to develop their trade, and there is another when they borrow to pay their tax?—Yes.

1824. *Sir Arthur Balfour*: And there is another sort of borrowing. There is a borrowing when their trade expands automatically, and the value of their raw material goes up?—Yes.

1825. *Mr. Lees-Smith*: If you are going to take it as a test that taxes are too high when traders habitually borrow, then I venture to say that, whatever the rate of taxation is, that test will always prove that taxes are too high; because in a time of boom, when everything is going well and when they can well afford to pay high taxes, traders will borrow more than ever?—But they are not in a position to pay taxes then, because their money is in their stock, so they have to borrow. I find that in the months of January, February and March, when Income Tax is going in, our debits are highest, and I know that those debits are due to taxes, and I find that every year, whether there is a boom or whether there is a slump. Now, the question is, what degree of increase in our debits is due to the tax; and are firms able to pay off these debits readily out of their profits?

1826. *Sir Arthur Balfour*: Is there not another very important point? Is it not the competition we meet from other nations that enables us to say that at a certain time the tax is high or low? If we had no competition from foreign countries and we got high prices, we might have then a tax which was relatively high, which we could afford to pay, but owing to the world's competition, when our profits are cut fine the same percentage on the final profit restricts the business tremendously?—It depends on the form of taxation, I think, in competition with the world. The general argument of a high Income Tax, which affects our trade generally, of course affects us equally in competition with the world, but a tax like rates, which is to be regarded as an overhead charge and comes into the expenses of production, is a direct burden upon us in competition with the world.

1827. We have had a good deal of discussion as to how Income Tax affects production, and the cost of an article before it is sold, and I would like to ask you whether it is not a fact that in manufacturing concerns where all the employees, owing to high taxation, have to be paid a higher salary, taxation affects our competition with the rest of the world?—I think it does—that is the taxation paid by the employees.

1828. That is their taxation, but it has to come out of our sales?—Yes, certainly.

1829. Therefore, it affects our competition with the world?—Yes. That is dealt with later on amongst other questions.

1830. *Mr. Wootton*: May I come back for a moment to the point about the level of taxation? If you take as a test of whether taxation is excessive or not, the extent to which people borrow to pay it, and if you find that people borrow more to pay it in times of boom——?—I do not find that the people borrow more to pay taxes in a time of boom; they borrow the same amount to pay taxes. Traders in businesses which are booming borrow more for the purposes of their trade when trade is active, than when it is not.

1831. I thought we understood you to say they borrowed more in a time of boom to pay their taxes, because they had not got the resources liquid?—No. In the aggregate they borrow more. When business is slack in any trade the firms in that trade are apt to run into credit with their banks instead of being in debit. The more trade is active in a particular section, the more traders run into debit with the banks, because trade is always active with rising prices, and when prices rise it costs more to buy stock. When they find prices are falling they do not buy more stock, and as they sell their stock they come more into credit with the bank. They borrow in a boom and in a slump equally for paying taxes. The borrowing goes on in January, February and March, and we know it as taxation borrowing.

1832. You are speaking of the extent of borrowing for this particular purpose?—Yes.

1833. *Mr. Hichens*: But they would borrow anyhow, whether the tax was high or low?—Yes, they would borrow anyhow.

1834. *Sir Josiah Stamp*: The slight confusion that seems to have arisen between borrowing for expansion of business and borrowing for paying taxes is largely a question of point of view. For instance, Sir Arthur Balfour would make his profits and pay his Income Tax and find that he had not got his customary amount for the expansion of business, and he would say: "I must get some more money and I will go to the bank and borrow it," and he would appear to be borrowing for the expansion of his business. I, on the other hand, would have put the money that was due to the Government into my business and expended it in the ordinary way, and later on, when the demand note came in, I would say: "I want some money for taxes," and I would go to the bank for it. They are really the same thing, but they have a different appearance by the time they happen. This is a phenomenon that came strikingly before me in Germany. If you have a process of drawing the taxes from business as and when the profits are made, instead of waiting too long after the period when they are made, you drive all borrowing then not into borrowing for taxes, but into borrowing for the expansion of business. Supposing the mode of Income Tax collection is one which proceeds monthly as the profits are made, there would be no money to be used for normal expansion. Then if you find them borrowing, the reason given for borrowing is because the Government have taken the money that is due to the Government and paid it into their bankers, and then the business borrows it afterwards for expansion?—Yes, that is so.

1835. *Sir Josiah Stamp*: In regard to the National Debt, on Question No. 2, are you including Floating Debt?—Yes. It is not the National Debt which affects the terms of capital, but the terms of capital which affect the price at which the National Debt stock can be bought. I have seen War Loan, for instance, under 80 and over 100, and the amount of the National Debt has been more or less constant the whole time. That meant that the rate at which capital could be borrowed for trade purposes was higher or lower, and as that rose and fell the price at which War Loan could be bought fell and rose. It is not the National Debt which governs the rate at which capital can be borrowed, but the rate at which capital can be borrowed that governs the price of the National Debt.

1836. This answer does not apply to the raising of the National Debt; it is only when it is in existence?—When it is in existence. I assume we are referring

to what happens now, not to what happened when the debt was being incurred.

1837. Would the handling by the Treasury of the Floating Debt portion not affect the market rate of interest?—I do not think Floating Debt has any immediate relation to the capital that is raised in business. Treasury Bills are a money market security. There is no direct relation between them and the price at which the permanent debt can be bought.

1838. *Chairman*: Do you want to amplify the point about debt repayment in Question 3?—I think it is preferable to repay debt during a period of prosperity, because the conditions are better. In any circumstances debt repayment should proceed slowly on account of the displacement of capital.

1839. *Sir Arthur Balfour*: But it should proceed?—It should proceed. You have to maintain your credit, which you can do only by reducing debt. You will have to borrow again. In the history of the world no nation has ceased to borrow, and the best method you have to maintain your credit is by repaying debt. You do not want to repay fast, because in repaying fast you cannot avoid a displacement of capital, and that always means putting capital into hands which use it less well. Therefore I think you should pursue a policy of steady but slow repayment.

1840. With a minimum Sinking Fund?—I would not fix a figure. There might be years when you do not want to repay, owing to the condition of trade. There might be one year or two years when it would be undesirable to repay, because trade was such that you could not afford it, and it might be more important to remit taxation at the time. In later years the revenue by reason of the remission would become more productive and enable you to repay more debt. Certainly when taxation is high and is in any sense crippling trade, it is undesirable to repay debt, because the first object is to get trade good. After all, I assume, our first common object is to get the industry as productive as we can in order to afford the maximum opportunity for remunerative employment.

1841. *Mr. Lees-Smith*: Is not high taxation now crippling industry?—Taxation is high now.

1842. Do you consider it was a mistake for Mr. Baldwin to set up a Sinking Fund?—I should not have set up a fixed Sinking Fund, but I do not say it was a mistake in him to have done it. There are so many things which have to be considered. You have to satisfy public opinion; you have psychology to consider; but if I were dealing purely in the abstract my object would have been in the first place to have got my taxation down to a level which the country could afford without injury to trade—I don't mean afford conveniently, I am not wishing to pamper the taxpayer, but with sole regard to the welfare of industry. I think then I should ultimately have got a larger revenue, which would have enabled me to repay debt.

1843. *Sir Arthur Balfour*: Is not a Sinking Fund really a political necessity?—I think it may be.

1844. Because you cannot be quite sure at any given moment, owing to political conditions, that the policy which you would pursue as an individual will be continued?—Yes. I think some extravagant person might come afterwards and use the revenue for purposes other than reducing debt.

1845. *Mr. Lees-Smith*: You say a Sinking Fund is a political necessity, but Mr. Baldwin, as a matter of fact, argued it from the point of view of financial necessity?—I do not think, in the state of British credit, it was. I should not agree with that. I think British Government credit is so good that if we had to raise another loan to-morrow, people would trust the British Government.

1846. *Sir Alan Anderson*: It is just a balance between your credit and the virtue of getting trade going again?—Yes. You cannot make a hard and fast rule for these things. It is a matter of judgment. At the present moment I should look upon it as the most urgent necessity for our trade to reduce the burden of taxation. I regard that as the first object.

1847. *Sir Josiah Stamp*: And therefore you would increase the capital accumulation?—Exactly.

1848. We have had one witness who maintained that one of our troubles at the present time is that too much is being saved?—I think that is wrong. I do not think we have a capital accumulation in this country which would enable us at this moment to absorb the whole of the unemployed—not accumulation existing to-day, but increasing accumulation.

1849. I feel, from the reference to the necessity of capital being maintained for increasing trade and business, that you have at the back of your mind some kind of national minimum of annual accretion, so that when you cut into a certain quantity you are getting too low. Could you give us any information of what you think?—No, there is no figure. It depends on the persons by whom the money is being used. If A. is able to save and to put into his business £10,000 a year, that use of capital by him may mean great employment and great productivity. If B. is able to save £10,000 a year, the resultant advantage might be one-tenth of what it would be in the hands of A. The evil of taxation is that it takes money from those who are using it best. You cannot fix a figure and say you must accumulate so much. You might be able to run the trade of our country on a less capital than we have to-day, for all I can tell, if it were placed only in the right hands; but when you see what a large quantity of the capital of this country is wasted, from its very first use, you see where the difficulty lies.

1850. *Mr. Lees-Smith*: By the inefficiency of business men?—By the inefficiency of some business men, or of some men who assume to be business men, but who are not. By taking the taxation from business men, the men who are business men and who have proved themselves business men, because they are making good profits—by taking the money from them you are taking it from the most capable and transferring it to assumed business men.

1851. *Sir Arthur Balfour*: And restricting the others' enterprise?—Exactly.

1852. *Mr. Lees-Smith*: I was wondering whether you are thinking of a point that has been brought before us a good deal. At the moment you are assuming in this argument that anything which is taken from business men and, we will say, is spent on the workers or on Old Age Pensions——?—Or repayment of debt.

1853. That is the point I want to make. Your views hold equally if the capital is spent on repayment of debt?—Yes, it is just as much a displacement of capital. You see what happens. You levy a high tax upon capable business men who are using their accumulations successfully. You reduce their power to carry on. You provide a considerable sum of money which goes to the holders of the debt. Those holders of the debt will want to reinvest their money. They will not be able to reinvest it in War Loan, because that presumably is reduced in quantity. They will have to reinvest their money, therefore, in other businesses. Every sort of company prospectus will be brought out by business men, or assumed business men, and they will subscribe to these new companies. 50 per cent. of them may be rotten and the capital wasted. Now you have taken that 50 per cent. from the men who are using their money well and you have handed it over to gentlemen who may be going to use it ill and waste it. That is the evil.

1854. *Professor Hall*: That assumes that profits are made by business efficiency, not by monopoly, of course?—Certainly. Business efficiency, which is a general rule in business.

1855. *Mr. Lees-Smith*: You take 50 per cent. of that, but of course that 50 per cent. may have come from saving on expenditure. It may not have come from capital; it may have come from reduction of expenditure?—Consumption expenditure?

1856. Yes?—It could not.

1857. Why not?—Think of the margin. There is not such a margin already at this day. Taxation comes from something more than consumption.

Therefore additional taxation could not come from consumption; it must come mainly from production.

1858. Partly from consumption?—Yes, partly from consumption.

1859. But what has been frequently put to us is that there is no real waste by this transference of taxation, because A. was a business man who would have made good use of it. If that is so, could not a good business man get that money just as well by the ordinary process of banking?—No.

1860. You do not agree with that?—No.

1861. Would it be particularly untrue in the case of a little known man in business where people cannot know his credit?—Of course it is particularly untrue there. The business of the country twenty years hence will largely depend upon some few thousand individuals who to-day are just making their way, who are going to be the big business men of the future.

1862. It is put to us that if A. cannot get hold of it quite as readily as he would if it had been in his own hands, the same difficulty would not apply to large firms who are well known and who can raise debenture issues. A person sees these issues put on the market and takes them up, and the tendency therefore is to starve these enterprising individuals and to put the capital into the hands of large concerns with well known credit?—Undoubtedly, and also to play into the hands of promoters of wild-cat schemes. There would be a perfect orgy of new issues, if you were to set free, for instance, £200,000,000 by paying off War Loan to that amount.

1863. *Mr. Lees-Smith*: Is it your experience that on the whole these large concerns with well established credit are less efficient than individual business men?—No; you could not generalise about that. A good many big firms are living on their name, but you could not compare one class with another and say that one is more efficient than another. But it is the young men that you want to foster; it is the young businesses that you want to foster.

1864. *Sir Alan Anderson*: It would seem that a young man who had successfully kept his head up demonstrates that he is a good business man, whereas the man at present in charge of a big thing may not be?—Yes.

1865. *Sir Arthur Balfour*: The young man will take charge eventually?—Yes.

1866. *Sir Josiah Stamp*: But the young man has to go twenty years before he is recognised?—That is right; and the future is going to depend upon him.

1867. *Mr. Bowen*: You said that industry depended upon comparatively few people. I think that was the phrase you used. That must necessarily cut out a large number of very able people. If there are two competitors, one may cut out the other, but the second one may be quite a good business man?—I think there is room for two in every trade, and many more. When I said that the successful business of the country depends upon a comparatively few people, I meant large businesses which make a vast number of small businesses possible. For instance, our shipping industry, our merchanting industry, our banking industry, depend for their success on comparatively few people, and upon them depends again an immense amount of the prosperity of the whole country in other businesses.

1868. Could it not be put in another way? A large majority of these gentlemen are dependent to a very large extent on the efficiency of the people who work for them?—You cannot carry on a business without the instruments. We could not survive as a nation unless the general level of efficiency were high, carrying that efficiency right down to the lowest form of labour. That is perfectly true.

1869. Then when you talk about the accumulation of capital, you do not mean the accumulation of capital in the hands of comparatively few people. Would you agree with me that it is necessary to see to the maintenance of the efficiency of the people who accumulated that capital, rather than to think of only a few people?—I am not sure that I have followed the question.

1870. The point is that while it is true that the accumulation of capital is necessary for the creation of business, you rather suggest that it must be at the disposal of a very few people comparatively?—No, I did not suggest that.

1871. Comparatively few people?—No. I suggest that is surprisingly few people, compared with the 45 millions, on whom the successful continuance of the business of the country depends.

1872. *Sir Arthur Balfour*: Capital may not be in their hands, but the fact that they are using capital makes other people successful?—Yes.

1873. *Mr. Bowen*: With great respect, I am not inclined to agree with that?—It is a generalisation. It is not material really to this discussion.

1874. I only want to have clearly in my mind your idea of the accumulation or the distribution of capital, as the case may be. The accumulation of capital may be in the hands of individuals; it may be in the hands of the State; but would you agree that if the accumulation of capital was in the hands of the State it could be successfully used?—No, I am not sure it could.

1875. Simply because these individuals are necessary?—Under the competition between individuals, the man who can use capital most successfully, survives. Now I know no better test of capacity, generally speaking—it is not always true, but generally speaking—than competition.

1876. But you have already told us that there is a tremendous amount of capital wasted?—Yes.

1877. Who wastes it?—The people who induce the public to lend them money. They are people looking after their own interests. But it is nothing like what the State would waste.

1878. That is controversial?—Yes.

1879. *Professor Hall*: On this point of repayment of National Debt, you say on Question 1 (*b*) that repayment of National Debt, in proper circumstances, may be advantageous in increasing the supply of capital available for business. What exactly do you mean there by "proper circumstances"—just a reasonable amount of debt repayment?—A reasonable amount and when the conditions of the trade of the country warrant it.

1880. In what way exactly would it increase the supply of capital?—Because part of the money that was used for repayment of debt would be saved from consumption, and the whole of the money that is used for the repayment of debt would be re-invested; therefore it would increase the supply of capital.

1881. *Sir Josiah Stamp*: I understood you to mean that the cutting edge of industry in regard to the future is provided by a few business people?—Yes, that is a better expression.

1882. There may be many efficient business men running along normal lines, but the real germ of progress is in these few men?—Yes, very few men; that is exactly what I did mean—the cutting edge consists of very few people.

1883. *Sir William McLintock*: Before you leave the question of the repayment of National Debt, perhaps you would tell us what do you think of the method followed in respect of the interest on National Savings Certificates? There is no Budget provision for interest beyond the amount expected to be paid in the year. There is provision by means of the Sinking Fund for repayment of principal, but we are informed that the interest accumulated but not anticipated to be paid in the year is not provided?—I think that affords an opportunity for an economist in the House of Commons to make himself heard.

1884. *Mr. Lees-Smith*: There is one point in your evidence I want to be clear about, because it is always coming up. If money is taken from, we will say, private businesses, active business men, and used for the repayment of debt—I miss out the bogus companies, and so on, who lose the money—a large part of that money will then go into old established businesses with firm credit who are really playing an honourable part in business. I presume the fact that those are playing an honourable part, the fact that

they hold their own in the struggle of competition, shows that they are efficient. Do you then consider that it is a great disadvantage to industry to take money in taxation from the general body of taxpayers, if that money is repaid to the holders of War Debt and then invested in those established firms of well established credit? Do you consider that it is diminishing the industrial efficiency of the country?—Of course I may be entirely wrong, but I regard serious dislocation of whatever is, in the way of business, as bad. Whatever a firm is accustomed to doing or whatever an individual is accustomed to doing, that he can do best, and if you deprive him of the power of going on as he is going on, you are injuring him and you are injuring trade as a whole. Changes, even for the better, must be adapted to existing conditions.

1885. *Sir Alan Anderson*: You are taking a risk?—And more than a risk. I think you are bound to injure business. Every business is running to-day on a certain capital and margin of liquid resources. If you alter that and take a large part away, you are going to injure them. You reply to me: "In certain cases I will return it." You will return it in certain cases at a price, which some of the firms to whom you are looking to return the money, will not be able to pay. You return in loan what you have taken from them in taxation, and they will have to pay on the loan. In every case, whether you give the money back as loan or whether you do not, you dislocate the business.

1886. *Sir Josiah Stamp*: Is not part of that argument also that where a man invests in his own business the accumulated profits, he has confidence in himself and the future of his business, and even though he may see no return on it for a number of years, it will on go; whereas if he has to borrow it from the bank and pay interest on it, there is a stopper at once?—At once.

1887. *Sir Arthur Balfour*: These people have already risked some of their accumulations, having confidence in their business?—Certainly.

1888. And if you cut them off suddenly, then you would bring terrible disaster upon them?—Certainly. It is a dislocation of a most serious kind, and I think dislocation is bad, because whatever things are, they are as they are as the resultant of innumerable forces which have operated individually and collectively upon the community as a whole. If you suddenly introduce a new factor which is going to alter the relationship of every firm and individual in the country you are not, in my judgment, merely going to run a risk, but you are going to dislocate business to a certainty.

1889. *Sir Josiah Stamp*: Like a temporarily protective duty?—And, I might add, when it is temporary, like taking it off.

1890. *Sir Arthur Balfour*: And having done that, you would disgust a large number of people, and they would not put forth the same effort afterwards?—Even if they did, even if everybody accepted it and said: "This is the best, and 50 years hence this is going to prove the best thing for us," they could not help themselves. It would dislocate business to such an extent as to be really ruinous. I do not want to use extravagant language, but I really feel that.

1891. *Chairman*: What is the next point you go to?—No. 6 was not clear to me: "the receipts of industry, as holder in the debt."

1892. *Sir Josiah Stamp*: The point is that the payment of Income Tax, when it is for payment of interest on the debt, is no burden on many businesses, because they have been able in the past to accumulate funds and put them into the debt, and thus they are receiving in their profit and loss account interest from the debt, which helps in the payment of Income Tax. That is a point that has been put to us in a number of cases—that the burden is only apparent?—It is either obvious or it means something that I could not understand.

1893. Will you tell us whether, as the result of your answer, you would be in favour of differential treatment of undistributed reserves for Income Tax?—I look upon the undistributed reserves of companies and firms as the backbone of business, and I would not tax them in the way they are taxed. They have to pay Super-tax on them now, do they not?

1894. Not ordinary public companies?—Not public companies, but private companies, pay Super-tax on them. I think that is a mistake.

1895. You say that grounds of national policy overbear any uniformity or consistency of the tax?—I do.

1896. Could you give a scheme whereby the one could be given effect to without abusing the other?—I am afraid I could not, but I am sure you could.

1897. *Sir William McLintock*: How would you meet the case of a private trader, not being a limited company?—A private trader pays Super-tax on it.

1898. He would require to get relief?—He does not get, and never has got, relief. He ought to get relief. It is a great national mistake to take, for the purpose of annual revenue, money which you are sure is going to be used for productive purposes. Take it when it is being used for consumption.

1899. *Professor Hall*: I did not hear your reply. Did I understand you to say that you would have a lower rate of taxation upon that part of profits which is put to reserve?—I would distinguish, if I could distinguish, between money which is going to be spent upon production and money which is going to be spent on consumption; and the money which is going to be spent on consumption I would tax just as highly as the taxpayer could bear, to limit his consumption; the money to be spent on production I would relieve as far as I could.

1900. *Sir Arthur Balfour*: It is almost impossible to differentiate?—It is very difficult to differentiate.

1901. *Professor Hall*: You would get hardships in that way, would you not?—You would get hardships if you make the tax on consumption too heavy.

1902. But you would differentiate between a business that was enterprising and building up reserves, and another that was still more enterprising, but could not get sufficient capital from its accumulated reserves and had to borrow in the market?—No, because the second one would not be paying more.

1903. In this sense: that the capital that is coming in as an investment is already subject to taxation?—Yes, in the past.

1904. And only, say, 15s. 6d. goes into the business, whereas in the other business £1 goes into the business?—That is true.

1905. So that because it is more enterprising and extending more rapidly, that business is at a slight disadvantage, although your object is to encourage enterprise?—I think I do encourage enterprise, because the business with the great enterprise will be making a high profit, and that profit, when it is made, so far as it goes back into the business, will be relieved from taxation.

1906. In the future?—Yes, in the future.

1907. *Chairman*: Now the next question?—No. 9 (b) I was not quite able to follow. My reading of the law is that a British resident is liable to taxation whether he invests abroad or at home. That is so, is it not?

1908. *Sir Josiah Stamp*: Unless he goes abroad with his money?—He has got to go himself; then he would not be a resident. Since I replied to this, I have enquired further about it and I was told that I underestimated the number of people who go abroad. The number of people who live abroad now is very large, I am told.

1909. *Mr. Lees-Smith*: They would be people with small incomes?—I should say they are people with small incomes.

1910. *The Chairman*: Then No. 10. (*Sir Arthur Balfour*): That is, in another form, what I was discussing with you: "Does Income Tax enter into prices, and if so, how"?—I can only think of the individual case of paying a foreign debt, as I have put down in my memorandum. Our payment to America undoubtedly reduces the goods in this country, and therefore undoubtedly has an effect upon prices.

1911. *Professor Hall*: The trader does not include Income Tax in his costings?—No.

1912. *Sir Arthur Balfour*: But is it not the fact that you have to pay people higher salaries to enable them to live?—That is not due to Income Tax.

1913. But it is due to their having to pay high Income Tax?—I would not agree with that. It is due, perhaps, to their paying more for the commodities which they use. It may be due to indirect taxes which raise the cost of living. For instance, the reduction of the Sugar Duty has reduced the cost of living, as we see in the index figures.

1914. Take any business to-day in this country; you have, perhaps, a staff of 100 people. Before, with a high tax, you were paying them £10,000 a year; now they cannot live on £10,000 a year, because they are paying high Income Tax; it is now £15,000 a year. Do you mean that that does not enter into the sale price of your goods and hinder your competition abroad?—I do not think so.

1915. We find that it does?—Your staff gets £225 a year free and they only pay 2s. 3d. on the next £225. A man with £450 would not pay very heavily. It is difficult to see that Income Tax prevents him from living.

1916. It does in effect, but I agree that there is other taxation?—I think rates are a very heavy burden.

1917. *Chairman*: On No. 12 do you wish to amplify your reply regarding Death Duties, on which we have had many views?—I suppose a great many people say that Death Duties do involve destruction of capital.

1918. *Sir Josiah Stamp*: We had one eminent banking witness who held that very strongly?—I am sorry to disagree with a colleague, but I cannot see how the payment of Death Duty can destroy capital. Evidently he is using the word in a different sense to that in which I am using it.

1919. No. We pursued it to see whether he was, but he had the conviction that capital is absolutely annihilated by payment of Death Duties?—I cannot see how, but perhaps I am wrong.

1920. *Chairman*: Do you think that they should be used to meet the expenditure of the year or to reduce the National Debt?—I should use it as it is used now, as revenue, and out of the revenue I should make adequate provision in suitable times for the reduction of debt. Why should you hamper yourself? The resources are coming in; why lay down an arbitrary rule which might prevent your using the money to the best advantages.

1921. Are not Death Duties often described as capital and the other taxes as revenue?—I do not see any difference. The only reason why Death Duties, as far as I can make out, are ever described as capital is because they are levied on the basis of a capital value. You have to make an assessment of capital value instead of taking, as in the case of Income Tax, a known value of the income received. It is merely a question of the estimate and the basis of reckoning it.

1922. *Sir Alan Anderson*: I suppose also an individual might not have made an income in the year sufficient to pay Death Duties, and part of the estate, which comes from the accumulated profits of past years, has to be sold. In that sense it is paid out of capital?—It is only a transfer of capital. If I have a plant and the Government assess me to pay £100,000, and I have no other means of paying it except by selling that plant, somebody else will own the plant; there is no reduction of capital.

1923. *Sir Arthur Balfour*: Then you come back to the upsetting of the use of the capital in the place where it is, which you have been arguing?—Yes, but I am only dealing here with the point that it does not involve destruction of capital. It may involve transfer of capital.

1924. And damage its use?—It may do that, but the plant and the buildings are there still, and that is what capital consists of.

1925. *Sir Josiah Stamp*: The man who has done so well out of it and who ought to be encouraged is dead?—That is so.

1926. *Sir Alan Anderson*: His business, which you wish to maintain, has to part with some of its capital. From the national point of view it is paid out of income because someone else has to buy it?—I think in practice this is not really so serious a matter; because the number of large private businesses likely to be involved heavily by Death Duties is small. Most big businesses are public companies, in which case the payment of Death Duties has nothing to do with them.

1927. *Sir Josiah Stamp*: Do you as a banker have people coming to you, as a matter of fact, to borrow money rather than spoil a good business by the payment of Death Duties?—Of course there are very large loans from us to pay Death Duties—temporary loans. The personal difficulty to a family where a great estate falls in is enormous, but it is not a national difficulty or a business difficulty.

1928. *Sir Alan Anderson*: Except that it does make it still more difficult to maintain the control of these private firms, does it not, and you have a great many very valuable firms?—Yes, we have a certain number.

1929. And you do not want to disturb them, forcing them to go to an outside capitalist?—I think most of them make provision for it in advance.

1930. *Mr. Bowen*: There would be a normal disturbance, if I may use the word "normal" in this sense, on the demise of any individual interested in a concern?—Yes.

1931. Therefore the disturbance caused by Death Duties is simply a relative term, after all?—Yes. I think the Death Duties impose great hardship and inconvenience upon the individual.

1932. That would apply, would it not, to any individual affected by a will?—Undoubtedly. The man who is cut out of a will suffers more than the man who is left property by a will, with all its inconveniences—particularly if he has borrowed in advance on his expectations.

1933. *Sir Charles Addis*: In the third paragraph on Question 1 (*a*) you state that when the ratio of cash deposited is above the minimum, banks increase their loans. Is it business loans that you have in view there?—It may be loans in business, it may be purchase of bills, it may be short money loans on the money market. Banks will use their money.

1934. Would investments be included?—Presumably in the ordinary practice I do not think any bank would, on the morning that it discovers that it has got an unnecessary amount of money, be so likely to invest as either to lend its money on the market or to buy bills.

1935. They would push out in every direction until they came down to their money minimum?—They would use their surplus.

1936. So that the volume of credit might be affected by the state of trade at the time. There might be unwilling borrowers for trade purposes?—I have never known a condition under which you could not put your money out. I suppose every bank every morning sees what money it has available for use, so that it may not be carrying a larger amount of money not earning than it need.

1937. There may be a competition between the Government on the one hand and trade on the other, and there may be Treasury Bills on the one hand and commercial bills on the other?—Yes. I have never known a condition in which you could not use the money.

1938. You mean that there are always commercial people who are bidding for money?—In varying degrees there are always people who will borrow money and will promise to repay. Good borrowers might not always be so easy to find.

1939. Less demand?—Less demand, but you will always be able to use your money.

1940. With regard to the effect of funding Treasury Bills by the issue of Treasury Bonds, may we take it that the withdrawal by customers of bank deposits for investment in bonds and the repayment of bills held by banks would result in an increase of cash in the banks?—It would depend whether it was accompanied by a repayment of debt to the Bank of

England. What happens is this. When the banks have more than their usual ratio of cash to deposits, they are free lenders, and banks lending freely lend at a lower rate. There are a number of firms who are customers of the Bank of England and also customers of the banks, and when the banks are pushed to lend more freely because they have got surplus money, these customers pay off their loans at the Bank of England and borrow instead at the banks, and the result is that you get automatically a reduction in loans from the Bank of England—not Government loans but private traders' loans. This reduction of loans absorbs the surplus cash which the banks have got, because every repayment of a Bank of England loan reduces the banks' cash.

1941. The bank would have the money on deposit; it would depend what it did with the cash, whether it paid off the loan to the Bank of England or whether it bought bills. Is that so or not?—No, it is not a question of the banks paying off a loan. The customers borrow from us and draw upon their deposits with us, and buy bonds, and the Treasury use the money they get from the sale of the bonds to pay off Treasury Bills held by the banks. The effect of that operation is to reduce banks' deposits, but to give them a ratio above their normal cash ratio. The banks, having a more than normal cash ratio, are immediately lenders, and their first field for lending is in the money market in the largest sense. By the money market I mean not merely the bill brokers but also other borrowers who are in the habit of borrowing from the Bank of England. As the banks are lenders, they offer their money at a cheaper rate. Perhaps if the rate the day before had been 3½ they may now be willing to offer their money at 3¼ or 3. Money being obtainable readily from the banks, firms which had been borrowing from the Bank of England pay off their loans at the Bank of England and borrow the money at the banks instead. When they pay off their loans at the Bank of England the effect of the repayment of the loan at the Bank of England is to reduce the total of cash, and to restore the banks' normal ratio of cash to deposits. The total of the cash being diminished, the banks are not able to lend any more, and their deposits remain reduced.

1942. That would be true in a case where a loan at the Bank of England was paid off, but not unless?—That is so. In practice the money which is taken in bonds and used to pay off Treasury Bills is partly used in the repayment of Bank of England loans, and has always a tendency to reduce bank deposits.

1943. On Q. 1 (*b*) you suggest that when holders of debt are paid off, the effect will be to increase the amount of capital available for use in business by the amount withdrawn from consumption, and later you go on to say that repayment of National Debt in proper circumstances may be advantageous in increasing the supply of capital available for business?—Yes.

1944. Have you in view there the use made of the money; that is to say, the use of the funds proceeding from debt redemption, and that it may be advantageous if it passes from less productive to more productive hands, and *vice versa* when the other change takes place?—I am assuming that a part of it is taken from consumption and that, however used in production, it will not be less useful than it was when used in consumption. Where taxation is largely drawn from consumption, debt redemption is good, because however badly the money may be used in production hereafter, it cannot be worse used in the economic sense than when used in consumption. Therefore I say it is good, in proper circumstances, to repay debt.

1945. You may, for example, invest it in gilt-edged securities?—Then somebody else would sell them.

1946. But that would be to the detriment of business?—No, if a person whose Government security is paid off invests the money in another gilt-edged security, then the previous owner of the gilt-edged security has got the money now. That money has to be invested in some new form of investment.

1947. The tendency will be to create a greater demand, will it not, for things of that sort rather than an industrial investment?—You must get a new investment. It will send up the price of investments, but the seller gets the higher price. You do not reduce the amount of money available for investment; you merely transfer it, until ultimately it comes to somebody who puts it in a new industrial or a new foreign or municipal loan. Whenever the debt is repaid, the money from that repayment has to find ultimately a home in some new investment, unless it is used to repay a bank loan.

1948. So that your view is that, though there might be a little friction in the process, the final result would be that?—Yes. As a matter of fact of course the man who had got War Loan and received his money back, probably would put his money into some other existing gilt-edged security. I agree that, but then the seller of that gilt-edged security has to put his money somewhere; and it might go through fifty hands before it finds its ultimate home in some new security.

1949. And that is the economic loss of the transaction?—I do not think it would take any long time to find its ultimate home. The investor invests his money at once, and then the seller of the investment, which our man under discussion buys, will reinvest his money at once. Nobody leaves his money idle. I may call it investment if he leaves it on deposit at his bank, because the bank uses it; it is always being used.

1950. But in general it would not take long, in your view, before the money would flow back into industry?—No; it would come back immediately. Money is not left idle, because if it is left with the bank, the bank uses it.

1951. The loss would be passing from more productive to less productive hands?—There might be a loss in passing from hands which are accustomed to use it to hands about which there is a risk.

1952. It might fall into less efficient hands?—Yes.

1953. On Question 1 (*b*), with regard to the influence of taxation upon trade, you say: "It is obvious that if taxation is carried to extremes there will be no saving at all." I understand that your opinion is that we have reached the limit of taxation, if we have not passed it, at the present time?—I think we have passed it. I think taxation is too high for the proper conduct of industry to-day. I go further and I think a lower rate of taxation would be more remunerative.

1954. That would be because of the increasing business that will result?—Yes, I think a 10 per cent. reduction of taxation might result in more than 10 per cent. increase in the volume of taxable business.

1955. *Professor Hall*: All taxes, or Income Tax?—I should say all taxes, Customs duties and Excise duties as well.

1956. *Sir Charles Addis*: It has been put to us by more than one witness that at the present time the production of this country is working up to the limit of its present capacity to absorb capital. Do you agree with that view?—No, I do not think I could agree to that. Do you say, at the present moment working up to its capacity?

1957. It has been pointed out, for example, that there is no evidence whatever of any shortage of capital, that any business which required a credit could obtain it, but that it is really not required at the present level of production?—You are speaking of credit now, not of capital. I do not think I should agree with that. I think capital shortage, for instance, in our iron and steel business to-day, is very great. Taking our iron and steel business generally, their plant is not the best, and you want new capital possibly to the value of £30,000,000 in this country, which they cannot get.

1958. Would that be fixed capital standing idle?—I should not say outside the iron and steel business there is much of our capital standing idle. There is shipping, but otherwise I would not say so.

1959. *Mr. Lees-Smith*: And cotton?—That is due to a shortage of material. It is a matter which you know more about than I do, but I think if the cotton crop is good, there will be no short time.

1960. And engineering?—I do not know that the new machinery trade is doing badly as a whole. Iron and steel are doing badly.

1961. There are 8 per cent. unemployed in the engineering trades?—Is that so? Is employment in engineering very low? (*Sir Josiah Stamp*): Certain branches of it.

1962. *Sir Alan Anderson*: Shipbuilding?—Shipbuilding is bad. Iron and steel and shipbuilding—in that head of engineering, employment is bad. But if you take off their percentages from the total of unemployment, other trades are not much above the normal.

1963. *Sir Charles Addis*: To put the question in another way, what is the relative degree of importance to be attached to the effect of taxation in hampering recovery of trade, and to general causes such as the impoverished state of Europe, the uncertainty of the exchanges, the state of our currency, and so on. Can you form any idea with regard to the relative importance of those causes?—I should think taxation is perhaps a more important factor than the others. The condition of Europe would not necessarily cause continuous unemployment in this country. A bad external condition may reduce the standard of living and the standard of profit, but it would not necessarily cause unemployment. It reduces our power to acquire wealth but it does not necessarily mean that our trade will not go on.

1964. It might diminish the volume of the export trade?—Yes, but a large amount of trade which we carry on with foreign nations we could do at home, though less prosperously. The effect of the dislocation of the foreign market is to drive us more into internal trade; our internal trade becomes a larger proportion of our whole trade. That means that we have to suffer a reduction of prosperity; since we carry on the external trade because it is more profitable to us. We could make at home, and we do now make at home, a great many things which we used to buy abroad because they were cheaper abroad. If we buy them at home now because we have not got the foreign trade, we are less prosperous, less well off, but we are still trading. The dislocation of foreign markets which reduces our foreign trade has influence in extending our domestic trade. The state of Europe will certainly make us poorer, but need not cause permanent unemployment here.

1965. If you diminish the volume of our foreign trade, the first result will be to increase unemployment. The number of people who are engaged in that will, primarily at least, increase, and until the internal trade is able to absorb them, you will have a period of unemployment?—Certainly, but the internal trade can always do more than it is doing.

1966. But there is a change from the export to the internal trade which must result in a certain amount of unemployment?—Yes, I agree, but for causes of continuous unemployment we must look elsewhere. We get into a vicious circle. If a manufacturer or merchant thinks that prices are going to fall, he will not manufacture or buy for stock. The manufacturer reduces his output and dismisses some of his workpeople. When the workpeople no longer are receiving wages, they are no longer consumers of goods to the same extent and, demand declining, prices fall. The manufacturer who anticipated that prices were going to fall is justified in his anticipation, and you have unemployment. If by any possible means you could get people back into employment, they would immediately be receiving wages and would be consumers of goods; they would be taking goods off the counter and their money would be coming back to the manufacturers who would think prices were going to rise again and would make for stock. With no other change except the psychological change, you would have improving instead of declining trade. I believe that trade psychology is most affected by policy in regard to credit and money. If you pursue a policy of deflation and declare that you are going to send down prices, the manufacturer and the merchant immediately stop buying. They stop buying because they would lose money. If they wait they can buy cheaper. If they buy now, when they come to sell their goods prices will be lower and they will lose. I hold the view that a declared policy of continuous deflation is certain to cause unemployment.

1967. *Sir Arthur Balfour*: Our export trade was falling because we could not get orders at the then prices. Were we not compelled to send down prices in order to enable us to do our export trade?—Prices rose to an extravagant height, from which it was quite right to bring them down. But there was no ground for a settled policy of deflation.

1968. They might have dropped very quickly without injury to trade. It is the continuous forcing down of prices over a long period with the expectation in the manufacturer's and merchant's minds that the prices are going to fall, which causes unemployment. Is it the rate at which they fell or that they would have fallen in any case?—They would have fallen in any case.

1969. Is it not the fact that the bitter experience of that destroys confidence in the trade, and that brings you back to your point that it is want of confidence in buying?—It is the want of confidence in buying which has existed now for several years, and that want of confidence is increased by the feeling that we may go on deflating. I think if you could get that out of the mind of the manufacturer and merchant, you would get him to go in for stock. I do not say that you should get into his mind that we are going in for a policy of inflation; inflation and deflation are each as bad as the other. You cannot get rid of unemployment until you get out of the manufacturer's mind the notion: "If I take the risk I am certain to be caught."

1970. *Sir Charles Addis*: If I may return to the question of the effect of taxes upon trade: if the general conditions were favourable to an increase in trade, would the existing level of taxation, in your view, seriously hamper or restrict the restoration?—I think the present level of taxation hampers the active progressive man very much, and that is the man on whom you have to rely for prosperity.

1971. That is generalisation. You would say that taxation is a primary cause, or one of the primary causes, of the depression in trade, and that unless it is removed, restoration is impracticable. Is that putting it too strongly?—As I regard it, one of the causes of the present depression in trade is the psychology of the merchant and manufacturer. I think the existence of heavy taxation is an additional element in his depressed psychology. He is always feeling the weight of it: he has no buoyancy.

1972. So that in your view the two factors required for the restoration of trade are, first, an increase of prices; and secondly a decrease of taxation?—What is required is absence of fear that prices are going to be driven down.

1973. Will a rise in prices be the outward and visible sign?—No; stability in price.

1974. Is not a rise in price more favourable to trade than stability?—Yes, but a rise in price will always come with an improvement in trade. I am not speaking of a rise in price of 10 per cent. or 20 per cent. but of a mere fractional rise. The manufacturer and merchant will always hope for a rise. Remove from his mind the fear that somebody is going to force down prices, something over which he has no control.

1975. *Sir Charles Addis*: Much of what we have heard has demonstrated the effect of taxation in general, but would you agree that with a National Debt of unprecedented amount it does involve some very serious difficulties with regard to the amount of

taxation to be raised and must leave a certain amount of uncertainty as to the future course of taxation? If you agree with that view, how far, in your view, does it hamper and restrict business by making capital timorous? I do not know if I have made my point clear?—Perfectly. To start with, capital would be very timorous if we were to have this debt imposed upon us suddenly without such a great psychological training as the World War; but I think capital gets accustomed to anything and we are accustomed now even to a debt of £7,000,000,000, although we thought £700,000,000 was a very extravagant debt and used to make a tremendous effort to pay it off. Well, we are accustomed to our £7,000,000,000 to-day, and I think capital would adjust itself to it.

1976. But it does seem to make inevitable some amount of uncertainty with regard to the future, as, for example, as to the rate of redemption or the course that successive Governments might take with regard to the mode of redemption, which I suggest must have a restrictive effect upon enterprise and upon trade?—I do not see why enterprise should be restricted on account of the existence of the debt. I do not think the debt repayment is a problem of such difficulty. We would like to have no debt, but there is no urgent need to repay it. I think we might very readily look for a reduction in the rate of interest on the debt. I think if policy were directed over a period of years to produce conditions which would enable us to bring the rate of interest down from where it is now to 3 per cent., it would be a good thing. I think Income Tax is a very large factor in our being obliged to pay a high rate of interest on the debt. I think under proper management we might get our interest down, our taxation down, and a steady repayment of the debt.

1977. What I had in mind was, if it is an uncertainty with regard to taxation, that seems to me such an evil thing. Where a tax is fixed, even if it is a bad tax, it is better than another tax which may be loose?—Yes, I think you are right.

1978. I think that degree of uncertainty is really an important factor?—Anything is which affects the trader's mind.

1979. The effect of taxation is probably double; it restricts enterprise on the one hand, but it also acts, does it not, as a stimulus to the undertaker. That is to say, if he is desirous of making a competence, the fact that the Government takes a certain amount of his profits with a certain class of mind may be an active spur to further exertion and even to increased efficiency and economy. Do you agree with that view?—I think the effect of high taxation is sometimes different from that. I think it induces some people to take more risk with their money to get a higher return than they would otherwise. Let me make my meaning clear. A man saves £1,000. He says: "If I invest that at 5 per cent. and I have to pay 4s. 6d. in the £ taxes, the net return to me is under 4 per cent.; and building up savings on a return of 4 per cent. is a very slow process; I will risk my £1,000 in an enterprise which is going to give me a capital increase on which I do not pay tax. If I am successful, I shall make perhaps £200 or £300 increase, on which I do not pay tax; and if I lose, well, I have lost all that the State would have left me after they had taken the high taxation." I think it sometimes leads to a reckless use of money rather than to a larger effort in his business.

1980. Take the man who is making provision for a family, for example, or keeping up his estate. Will he not be disposed to work longer, to work later in life, and will he not be disposed to work harder, because it takes longer and harder work to earn the competence for which he is setting out?—Yes, I think so; I think both influences operate. I think a man sometimes both works harder and takes greater risks. He takes greater risks with money in order to get a capital increase rather than more income.

1981. I only wished to modify the suggestion. There is more than one influence at work?—Yes. Undoubtedly.

1982. On Question 8 you say that existing taxation does not affect the total purchasing power unless it leads to an increase or decrease of borrowing from the Bank of England. You have already amplified this, but I just wish to raise one more point with regard to it. Would you agree that, while the purchasing power remains constant, there is a slackening of velocity of circulation and prices may be affected in that way?—Certainly.

1983. We have had the question raised more than once, but not, I think, with you to-day, as to the relation which ought to exist between indirect and direct taxation. In your view, has that tendency been pushed too far in the latter direction?—I have never been able to see any relation between them or why there should be any fixed proportion. The question must be, what is the most expedient thing for the State? At one time it might be proper to have all taxation indirect, and at another time to have all taxation direct. There is no arbitrary relation to be fixed between them.

1984. *Professor Hall*: In regard to foreign trade, I thought you rather minimised the effect of dislocation abroad and its effect upon employment at home. I thought you rather suggested there was a transfer from foreign trade to home trade. How would you reconcile that with the specialised production for foreign markets? I am in just a little difficulty there?—As far as specialised production is concerned, until the capital and labour were transferred you would have unemployment.

1985. Is there not a very large proportion of labour and plant so specialised that it cannot easily transfer from those unfortunate industries to other industries? —To what extent has the state of Europe reduced our export trade? The total reduction of our export trade is about 20 per cent., and that percentage, 20 per cent. of the export, is a comparatively small percentage of our whole trade.

1986. *Professor Hall*: But it is an important proportion in relation to particular industries?—Certainly.

1987. *Sir Arthur Balfour*: Ought we not just to observe there that that 20 per cent. is a reduction of pre-war plant. Now we have this enormous extension of plant in the country. (*Professor Hall*): Yes, that does not allow for the normal increase that would have taken place if conditions had been normal since 1914. (*Sir Alan Anderson*): And it might be much more than 20 per cent. of some particular trades?—(*Witness*): Yes, it might. I am dealing now with total figures. Of course it is detrimental to us; but the main effect, I think, of the closing of foreign markets is ultimately to reduce our average prosperity more than to cause unemployment. It will temporarily cause unemployment here. Any dislocation must cause unemployment for the time being.

1988. *Professor Hall*: That temporary duration of dislocation may be a fairly long time?—I do not think it ought to be. We have had unemployment now for four years. I think in four years we ought to have got over the European difficulty.

1989. You do not think that is going to be a big factor in the next few years?—It ought not to be. In the four years we ought to have readjusted conditions with the dislocation of the European market.

1990. The next point I want to put has reference to the relation between National Debt and credit. You have said that the existence of National Debt does not affect the volume of credit. There is a phase of that subject upon which I would like to have your opinion. Has it affected the power of individuals to get credit on more favourable terms?—I do not want to be misunderstood when I say no; but it has not. An individual who gets credit because he produces £100,000 of War Loan now, which he leaves as collateral, if he had not got that £100,000 of War Loan would have something else equally good which he would lodge with the bank. Therefore I am bound to say no. Because that individual to whom credit was given

would have the collateral in some other form. Banks regard War Loan as very good collateral, but there is other collateral which is quite as good.

1991. But would there have been as much collateral in existence as there is if there had not been this War Loan?—The quantity of collateral in existence does not affect the volume of credit.

1992. But it affects the power of individuals to deposit collateral?—But the individuals would have had the same quantity of collateral even if there had not been that War Loan.

1993. You think they would?—Yes. I do not think the existence of War Loan increases national wealth.

1994. I am not suggesting that, but it does increase the power of the individual to borrow, I should think, in this sense, that the bank takes less risk if the borrower can deposit this collateral?—There is other collateral equally good. An owner of War Loan has only got the War Loan because he had means of acquiring it, and we assume that he would have means to acquire some other collateral which would be equally good, which he would lodge with us.

1995. *Sir Alan Anderson*: In what you were saying about money, you would not drive down prices nor drive them up?—No.

1996. You mean that you would just stabilise as much as you could?—Yes. I would use my financial policy for the purpose of stabilising.

1997. You think you could deal with the currency without making it convertible?—Yes, all currencies, even the United States currency, are managed.

1998. You would not bother about their being convertible?—No. Convertibility into gold has nothing to do with it really. Even the United States, which has got a convertible currency, has a managed currency. The United States are using their efforts now to maintain the value of gold.

1999. *Sir Josiah Stamp*: They have to manage theirs with gold and we have to manage ours without?—They have to manage the gold first. They have an additional trouble. We have to manage our currency to keep the value of our currency more or less constant; the United States have an additional trouble, because they have to keep the value of gold constant, and that is costing them at the rate of £60,000,000 a year at the moment.

2000. *Sir Alan Anderson*: But I suppose it would give people a certain assurance that you would not alter your policy?—But it would not give you any assurance that gold would not alter its policy; and gold has a very awkward policy of increasing year by year in excess of the world's demand. If we had to manage gold it would mean that we would have to buy that excess and pay for it, a burden which costs the United States at this moment £60,000,000 a year.

2001. You said that you thought taxes had a greater effect in depressing trade than the disturbed state of Europe, and so on, and that the disturbed state of Europe had brought down the standard of living in this country rather than reducing our output?—Yes; that is the ultimate effect of foreign disturbance. The ultimate effect of foreign disturbance is to reduce your level of prosperity. The immediate effect is to cause unemployment, I quite agree, because it takes time to transfer capital and labour.

2002. May I just put my case? It seems to me that that assumes that we are willing to reduce our level of living, and surely we are not. Take, for example, the shipping trade, which is depressed. German shipping is now not laid up at all; it is all on the water, because the German seamen are working at a very much lower level of wage; and that, I imagine, is taking place in all trades in full competition with depressed nations. I agree that if we came right down to the level of those others it might not be so?—The ultimate effect is that it forces you down. That is why I say it lowers the level.

2003. Until we meet the mark?—Yes. It forces you down. That is what I think is one of the evils of the distressed state of Europe and particularly of the distressed state of Germany, that it ultimately forces this country down to their level.

2004. *Mr. Bowen*: Provided of course that there is nothing going to be done in the meantime to improve conditions in Europe?—That is what I wanted to add.

2005. The theory advanced by Sir Alan Anderson does not necessarily mean that it is to be permanent?—If we can get conditions under which you may obtain prosperity here and prevent this depression.

2006. The position in Europe must have a considerable effect upon our conditions here?—Yes, upon our prosperity here.

2007. *Sir Arthur Balfour*: Is it your view that the value to which prices have fallen at the present time is a value at which we can reasonably expect to do our export trade in competition with the world?—We do a larger proportion to-day of the total export trade of the world than we did before the war.

2008. Do we do it on the same proportion of profit?—That I cannot answer, but we do a larger proportion of the total.

2009. As it exists to-day?—As it exists to-day. That is the only statement that I can make upon the subject. Whether we do it at a profit or not, I cannot say.

Sir Arthur Balfour: It does not appear to leave sufficient margin or anything like the margin that it used to.

2010. *Sir Charles Addis*: Is there any distinction between internal and external prices, that the internal prices may be higher and the external lower by the adjustment of exchange?—Certainly.

2011. It does not follow that because prices are high here you are not able to sell in competition?—Not at all.

Sir Arthur Balfour: And sell in competition at a profit; surely that is the trouble.

2012. *Sir Josiah Stamp*: Do you agree that Sir Arthur Balfour's use of the word "profit" is perhaps a little ambiguous? Is there not perhaps a difference between the profit to the particular firms who are doing the foreign trade and the profit to the country as a whole?—Yes.

2013. *Sir Arthur Balfour*: I meant really the margin of profit to the country as a whole. I was not asking about the individual. I was saying, are we not as a whole doing a larger export trade, but doing it at a very fine rate compared with the rate at which we did it as a nation before?—That I could not say at all.

2014. If that is the case, and I think it is, is it not due to the competition of these other nations who are forcing down our standard of living?—I should think probably it is. I dare say you are right; I dare say we are working at a finer rate of profit than we used to; I should think that is probably true.

2015. *Sir Josiah Stamp*: I have only one question to ask; it arises out of an answer you gave to Sir Charles Addis. I understood you to say that in your view the high Income Tax reduces the net rate of interest on capital and induces the holder of investments to take greater risks, to look for something that will give him something like the old return, even if there is a chance of loss attaching to it. That would seem to indicate that a high rate of taxation enables the more risky businesses to be financed; money will flow towards them?—Yes, I think that is so.

2016. Could you make that consistent with your answer to Question 5? You say: "In the second place, high taxation reduces the incentive to risk capital in the extension of business or to undergo the labour and anxiety accompanying new enterprise." The two things seem to be inconsistent? I want to know what is your reconciliation?—When a man is in a business bringing him an income—I am not dealing now with the man who is trying to save money, but with a man in an established business and earning a fair profit—he gets the opportunity, we will say, to put further into the business £10,000. He says: "Shall I put it in or not? If I put it in, I pay Income Tax and Super-tax on my return. I am going to make in the business perhaps 6 per cent. on my £10,000; that is £600 a year, and I shall have to pay 50 per cent. in taxes; it is going to bring me in a net £300 a year; I will not do it, I will keep my

£10,000." This is dealing with a man who has got an amount of money. In the other case I was dealing with a man who has not got much money and who is going to save it. Now in order to save quickly I think he will take a risk, which is quite a different thing from the case of a man who has got his money in an established business. Is it not consistent?

2017. Yes, I think on the margin it is. I think you might carry the argument a little further. You would have to say he was not prepared to invest it in his own business, but he would look round for other people's risky investments and put it into theirs?—That is true. Paradoxical as it sounds, it happens. He will not take the trouble himself; it is not worth the trouble.

2018. *Mrs. Wootton*: The only question I want to put relates to this effect of debt redemption on inflation. I understand you to say that if we repaid the debt, that normally reduces Bank of England loans and would therefore have a deflationary effect?—Yes.

2019. Is that equally true of all kinds of debt?—Yes.

2020. It does not in greater degree apply to the Floating Debt which is a shorter-dated debt?—It is true of all debt.

2021. If it is deflationary it tends to lower prices and is therefore bad for employment?—Yes.

2022. *Pro tanto* debt redemption tends to create unemployment. Is that your view?—If it were the only cause in operation, it would be the argument, but of course there are always other things in operation at the same time.

2023. That is what I wanted to come to—whether you have any suggestion to make by which this deflationary effect of debt redemption can be mitigated?—It depends on what you mean by deflationary effect. Debt redemption in small amounts may be so small in its effect as to be insignificant. Debt redemption on a big scale would have an unavoidable deflationary effect that I see no way of obviating.

2024. At the same time, the effect becomes serious if you attempt repayment on any scale that makes an appreciable effect on the debt?—That makes an immediate appreciable effect. With an appreciable effect over a number of years that would not be so. You could have an effect over a period of 20 years which would be accompanied by no serious dislocation of capital, but an immediate big reduction would have that effect.

2025. Then, looking at it from another point of view, so long as the debt remains at about its present level I understood you to say that debt taxation is higher than it should be. That is, I take it, is injurious to employment?—Yes. I hold the view, perhaps mistaken, that a lower rate of taxation would in a very little while bring in a larger revenue and leave larger resources available for debt reduction.

2026. So that what one has to weigh at the moment, if one is looking at it from the point of view of unemployment, is the disadvantages of unemployment arising out of deflation due to debt reduction as against the disadvantage of maintaining taxation at its present level to meet the debt service?—If trade is dislocated by heavy taxation you will not get a reduction of taxation thereafter by having paid off debt. Because trade being dislocated and less productive, in order to meet the remaining services of the State you will still be left with an equally heavy burden of taxes.

2027. But in so far as you reduce the burden of debt you are reducing taxation?—Only if your taxation is equally productive, but it will not be if my argument is right. The effect of your immediate heavy taxation for the purpose of reducing debt would be so to dislocate your trade that no subsequent reduction of taxation would be possible if you are to have sufficient revenue to meet even your reduced debt.

2028. Your argument really hangs on the assumption that you would get a larger revenue from a lower rate of taxation?—Not this argument. This argument hangs upon the fact that with exceptionally heavy taxation the dislocation of capital would be so great that businesses subsequently would not be sufficiently remunerative to supply the revenue to the State without excessive taxation being continued.

2029. That really is a separate point. That is the point I put at first, that you are balancing the two kinds of unemployment, the one due to taxation required for the debt interest, and the other due to deflation which may result from paying the debt?—Yes.

2030. That is what we are balancing at the moment?—I do not think there would be deflation from slow repayment of the debt. It is so insignificant that it does not count.

2031. But if we want to get rid of the unemployment due to taxation at the present level for the debt service, we might perhaps speed up repayment. Then we have the balance of unemployment consequent on deflation?—Yes, that is right.

2032. Those are the two things that we have to balance?—Yes.

2033. Then the only other question I want to put to you is about the conversion of the debt. I do not think in your evidence you discussed in any detail the possibility of conversion as a way of reducing the burden of the debt, but you did mention it orally. Do you think that conversion of the debt as and when it may be possible into longer-dated securities at a lower rate of interest, is also going to have a deflationary effect?—I do not see why it should have any deflationary effect on the volume of credit. I do not think the Bank of England as a borrower or as a lender would come in. Therefore, I do not see why it should have a deflationary effect upon the volume of credit.

2034. In the case you have referred to orally, the substitution of Treasury Bonds for Treasury Bills, that does have an effect?—That is because of the particular people who hold the different securities.

2035. In the case of the conversion of a security which is normally held by the public, not much effect would arise?—I do not think it would have any effect if they were the same holders. I am glad you reminded me of this. You can effect deflation by passing the debt from one class of holder to another class of holder, but not where it is the same class of holder, and in the case of conversion it would remain the same class of holder.

2036. *Mr. Lees-Smith*: Your evidence dwelt entirely upon the evil effects of direct taxation such as taxation like Income Tax and Death Duties, and so on. Would you hold that it was a mistake to reduce the Sugar Duty and Tea Duty, and it would have been better to reduce the Income Tax?—I suppose the ultimate object of all our policy is human happiness. We only require prosperity in trade in order to achieve human happiness. Equally, we remit the Sugar Duty in order to achieve human happiness. I must leave you to judge which gives the greater happiness, the greater prosperity which you would have got through relieving Income Tax, or the greater enjoyment which you give to the mass of the people by reducing the duty on sugar. You have to weigh one against the other.

2037. As you know, the old Liberal argument has not been built up simply on human happiness. It was that the National Debt was a burden upon the efficiency of the people and that the reduction of indirect taxation led to investment in the capital of the human being?—I am not prepared to say that I think the mass of the people were at a level at which their efficiency was affected by the Sugar Duty. I doubt it. I doubt whether the mass of the people were so near the margin of livelihood that you could say that the price of sugar affected their efficiency. There are some people, of course, who are on the margin and below it, but it is not true of the mass of the people who were affected by the Sugar Duty.

2038. It is simply a question of happiness?—I think so. I think it gives them more to spend in the way they like. It is a relief of a consumption tax. Economically, it is not so good as a relief of the

Income Tax. That is from the purely economic point of view. From the point of view of human happiness it may be more important.

2039. *Sir Josiah Stamp*: And political quiet is part of the sum of human happiness?—Yes.

2040. *Chairman*: You have not had any questions addressed to you on the matter of the Capital Levy, which we propose to deal with at a later stage. The Committee would be very glad if you would at a later date give us your views on that matter. Would you be prepared to come again?—I would come again with the greatest pleasure if the Committee are good enough to invite me. Do you mean you would like me to speak on the Capital Levy or to write on it?

2041. Would you prepare a paper just as you have to-day?—Yes. Perhaps the Secretary will be good enough to send me a questionnaire. I am always very glad to be of any assistance I can to the Committee.

Chairman: Thank you very much for coming this morning.

(*The Witness withdrew.*)

(*Adjourned to four o'clock.*)

The Right Hon. Lord HUNSDON, called and examined.

EVIDENCE-IN-CHIEF handed in by Lord HUNSDON.

1. My object in asking to be allowed to appear before this Commission is to call their attention to what I believe to be the injurious effect on the country of the "steep" graduation of Death Duties and Super-tax. I shall quote later on certain figures which are indicative of the truth of my contention, but I doubt whether any figures are obtainable by private individuals which could be considered conclusive. I propose therefore to submit a few points to the Commission in the hope that they may consider that I have established a *primâ facie* case, and that they will make the question the subject of exhaustive inquiry.

2. In this paper I have not in mind the present position of the country, for I believe that the present chaotic conditions in Europe, though inconvenient and even dangerous, will gradually improve, and that when Europe recovers there will be a gradual improvement in trade. But it is the future of the country that causes me real anxiety, and the chief reasons for that anxiety are the great and increasing population combined with the loss of capital during the war and the fiscal checks to its accumulation.

The population of this island at the time of the last Census in 1921 was 43,000,000, and I suppose that it is now over 44,000,000; and I have seen it estimated that about two-thirds of the population are dependent for their livelihood on our external trade. The exact figures are of no great importance, and if we take half instead of two-thirds as the correct figure it still means that the existence of about 22,000,000 of our people depends on the will and power of others to take our goods. The increasing disinclination of others to do this seems to be indicated by their increasing tariffs and increasing factories; and when we reflect that, if the rate of increase in population before the war should continue, we should have another 11,000,000 mouths to feed from this source in the next 25 years, the position of this country appears to be highly precarious.

It would be true to say of us now, that we are a nation of shopkeepers, and we are therefore subject to all the uncertainties of business; and as we are not self-contained, if we make economic mistakes we cannot maintain ourselves while we recover, unless we have a large supply of capital; and moreover we are not only at the mercy of our own mistakes but of those of our customers as well.

Therefore, looking at this country as one would look at a business, one would say that the formation of a great reserve fund was essential; and one would have thought that the natural policy to adopt in our present circumstances would be to encourage by every possible means the adventuring of money in opening up new markets and to encourage the accumulation of capital, so that in times of emergency, or if the opening up of new sources of employment should prove to be inadequate, we might at least be able to provide the increasing population with the means of subsistence; and I know of no way of forming a national reserve fund except by accumulating wealth in the hands of individuals.

3. Another reason for accumulating capital is to lighten the burden of taxation. We are now, I suppose, in much the same position in regard to the proportion which our debt bears to our wealth as we were after the great French wars. The same problems were discussed then as are discussed now, and the conclusion which was then arrived at was that every possible incentive should be given to thrift and enterprise by relieving income from taxation, and of course leaving capital free also, and thus to render the burden of the debt increasingly lighter by increasing the assets of the country. The success which attended the adoption of that principle* was, of course, increased by the industrial revolution, the free market for labour, and later on by the impetus to trade due to the gold discoveries; but since under that principle we increased our wealth to an extent which, I suppose, was almost without precedent in any country at any time, and since we trebled our population and at the same time greatly improved their standard of living, we have, if not an argument in favour of the complete adoption of that principle at the present time, at all events an historical argument against its almost complete abandonment.

I may remind the Commission that in 1798 an Income Tax of 10 per cent. was imposed and that it was taken off in 1816. A small Income Tax was again imposed in 1842 and continued yearly. During the first half of the century we became the workshop of the world under a system of protection and during the last half we increased our prosperity under free trade; but during the whole period the underlying principle was to give the greatest possible encouragement to thrift and private enterprise.

The phenomenal success which attended this principle really constitutes our greatest danger at the present time; because most people who know nothing about principles or the working of business, take it for granted that when the world gets straight again this success will return, whatever principles we may adopt; and they do not realise that the world now has its own workshops, and that almost all the conditions have changed under which we worked during the last century; and my fear is that in this country we shall end by justifying the Dean of St. Paul's dictum that nothing fails like success.

4. The intention and effect of disproportionate taxation of the rich is to provide the poorer classes with means for greater expenditure, with the result that the expenditure of the country increases and savings diminish; for it is the rich who in proportion to their incomes, are the saving class, and the poor who are the spending class. The rich man when lightly taxed cannot spend his income, and his surplus income when invested is a reserve for the employment of the population in the future and of course often gives employment to the present population as well.

Thus when we throw the burden of taxation on those best able to bear it we are also throwing it on

* The nation's wealth in 1817 is estimated by Mr. Harvey Fisk at £2,600,000,000; therefore the proportion of debt to wealth was about 33%. Taking Sir Josiah Stamp's estimate of £14,319,000,000 as the nation's wealth in 1914 the proportion of debt to wealth was about 5%—the debt in the meantime having been reduced from £850,000,000 to £707,000,000.

those whom the richer classes would employ in the present and on future employment. Mr. Henry Ford stated the other day that he lived on 1 per cent. of his income; and thus before the Surtax was introduced he was able to build up the greatest individual industry in the world, with enormous benefit to the working classes of his country.

Mr. Ford's case is no doubt exceptional at least in its magnitude; but even if we take the war profiteers and the idle rich, if indeed such people exist outside the comic papers and platform speeches, they also are useful from the point of view of a reserve fund, in so far as they are unable or unwilling to spend their incomes. For all rich men are the holders and, as I believe, the only possible holders, of the Nation's reserve.

The savings of the poorer classes amount to very little for even after all these years the total deposits in the Post Office and Trustee Savings Banks only amount to £370,000,000, and, though some of the poorer classes invest in War Savings Certificates and other securities, all their savings must amount to a very small percentage of the money which has passed through their hands.

5. But it is to the variation of the quality of surplus income when in different hands to which I wish to call the Commission's particular attention. The prosperity of this country has been made by adventuring money in new enterprise and the present system of graduated taxation not only checks the accumulation of capital but has to a great extent stopped new enterprise and will I think stop it more completely as time goes on, for in any risk that is taken the Government now take a very large share of the profits and leave the whole loss to the adventurer.

The poor are not justified in risking their money and the banks are not justified in risking that of their customers; and joint stock companies, unless they are formed for the express purpose of conducting risky business, such as mines, are managed by Boards who naturally play for safety, as they would get no advantage if they were successful and they would receive much criticism and might lose their posts if they made losses in new enterprise.

Therefore for new enterprise the private adventurer is required and under the present system he has but little inducement to operate even if the Government has left him any income with which to do it; and it must be borne in mind that very few people would be willing to risk their capital in an uncertain business, so that it is on surplus income that new enterprise must depend.

Take the case of a projected railway abroad for which money is required for the survey and concession. A private firm or financier might have been willing to find the money if they had surplus income to risk and if their prospect of profit would make it worth while to run the risk. But as things are (and to consider the business at all the adventurer must be rich and therefore liable to the higher rates of tax) the Government would take up to 50 per cent. of the profits if there were any and up to 40 per cent. of the balance when the adventurer died; so naturally the tendency is to turn the business down. If it were not for these heavy taxes he might have undertaken the business, and formed an English company to build the railway, which would have placed the order for rolling stock and rails in this country. The wants of the employees would have been supplied by this country, the development of the district would have opened up a new market for the goods of this country, and in the extensions and renewals of the railway this country would have had in perpetuity a sort of "tied house" to take its products.

It is often said that money invested abroad is of much less value to the nation than money invested at home; but investments abroad are essential for opening up new markets, and, by causing demands for British goods and by increasing the prestige of the country they increase the demand for British manufactures and therefore increase investment at home.

A striking example of the manner in which the high Super-tax rates have operated to discourage industrial expansion has been given by Mr. Guggenheim of the American mining firm of Guggenheim Brothers. Mr. Mellon—the Finance Minister of the U.S.A.—had proposed to reduce the maximum Super-tax to 25 per cent. in order to encourage the rich to put their money into industrial enterprise instead of into tax-free securities; and in support of this proposal, Mr. Guggenheim informed Mr. Mellon that his firm had for many years been in the habit of devoting a large sum per annum (some $400,000 if I recollect right) to the development of mining ventures and general investigation in connection with their business. But with a high rate of Super-tax ruling Mr. Guggenheim pointed out that after spending a considerable sum of money on a mining claim, the larger proportion of the profits would be taken by the Government if it should prove successful and if the venture turned out a failure the loss would be his. Therefore there was now no inducement to his firm to put their money at risk.

Even the ordinary investor who is probably not subject to the highest rate of taxation is now disinclined to take risks. The following figures, which show a great diminution of industrial investments between 1913 and 1923, may be taken as an indication of the truth of the statement; but, of course, in times of depression less money is required for this class of business. According to *The Statist* of 5th January last, British industrial investments in U.K., Colonies and abroad were £163,000,000 in 1913 and £103,000,000 in 1923, and, if we take the reduced value of the £ sterling into account as shown by the *Labour Gazette*, the comparison would be £163,000,000 for 1913 and £58,900,000 for 1923.

Even in industrial investments, people now look for security rather than profit. Mr. William Lang, joint editor of the *Financial News*, has been good enough to analyse the industrial issues advertised in his paper during 1923, with the following result: Debentures, £49,800,000; Preference shares, £13,700,000; Ordinary shares, £8,300,000.

6. With the present high graduation no large private firms who have money to risk in opening up new markets can hope to continue indefinitely, as the Death Duties swallow up their capital and the Super-tax prevents them from accumulating capital to take its place. Thus one of the effects of high graduation is to destroy those who have shown themselves to be capable of increasing the wealth of the country. Death Duties seem to me to have almost every defect that a tax can possess. They are uncertain in their operation, they are a tax on pure savings, and they are liable to evasion by means of gifts *inter vivos*, trusts for children, and the like.

In Italy, in August, 1923, they abolished all Death Duties within the family and greatly reduced and in some cases halved the remainder; and I cannot do better than quote the words of Signor de Stefani when he introduced this reform. He said: "The "Government holds that this radical measure will "have a wide repercussion direct and indirect on "public economy and on the accumulation of capital "and private savings. It is of opinion that the "immediate loss to the Treasury will be more than "compensated, not only by the performance of an "act of justice, but by a real general increase of "prosperity." He then mentions the respect of the Fascisti for family life and the Roman law of property and adds: "For both these reasons it is anxious "to avoid a financial system which leads the citizen "to think only of his own individual life, to save only "in his own interest, to prefer a life annuity to an "insurance in favour of his descendants, and to "squander rather than to save—all to the detriment "of capital which is the productive energy of the "nation."

On the information of an Italian banker, I am able to say that Mr. de Stefani's forecast is proving correct, that already a certain amount of capital is coming into the country, and that there is "a real general increase of prosperity."

7. I think that it is certain that the high graduation of taxes on capital and income discourage the adventuring of money in new enterprise and check the accumulation of capital, and I suggest that the present accumulation of capital is insufficient to provide for our great and increasing population and to form a reserve against future wars.

As an indication of the correctness of this suggestion I will quote the Board of Trade's estimate of Britain's surplus available for investment abroad in the years 1913 and 1923. This estimate gives £181 millions as available in 1913 and £97 millions as available in 1923; and if we take the decreased value of the £ sterling into account the comparison would be £181 millions in 1913 and £55 millions in 1923.

2042. *Chairman*: Lord Hunsdon, will you kindly take your paper and explain as you go along the points that you wish to bring before the Committee?—I have really said all I have to say in this paper. In paragraph No. 1, I merely express my inability to prove my case by figures. I have got Board of Trade figures, "Statist" figures, and "Economist" figures, but I do not know how they are made up or whether they are made up in the same way; therefore I quote them with great diffidence. I am not relying upon them, but I do think that they are indicative of the truth of what I say in the paper. That is the only reason why I put them in. I am calling attention to the steep gradient of Death Duties and Super-tax, because my belief is that, economically speaking, the graduation is wrong, and that graduation of Income Tax (though I have not dealt with that point in my paper) is also wrong; out of the whole revenue of the country only about 25 per cent., or something like that, is subject to Income Tax, and the rest goes free. In the next paragraph I call attention to the great increase in population and the necessity, as I hold it, for opening up new markets. In the next paragraph I am not saying that it would be advisable, if you could, to reduce the rate of interest on the debt, for I know that it took a very long time to do that in old days. I think Sir Josiah Stamp points that out in one of his books. Also, when trade revives, more money will come back into trade, and it is probable, in my judgment, that interest will rise rather than fall. What I am contending in this paper is that the position now is practically the same as regards the proportion of wealth to debt as it was in 1816, and then they took a certain course which was successful, not, of course, entirely owing to the principles adopted, because there were other matters, but still it was successful. I say it would be better if we could get back, to some extent, to the principles which were adopted in those days, and endeavour to lighten the burden of the debt by increasing the assets on which it is a charge.

2043. *Sir Alan Anderson*: With reference to what you say about two-thirds of the population being dependent on external trade, do you think it would be possible if the external trade fell off to support the population on internal trade, even after you had allowed time to switch over?—No, I do not. We were talking about preference in the House of Lords the other day, and Lord Long gave figures showing that the consumption of wheat in this country was 140,000,000 cwts., and its production was 36,000,000 cwts., and though, of course, I suppose with intensive cultivation, and if we fed on potatoes, you could go on for some time, with the present standard of living it would be quite impossible to support the population.

2044. *Sir Arthur Balfour*: We should have no means of paying for our food?—No means of paying for our food. And the soil will not give it to you. I have taken a shot when I say 22,000,000 people are dependent on external trade. Some people say one-third are dependent on external trade, and some people say two-thirds. I have taken half.

2045. Anyhow, the works in the country are laid out to do an export trade?—Yes.

2046. And they would stand still?—Yes.

2047. *Mr. Bowen*: Do you base much of your argument upon the statement that at the pre-war rate of increase of population we should have another 11,000,000 mouths to feed; do you take the rate of increase as being very definite, and do you base much upon that?—So far as I can see, the rate was 1 per cent. a year for many years before the war. I would like the Committee to take any figures they like. I am only indicating an argument.

2048. You are not basing much on that point?—Nothing whatever. If you say that we are not increasing at 1 per cent. a year, but at ½ per cent. a year, it will take double as long to get into the same position. That is all it means. The next paragraph merely calls attention to the throwing of the burden of taxation on those best able to bear it, which I think is a suppression of the truth. You do throw it on those best able to bear it in the first instance, but it must fall on everybody. That is my contention. I think that the way it is done now is so injurious to the poorer classes, who are dependent on the surplus income of the rich for new enterprises and new markets, that it is much more injurious than if they paid the tax themselves.

2049. *Sir Josiah Stamp*: On that point, supposing you take a given quantity, £x, from a rich man, and that if you had not taken it he would have saved it; supposing you take it entirely for the purpose of paying off debt, is the total capital position of the country, and therefore the position of employment, any worse?—I think it is. If you left it with the rich man I think it would, to use the old phrase, "fructify in the pockets of the people."

2050. Does it not fructify in somebody else's pocket when the State uses it to repay debt?——You mean, pays it to somebody else?

2051. The State receives the money by way of taxation; the State redeems so much debt. What happens to the capital? It is not annihilated?—No, but you are dislocating the present arrangements.

2052. To what extent does that dislocation at present proceed? To what extent does the money get to the points that it would have got to, by that process?—Take the case of a private firm. The senior partner dies and heavy Death Duties are levied on that firm. It does not make any difference to the country, you say; the money goes practically or roughly speaking in repayment of the debt, so the country is the same as it was before, with the same amount of capital, and so on. But that private firm has to shut down or has to reduce its business.

2053. The position put to us by so many is that the money merely changes hands; it is paid over in the form of taxes and it gets into somebody's hands. He has the money to invest, and by the machinery of the money market it gets back to the man who wants it?—Take a private firm. Supposing they have a capital of £1,000,000, or one member is a partner with a capital of £1,000,000, and there is no other partner with any capital. 20 per cent. of that, that is £200,000 goes from that firm. It does not go back to the firm in any way. They are £200,000 short, and they have to reduce their business to that extent.

2054. That is not quite the position put to us. The position put to us is that the money leaves the firm and is paid to the Government. The Government redeem War Loan with it, and therefore some former War Loan holder has money to invest. He looks round for an investment and he finds that this business wants to replace its own capital by borrowed capital. It does it either by an issue or by the

machinery of the money market and the bank?—Perhaps they might have borrowed up to the hilt already. It does not follow that they would be in a position to borrow.

2055. Could they have borrowed up to the hilt if they had got there the capital liable to Death Duties?—I suppose they ought not to have done so, but they might have done.

2056. Would you call it up to the hilt if they had that margin?—I do not think you can get over the fact that if they have lost £200,000, they have got to reduce their business.

2057. We want to see if the answer that is given that capital is not annihilated and merely comes back through the ordinary sources of the bank is correct?—It will come back into the market.

2058. Whether there is any real friction in this particular man not being able to get hold of it. There are two schools of thought, those who say that the fact that you did not annihilate capital is a complete answer, because it will go back where it is wanted; and the others who say it may not be destroyed, but you alter its direction?—That is what you do.

2059. We want to know in your experience to what extent it alters its direction?—I do not think it comes back to the person who has paid the Death Duties at all.

2060. Where does it go?—I do not know. It goes into space somewhere; it does not go to him.

2061. It goes in the form of some new investment, then?—It goes into investments.

2062. What kind of new investments are encouraged? You tell us the ones that are discouraged, namely, private business?—I suppose if a man has a War Loan paid off, he puts it into something more or less equivalent. Or else it puts up the price of War Loan to some extent.

2063. You could not suggest anything more precise as to the kind of investment that is encouraged if it does not come back to the original payer?—If a man has got his War Loan paid off he clearly wants something of that nature; he will put it back into something of that nature.

2064. Then the net effect of repaying debt by taxation is to encourage a particular class of investment?—Yes, I suppose it is. It reduces the amount of the class of investment so far as it is paid off, and therefore I suppose there is a greater demand for that investment.

2065. Is it in fact encouraging that investment?—In fact I do not suppose it would make very much difference, in view of the total amount of first-class securities.

2066. If you were to repay £50,000,000 to £100,000,000 a year of debt and that money was not to come back in any way through ordinary banking channels to the people who had paid it, but was to go into new kinds of semi-gilt-edged investments, it would form a very large proportion of the total savings, would it not; it would be very easy for municipalities and foreign states to float loans if all this money was waiting for non-industrial investment?—Yes, I suppose it would

2067. Well, is it?—These are rather puzzles. I would like to have notice of the question.

2068. You see, it is no good simply saying that the man pays the money, as though that is the end of it. We want to know what happens to it at the finish, where it gets to?—What I am looking at is not where the money goes to, but where it goes away from. I am looking at the private firm or private individual whose business is injured.

2069. You do not believe in the theory that he will get it back as loan capital?—No, I do not think so.

2070. *Sir Alan Anderson*: I think there is a little confusion. The private firm, if its credit is good, can borrow this money, but it will be £200,000 the poorer?—Of course it would.

2071. That is the whole thing?—That is the point.

2072. In order to maintain its business, if it has to invest up to the hilt in fairly speculative things, people will be shy of lending to them?—Yes.

2073. *Sir Josiah Stamp*: You have lessened the accumulation of capital. That is the point. *Sir Alan Anderson*: Not in the country. *Sir Josiah Stamp*: No. In fact, witnesses have told us that taking tax for repayment of debt actually increases the accumulation of capital in the country? I take it that you do not believe that?—(*Witness*): Certainly not!

2074. *Mr. Bowen*: On your third argument, in the last paragraph you refer to world markets. You remind us that all countries in the world now have their own workshops?—Yes.

2075. From which I infer that you believe that our world market is getting very narrow?—Is getting low; it is tending that way. There are a great number of spindles in India, for instance, and in Argentina they are putting up factories. Everywhere they are putting up factories. There is a general tendency all through the world, I think—I do not know what word to use exactly—of the nationalisation of industry, that is, to produce at home rather than get goods from abroad.

2076. If there is no opportunity to expand very greatly in the world market, that should release some capital for expansion internally?—But what is the use of expanding internally unless you are going to sell the stuff?

2077. May I put the question to you: What is the use of producing internally, if you cannot sell the stuff?—I do not know; if you have to sell stuff to buy food.

2078. The point I am coming to is this. You suggest that capital should be in the hands of a few people, who are the only people who can save it. You call them the rich people?—Yes.

2079. And the general statement you make here is that if it gets into the hands of other people, it becomes squandered?—I do not say that exactly, but it is obvious that the rich are the saving class and the poor are the spending class, speaking generally.

2080. But is it obvious?—I beg your pardon; I thought it was. If you have £100,000 a year, you cannot possibly spend it; therefore you have to save it.

2081. But is it not obvious that the one class has the opportunity, and has had the opportunity, of getting money, the other class never has had the opportunity of getting money?—But whenever it has, it spends it on cinemas and char-à-bancs rides. It is very nice seeing them at cinemas and on char-à-bancs rides, but that is what happens.

2082. You do not disagree with me when I suggest that the poor have as much right to go to a cinema as the rich have to go to Ascot?—Certainly not, but I am not talking of whether it is right or wrong. I am speaking of the necessity of saving money for the country.

2083. I want to get your exact point, but one of my difficulties is in your condemnation of the one class as against the other?—I do not condemn them in the least. I should go to cinemas myself, if I wanted to.

2084. You do not appear to take account of the savings of the working class in proportion to the opportunities they get for saving?—No; but I am not entering into that at all. I am merely stating what I think is a fact, that is to say, that if a man has got, say, £200 a year, he does not save as much in proportion as a man who has £200,000 a year. That is all I am saying: as a fact. If you agree that further accumulation of capital is necessary, then I say that you have to reverse the present system; that is all.

2085. We are getting at two points. The main point I want to get is your first, as to the graduation of Income Tax and the ability of people to bear it. I am trying to get from you clearly your views on the ability of all classes to pay tax. For example, if all accumulated savings are to be at the disposal of one class, and if the other class have no savings to accumulate, which of those classes should bear the tax?—I say that at the present moment the tax is too heavy on what I call the rich, and it is causing

lack of accumulation of capital and lack of enterprise, and therefore is most injurious to the poor, if you divide them into those classes; and it would be much better for the poor if they were to pay higher taxes themselves and encourage the accumulation of wealth and new enterprise.

2086. But can the poorer classes pay higher taxes?—There was no tax on income or on capital at all after 1816, and we were in much the same position as we are in now.

2087. Were the working classes in the same position in 1816?—No; they are in a much better position now.

2088. Why are they better?—Because we have prospered. The prosperity of the country increased enormously owing to the principle of encouraging enterprise and encouraging thrift, and the position of the working classes, as was certain, improved with it.

2089. But I want to get your point as to why, in view of the proportion of tax now borne by the poorer classes, you want to increase that to the relief of the richer classes, who, you say, are now more heavily taxed than they should be?—Yes; I suppose you can put it like that, if you like. I certainly want to relieve the richer classes of this heavy Super-tax.

2090. Would you draw any line of demarcation below which you would not go to impose a tax upon an individual?—Do you mean, have a low exemption limit?

2091. I am referring to the poorer classes?—I think they ought all to pay taxes.

2092. Suppose they have not sufficient to maintain themselves and family, would you tax them then?—You mean by indirect taxation?

2093. Anything you like?—They are taxed now by indirect taxation.

2094. You would tax them whether they have got sufficient to eat or not?—I should impose taxes without reference to this question, because the question of sufficient means is a question of wages. I am trying to talk economics; I am not talking politics at all. You do tax them now whether they are able to live or no, and of course they do live. You tax them on tea and sugar and things of that sort.

2095. I would not wish to talk politics. What I am trying to get from you, as you have been good enough to come here, is your views as to taxation and the ability of people to pay. What I want to get at is who, in your judgment, are the people best able to bear taxation? We all admit that taxes have to be paid, and you want to shift them from one class to another?—My point is that the question of the burden of taxation, that is, who is best able to bear taxation, is not a question that ought to be considered at all in a country which is in difficulties, as this country is at the present moment. It ought to be governed entirely by the question of what taxes do least harm to the bulk of the community, which is the working class. It is on that basis that I should say that you ought to impose your taxation and on no other. The question of where the burden first falls, it seems to me, is sentiment; and seems quite out of place when you are forced by the present position of the country, as I think, to study economic laws and see which tax does the most evil.

2096. *Sir Arthur Balfour*: Is it any use taking an economic view of a situation like that, if in practice it is impossible? It is politically impossible, surely, to do what you suggest?—But it is not impossible to go back nearer to the state of things as they existed before. As I say, I am not talking politics; I am trying to talk economics.

2097. *Sir Josiah Stamp*: Is not this the real conflict in your mind? You would not object to progressive taxation as a principle of justice merely for paying taxes, but you say that it is more than overruled by the national advantage of having a large accumulation of capital, and that you will not get under the present system. You say that your method, from the point of view of economics, is much superior and that the question of abstract justice ought to go?—I am not talking about abstract justice. I say the country is in a very precarious position, and must always be in a precarious position, because it is dependent on the will and power of others to take our goods. Therefore economic laws ought to govern everything, though I do not propose that we should go to the extreme limit. I do not mind making small economic mistakes, but this one has got to such a point that it is doing damage; that is to say, if you do not undertake any new enterprise, you will not be able to feed the people.

2098. Assume for the moment that you have to put on one side abstract justice and the payment of taxes by the progressive system, because of this overruling importance of accumulation of capital, and that it can be accumulated only in the hands of the rich, and let us ask how far our present taxation system is really seriously affecting that accumulation. That is a concrete proposition, is it not?—Yes.

2099. The State requires taxes for two purposes, one, to spend, and the other, to pay off debt. Now will you look at the two cases separately? Do you agree that if it is used for payment of debt, there is not necessarily any smaller accumulation available to industry?—I take the person who pays these Death Duties or Super-tax. I say that he is unable to carry on new enterprise or carry on his business as well as he did.

2100. *Sir Alan Anderson*: That is, the individual is poorer; but the country, taking it altogether, is the same as it was?—If the individual suffers, the country suffers.

2101. Some other individual might have more?—He would, but on your hypothesis, all he has done is to get rid of some War Loan and get something else more or less equivalent.

2102. *Sir Josiah Stamp*: Supposing we are satisfied, by the weight of evidence, that the money does not vanish, but that there is as much money available as accumulation of capital when taxation proceeds for repayment of debt as if there had not been any such taxation; if that is so, then your difficulty is confined to that amount of taxation that is raised by the Government for spending. Do you say that by raising taxation from the rich for spending, you are depriving the country of money that the rich would have saved, and that the poor, who are spared by that method of taxation, will not save an equivalent sum?—Yes.

2103. Now could you give us the measure of that "hole" in saving, in the accumulation of capital?—No, I cannot. I should have thought it was obviously true that the rich saved more in proportion to their income than the poor.

2104. I want to get from you whether, in regard to the difficulty that you are labouring under, you can put this important reason for setting aside abstract justice into figures. You say the accumulation of capital is going to suffer; we want to find out to what extent it is going to suffer. Now, if it does not suffer so far as repayment of debt is concerned, the area of suffering must be confined to what the State spends in ordinary Budget expenditure?—Yes.

2105. Could you put a figure on the extent to which that depletes the accumulation of capital?—No, I could not.

2106. You do not know whether this important reason for setting aside the abstract justice of progressive taxation is really a very big one or not?—I cannot give you any figures to prove it.*

* In reading over my verbal evidence I observe that Sir Josiah Stamp desired to know whether the amount of saving which would follow a reduction of Super-tax would justify a departure from what he considered "the abstract justice" of high graduation.

I should have reminded the Committee that the chief point in my evidence-in-chief was to call their particular attention not to the quantity but to the quality of the income so saved, as, small though it may be, surplus income is an essential part of the mechanism of trade; for it is only surplus income that can be risked with impunity in new enterprise. *Hunsdon.*

2107. You only feel instinctively that it is there?—Yes.

2108. You cannot point to a depletion of accumulation?—No; I do not see how anyone can get any figures to prove that. I certainly cannot.

2109. *Sir Alan Anderson*: Here is another difficulty that strikes me. What you say in effect is that the scale of living of the wage-earning class is rather higher than we can afford?—I should say it was.

2110. Now supposing you did throw a greater share of the taxes on to the wage-earning class in order to make them spend less, surely they would demand more wages. They enforce that demand for wages to-day on the facts of to-day, and if you threw your extra burden on them, would they not have an additional argument for higher wages?—Certainly.

2111. I should have thought you would not have altered the position the least bit in the world, and if it is true that we are living at too high a rate to-day, shall we not be forced, in spite of everything, to reduce the scale of living in this country by the inability to sell our goods, and is not that the only thing that will bring the scale down?—But we are unable to sell our goods now. The falling off in our manufactured goods (I am quoting the Board of Trade figures) in 1923 was 25·6 per cent. as compared with 1913, taking the same range of prices.

2112. And of course in some trades wages have come down enormously because of that?—Yes.

2113. *Professor Hall*: On this point I should like to ask you this question. You have suggested that this should be considered from the economic point of view only?—Yes.

2114. And that a transference of taxation from the richer classes to the working classes would be advantageous in increasing the quantity of available capital?—Yes.

2115. But supposing that this increased taxation reduced the efficiency of labour, would it be really beneficial to the country?—That would go against it.

2116. So that you would really limit the amount of taxation?—Of course one would in practice, because you have to keep them in health. That would be arranged by their wages. As Sir Alan Anderson says, if you put more taxation on, very likely their wages would have to go up in order to get proper health and living and so on.

2117. So there would be no reduction in real wages as the result of this change in taxation?—Not necessarily, but I am not talking of the question of wages.

2118. I thought you were rather talking about the accumulation of capital as a factor in the increase of production; and surely an equally important factor in the increase of production is the efficiency of labour?—Yes.

2119. And you might impair the position and lose the efficiency of labour and lose more than you would gain?—Yes.

2120. I thought, in answer to Mr. Bowen, you suggested you would put the taxation upon the working classes irrespective of the standard of living?—Yes, because I say that is the place on which to put the taxation—the 44 millions, or whatever it is. It would not be that, of course; it is only the adults—but to put the taxation on the whole body of the people. Then you would have to arrange your wages in view no doubt of the standard of living.

2121. *Sir Arthur Balfour*: When you had raised your wages you would raise your cost of production?—Yes.

2122. You would cease to be able to do your export trade and you would find yourself back in another position in the same vicious circle?—But you will starve unless you get more markets for the working man. It is the working man I am thinking of. 97½ per cent. of the population are employed persons, and it is those people who constitute the nation, and it is from that point of view that I am looking at it now. If they have to go short for a time, well, they have to go short for a time; but the great thing is to open new markets and encourage enterprise, at least that is my view. Of course, there are many things to be taken into account, as you have mentioned.

2123. You really say that in view of the grave position everybody has to make a sacrifice to try to open up new markets so as to save us for the future?—Yes, that is exactly what I do think. The position is appalling, to my mind. Why people are not alarmed at it, I cannot see; and it is that indifference which alarms me more than anything. May I now go on to the figures that I give at the end of my Paper from the "Board of Trade Journal"? £181,000,000 in gold sovereigns in 1913 was the surplus available for overseas investment, and £97,000,000 was available in 1923, and to arrive at the equivalent of the latter figure in sovereigns of the 1913 period, one would have to reduce it to £55,000,000. I do not know that you can say that they are savings exactly, but they are something very like it—and the reduction is from £181,000,000 to £55,000,000.

2124. *Sir Josiah Stamp*: That is available for investment abroad, is it not?—Yes.

2125. Does this reflect in any way on the total accumulation in the country?—That is why I only say it is an indication. I do not know what goes on in this country.

2126. You might have a diminution in the amount of foreign investment accompanied by an increase in the amount available for home investment?—But would not the home investment in some way produce something, and would not that appear in the excess of imports over exports?

2127. It might be consumed at home and not affect foreign trade at all?—If it was consumed at home we should not want to get it from abroad, so it would reduce imports.

2128. The question is, is the total accumulation too small for our needs, and the further question is, can you test that accumulation merely from investments abroad?—They are only an index, and there are other things to consider which I cannot get at at all; I do not know whether anybody can; certainly I cannot. That is why I say it is for the Committee to inquire into and not for a private individual. I do not see how I could get at it. These figures are most startling, it seems to me.

2129. *Mrs. Wootton*: There are some other figures you give in paragraph 5 of your evidence, where you quote the total of subscriptions to British industrial investments, United Kingdom and abroad, and you call attention to the great reduction between 1923 and 1913?—Yes.

2130. Your suggestion seems to be that that is due to high taxation. Do you press that point?—My contention is that owing to high taxation there is a disinclination to take risks; and this again is an indication, I think, of that disinclination. That is all. I am bound to put some figures in, but I only put them in as an indication.

2131. If one takes the same figures, say for the years 1919 and 1920, when the taxation was higher than at present, you find that the subscriptions were very considerably larger?—Yes. I have them all here, but I have really not bothered about the years 1919 and 1920, because they were entirely abnormal.

2132. I think you will find the figure for 1919 is £183,000,000 and the figure for 1920 is £298,000,000?—Of course, there was a boom going on in 1919 and up to the middle of 1920.

2133. I put to you the question that whether there is a boom or whether there is a depression is very much more important in determining the volume of subscription to new issues than any question of taxation. Taxation on the whole is lower now than it was in those years, but the trade conditions are quite different?—Yes; I have said in my paper that the falling off may be due to that very thing. People do not want so much for industrial investment in times of depression as they do in times of prosperity, but there is also a disinclination to take risks.

2134. What I am trying to get is the cause of that disinclination—whether you can press the point that the cause is taxation or whether the cause may not be something quite different?—I think it is both.

2135. One must give considerable weight to the fact that there is something other than taxation?—There must be other causes, yes.

2136. Judging from the figures that you quote, these other causes have at least as great importance as taxation?—That I cannot tell; I do not think anybody can tell.

2137. *Sir Alan Anderson*: Is there, in fact, to-day any difficulty in getting money for good industrials in the market in London? Is there apparently a shortage of capital?—Yes, I should think certainly there is.

2138. For ordinary shares?—Yes, for ordinary share capital.

2139. But not for preference or debentures?—No.

2140. *Chairman*: Are there any other points that you wish to mention?—No, I do not think so. I have said all I have to say, I think, in the paper. I have tried to include all the important matters. Sir Josiah Stamp has probably got all the figures, but I have tried and failed to find out whether one could make any estimate of what the present position is with regard to the assets of the country as compared with 1913 or 1914.

2141. *Sir Josiah Stamp*: No valuation of the nation's wealth at two different periods gives a difference which represents an accumulation or otherwise of capital?—Not in pounds sterling, but cannot you turn it back into the same denomination?

2142. No, you cannot do it that way. If your price level was identical it might mean something, but not otherwise; but there are ways of getting at the accumulation?—I made a note here, and perhaps I may be allowed to read it. I calculate that before the war—I am talking here about the last paragraph where I gave the Board of Trade estimate of £181,000,000 available for overseas investment in 1913, and £97,000,000 in 1923—I calculate that before the war the wealth of the country was equal to about £350 per head of population, which is equal to about £600 now, and if the population increases at 1 per cent. per annum, as it did before the war, we should require £600 multiplied by 1 per cent. of 44,000,000 or £264,000,000 sterling surplus per annum to keep up that standard.

2143. When you quote the amount available for overseas investment, you do not know what is the amount at home to be added to this?—No.

2144. *Sir Charles Addis*: Have you any alternative mode of taxation in view?—I was told particularly not to mention it if I had. There are several schemes, as, of course, you know, but there is one of Mr. P. D. Leake, which I thought very interesting—a flat rate on what he calls production. We managed to get on in 1816 without any Income Tax or Super-tax or Death Duties, and we became eventually very prosperous. I want to get back nearer to that point than we are at present.

2145. *Sir Josiah Stamp*: Do you think we had any measure of real prosperity before 1840?—Of course we had a very bad time in 1819.

2146. It is a matter of interpretation of history; I am not going to press it; but I should have thought that our real prosperity began about the same time as we put on the Income Tax. It may be an accident; I am not suggesting that it was cause and effect; but if one reads the literature of the early part of the last century, one sees that position?—I agree.

2147. *Sir Alan Anderson*: Have you ever read Cobbett's "Rural Rides"? That gives a terrible picture?—Yes, we did go through a very bad time; but the result was extraordinarily successful in the end; and now that the working classes have all political power in their hands they are not going to repeat that "terrible picture" unless they ruin the country.

2148. *Sir Charles Addis*: Your suggestion is that you would reduce materially Death Duties, Super-tax and the Income Tax?—No, I should not reduce the Income Tax until I had reduced Super-tax and Death Duties.

2149. And you would keep the Income Tax as it is?—Yes. I should reduce the number of exemptions from it. Any invested funds, from whatever source they came, I should make subject to Income Tax.

2150. In such a way and to such an extent as to supply the deficiency of Death Duties and Super-tax?—That I cannot tell. But I would prefer a higher Income Tax to Super-tax and Death Duties, from the point of view of accumulating capital. The total Death Duties and Super-tax now amount to about £120,000,000, I think, and I would much sooner have a higher Income Tax.

2151. The whole £120,000,000?—No, I do not say that, but as I was told particularly not to go into this question, I have no plan ready.

2152. You do not wish to pursue the subject?—I do not think it would be of any use.

2153. You see the difficulties of the Committee if we were to make any recommendation for the abolition or reduction of a tax without suggesting how it was to be done?—Yes, I agree.

2154. *Sir Alan Anderson*: We should save a bit of taxation by not paying off debt, should we not?—Yes.

2155. Would that be wise?—I do not think it would. I do not think that paying off debt by using Victory Bonds in payment of Death Duties is very valuable. It is a mere cancellation of the debt, and I think the proper way to reduce the burden of the debt is to increase the assets of the country, but I do think that it is very important that the Government broker should be in the market buying the debt, so as to keep up the price with a view to lowering the rate of interest and being able to convert at some time or other. I am afraid that would take a long time; but still, it is all in the right direction. And I should certainly continue the Sinking Fund in bad times as well as good. In bad times it would probably have more effect in lowering the rate of interest than in good times, because in depression of trade there is more demand for that class of security.

Chairman: We are very much obliged to you.

(*The Witness withdrew.*)

(*Adjourned.*)

SEVENTH DAY.

Tuesday, 5th August, 1924.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman.*
SIR CHARLES ADDIS, K.C.M.G.
SIR ALAN G. ANDERSON, K.B.E.
SIR ARTHUR BALFOUR, K.B.E.
MR. HENRY BELL.
PROFESSOR FRED HALL.
MR. W. L. HICHENS.
MR. H. B. LEES-SMITH.
SIR WILLIAM McLINTOCK, K.B.E., C.V.O.
SIR JOSIAH STAMP, G.B.E.
MRS. BARBARA WOOTTON.

MR. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

Sir FREDERIC WISE, M.P., called and examined.

EVIDENCE-IN-CHIEF handed in by Sir FREDERIC WISE.

I am indeed proud to have been asked to place my views before the Committee on National Debt and Taxation.

100 Years Ago.

1. Many times since 1918 I have asked myself what will be the future of our country, but, if I have brought myself to uncertainty, I have for my comfort taken up a book, "Hansard" by preference, with the history of 100 years ago, and studied the difficulties of those times.

This study is a fine tonic for the present generation.

What we are experiencing now is similar to what our forefathers experienced, and it makes me feel that, just as they surmounted their difficulties, so will we in due course surmount our troubles.

A hundred years ago there existed almost all the questions of to-day, namely:—

Unemployment.
Emigration.
Aliens.
Depositories.
A Committee on National Expenditure, and
A great clamour compulsorily to reduce the interest on the National Debt, etc., etc.

In regard to the latter, the Chancellor of the Exchequer of those days said, in reply to questions in the House of Commons:—

> "The country would lose more in credit and resources of every kind than it would in any manner gain by such an enormous breach of faith."

During the wars of 100 years ago we taxed our people to the extent of about 47 per cent. of the total war expenditure, whereas in the late war we taxed our people about 25 per cent. of the total war expenditure.

Pitt's finance was more courageous than the finance between 1914 and 1918. After the Napoleonic Wars our debt was approximately £43 per head compared to the present day, which is about £167 per head of the population.

The estimated income of the country 100 years ago was £400,000,000, with a National Debt of about £800,000,000. To-day the estimated income is £4,000,000,000, with a National Debt of (say) £8,000,000,000.

To put it crudely, to-day a nought is added to the figures of a hundred years ago.

We must increase our wealth, and then we will not feel the strain of our National Debt.

The proportion of wealth to the population is practically the same to-day as 100 years ago. In 1801 the incomes of the population up to £1,000 were 56 per cent., and in 1920 they were 55·2 per cent. of the total amount of incomes. In 1801 incomes between £1,000 to £2,000 were 26·3 per cent., compared to 27·3 per cent. in 1920. In 1801 incomes of £2,000 and over were 17·7 per cent. (of the population), and in 1920 they were 17·5 per cent.

National Debt.

2. The question of how much debt a country can support is a matter of productive capacity.

There are two sorts of National Debt, namely, an external debt and an internal debt. This is the first time Britain has had an external debt; it is the most dangerous debt because the country does not hold control over it, and it is naturally not in the currency of the country that borrows the money.

The internal debt is more or less held by Britishers, and it was stated in 1923 that the £2,000,000,000 Five per cent. War Loan, apart from holdings of bearer bonds, was held by 3,200,000 investors, of whom 2,900,000 held £200 stock or under this amount.

All Britishers should be encouraged to invest their savings or part of their savings in British Government securities.

Taxation.

3. The burden of taxation is very heavy. A tax that is destructive of the life of business in the end defeats itself. There must be the fluid life, and the activity of the people, earning or making more than they consume, in order to provide a taxable amount to sustain the nation.

A very important social and economic question is also involved in high taxation—that is, the result which taxation has on national development.

Our progress in that direction depends on two factors—personal ability and surplus income; an expanding prosperity requires that the largest possible amount of surplus income should be invested in productive enterprise under the direction of the best personal ability. This will not be done if the reward of such action is very largely taken away by taxation.

Savings.

4. Thriftiness and the incentive to save, which expanded during the War, have continued.

This is a very important factor in national finance; it assists the credit of the nation and it develops the national character.

The National Savings Certificates have had a sound influence on the national habits of the people.

Deflation.

5. Deflation is the most difficult of all the financial problems. It aims at increasing the purchasing value of the pound; it means lower wages and lower prices for commodities.

I think deflation was too rapid in 1920, 1921 and 1922.

Inflation.

6. Inflation means the lessening of the value of the pound. Such a measure may encourage the export trade for a time, but when inflation had reached its peak, neither the manufacturer nor the worker would benefit. It would mean a new tax on the community, and it would damage our credit.

Credit.

7. The demand for credit is conditional upon the business outlook. Credit is created in increasing volume only as the community wishes to use more credit, as the opportunity for the employment of credit appears profitable. When the trading outlook is inviting, business men are apt to adventure and new trading commitments are made in increasing volume. It is the buying power of the consumer of goods which determines the price of credit. Credit is delicate, and depends just as much on the volume of trade as on the volume of consumption; it is the most important aspect of finance. Credit is confidence, and to destroy confidence is to destroy credit.

It was credit that provided the financial ammunition of 1914. Britain has cheap credit, which is essential for the trade and commerce, and more essential because we buy such a large quantity of our food and raw material from overseas.

The world has confidence in our country because

1. We balance our Budget;
2. We reduce our National Debt by excess of revenue over expenditure.

It is very easy to lose stability of credit. For instance, in October, 1923, the barest hint at the possibility of the adoption of a policy of inflation showed a fall in sterling in New York; the people of Britain have hardly recovered from this rumour, as it increased the price paid by the Britisher for every commodity imported, especially from the United States, besides increasing the annual interest and capital payments on our external debt.

Economy.

8. There are two points to remember—the necessity for continued economy in national expenditure, and also the necessity at every opportunity to convert the Government loans of a high interest rate into loans of a lower interest rate, with a longer term of duration, and thus reduce National Debt charges.

This will cheapen the cost of capital for industry, and thus help commercial and industrial enterprise.

Question 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?

The nation is poorer owing to the war. A large part of this reduction of national wealth is with the British people, as they hold the bulk of the internal loan. The British people therefore have more capital than they had in 1914. The deposits in the big British banks were over twice as large in 1923 as in 1913. In 1913-14 there were 14,000 Super-tax payers with incomes of £5,000 and over, and on the 31st March, 1924, the number was about 25,000 with incomes of this amount or over.

The more we pay off the National Debt the more capital there will be for credit, provided the index figure is more or less the same, and that there is no rapid deflation. The same applies to trade and industry whose interest is governed by the National Debt interest. It is very difficult, whatever is the rate of interest on the National Debt, to raise capital for small and medium size companies owing to there being no market for the securities.

The Floating Debt should be reduced quietly without excessive deflation and it should be converted, as far as possible, into permanent loan at the earliest moment. Except for a small amount no country should have a large Floating Debt. The amount on the 31st March, 1919, was £1,412,000,000; on the 9th June, 1923, £816,000,000; and on the 7th June, 1924, £786,000,000.

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

If the National Debt is on a 5 per cent. basis, the terms for industrial capital will be on a basis of 6 per cent. to 7 per cent., the rate depending on the security of the company. The lower the interest on Government stocks the cheaper will be the terms of capital for industry.

Question 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?

I believe in the continuity of debt redemption out of revenue, even in a period of trade depression. If it is reduced too rapidly by deflation, it would be a great strain and disturbance to values.

The taxes are collected for the Sinking Fund, and the tax goes in purchasing or cancelling the National Debt. The seller of the National Debt stock to the Government receives cash, which can be placed into industry and commerce or be used in purchasing a further amount of National Debt and if the latter course is followed out, it would assist to keep up the credit of the country.

Question 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?

The high Income Tax reduces savings and there is not the same amount of surplus for the expansion of the development of enterprise. If the expansion and the development were profitable, the profits of the concern would expand; in this case the managing ability would have made sound judgment.

Question 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?

By far the bigger burden of taxation is what industries have to pay for local and domestic betterment taxes, that is rates, insurance, etc., and it is this which is raising the costs and affecting the power of competition in the world trade. The amount paid in this way is infinitely greater than the Income Tax on profits, when earned, and it seems to have been lost sight of recently.

The following is taken from a Chairman's remarks at an annual meeting of an engineering company:—

> "It is an interesting fact during the past year, the community have received from us by way of Imperial rates and local taxes twice the amount which shareholders receive. That is, for eight months of the year the business has been run entirely for the community leaving four months for the shareholders and the risk for the twelve months."

In local taxation, the rates throughout the County of Durham including both county and district rates are at least 20s. in the £.

The taxation on coal comes to about 6d. per ton, but varies from one area to another. In reference to collieries they are not allowed to deduct Income Tax on their wasting assets such as the cost of sinking and underground development.

This hardly appears fair.

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

If an industry is a holder of the National Debt the dividend would be in the profits.

Those fortunate firms that have their money invested outside their own business in Government securities can keep this in reserve against any loss that may be incurred until they can use it in their business.

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

The effect of Income Tax on undistributed reserves is shown by the company having less in its reserve fund and consequently not being in such a sound financial position.

The more reserve funds a company has, the more credit it can raise for the necessary development and for amortisation purposes.

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

The existing taxes reduce the supply of capital and affect the purchasing power accordingly.

Question 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?

The only national advantage in the 5 per cent. War Loan being paid free of tax was that the foreigner obtained his dividend in full and had not the necessity of claiming a rebate of the Income Tax.

I do not advocate any Government issues being free of Income Tax. If there is stability in Britain, the foreigner will not be prevented by the Income Tax from buying British securities.

The British resident investing outside this country in investments in the currency of the country where the investment is made may unknowingly find a a double Income Tax levelled against the investment.

Question 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?

In my opinion as a general rule Income Tax does not enter into the contract prices. When times are bad the most important point is to get the volume of work. Income Tax, however, handicaps the exporter to foreign markets as it impedes the development and strength of the individual or the company.

If there are not sufficient funds available for working the foreign market, the costs will be up, and competition hampered with other foreign countries.

Question 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?

If the burden of taxation is heavy, the savings of an individual cannot be so great and enterprise is reduced, as there is not the available capital for it.

The joint stock companies are also affected.

Question 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?

The Death Duties are paid out of capital. Any reduction of capital affects income. The Death Duties paid in the last four years have been as follows:—

1920-1921	... ...	£47,729,000
1921-1922	... ...	52,191,000
1922-1923	... ...	56,871,000
1923-1924	... ...	57,800,000
Total	... ...	£214,591,000

The general effect of Death Duties is that the readily marketable capital left is chiefly in Government Stocks, and disappears as an asset, to supplement money in industrials which are unmarketable in small concerns. This comes with greater hardship on those who at death are using the larger part of their capital in productive industry. The assessment is irrespective of the vendibility of large blocks of industrial stocks or shares which may be held by an individual at the date of death.

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

There are only two great countries to-day that can take and float Foreign loans, namely Britain and the United States of America.

In the course of the Finance Bill of 1923-1924, I mentioned that the stamp duty on Foreign loans of 2 per cent. was to the detriment of our trade.

I understand the duty brings in about £1,150,000 to the Treasury.

In pre-war days the duty was 1 per cent.

The Government of the United States of America does not charge any stamp duty on foreign loans floated in America.

The United States has a distinct advantage over Britain in regard to stamp duties and therefore the foreign loan competition, although keen, enables the United States in some instances to pick and choose her foreign flotations.

Foreign loans should be encouraged in London, because the loan becomes a credit and leaves these shores in the shape of goods, even if the country which obtains the credit does not purchase British goods, the credit being transferred to the country where the goods have been bought by the foreigner.

Although the credit has been exchanged from one foreigner to another it is by goods that the credit will be absolved. A nation should be careful not to over invest the savings abroad, as an over investment abroad would mean a fall in the exchange against the country who lends the savings. In pre-war days the gold standard acted on the exchange if over investment was made in a foreign country.

Question 14.—To what extent (*a*) in the present depression, and (*b*) in a period of normal trade, is the ordinary assumption correct that the *tax on commodities* is borne by the consumer?

If there is a reduction of a tax on a commodity it is not always an immediate benefit to the consumer and it is not always passed on in full to the consumer.

Indirect tax reduction in this way does not always benefit the poorer classes compared to a reduction of a direct tax; the latter will increase the rewards of business and enterprise.

At the present time any reduction of direct taxation would assist trade and industry, and place men and women in employment, and in that way benefit the consumer.

Question 15. What is the effect of the *Customs and Excise duties* on the prices of commodities? How does this effect internal and external trade?

The Customs and Excise duties are indirect duties, and they keep prices up to the extent of the duty, subject to the usual supply and demand.

A reduction of Customs duties may or may not be passed on to the ultimate consumer and does not really lighten the burden of trade; if a country does not produce a particular article, and if competition is small and the demand good, the Customs duty can be placed on to the price of the article. If there is a keen competition, both internal and external, the external buyer will not probably pay the full Customs duty, as, owing to this competition, the exporter of the goods, wanting the volume of business, reduces his price to obtain the business.

2156. *Chairman*: Will you kindly take your paper and amplify or expand any of the points that you deal with it?—As to the opening paragraphs I refer to the difference between 100 years ago and to-day; a great difference is that we have an external debt to-day. I want to impress on the Committee that during the wars of 100 years ago we taxed our people to the extent of 47 per cent. of the total war expenditure, whereas in the late war we taxed our people about 25 per cent. of the total war expenditure. I may also say that in the Crimean War we again taxed our people to the extent of about 50 per cent. of the total war expenditure.

2157. *Mr. Hichens*: Where does your figure of £4,000,000,000 as the estimated income come from?—From various sources.

2158. The reason I ask is, because, as a matter of fact, we have another witness coming who gives us £3,800,000,000, which is fairly close when one is dealing with these big sums.—I mentioned it in the House of Commons in a Budget speech this year, and Mr. Asquith referred to £4,000,000,000 after my speech, in another stage of the Budget, so he must have got his figures from somewhere.

2159. He might have got them from you?—Well, I conclude that he did not.

2160. Yours is not an official estimate in any sense?—No.

2161. It is your own, is it?—More or less.

2162. *Chairman*: £3,800,000,000 is very close.—Well, I very nearly reduced my amount to £3,800,000,000.

2163. Without knowing that any other person had estimated £3,800,000,000?—Yes. I do not know who is coming before you.

2164. *Mr. Hichens*: That estimate of £3,800,000,000 was given in "The Economist," I think; I was wondering whether you had seen that and just modified it a little?—I would not like to say that I have not seen that estimate, but I do not remember seeing it.

2165. At any rate, it is independently arrived at; that is really what I wanted to get at?—Yes.

2166. *Mr. Lees-Smith*: You say the proportion of taxation was just about the same after the Napoleonic Wars; is that your point?—In the Napoleonic Wars and the Crimean War about the same taxation of war expenditure was imposed on the people during the wars

2167. But what was the position after the war?—You had your debt increased, but half the war was paid out of the taxation, whereas in the Great War only 25 per cent. was paid out of taxation.

2168. You have not worked out the proportion of our income taken in taxation after the Napoleonic Wars and after this war?—Well, I give figures here of the proportion of wealth to the population. The proportion of wealth to the population is practically the same to-day as 100 years ago. In 1801 the incomes of the population up to £1,000 were 56 per cent. of the whole, and in 1920 they were 55·2 per cent. of the total amount of incomes.

2169. *Mr. Hichens*: Yes, but would the taxation per head be higher to-day or lower?—I give that here: "Pitt's finance was more courageous than the finance between 1914 and 1918. After the Napoleonic Wars our debt was approximately £43 per head compared to the present day, which is about £167 per head of the population."

2170. *Mr. Lees-Smith*: I wondered whether you had worked out the figures with regard to what is at this moment the proportion of our taxation to our national income as compared to the proportion following the Napoleonic Wars; do your figures enable you to tell us that?—Not without working it out.

2171. I wondered whether you could work that out from your figures and send us a memorandum upon it. It would be very interesting to have an estimate of the proportion of our income that goes in taxation now and the proportion of our income that went in taxation after the Napoleonic Wars. It wants working out carefully to explain exactly what items you are taking into account?—Well, I will do what I can. I will consider it, anyhow.

With regard to Clause 7, the world has confidence in our country because (1) we balance our budget, (2) we reduced our National Debt by excess of revenue over expenditure, and (3) we are paying our debts.

2172. *Professor Hall*: Do you think that the advantages you have here enumerated can be purchased at too high a price, by taxation being so high as to restrict trade and restoration of normal conditions?—No. It is the essence of all business and trade and commerce to balance your Budget.

2173. But to repay your debt—you mentioned that?—Yes. It is the essence of sound finance to reduce your debt, but what the amount should be is an arguable point.

Professor Hall: That is the answer I wanted from you.

2174. *Mr. Hichens*: With regard to your answer to Question 1, I suppose that as a practical matter one has to recommend some sort of a policy for dealing with the debt. One suggestion that has been made to us is that the debt should be paid off by instalments of £100,000,000 a year; another suggestion is that it should be paid off in a certain term of years; another suggestion is that it should be paid off in good times, and that little or nothing should be done in bad times. I would like to know what your view would be exactly; would you accept the figure of £50,000,000, for instance, or what would you say?—Yes. I think £50,000,000 is a reasonable sum. I think anything beyond £50,000,000 affects trade—I am speaking approximately.

2175. I think your view is that there should be a steady payment in good times and bad alike; is that so?—Yes.

2176. On the ground that one of the most important things is to secure continuity and stability?—Yes.

2177. That £50,000,000 which you advocate is contingent, I suppose, on the amount of taxation that is raised for other purposes? What I mean is, that the ordinary taxpayer looks at his taxation as a whole, does he not, and says that he is being charged 4s. 6d. in the £ Income Tax and a substantial Super-tax? He does not refine too much as to the purpose for which it is required?—Many taxpayers do not know how the taxes are spent.

2178. Therefore in making a recommendation of £50,000,000 you have in mind something in regard to the expenditure on other purposes? If you have an Income Tax of 6s. in the £ and to-day can pay your £50,000,000, that is all right, but supposing the Government required to spend a great deal more money for other purposes, and then they find it is necessary to raise additional taxation in order to have a fund of £50,000,000, it becomes a more difficult matter, does it not?—If you raise taxation beyond the present level, the £50,000,000 is more difficult to find. It would be to the detriment of trade if Income Tax and Super-tax were raised above to-day's level.

2179. Would you put your recommendation in the form that £50,000,000 was a sound sum to pay off, provided it did not involve increasing the Income Tax and Super-tax, but that the whole question should be reconsidered, if an increase were necessary?—I think £50,000,000 is about the amount.

2180. *Sir Alan Anderson*: I rather gather that Sir Fredric goes further than that, and says that in his view £50,000,000 is just about the right figure, and that we ought to cut our cloth in other directions so that we have £50,000,000 available?—Yes.

Sir Alan Anderson: It is rather the other way round, is it not?

2181. *Mr. Hichens*: That is what I wanted to get at. Would you put it as Sir Alan Anderson has just put it to you, that the Income Tax and Super-tax should not exceed the present level, but that the first charge on the revenue ought to be the interest and £50,000,000 Sinking Fund, and that the Government must make shift with the balance as best they can?—Well, with these topsy-turvy times conditions might be altered in two years' time. I only consider to-day the finance of a few months ahead. To-day I think £50,000,000 is the right amount to put to Sinking Fund; I do not think it should be anything less. Anything more I think is to the detriment of trade.

2182. That is a minimum then and a maximum at the same time; £50,000,000 ought to be at any rate a definite charge?—On to-day's conditions.

2183. *Mr. Lees-Smith*: We have had some very authoritative witnesses who have argued that it is a mistake at this moment to put any money aside to Sinking Fund, and that even that £50,000,000 means an addition to the Income Tax, which is a detriment to trade; you definitely disagree with that?—Certainly.

2184. *Sir Alan Anderson*: Because you think that our credit gains by this, more than our trade is hampered by having to pay out the money?—And it goes back into trade.

2185. The point made to us by many people was that there was a dislocation, and although it did come back into trade, it went from one enterprising group of people to another less enterprising group, and trade was dislocated. Probably you would agree that there was something in that, but you would say that the advantage to the credit of the country by paying this off outweighs these other disadvantages, whatever they may be?—Considerably.

2186. *Sir Arthur Balfour*: The advantage in maintaining our exchange, so that we can buy our food cheaper, is one of the greatest advantages of all?—Certainly. We buy abroad more than any other country. It is difficult to compare us with any other country. It is the essence of the finance of this country in the next few years that our credit is cheap in my estimation.

2187. *Professor Hall*: I would like you to clarify, if you would, the first paragraph of your reply to Question 1: "The nation is poorer owing to the War"; then in the next sentence you say: "The British people have more capital than they had in 1914." Do you mean by that that the State as a business concern is poorer, but that the individuals as shareholders are better off than they were?—Yes. The nation has mortgaged itself to the British people except for the external debt.

2188. But, individually, the people have more capital than in 1914?—Yes.

2189. In your next paragraph you are speaking of the rate of interest, and you say that the rate of interest in trade and industry is governed by the National Debt interest. Would you not say that they influenced one another; would not that be a truer statement?—Well, the National Debt interest is the pivot of all interest, and that regulates other interest.

2190. But assuming some of your statements to be correct in the memorandum that you have submitted, additional opportunities for investing capital in trade and industry would react upon the rate of interest available on Government securities, would it not?—I think the interest on the National Debt governs industrial interest.

2191. You do not think then that the opportunities of earning interest in trade and industry will affect the rate of interest on the National Debt?—I think the National Debt interest is the main pivot.

2192. But would it not affect the price of Gorernment securities and the return which the investor obtains, say, from the War Loan?—If trade is good, money is dear; if trade is bad, money is cheap. National Debt interest varies with money, but is the pivot for all interest.

2193. Quite, and War Loan might be down if there were very favourable opportunities of investing capital in trade?—I think it depends on the price of money.

2194. But if there were these opportunities in trade it would affect the return that an investor could obtain on his War Loan investments?—Well, it depends on the state of the money market, and various points such as redemption.

2195. I want to get definitely from you whether you think the rate of interest obtainable in trade and industry affects the rate of interest we have to pay on our debt, or whether the whole of the influence is on the other side?—I think it depends on the supply and demand of money.

2196. *Sir Charles Addis*: You say that, the more we pay off the National Debt, the more capital there will be for credit; will you please expand that statement?—As the Sinking Fund pays off the National Debt—for argument's sake say it is £40,000,000—that money would go for the credit of industry.

2197. But it would be really only a transfer?—The taxpayer is paid off, for argument's sake, say £40,000,000, and he either reinvests it in a national loan or in industry and commerce.

2198. But where does the State get the money to pay off?—From the taxpayer.

2199. So, then, it is a transfer, is it not, from one body of taxpayers to another?—Yes, with the reduction of the taxpayer's liability.

2200. Is there really any increase of capital by means of transfer? It is the Government taking money from one body of citizens and paying it to another; is it not merely a transfer of the same amount?—Well, you can receive more on credit than on actual stock.

2201. I confess I do not quite see how that happens. The Government pay off A., who holds a certain amount of Government bonds; it takes the money from B., the taxpayer. There is no increase of capital; there is only just so much paper the less, is there not?—Yes, so far as capital goes. It does not hold with reference to credit.

2202. You say there would be more credit. How is there, then, an increase of credit? There is one bond the less in existence?—Yes, there is one bond less, but supposing that person who has been paid off the £1,000 bond reinvests that in National War Bonds, it puts up the credit of the country, and he can go and borrow credit against that £1,000 National War Bond.

2203. You see the amount of the War Bonds is not even the same; it is less by the paying off of a single bond?—Yes.

2204. Therefore, any bond that he invests in must be merely a transfer from the actual holder, must it not?—It is a transfer of securities, but I contend that there is more credit obtainable by the persor who has been paid off.

2205. Do you mean that because the number of bonds has been reduced their value has risen?—I contend that a person with £1,000 that has been paid off, supposing he reinvests the £1,000 in National War Bonds, can take that £1,000 to his bankers and obtain credit on it,

2206. But so he could before?—Yes.

2207. Supposing A. holds a bond for £1,000 against which he has an advance from his banker; that bond is paid off, and he then receives the money and pays off his debt to the banker; where is the increase of credit?—The National Debt credit is increased. As far as the £1,000 man is concerned, if he had credit in the first instance, and takes credit in the second instance, the credit is the same, but the credit of the country is better by £1,000 being paid off.

2208. *Sir Alan Anderson*: And the credit of the taxpayer is better by the £1,000 he paid to pay it off?—Yes.

2209. *Sir Charles Addis*: I think this is the misunderstanding between us perhaps: when you say there is an increase in the national credit owing to a

portion of the debt having been paid off, you mean there would be an improvement in the national credit?—Yes.

2210. And there is no other increase or improvement in capital?—There is a reduction of national capital and an increase of credit.

2211. And there is an improvement in the Government credit, but not an increase, because they owe less; you would agree to that?—The Government owe less.

2212. And therefore their credit is improved?—Yes.

2213. *Mr. Bell*: You have some knowledge of the markets, Sir Fredric. You say that the Floating Debt should be reduced quietly without excessive deflation; it should be converted. Have you taken into account what extra expense would be involved in that?—It depends on the money market.

2214. To-day if you were to turn the three months' Treasury Bills which constitute the Floating Debt into permanent investments, do you think that would be a less dear way of borrowing?—No. It would be more expensive to convert now, but you have to take against that the danger of having such a large Floating Debt.

2215. But the wise way in which the Floating Debt has been worked, and the amazingly cheap rates at which it has been carried for years, would seem rather to point, in the interests of economy, to not converting it into a 4 per cent., 4½ per cent. or 5 per cent. permanent debt; would not you agree as a business man?—Of course it is more expensive to convert a Floating Debt into a permanent loan at the present time, but it is unsound to have too large a Floating Debt.

2216. You have referred to the Floating Debt by which I take you to mean that you would rather convert the Floating Debt to-day?—I think it wants to be gradually reduced. I think possibly in the past it has been rather too rapidly reduced in spite of the cheap rates that we had a year ago; but I think even £786,000,000 is a very large amount for a country to carry as a Floating Debt.

2217. I am only asking on the precise point of expense to the country; you agree it would be a dearer proposition?—Yes.

2218. *Sir Charles Addis*: What is the particular danger you attach to the existence of the Floating Debt?—Any dangers that might occur; the nation might have to raise more capital.

2219. Do you think that the existence of this Floating Debt would make it more difficult to raise a permanent debt?—Yes.

2220. *Mr. Bell*: What do you mean in your answer to Question 2, by a 5 per cent. basis? Do you mean the nominal interest paid on War Loan, which is 5 per cent., or are you thinking of the price at which it is to be bought on the market producing such and such a rate?—I took that as a basis to obtain my 6 to 7 per cent. on industrial capital.

2221. What I want to get at is the nature of the basis; is it that the War Loan standing at par bearing 5 per cent. is your basis, or the War Loan standing at 90 bearing 5½ per cent.?—If you take the National Debt, which I mentioned, as an instance on a 5 per cent. basis, I mean the market value of the National Debt and the actual percentage return. I only took the 5 per cent. basis for simplicity.

2222. *Professor Hall*: What do you mean exactly, in your answer to Question 3, by the phrase about the debt being "reduced too rapidly by deflation"?—Well, I think we had too rapid deflation in 1921 and 1922.

2223. Did that reduce the debt?—Yes.

2224. I should like you to explain how we are going to reduce the debt by deflation. The general assumption is that deflation increases the burden of the debt?—I deal with deflation as being too rapid.

2225. *Sir Charles Addis*: But supposing we are paying £300,000,000 a year as interest on our debt and prices fall, that payment is fixed in terms of sterling, and therefore the receivers of that interest have a bigger command over the annual income of the country; does not that increase the burden of the community in general?—Yes, it does.

2226. *Professor Hall*: I will come back to your statement then where you say: "If the debt is reduced too rapidly by deflation." I am not yet able to see how the debt is reduced by deflation, but rather do I think, and now you have agreed, that the burden of the debt is increased by deflation?—I do not agree to that statement. The taxpayer's burden is increased, but not the National Debt.

2227. But measured in commodities, if deflation brings about a reduction of prices, the £8,000,000,000, or whatever it may be, represents a bigger quantity of commodities?—Yes.

2228. And, in that sense, the debt is increased by deflation and not reduced?—Your internal exchange is altered, but your figure of debt is the same except for any reduction by Sinking Fund.

2229. The figure of debt is the same? Then deflation does not reduce the debt. You say now: "If your debt remains the same"?—I abide by my previous answer.

2230. It is just that phrase: "If it is reduced too rapidly by deflation" that causes my difficulty?—I say: "I believe in the continuity of debt redemption out of revenue, even in a period of trade depression. If it is reduced too rapidly by deflation, it would be a great strain and disturbance to values."

2231. *Mr. Hichens*: All you mean is: "If it is paid off too quickly"?—Yes. For argument's sake, supposing the Sinking Fund was increased to £100,000,000 a year, I contend that deflation would be too rapid.

2232. Yes, but not deflation that brings about reduction in the debt?—It would bring about reduction of the debt by the £100,000,000 you name.

2233. Not the deflation. Would it not be the reduction of the debt that brought about deflation, as I think Sir Charles Addis suggested? Is deflation the cause or the result?

2234. *Sir Charles Addis*: Is it not the effect of paying off the debt too quickly?—It would bring about a crisis if you deflate too rapidly.

2235. *Sir Alan Anderson*: You say if it is paid off beyond a certain rate it would be a bad thing?—Yes.

Professor Hall: I can follow that point well.

2236. *Mr. Lees-Smith*: You mean to say if it is reduced too rapidly it would cause deflation?—It does cause deflation.

2237. That is what your sentence means?—Yes.

Professor Hall: The deflation is the result and not the cause.

2238. *Mr. Lees-Smith*: In your answer to Question 5 are you drawing a distinction between national taxation of the ordinary type and rates and insurance contributions?—Yes.

2239. I am not quite clear: Is your point that the special burdens which enter into costs are rates and insurance contributions as distinct from national taxes?—Yes.

2240. *Sir Arthur Balfour*: You mean that they enter directly into costs?—Yes. By far the bigger part of taxation is what industries have to pay for local and domestic betterment.

2241. That is to say, they pay those whether they make a profit or not?—Yes.

2242. *Mr. Lees-Smith*: As the rates differ in different districts, do you mean that a firm in making up its costs would enter rates at one level for its factory in one district and rates at a different level for its factory in another district?—I should say so—do you mean in the contract?

2243. *Sir Arthur Balfour*: No; in your costs. In other words, they are included in your previous year's overhead costs and therefore they are added in that way according to the district?—Yes. I just took the coal trade of the County of Durham as an example.

2244. *Sir Alan Anderson*: When you say they are "infinitely greater," have you any figures; can you relate the two together—because these local and domestic taxes vary all over the country and for each

trade, do they not?—I only know the North-East Coast, and I took various industries up there, and I selected the coal trade as a good example so far as that big industrial area was concerned.

2245. There you have the County and District rates?—Yes.

2246. But there are all these other things which are a burden on industry—all the betterment taxes?—Yes.

2247. Which include in this infinitely greater cost?—Yes.

2248. Did you get any figure?—On coal it is 6d. a ton approximately, subject to the area, in the County of Durham.

2249. The betterment cost?—Yes.

2250. What does that cover—insurance and education?—Yes; insurance and local and domestic betterment taxes; that is, rates, insurance, etc.

2251. When you say: "The taxation on coal" that means the whole thing?—Approximately in the County of Durham.

2252. Including local and district rates and everything?—Yes.

2253. *Chairman*: Only 6d. a ton?—Yes.

2254. *Mrs. Wootton*: That, of course, would depend on the output of coal as much as anything else?—To a large extent, but you have to pay your betterment taxes, anyhow.

2255. But there will be a variable factor in arriving at that figure in the output of coal?—Oh, of course.

2256. So it might be true at one moment, and without any change of taxation you might get a very different figure?—I took it in 1923.

2257. Comparable figures are sometimes given for the iron and steel trade giving the taxation and tonnage, but those figures are rather vitiated by the fact that the changes in the level of output have been very great over the period in which the comparisons are made; one has to take the output into account?—Certainly.

2258. The iron and steel trade, as far as I remember, are approximately about four times higher than they were in 1913?—That is largely because the output is less.

2259. *Sir Arthur Balfour*: But that does not alter the fact that you have to sell your goods for a higher amount of money per ton in a year of low production, or you cannot pay your taxes?—That is so.

2260. *Sir Alan Anderson*: Is 6d. a ton on the coal infinitely greater than the Imperial taxes on the coal?—The 6d. a ton on coal is in the overhead charges and is rather different to, say, the Income Tax. It is difficult under the circumstances to compare them.

2261. I was following up your phrase on Question 5: "The amount paid in this way is infinitely greater than the Income Tax on profits"?—I think so.

2262. So that even if they did take the Income Tax into account it would, according to your statement, be something less than the 6d. per ton, would it not?—Yes. In 1913 6d. per ton on coal was a big profit.

2263. *Mr. Lees-Smith*: Do you regard these insurance contributions as an important charge on industry?—It is very heavy on industry.

2264. How is it that we do not hear more complaints about them?—I think you do have plenty of complaints; I do.

2265. *Chairman*: Do we not hear complaints about the price of coal?—

Mr. Lees-Smith: Yes, but you do not hear much complaint about the insurance contributions themselves.

Sir Arthur Balfour: There are a good many complaints lately appearing in Chairmen's speeches of the amount they now pay under these headings compared with the amount they paid on the former output; I have heard many complaints in the last fortnight. (*Witness*): This high local taxation is almost bringing some firms down, in fact I know certain firms who are unable to keep their payments up to date.

2266. *Mr. Lees-Smith*: I am talking not of the local taxation but definitely of insurance. What struck me is that we do not hear many complaints of this burden as compared with complaints against other taxes.

Mr. Bell: I suppose, in fact, they are much less than the local taxation?

Sir Arthur Balfour: It is really the combination of the whole thing together.

Sir Charles Addis: The insurance item is not big one.

Sir Arthur Balfour: It is a very big one in some firms where labour is a large proportion of the cost of the output.

Sir Charles Addis: Even relatively to the other rates?

Sir Arthur Balfour: Yes.

Mr. Lees-Smith: It comes to 1s. 1d. per week per head for the employers' contribution alone.

2267. *Mr. Hichens*: Your answer to Question 6 almost seems to imply that everybody ought to go out of business and invest their money in Government funds, does it not?—A lot of people have gone out of business.

2268. But is it very good business to raise 8 per cent. Preference or Debentures and invest all your money in 5 per cent. War Loan?—No, that is not business.

2269. That is what this looks like.—If you have a reserve and can invest it outside your firm till you require it for development, that is probably making the credit of your firm stronger than it would be otherwise.

2270. *Sir Charles Addis*: When you say the dividend would be in the profits, you mean the dividend on the National Debt?—Yes.

2271. One point on your answer to Question 7. How far, in your view, would companies be able, at present, to make use of increased reserves in the present depressed state of trade?—It all depends on the company.

2272. There are some that would be able to avail themselves of it and others that would not?—Yes.

2273. *Mr. Hichens*: Perhaps they might pay off their overdraft; would you call that availing themselves of it?—If they had a fixed overdraft, they would not, or should not, have an outside reserve.

Chairman: There are very few reserves in money.

Sir Arthur Balfour: Except where they are fortunate enough to have invested in Government Loan at 5 per cent.

2274. In answer to Question 8 you are, in effect, saying that a reduction in taxation would improve trade?—Yes.

2275. And increase production?—Yes, if the buying market could take the increased production.

2276. *Mr. Hichens*: That is, of course, on the assumption that the objects on which the Government spent their money are not for the benefit of industry or of the whole community; you must be assuming that, surely? You assume that the Government are wasting their money, and that it is not spent in the interest of the community as a whole when you say that, do you not?—If the Government spent the money instead of the individual the production would be down.

2277. *Sir Arthur Balfour*: Surely you are assuming that the money is better in the hands of the individual, to be employed in his business, than in the hands of the Government to be spent on general purposes?—Yes.

2278. That is the same thing. In other words, it is better to have no taxation at all so long as the money is fructifying in the pockets of the people; that is your view, is it not?—The money should be in the pockets of the people.

Mr. Lees-Smith: I think the witness is isolating the question of the effect of taxes without taking into account the effect of expenditure; I think that is what the question asks him to do.

2279. *Sir Charles Addis*: In your view, are taxes a primary cause of the present depression in trade, or what would you ascribe as the primary cause—

the impoverished state of Europe, the uncertainty of the exchanges, and causes which are more general? —It is not entirely taxation; it is the War.

2280. But do you regard taxation then as a primary cause of the depression, or the War as a primary cause?—The War is first.

2281. And taxation is secondary?—The War has played havoc with purchasing power and has naturally affected the exchanges and taxation.

2282. *Sir Arthur Balfour*: On Question 9 you mean that if the British resident invests in another country, he still pays Income Tax in this country if he declares his profit, or he should?—Yes, but there is the case of double income taxation, as no doubt you know; it is subject to that, too.

2283. *Sir Charles Addis*: With regard to the question how far the heavy tax induces a resident to invest outside this country, is there anything in the suggestion that there may be a psychological reason —people feeling that industries here may be crippled by excessive taxation, and for that reason being more disposed to invest abroad? Do you think there is anything in that?—Investors might do so; it would depend on the industry, and the taxation in the country when the investment was made.

2284. But taking industry in general, a man might consider he would do better in the way of obtaining what he would consider satisfactory dividends, if he invested in countries whose taxation is lighter; does that idea operate to any extent?—Not to a large extent. I think he would consider more the markets of his produce.

2285. In regard to companies' reserves, is it your view that if industry had larger reserves it would be able to employ them profitably at the present time in the expansion of business?—Not necessarily.

2286. *Mrs. Wootton*: When you say in reply to Question 12 that Death Duties are paid out of capital, would you hold that to be equally true in the case where the taxpayer insures against the Death Duty payment by setting aside annual premiums out of his income, and in the case where the taxpayer has not insured but the amount has to be realised at his death?—The chances are that the taxpayer who has a large amount of capital in, we will say, an industrial company with a capital of £200,000, will not insure his life sufficiently to cover the Death Duties applicable to the full amount.

2287. No, perhaps not, but what I want to get at is whether in so far as insurances are taken out— and we know they are to some extent—that modifies your statement that the payment is made out of capital?—It might in a small way.

2288. Because the insurances are only taken out on a small scale?—Possibly; but a commercial man who insures his life probably does so at an early age and may not make any capital till later in life when insurance premiums are heavy.

2289. But in so far as he insured against payment of Death Duties, does that insurance modify your statement that the payment is made out of capital? —He has to pay his insurance premiums out of income.

2290. *Sir Arthur Balfour*: Surely if he had not paid those insurance premiums to the insurance company, the possibility is that his capital would have been greater?—Certainly.

2291. *Mrs. Wootton*: That effect is not peculiar to Death Duties. The same thing holds good of high income taxation; it trenches on capital?—Death Duties come out of capital. In the case of high taxation, it depends on the individual.

2292. In each case?—Really in each case.

2293. *Mr. Lees-Smith*: Taking the latter part of your answer, have you any actual proposal to make as to alteration in the Death Duties to correct that effect? Could you do it without doing away with Death Duties?—Yes, but I would sooner consider it. I have very strong ideas with regard to Death Duties, but I would sooner consider it, if you would allow me.

2294. *Chairman*: Do you think that Death Duties should be utilised for the reduction of National Debt? —Yes; as far as possible.

2295. *Sir Arthur Balfour*: In effect they practically are so used?—Yes.

2296. *Mr. Lees-Smith*: Many authorities hold that, as the Death Duties are a variable figure on which the Chancellor cannot calculate with any certainty, it is considered a very suitable tax to use for the reduction of National Debt?—I think it is quite a good index figure to take for Death Duties.

2297. *Sir Arthur Balfour*: For repayment?—For repayment of National Debt.

2298. *Sir Alan Anderson*: When you say Death Duties are paid out of capital, you mean out of the capital of the individual?—Yes.

2299. Not necessarily that the nation is overspending its income?—No.

2300. *Mrs. Wootton*: Do you confine the last paragraph of your reply to Question 14 to direct taxation, or do you think that some reductions in indirect taxation, suitably chosen, would also improve employment?—I confine that to direct taxation.

2301. *Sir Alan Anderson*: How about local rates? Would not the reduction of local rates improve employment?—Certainly; if the commodities produced could be sold.

2302. *Sir Arthur Balfour*: Would not reduction in taxation on food be reflected eventually in the cost of production?—It would increase the purchasing power and this might increase the price of the commodity.

2303. What you really mean is that direct taxation acts more quickly?—It acts directly in regard to the production of goods.

2304. But that does not preclude the others also having the same effect, but perhaps more slowly?— Yes, more slowly and not so surely.

2305. *Mrs. Wootton*: For instance, in the last Budget do you think it would have been better to use the surplus to reduce the Sugar Duty and the Tea Duty?—No. I think the main thing is that we have to get our direct taxation down, as that would give employment at once to men and women in trade and commerce. This would increase production and reduce cost and possibly the purchasing power.

2306. The reduction of indirect taxation, for instance the reduction in the last Budget, is likely to increase the purchasing power of the average consumer, is it not?—Not in the way that matters have gone since the Budget. I think tea is probably up 2d. a lb. since the Budget.

2307. But the duty was reduced by 4d., so that, so far as that extra 2d. is concerned, it does increase the purchasing power of the consumer, does it not?— Yes.

2308. It does not necessarily increase the purchase of tea, but it may increase the consumer's power to purchase something else?—Certainly.

2309. And it may have a good effect on trade and employment?—I do not agree that it would have so great an effect as a reduction of direct taxation.

2310. Not so large, certainly, but what I want to get at is that there would be some effect?—A little.

2311. *Mr. Lees-Smith*: Would not your argument lead to the conclusion that we ought to continue to reduce our direct taxation even if we increase our indirect taxation?—No.

2312. The advantages of one are much greater than the advantages of the other, are they not?—I think at the present time, with the large number of unemployed, it is more advantageous to reduce direct taxation, but this does not imply that indirect taxation should not be reduced.

2313. Where are you going to draw the line?— Indirect taxation is quite heavy enough at the present time, considering all the conditions, and especially with regard to many people who are out of work, but I do think, as I said before, that a reduction of direct taxation would have a more immediate effect on the unemployed men and women at the present time than a big reduction in indirect taxation. Of course, you have to take into consideration the enormous increase that there has been in the duty on a commodity like sugar.

2314. *Mr. Bell*: May I ask one question, about economy? Do you agree that it is a good thing for a country to depart from economy and to spend money, or do you think that we ought to be more cautious and careful in the direction of economy?—We cannot be too cautious.

2315. *Chairman*: If you have any views on the Capital Levy which you would like to put before the Committee we should be quite prepared to hear them?—With regard to a Capital Levy, my opinion is expressed in one word—"impossible," if the figures which have been mentioned were to be three thousand million pounds.

2316. There is no other remark you wish to make on that point then? Would you like to be cross-examined on that?—I am not afraid of being cross-examined, but it comes really to what I have stated in my paper—that deflation would be too rapid.

2317. That is your reason?—That is one of my reasons.

2318. *Sir Alan Anderson*: There is just one minor point I meant to ask you on Question 5. You say collieries are not allowed to deduct Income Tax on wasting assets, such as the cost of sinking and underground development. I suppose they are allowed to deduct depreciation on that capital in future years, are they not?—No.

2319. That is a different thing from not being allowed to take off the whole cost from their income in the year in which it has occurred?—Yes.

2320. I do not think one could set up that claim, but it seems to me there may be a strong argument that it was fair to charge depreciation on capital in respect of those wasting assets; but even that is not allowed, is it?—No.

Chairman: Thank you, Sir Fredric.

(*The Witness withdrew.*)

(*Adjourned for a short time.*)

Mr. F. W. HIRST, called and examined.

EVIDENCE-IN-CHIEF handed in by Mr. HIRST.

1. The two things that strike one about the National Debt at first sight are its prodigious size and the fact that it is practically all deadweight debt, representing not *capital* lent to the Government by private investors or taken from the people's earnings by taxation and then applied to useful purposes and reproductive undertakings, but capital destroyed—almost wholly spent on economic waste—*i.e.*, on war and armaments. About one-tenth of the present debt was incurred in this way between 1700 and 1914, or rather between 1688 and 1904—reductions being effected during lucid intervals of peace. The remainder was contracted between 1914 and 1920. Various methods have been employed by the various belligerent Governments in dealing with the unparalleled war debts contracted after 1914. The favourite method has been the worst, that of issuing paper money. By this means the Governments of Germany and Russia, and several other countries, have practically repudiated all their internal debts. Besides this the Russian Government has repudiated all its external debts; and our Continental Allies have so far failed to pay either principal or interest on the very large sums which they borrowed during the War from Great Britain and the United States. The only European country (so far as I know) which has both recognised and commenced to pay war debts contracted in the late War is Great Britain.

2. The distinction between internal and external debts is, I think, very much exaggerated, especially by those who contend that internal debt does not matter because it is merely paid by one set of persons to another set of persons living in the same country. To this I would reply that, if the money borrowed by the Government has been wasted, the resulting debt is equally onerous in the two cases. When you are borrowing you should borrow where you can borrow most cheaply, either abroad or at home. In either case, if the purpose is reproductive and profitable, there is no burden. In either case, if the money is unprofitably wasted, a burden remains comparable to the mortgage raised on an estate in order that the owner thereof may spend the money in riotous living. If a Government repudiates or in any way confiscates the money it has borrowed from foreign investors, or from foreign Governments, it loses its credit abroad. If it confiscates what it has borrowed from the home investor, it loses its credit at home and will be unable to borrow again. In either case the conduct is equally immoral; but the repudiation of an external debt constitutes a relief to the people of the repudiating country, whereas the repudiation of an internal debt merely relieves the general community of taxpayers at the expense of the investors—*i.e.*, of the group of taxpayers who lent the money. At the same time one must admit that the difficulty of paying interest on a huge war debt year after year to another country is very great and may become insuperable. The arrangements for the funding of the British debt to the U.S.A. (dated June 18, 1923) have always struck me as unfortunate and inequitable. I think they could and should be revised to the advantage of both countries. The statesmen and officials who contracted these debts during the War and those who imposed the indemnity under the Treaty of Versailles seem not at all to have appreciated the nature of international trade (which is barter) and the almost physical impossibility of transmitting goods by way of payment in return for nothing. The paradox that it is more blessed to give than to receive has its application to indemnities and war debts.

The distinction between debts incurred for war and debts incurred for useful purposes suggests that the obligation to pay is less binding in the former case. Some moralists and economists hold that all loans for war (and even war indemnities) should be banned by the Law of Nations. A war debt is, in the first place, limited by capacity to pay; secondly, by the willingness of the creditor to receive; and, thirdly, by the fact that the debt (not having enriched the debtor, or conferred economic benefits upon him) is not capital and yields no profit or income out of which interest can be paid. Fourthly, war debts as between allies are contracted for a common purpose. In the case of the United States, moreover, the money lent, at any rate for the first year, may fairly be considered as a substitute for the troops which the United States could not immediately provide. Apart from the injustice of separating the British war debt from all the others, and of raising the tariff against our staple exports so that we are forced to pay mainly in gold, there are strong arguments for a revision of the agreement made by Mr. Baldwin at Washington.

3. In approaching the question how national debts should be paid off it will be convenient to distinguish between internal and external debt. But let me say first of all that I hold strongly with the tradition of British finance that it is not only the duty but also the interest of this country to discharge its debts as rapidly as possible. In his Budget speech last year Mr. Baldwin pointed out (quite correctly, I think) that public money spent on cancelling internal debt returns at once to the investment market. "Nothing" he remarked, "would ease the finding of capital for industrial purposes so much as a steady and recognised policy of redeeming public debt." In this connection much criticism has lately been directed against the issue of loans in London to

foreign countries. If the criticism were directed against loans to countries which are ruining themselves by excessive armaments and wasteful finance, such criticisms would be well justified; but a general and undiscriminating objection cannot be sustained.

4. The arguments for discharging debt are manifold. You improve your credit and you are enabled to take advantage of every opportunity that offers itself to convert old loans at high rates of interest into new loans at lower rates of interest. Thus a large operative Sinking Fund will reduce the burden of a debt very rapidly and enable successive Chancellors of the Exchequer—always provided that peace and economy are maintained—to relieve the taxpayers' burdens year after year. Dr. Cannan's suggestion that the Sinking Fund should be doubled by providing an additional fifty millions from further retrenchments of the public expenditure is admirable. But his proposal that the abnegation of Governments and Parliaments should be carried to the extent of refraining for thirty-five years from the relief of taxation—by which time the whole debt will have been cancelled—is perhaps expecting a little too much of human nature in this and the next generation. I would therefore like to amend his proposal by suggesting that the new surplus thus released year by year should be equally divided, half going to swell the Sinking Fund and half to the relief of the taxpayer.

5. One should add here that the only kind of Sinking Fund which is of any use is a surplus of revenue over expenditure. The ingenious attempt made by so many foreign Governments to deceive their own investors and their foreign creditors by distinguishing between ordinary and extraordinary expenditure (such as expenditure on fortifications or "capital" ships) must be ignored if we really want to reduce the public debt. To effect that you must have a surplus of national revenue over all national expenditure, ordinary and extraordinary. To borrow for a Sinking Fund is an absurdity. To pay off debt with one hand and contract it with another is equally foolish and involves a waste of the taxpayers' money.

6. In their broad questions relating to the National Debt the Committee asks how it affects the supply of credit and permanent capital for trade and interest, and also how it affects the terms on which capital can be raised.

7. I regard the National Debt as a sort of floating mortgage on the whole of the wealth and income of the country—a mortgage the interest on which has to be paid by the inhabitants of the country out of their income or savings year after year. This floating mortgage or debt charge is a deadweight charge, because it was incurred for useless and destructive purposes and not for beneficial or reproductive ones. The question whether a policy of debt repayment, desirable in itself at all times, should be suspended or partially suspended during a period of trade depression cannot be answered without reference to the particular circumstances. Generally speaking I should say "No." It depends largely upon the rival use to which the public money might be put. If for instance an important raw material like sugar or timber or cotton were hampered by a Customs duty, it might be better to apply ten or twenty millions to the removal of the duty than to the cancellation of debt. This was the view of Sir Robert Peel and Mr. Gladstone when they were restoring the national trade and finance between 1840 and 1860.

8. Everyone agrees that the present National Debt is much too large. It is a mill stone round our necks, and, as a great deal of it was contracted when money was cheaper and prices higher, its very existence is an argument against the restoration of the pound sterling to its old purchasing power. This difficulty might be met by reducing the weight of the sovereign, or mixing with it ten per cent. of silver, or better perhaps by a small Capital Levy on holders of debt, who would of course greatly benefit by the restoration of the gold standard; but this would leave the difficulty of the debt to the United States untouched.

9. There seems to be ample ground for a revision of the agreement with America. In the first place the American Government, by raising its tariff since the debt was contracted, has shown that it does not want payments in English goods, and has done its best to obstruct payments in that form. Whether it is lawful for a creditor government to tax and take toll of a debtor government's payments is at least open to doubt. Washington, Jefferson and Hamilton took this ground against British creditors after the War of Independence. Anyhow it is very unfair and works badly. The result has been that the debt, being payable in gold, has caused great exports of gold to the United States and a dangerous accumulation there. The United States cannot use its gold accumulations without causing a depreciation in the price of gold with a consequent inflation of credit and prices. Thus the British payments of war debt to America, while a heavy burden on our taxpayers and a source of grave difficulty to our Treasury, are proving of doubtful benefit to our creditors. Certainly they gain much less than we lose. We might fairly ask (1) that the capital should be reduced in accordance with the fall in prices and the rise in the purchasing power of gold since 1917 and 1918. We might also fairly ask (2) that British exports to the value of the interest payments should be received duty free into the United States on the broad legal principle that a creditor is not entitled to obstruct, or levy a toll on, the payments of a debtor. In return for these reasonable concessions we might agree to restore the gold standard, thus enabling the United States gradually to get rid of its surplus hoards of gold and at the same time give stability once more to the precious metals. Strongly as I myself favour the restoration of the gold standard, I cannot help wondering whether it can be safely restored and securely maintained under the conditions of Mr. Baldwin's compact with the American Treasury, which might involve an export of thirty millions in gold in a single year from London to New York.

10. The British Government should, I think, inform all its Allies that the capital of the debts due to us will be scaled down on a uniform principle without discrimination or favouritism.

11. *Questions* 4 *and* 5.—Returning to the questions suggested by the Committee, I would say looking at questions 4 and 5 that direct graduated taxation reduces the luxury expenditure of the rich and so injures certain luxury trades. At the same time it reduces the saving capacity of the rich, and so curtails the amount of liquid capital available in each year for new capital issues and for the development and expansion of business undertakings. No doubt also the high graduation makes enterprising persons less ready to run risks for the sake of increased profit. But I think that the confiscation of the National Debt either by a deliberate watering or debasement of the currency, or by the more direct and less dishonest method of a Capital Levy, or by a *compulsory* reduction of interest, would cause mischiefs infinitely greater than the benefits accruing to Income Tax payers.

12. British industry generally would I feel sure suffer far more from an extension of indirect taxation than from the maintenance or increase of the Income Tax, because indirect taxes raise prices in the home market (that is the object of protective duties), and therefore raise the cost of production. The higher the cost of production rises at home, the more will the British exporter be handicapped in foreign markets. I suppose I am right in saying that most of our great staple trades, cotton, iron and steel, woollen and worsted, ship building, etc., could not be prosperous unless they were able to compete successfully in foreign and colonial markets. Their success in the past has been largely due to the differential advantage given them by a cost of pro-

duction lower than that which manufacturers in protected countries enjoy.

13. *Question* 8.—As a general principle all taxes reduce both the supply of capital and the total purchasing power of the community, and all economies leading to reduced taxes enlarge both. But of course the benefit derived from a wise and thrifty expenditure of public money (including the discharge of debt) must be deducted. Our direct taxes have most effect upon capital, and our indirect taxes have most effect in reducing purchasing power.

14. *Question* 9.—The psychology of foreigners naturally varies, but a feeling exists on the Continent that British gilt-edged securities represent safety, and in many cases safety is the supreme object. I cannot say how far the Income Tax is a deterrent to the foreign investor, but I think it is less of a deterrent than our maintenance of an inconvertible paper currency. The recent preference shown for American over British securities by Continental investors is explained by the inferiority of the paper pound to the gold dollar and to the fear that a managed paper currency may be mismanaged and watered.

15. *Question* 10.—I cannot see how an Income Tax could enter into price except in so far as it may restrict output by discouraging enterprise and competition. After all, Income Tax is paid on business done and money earned, and is not therefore properly speaking a tax on trade like Customs or Stamp duties.

16. *Question* 11.—I should say that taxes do not so much deter as prevent savings. Graduated taxation encourages the enterprise of a poor business man; but as he becomes richer it acts as a deterrent to further extension.

17. *Question* 12.—Death Duties may be said to cancel portions of the wealth or capital left by the deceased person, but they do not in themselves destroy capital. Capital is destroyed or consumed by waste. If no part of public expenditure were wasted, no part of the capital or income which the tax gatherers collect could be said to be destroyed. As a matter of fact a very large part both of the public and private expenditure of the country is in an economic sense wasted. But as every human being requires a certain amount of pleasure and recreation, he is entitled to ask that the whole of the margin above his necessities should not be confiscated and spent by the public authorities. Morever, it is surely better that the individual inhabitants of the country should spend a few hundred or even a few thousand millions upon games, amusements, comforts, and luxuries, than that their Parliament and Government should spend similar amounts on war and unnecessary armaments.

18. *Question* 13.—In so far as they increase the cost of trade transactions and reduce profits all Stamp Duties are detrimental to trade; but of course they affect some businesses very much more than others.

19. *Question* 14.—I am not familiar with the saying here quoted that, "the tax on commodities is borne by the consumer." But if I may assume "the tax on commodities" to mean "Customs duties on commodities imported from abroad," then my answer would be that such duties are practically always borne by the home consumer. Otherwise it would be possible to tax the foreigner. But the answer here given cannot be described as "the ordinary assumption" seeing that many eminent statesmen and financiers, including several ex-Chancellors of the Exchequer and ex-Presidents of the Board of Trade, have frequently assured us that Customs duties are usually paid in whole or part by foreign producers.

20. When I turn to *Question* 15 I am inclined to wonder whether "the tax on commodities" in Question 14 may cover Excise duties as well as Customs duties. In that case it will be relevant to observe that, where a Customs duty is both operative and protective—that is to say in a case where a Customs duty has been imposed on the import of a foreign article which competes with a home product, and where, after the imposition of such Customs duty a perceptible amount of the foreign article continues to enter into the home market in spite of the Customs barrier—then a corresponding Excise duty can be imposed on such article without affecting its price, and the revenue can thus be increased without any further loss to the home consumer. This, therefore, is a case of a tax on commodities which is *not* borne by the consumer. It is a case in which the Excise duty deprives the home producer of the profit which he was receiving from the protective Customs duty.

2321. *Chairman*: Will you go through the clauses of your memorandum, just mentioning what they contain and anything that you want to amplify or to add?—I understand that it is not desired that I should read over the evidence, and I have not very much to add to it, unless members of the Committee wish to ask any questions. The first clause deals with the size of the Debt, and I might have added that the last National Debt Return, which is last year's, gives £7,742,000,000 of deadweight debt, of which £1,155,000,000 was external debt. The point that I make is that the whole of the debt is practically deadweight debt due to economic waste, and that at least nine-tenths of it has been contracted since 1914. Then I have said a word about the methods that have been adopted for dealing with War debt by various countries, and I have ventured on the opinion that the favourite method is the worst—that of issuing paper money. So much for that first paragraph.

The second paragraph is perhaps a more controversial subject—that is the distinction which is so often made, and for some purposes quite rightly made, between internal and external debt. My contention is that you should look at the origin of the debt, and not at the place where it is contracted. The important thing, to my mind, is whether the debt was originally contracted for good or bad purposes; that is to say, for wasteful purposes or for reproductive purposes. If the debt was contracted for reproductive purposes, it does not matter where it was contracted; because the reproductive purpose will pay its own coupons; and a country or an individual should, generally speaking, borrow where it or he can borrow at the cheapest rate. If, for example, we had to borrow £100,000,000 to-morrow and we found that we could borrow more cheaply in New York than in London, we should be quite right, *ceteris paribus*, to borrow in New York; and it would be absurd, when the borrowing was over, for someone to get up and say: "If only we had borrowed in London that debt would have been no burden at all; we ought not to have borrowed in New York, where we could borrow cheaply; we ought to have borrowed in London, where the debt would be no burden at all, and then it would be merely a case of handing out the interest from the pockets of one person to the pockets of another." I think if the Committee look at it in that light, they would, at any rate, realise my point of view. I say, as Mr. Gladstone always said, that the really important distinction in the National Debt is how much of it is deadweight; that is to say, debt which has been contracted for unproductive or destructive purposes.

Then I turn to the debt to America, and, of course, I admit freely that when you have a gigantic sum, over £1,000,000,000 sterling, of debt, lodged in another country, and you have tied yourself up with such a contract as we are tied up with—for we promised to pay it in the gold coin of the United States at Washington every year—then it does become a very serious proposition indeed; and for my part I think it would be a very extraordinary thing if we were able for the next 60 years, until, I

think, 1984, to go on steadily paying £30,000,000 or £40,000,000 sterling a year in gold coin in New York; more especially if, as seems extremely likely, the gold mines in the Transvaal begin to give out, and if by the end of that time the supply of gold in the world should be nothing like as great as the amount of gold we are compelled by treaty to hand over to the Government of the United States each year. Therefore I think that we ought, without delay, to see whether it is not possible to vary the contract, for the benefit of both countries. Because, of course, the Americans are not finding it particulary satisfactory to have all this gold accumulating in the country, which they dare not spend, knowing that if they let out large quantities of it, the purchasing power of gold all over the world might fall to almost any extent.

2322. *Mr. Hichens*: So that one would infer from that, that whilst in your opinion the internal debt is onerous, yet the external debt is even more onerous?—Yes, in a way. I prefer to go back to the origins. If you go back to the origins of the United States debt, those origins are very curious. In the first place, the debt was contracted by officials, in the dark; the public knew nothing practically about what was going on. In the second place, it was contracted when munitions and food were at very highly inflated prices. The most that we ought to have been called upon, and the most that we ought to have called upon our Allies, to do, was to pay back that amount of commodities, whereas what we have promised to do in this case is to pay back far more than that amount of commodities, either in gold or in commodities.

2323. *Sir Arthur Balfour*: Surely what we have undertaken to do goes far beyond what we undertook to do when we borrowed the money?—I am afraid I have never seen the original contracts. I understand that they were made from time to time by officials.

2324. True, but still they pledged Great Britain's credit.

Sir Josiah Stamp: Almost at sight.

Sir Arthur Balfour: Practically on demand?—(*Witness*): Yes. What right they had to do it, I do not know.

2325. But they did it?—Yes, perhaps so. I go back, however, to the question of whether the thing is equitable; and I think one is entitled to say that we have no right to expect our Allies to pay back far more than they got, considering the absurd and ridiculous prices at which the materials were contracted. As a matter of fact, the Americans have admitted to some extent the point, because they varied the rate of interest.

2326. But surely you realise that that does not apply to our Allies. I agree it applies to America, but in the case of the Allies we did fix prices which were ridiculously low for every commodity that was sold to them?—Do you mean that we bought at, say 10s. a lb. from America, and then sold at 5s. to the Allies?

2327. Yes, that is exactly what we did.—Does not that constitute a still stronger argument as between us and America?

2328. *Sir Alan Anderson*: You say that, even if we entered into a certain contract with America, it was an inequitable contract?—Yes.

2329. And do you say we ought to repudiate it?—No, I did not say we ought to repudiate it.

2330. Does it not come to that?—I say we ought to negotiate for a reasonable and equitable variation of it, on several grounds.

2331. Possibly we should like to have a variation, but still, if we have entered into a contract, we have entered into a contract. The only way we can get out of it, unless they agree, is by repudiating?—I agree you cannot get out of it, unless they agree to vary it.

2332. *Mr. Lees-Smith*: Going back to your original point, I take it that you mean that our own internal debt and our debt to America were both created for unproductive purposes?—Yes.

2333-4. The question of origin, therefore, does not arise. That being so, do you hold that there is any difference in the effects of our external debt and our internal debt, the origin of both being the same?—They are equally onerous, in my opinion, except that it is impossible for us, without the consent of the United States, to vary that very hard and most undesirable contract, which is to pay in gold.

2335. *Sir Charles Addis*: You mean equally onerous for the individual and for the nation. Do you make any distinction between those two?—The nation, of course, is an aggregate of individuals. I do not distinguish between the nation and individuals.

2336. Therefore there is no difference in the burden between the external and internal debt. Is that what you mean?—No difference in the burden between the external and the internal debt, on the ground which I gave.

2337. Either to the nation or to the individual?—Either to the nation or to the individual.

2338. *Sir Alan Anderson*: But if the nation found that having contracted the external debt, it could not get the gold to pay it, would it not then discover that it was much more onerous?—I quite agree, if you have a contract, for instance, to put down in a particular part of the world, as part of your external debt, 100 tons of ivory every year, and the ivory disappears, all the elephants having been killed, then of course the external debt becomes much more onerous; in fact it becomes impossible.

2339. Is not that an inevitable circumstance in any external debt? You have to pay in something?—Yes; but if you happen to choose a particular thing to pay in, namely, gold, and that gold is a very scarce commodity and likely to become scarcer, your external debt becomes more and more onerous.

2340. You say if you contract an external debt, promising to pay in a wide range of commodities, then it would not be more onerous than an internal debt?—It would be exactly the same.

2341. *Sir Arthur Balfour*: We really borrowed dollars from America, and we have to pay dollars—gold?—I suppose what we really borrowed was commodities at very high prices, which we have just been told we then sold to our Allies at very low prices.

2342. But we owe her gold dollars?—That is what the lawyers say.

2343. If we had asked them to lend us sterling, they would not have lent it to us?—I do not know.

2344. *Mr. Lees-Smith*: Many of our witnesses have been telling us that there is a very great difference in the ultimate effects of paying £30,000,000 a year to America and paying £30,000,000 a year to our own citizens inside this country. You would not agree with that at all?—Not at all, provided that it is £30,000,000 sterling; but it is not, unfortunately, in the case of America.

2345. *Sir Josiah Stamp*: What is the balance of probability, in your judgment, as to the movement of prices if a very large number of countries were to go back to the gold standard, but if at the same time their craving for gold for that purpose were to be met by the freeing of the gold reserves of the United States? On balance would prices go up or down?—It is very difficult indeed to say. I do not know whether you would agree with me. I was in Johannesburg not very long ago, and I think it really depends upon whether any new mines are found in the next ten years, that are any good.

2346. On that point you made an interesting reference to the fact that by the time the American debt comes to an end we may be getting less from the mines?—Almost certainly.

2347. Will that be because the mines are exhausted or because the value of gold will be so low that it will not pay to work anything except the very best mines?—It will be for both reasons. The best mines, of course, are being exhausted. When I was there, there were three or four that had become derelict within the last two or three years. One large suburb of Johannesburg had practically gone out of cultivation; most of the houses were empty.

2348. But suppose the value of gold remained very high?—It is quite true that if the purchasing power of gold doubled, a good many mines would go into cultivation again for a time, and that is a thing to be considered.

2349. You would admit, I think, that the Americans did not really lend us dollars at all. They lent us commodities at a very high price?—That is what I should have thought.

Mr. Hichens: Translated into dollars.

Sir Arthur Balfour: They invoiced it in dollars.

2350. *Mr. Hichens*: They invoiced it in dollars, and the understanding was that for those dollars they should be paid back in dollars. What I want to know is whether it is not the universal practice in this country, and in every other country, that when you lend money you expect to be paid back in the same thing that you lent; and if your answer is no, then would you apply the same principle to all the money that has been lent by private individuals in this country to the Argentine and to other countries where owing to depression they find it extremely difficult to pay?—May I say that there is such a thing as equity as well as law? It has always been recognised, and especially in international law, that you must not look purely at the legal bargain where that legal bargain becomes extraordinarily onerous and unfair.

2351. *Sir Josiah Stamp*: Before you leave paragraph 2, I should like to ask another question. You belittle the distinction that is usually made between external debt and internal debt and draw our attention to another principle. Is that other principle going to be of much practical assistance to us in this Committee? I quite realise what you say, that, if the internal debt is equally onerous, we are committing a fallacy, probably; we assume that there is no burden to a State because there is no such burden until it comes down to the individuals of that State. Now does it help us very much in the problem which is before us here, where that debt which is payable was incurred? Is it much good digging up the past to see whether at the time the debt was incurred it was incurred for a particular purpose? Is it of any use to go into the origin of it; have you not to accept the facts as they are to-day? Does that help you at all——?—It does not help me particularly, but it certainly is the reverse of helpful if someone gets up and proclaims from the housetops that the great bulk of the debt is all right, that it does not matter, and that we can spend as much more as we like so long as we raise it at home; because, as I point out, the great bulk of the debt is internal debt and it is onerous, and if you went on adding to your internal debt under this happy idea that it does not matter, you would find after you had doubled it that practically the whole property of the country was confiscated and the income thereof. So that I think it is rather important that one should at any rate put down one's foot on the fallacy now, and prevent it from being adopted by the Government or the House of Commons.

2352. As far as regards the future?—Yes. That was my chief reason for pressing it upon you, because I keep coming across this, if I may say, very absurd fallacy, that onerous debt, deadweight debt, does not matter so long as it has all been contracted at home. It it quite obvious surely to every member of the Committee that if you doubled or, let us say, trebled the present internal debt, there would be nothing left in the country; it would be a mortgage which would cover the whole income of the country.

2353. Does that amount to anything more than saying that the amount that is transferred from one set of individuals in the country to another set, legally different but possibly physically the same set, could no longer be increased?—I am not quite sure that I follow precisely what you mean by that.

2354. It seems to me that your argument that, if you trebled it, you would see the absurdity of it, is based on the assumption that the payments for debt *via* taxation are really made to a distinct set of people and that you would treble the number of people who are living without doing any work?—You do not think that that is the only result, do you? You do not think the country would be as well off after its internal onerous debt was trebled as it is now, do you?

2355. If you are thinking of the State collectively, why not?—If so, then I suppose I must not call it a fallacy if a member of the Committee holds that view.

2356. No, I am asking you the question. After all, your arguments would be just as forcible as they are now if the National Debt had been three thousand million pounds or two thousand million pounds?—I think that every thousand millions that you add to the debt makes it more onerous and more serious.

2357. It makes it more onerous to an individual who is a taxpayer and not an interest receiver?—But all the individuals that there are are taxpayers.

2358. But some of them are interest receivers?—The interest receivers in this country will be no richer if you add one thousand million pounds to the debt than they were before. Why should they be? I cannot see any reason for thinking that they would be any richer. I can see that the whole of the taxpayers would be poorer, but I cannot conceive or understand how the interest receivers could be richer.

2359. *Sir Alan Anderson*: Does not that depend on how you spend the money?—We were assuming an onerous debt. Of course if you go to war a certain small number of people will make fortunes. I agree, but that is another matter.

2360. Is not the real objection to having a bigger internal debt that it is very difficult to collect it, and you are not leaving enough of the profit that people make to encourage them to be enterprising and start fresh businesses?—You mean that it means very heavy taxation?

2361. Yes, the taxation is very heavy, and even if the same people get the money back again, they would prefer to sit back and do nothing and get their interest, and not be enterprising?—Yes, quite.

2362. So it is the difficulty of collecting the debt?—That is one thing; and then personally, I may be old-fashioned, but I think it is rather undesirable that the whole of the property of the country should be mortgaged, and that the people who were rich before the War, who had, say, £15,000 a year, should have £14,500 of it taken in taxation; and of course if the War had gone on for say, two more years, that would have been the sort of position that we should have been in. Therefore I am rather anxious that the Committee, if I can persuade them, should *not* take the view that it does not matter how much debt you raise at home, so long as it is raised at home.

2363. *Mr. Hichens*: Do you want to convey the impression that it does not matter whether you raise it at home or abroad, because it is equally onerous in every case? Do you wish to convey that impression, or do you wish to convey the impression that whilst it is onerous to raise the debt at home it is even more onerous to raise it abroad? Which position do you take?—I take this position with regard to foreign debt. Suppose to-morrow you had to raise for necessary purposes £100,000,000 in this country, provided you could raise it as a sterling obligation, you should raise it in any capital of the world, or in any town or any country of the world, where you could raise it cheapest. If you could get it at 3 per cent. in Japan and you had to pay 4 per cent. in London, I should take it in Japan.

2364. Your reason being that by inflating the currency you could destroy the debt altogether, which would be a great advantage?—No, I did not mean that, certainly not.

2365. I do not see the advantage?—I only said that it is best to borrow where you can borrow cheapest.

2366. *Sir Arthur Balfour*: You said sterling; that is the trouble?—I said in sterling because it

might be extremely awkward, as I said, if you contracted to pay in some foreign capital in some precious metal which might under conceivable circumstances become very scarce. Now if you had done that in your own country, you could pass a law to rectify it and put it right. You could say: "We will pay the amount that we promised to pay, but not in that precious metal," or "We will employ the index number to put it right." But we cannot employ the index number to put our debt right in New York; and if the purchasing power of gold becomes doubled ten years hence, the weight of the debt to America becomes doubled; and you cannot apply the index number on equitable terms as we could, and should, at home.

2367. Would not your proposition that you should borrow in sterling in another country make the rate of interest so high that you would have to come home?—In that case, let it be raised at home.

2368. *Sir Alan Anderson*: May I pass from the question whether for a new loan you would go to the cheapest country to the question whether the weight of existing loans is greater when the interest is payable to externals or when it is payable to internals. In the case of an existing loan, if it is all held in this country the interest is paid here and you tax the people who get the interest, and you get a good bit of it back?—That is quite true. But of course the reply might be that you are really confiscating the debt by taxing it. But you have the power to do it at home; I quite agree that is a convenience. I was simply pointing out that if you started at this moment and said: "Now let us raise £100,000,000 sterling," and you could raise it cheaper abroad than at home, I would raise it abroad, and then, if necessary, convert it afterwards.

2369. If it was in sterling, you would presumably continue to confiscate by taxing as you do at present?—You cannot confiscate a foreign debt if you have agreed not to tax it.

2370. If you agreed not to tax it, that would be an argument in favour of not issuing the debt abroad?—It would, I quite agree. The third paragraph raises a new point. I express my agreement with Mr. Baldwin's argument for cancelling as much debt as possible every year. He said that the more debt you cancel, the more easy will it be to find capital for industrial purposes at home. In that connection I would just like to mention this. I have not put it down in my paper; I ought to have done so and I intended to do so. I think there is a good deal to be said for the view that capital issues in London to foreign countries and Colonial countries ought to be, I will not say controlled, but watched and criticised. You cannot rely upon the Press, unfortunately, to criticise capital issues, because the Press depends upon capital issues for a good deal of the money which comes to it; therefore I think there ought to be an independent Committee for the purpose, not a Government Committee, because Governments are sometimes wrong and they might instruct the Treasury to do what is wrong. Therefore you should not have a Treasury Committee, but you should have a Committee of independent men, to warn the public and to issue warnings whenever a loan is being raised for a country which is really dangerous; and also, I think, for a country which is competing with us in armaments. I will not develop the argument, but I will just give one illustration. I can see no reason why £30,000,000 or £40,000,000 should have been raised in London to assist the Japanese after the earthquake, unless there had been a preliminary condition that the Japanese should not use that money for the purpose of maintaining the competition in armaments. Because, since that loan was raised, we have found the British Admiralty stating—I do not here question the statement—that we were bound to increase our armaments because the Japanese were increasing theirs. Now it seems to me ridiculous that we should supply a rival with funds to increase their navy in such a way that our taxpayers have to pay more in order to increase ours. I venture to think there is a great deal to be said for a criticism of the new capital issues in London on those lines; and incidentally good criticism of that kind would enlarge the amount of money which was available for industrial purposes at home.

2371. *Sir Arthur Balfour*: You agree that, once a country has borrowed money, you cannot control its expenditure after it is borrowed?—No; I think it would have to be done at the time.

2372. You mean, make a condition when you are lending it, that it should only be used in a certain way?—Yes. I think you have a certain right, in a case like that, to do so.

2373. Suppose the American market, on the other hand, made no conditions and we made such a condition, should we be likely to get the loan at all?—I think it would be better not to have the loan if it is going to lead to trouble.

2374. You do not think it leads to trade?—It might lead to a little trade, but I think the objection I have urged is a very strong one.

2375. *Sir Charles Addis*: With regard to the reduction of public debt as a means of helping towards the finding of capital for industry, would you make a distinction between the reduction of external and internal debt?—I think I should.

2376. Would you recommend the earlier payment of foreign rather than of home debt, from the industrial point of view?—I was rather inclined to think the opposite, on this ground, that I should prefer reduction of the internal debt, because you are returning money which is likely to be reinvested in home industries.

2377. I just wanted to get your opinion?—I should not like to dogmatise; I have not thought enough about the matter.

2378. *Mr. Hichens*: Is it your view that there is a shortage of capital for industrial purposes at the present time, or do you think there is an ample supply for good industrial investments?—I do not think my opinion on that is worth anything, and so I would rather not give it.

2379. Your argument rather hinges on that point. It is not much use arguing that it is a good thing to pay off more debt because you have more capital available for industry, if industry does not want it?—I think you would agree that the cheaper industry gets the capital, the better; it is always desirable to have more capital available for industry at a cheap rate; the cheaper the rate the better it is. That is all. What I meant was that I would not like to express an opinion as to whether, compared with other times, say, 10 years, or 20 or 30 years ago, there is a distinct shortage of capital now. My own impression is that there is not a very marked shortage for the moment, because nobody is inclined to undertake enterprises; but I dare say I am wrong.

2380. *Chairman*: Will you now take paragraph No. 4?—No. 4 is really given up to a short argument in favour of discharging debt, principally because it enables you to take opportunities that offer from time to time of converting old loans to lower rates of interest, and so lowering the debt charge and lowering taxes; but I also agree with Dr. Cannan's suggestion that there should be a further reduction in public expenditure of some £50,000,000, and that that £50,000,000 should be applied to debt reduction.

2381. *Sir Arthur Balfour*: Can you suggest any direction in which you could make a reduction of £50,000,000?—Yes, I should follow out some of the branches of investigation suggested by the Geddes Report, and I should tell every Department that it had to lower its expenditure.

2382. Ration the Departments?—Yes, tell them to do it; just as I think was the case with Mr. Lloyd George when he found that economy had suddenly become very popular and the other thing was very unpopular; all the things which he said it was

impossible to do, he did, and he cut down expenditure, I think, about £150,000,000 in a couple of years.

2383. *Mr. Hichens*: Do you think you could save £50,000,000 on administration as opposed to expenditure on a particular policy?—I dare say not; but I should alter my policy.

2384. *Sir Alan Anderson*: That would not be done by the Departments?—No, it cannot be done Departmentally; it must be done by the Government.

2385. *Sir Josiah Stamp*: Would you divide the £50,000,000 into policy and administration, and then go to the Departments and ration them so much per cent. of their existing expenditure?—Yes, I think so.

2386. That assumes that there is an equal percentage of waste in all Departments?—It does, and of course that is a little unfair, because occasionally there is a Department which is not as wasteful as another; but there is a good deal of waste in them all. I was looking back to the old pre-war figures. I think that Dr. Cannan is right in thinking that £50,000,000 is quite a reasonable sum.

2387. *Sir Arthur Balfour*: Dr. Cannan's only suggestion in reply to my question was Blue Books and reduction of advertisements. I could not get anything else out of him. That is the only thing he offered me for £50,000,000?—You do not, of course, want me to discuss this question, but it is obvious that if you could make arrangements with other countries in regard to armaments, there could be a very considerable saving there.

2388. *Mr. Lees-Smith*: Apart from this question of reduction of expenditure, do you lay down as a principle that we should put aside £100,000,000 for reduction of debt, or is this concomitant with your being able to reduce expenditure?—We are now putting aside £50,000,000. Dr. Cannan suggests £50,000,000 more, and then in addition to that he suggests a sort of snowball so as to get the whole thing done within 35 years. I say that the snowball suggestion is rather unreasonable, because one of the attractive features of cancelling debt is that any Government can say to the taxpayer: "Look here, if we do this, we shall be able next year and the year after to reduce your taxes," and that is very desirable. Therefore I should like at any rate half of the snowball to be devoted to the reduction of taxes, while the other half goes to the increase of the Sinking Fund. It is merely an amendment which I suggest to Dr. Cannan's proposal.

2389. *Professor Hall*: Have you any idea how much longer than the 35 years it would take to wipe out the debt, if that proposal of yours were adopted?—No, I have not worked it out.

2390. *Sir Josiah Stamp*: I still am not quite clear about this. Would you put aside so much of the additional amount, up to £50,000,000, that might be saved, or would you put aside an additional £50,000,000 irrespective of whether you find you can save it or not?—No, I would not put aside more, if I could not save it.

2391. *Mr. Hichens*: Would you have a Sinking Fund of £50,000,000 at all if it involved increase of taxation? I mean, supposing it was found that owing to the policy of the Government it was necessary, in order to maintain a Sinking Fund of £50,000,000 a year, to put say another shilling on to the Income Tax, would you do that?—That is rather a difficult question to answer, I think. I should strenuously oppose any addition to expenditure which involved any addition to taxation, and when I had been defeated on that, then I would consider the question that you suggest.

2392. May I put it in this way: that in your view taxation to-day is as high as it can be, and that in your opinion a first charge upon the revenue of the country should be £50,000,000 for reduction of debt and that the Government should cut its coat according to its cloth with the balance available?—It is not my own language, and I do not like to adopt the language of another, but it seems to me to be broadly the position. I do not dissent from it, but if I had to put it, I would rather put it in my own language, because it is slightly different; but, still, I do not dissent from your way of putting it. I do think that taxation is far too heavy.

2393. *Sir Arthur Balfour*: You do think the Government should economise so as to save £50,000,000, and should apply as much as they can of this £50,000,000 to the reduction of taxation?—Yes, and I think I did point out that one of my reasons for wanting to cancel debt is that it will lead certainly and inevitably to the reduction of taxation, always provided that our Governments remain at peace and are economical. Everything depends on that.

2394. *Mr. Lees-Smith*: What is your opinion of the Sinking Fund? Would you advocate abandoning our Sinking Fund and reducing the Income Tax by 1s.?—No, I would not, for the reasons given as to the importance of cancelling debt. Then I come to paragraph 5. I do not know whether it is important to insist upon this point, but sometimes one sees it forgotten. It was proved, of course, by Hamilton, the great Aberdeen professor, about 100 years ago, that Pitt's Sinking Fund and Price's Sinking Fund were absurd, and that it is ridiculous to *borrow* for a Sinking Fund. The British Government has usually adopted that view, and whenever it goes to war it suspends the Sinking Fund, quite rightly. But you sometimes see the suggestion that it is a fine thing to have a Sinking Fund, even when there is a deficit. I venture to think that all these Sinking Funds are humbug, and they are not only humbug, but waste, because, as Hamilton says, unnecessary borrowing involves waste. However, I suppose it is generally agreed that the only real Sinking Fund is the surplus of public revenue over public expenditure.

2395. *Sir Josiah Stamp*: In the long run?—In the long run. I need not develop that. Then I come to some of the questions which I was especially asked by the Committee, on which I do not think that my opinion, although I have given it, is of much value. The questions of the supply of credit and permanent capital for trade and interest can really only be answered by practical bankers and manufacturers. When one is asked what National Debt is, I say that it is a sort of floating mortgage on the whole wealth and income of the country; and, being a deadweight charge, it should be compared, I think, with a mortgage upon an estate of a man who likes to waste money but has not got a quite large enough income, and so mortgages his property and spends it wastefully. It is exactly the same with a Government. A Government goes to war; it mortgages its property, and when it has spent an enormous amount of money it looks round and it finds that there is a very heavy debt. That is the mortgage. Then comes the question, an interesting one, as to what you should do when there is great trade depression and much unemployment. That question has already come up. I agree there are circumstances, such as there were in the days of Sir Robert Peel and Mr. Gladstone, especially between 1840 and 1860, when it is better to put such surpluses as you can get of revenue over expenditure into the reduction of peculiarly oppressive forms of taxation; but when the taxation is fairly equitable, and there are no peculiarly oppressive taxes, then I would prefer to go ahead in the usual way of cancelling as much debt as possible.

2396. *Sir Josiah Stamp*: We have had it put to us by some witnesses that there should be a Sinking Fund reducible to what you might call minimum conditions of prosperity, a Sinking Fund that would fluctuate; have you any view on that?—Of course, those scientific methods are very good in the abstract, but no Government will ever adopt them. All that one can hope is that they will take broadly the best course. You cannot expect Chancellors of the Exchequer to budget in accordance with a very scientific plan of that kind, I think.

2397. *Sir Arthur Balfour*: It is safer from a political point of view to have one Sinking Fund of a definite amount that you are sure of?—Yes.

2398. *Sir Josiah Stamp*: You should have a Sinking Fund which is light for good times and heavy for bad times?—Yes.

2399. But the suggestion that has been made to us is that you should have one that has a little more elasticity about it?—I like our plan very much of compulsorily applying every surplus to Sinking Fund. A great deal of debt has been cancelled under that system. With regard to paragraph 8, I understood that you were not discussing the currency; but I put a few observations down because I wanted to say something on the subject. I said that we are faced with this difficulty about the restoration of the gold standard; and as a matter of fact anybody who really discusses the National Debt at the present time cannot possibly avoid considering the currency question; it is really fundamental.

2400. *Sir Arthur Balfour*: Would it be fair to have a Capital Levy on the holders of debt, because they have been saving people, and have helped the State, when it particularly needed help, by lending their money?—I dare say you observe that this suggestion of mine is a very limited form of Capital Levy. I should very much like, as a small debt holder, to know that my interest would always be paid in gold. I have no confidence in inconvertible paper money at all. I should like to know, as far as the State can inform me, and so far as the State can be trusted, that it will always be paid in gold. For that purpose I should not particularly object to a small Capital Levy, if it was necessary, to help the Government to return to a gold standard; but it would have to be used entirely for that purpose.

2401. *Mr. Bell*: Do you mean gold with a 10 per cent. admixture of silver?—That is another plan. Of course, the symmetallic idea was Marshall's, and it is rather an attractive idea. I remember an Oxford professor once said to me that there was a great deal to be said for the gold and silver currency mixed. He said: "If you see two drunken men walking down the street separately, their fluctuations will be much greater than if they walk down the street arm in arm. In the same way if you have gold and silver linked together in bars, the probable stability of the two will be greater than the stability of either apart."

2402. *Sir Alan Anderson*: Still, the main point of this is to clip the coinage, is it not?—Yes, that is it.

2403. *Mr. Bell*: I did not know whether this was a possibility or a recommendation. You say here that this might be done; do you recommend it, or do you merely suggest it as a possibility?—I merely suggest it as a possible way out of a difficulty which might arise, and I say it might be better to adopt another way.

2404. I just wanted to know if it was a considered recommendation, because in paragraph 11 you say you think that confiscation or the debasement of the currency is a very bad thing?—Yes, I do. But I personally would prefer a sovereign 10 per cent. lighter than the present one, coupled with the restoration of the gold standard and of an automatic metallic currency, to the perpetuation of the present system of a managed inconvertible paper currency. I would like best of all, of course, to have the old sovereign back, but if the Government says it cannot be done, and the experts say it cannot be done, and that we cannot call upon the taxpayer to do it, then I am prepared to consider other methods.

Sir Arthur Balfour: But you would further upset the exchanges if you debased the currency.

2405. *Mr. Bell*: If a foreigner brought a £5 note here, would you pay him in this convenient coin which had an admixture of silver?—At present we do not pay him in any coin at all.

2406. But what are you aiming at? Are you going to aim at giving him five sovereigns, or five other coins with an admixture of silver?—Well, it really depends upon whether you are prepared by cancelling part of the present issue to restore the gold currency. If you are prepared to do that, I have no doubt that in a very few months you could, by burning a certain quantity of paper money—perhaps £20,000,000, £30,000,000, or £40,000,000—get back to par.

2407. That does not quite answer my question?—I say if you cannot do that, then you have to consider other methods of getting back to a metallic basis. One method is to accept the present exchange value of the paper £, and say: "We will have a coin, a sovereign, representing the exact relation between the paper £ and the gold £."

2408. *Sir Alan Anderson*: You would like to get on to a convertible gold basis even if you had to come in on a lower basis than the old one?—Yes, that is exactly it; but then I am still troubled by the American business.

2409. *Sir Arthur Balfour*: And by the general exchanges?—I am ready to accept the ratio for the time being.

2410. *Sir Alan Anderson*: But you rather fear going on to gold, because the Americans hold the control of the gold?—That is it, and because we are compelled at the present time under this arrangement to put down until the year 1984 one hundred and something millions of gold dollars in New York every year. That is the danger; that is the trouble.

2411. *Sir Josiah Stamp*: Your answer to Sir Alan Anderson about gold brings me back to the statement you made just now that you would rather have your future payment in gold with this admixture than the present managed currency?—Yes.

2412. But is that the real alternative? What you would really rather have would be, not gold, which you distrust as to its future value, but some paper regulated by a tabular standard, which is really the proposition in antithesis to the gold standard?—Unfortunately (I remember writing about the tabular standard index numbers, and so forth), the tabular standard index numbers are not currencies.

2413. But the proposal for a managed currency is that it shall have the same effect as a tabular standard; that you can be paid in the same quantity of notes that you understand to-day?—I know, but it is impracticable, in my opinion. I think people want to have the real thing in their pockets. However, that takes one rather a long way, does it not?

2414. The proposition for the management of currency is that it shall give you the same quantity of notes?—It is, and at first sight it is rather attractive.

2415. *Mr. Hichens*: If you had this dilution of the coinage you would throw over this small Capital Levy of yours, would you not?—Oh, certainly.

2416. You regard that as a distinctly worse alternative, do you?—I do not much like either, but I like them both better than having a continuing paper currency.

2417. It is seriously meant, is it?—Yes—I do not know whether I have clearly stated it—because I regard the paper currency as one of the greatest curses of civilisation at the present time. I think it has caused more misery to the human race than anything else except war during the last 10 years. I do not trust any Government—not even here in this country—to manage a paper currency; therefore, I want to get rid of it.

2418. Are the holders of National Debt the only people who benefit by this stabilisation of the paper currency?—No, they are not; that is quite true.

2419. Then why should they pay for it?—I think the holders of securities on the whole would benefit rather specially.

2420. Yes, but the holder of a municipal security for instance?—He is in the same position; he ought to be included. I do not want to exclude him from it.

Sir Josiah Stamp: I understand this to be confined to the holders of the debt.

2421. *Mr. Hichens*: The holder of an industrial debenture is in the same position?—I meant debt in a rather wide extension.

2422. *Sir Alan Anderson*: Would the holder of a debenture in a company pay and the holder of a preference share not pay?—I have not developed the idea sufficiently.

2423. Would it not practically come to this, that you must have a general Capital Levy if you have anything at all?—A general Capital Levy on securities.

2424. *Mr. Hichens*: A definite Capital Levy on capital as the term implies; I should have thought that is what you meant?—It is so small that it is hardly worth bothering about property other than securities; for this purpose it would be a very small amount.

2425. *Mr. Lees-Smith*: Would not the machinery of collection be very expensive?—I do not think it is worth troubling about any further; I merely threw it out as an aside. It is simply an *obiter dictum*, which I brought in because I wanted to lay stress on the importance of restoring the metallic currency. I suggested a very small expenditure for the purpose of restoring a gold currency; that is the point of it. I think there is a distinction between a Capital Levy for the purpose of getting rid of the debt, and a Capital Levy payable by persons interested for the purpose of restoring the currency; however, I do not lay any stress upon it.

2426. *Sir Charles Addis*: Your main point is that if it were possible you would like to get back to the pre-war standard?—Exactly.

2427. You regard that as the best solution?—Certainly.

2428. And the other alternatives are merely the next best possible?—That is so. I am not one of those people who object to a certain amount of capital expenditure for the purpose of restoring the currency. What I am afraid of is the American situation. If I had thought it was worth while, I would have developed a little that Washintgon, Jefferson and Hamilton point, because there is a very interesting memorandum, and a very long one, of about 80 or 90 pages I think, by Jefferson on the subject, which, putting it briefly, gives many precedents and many arguments for the view that a creditor who demands a debt from a debtor is not entitled to tax it. Since the time of the contract the Americans have enormously increased their tariff on British goods. They ought, I think, to be called upon now either to reduce their tariff, or to reduce the payments of the debt by the amount of the revenue which they derive from the taxation of British goods going into America.

2429. *Sir Arthur Balfour*: Do you think it would be feasible for a country like America to allow British goods only to come in free?—I once asked an American, "What would you think of us if we demanded that?" He did not like this debt. He said: "Well, you are quite entitled to demand it, and I should not mind if you did, but I will tell you this, that if you demanded that and made it a condition"—he admitted that we were entitled to make it a condition—"we would prefer not to have the debt at all."

2430. Do you think you might apply that idea of yours to other countries then, and say to France: "We will let you off some debt if you let our goods in free for 10 years"?—I think it would be a sensible thing to do, but I am afraid the answer would not be satisfactory. I think I need not refer to paragraph 10, because it has already been discussed. In paragraph 11 I merely express an opinion in answer to questions asked by the Committee.

2431. *Mr. Hichens*: Do you think as a fact that the rich are spending less on luxury now? I ask that because it has been put to us by some witnesses that the rich are saving less now, because there is less incentive to save, and therefore they are using more money, on the whole, for luxury purposes, and not less?

Sir Josiah Stamp: All the extra taxes they pay, so it has been suggested, come out of the saved portion and not out of the luxury portion.

Mr. Hichens: I should like to know what you think about that?—(*Witness*): It is a matter of observation, and I do not go about the country sufficiently to make my observation very valuable; but I should have thought, as a matter of fact, that most of the pre-war rich men whom I know spend considerably less upon luxury than they did before, but that is mainly because they spend more on taxation.

2432. *Mr. Bell*: That is particularly so with regard to houses, is it not?—Yes. I should think that the housing accommodation of the rich is much smaller than it was before the War. The houses are on an average much smaller.

Mr. Bell: It is particularly so in London.

Mr. Hichens: Yes, that is so.

2433. *Chairman*: Then paragraph 12?—Paragraph 12 really raises the subject of direct and indirect taxation; I merely give my own personal answer to that.

2434. But you suggest that there should be some fixed proportion as between direct and indirect taxation?—I do not think it is worth making the suggestion really, because, after all, it depends upon Parliament, and it is impossible to frame a scientific formula on the subject.

2435. *Mr. Bell*: You have seen the figures, have you not, of the comparison made between the direct and indirect proportions before the War and those now?—Yes; and there were a great many figures given all through the War by Chancellors of the Exchequer. One of the things that made them so curiously different was that nobody could decide whether the Excess Profits Duty was direct or indirect. If you threw it into indirect it made an enormous difference from the result if you threw it into direct. There are a certain number of taxes which are on the border line.

2436. I take it that the question merely of proportions would not affect your mind much. You would not be sorry to see indirect taxation, with small exceptions, practically disappear?—Oh, yes, I should.

2437. Then do you not think the proportions are rather striking and significant?—I dislike, personally, the taxation of comforts and necessaries very much, but when you come to a luxury like beer or tobacco, I think there is a great deal to be said for heavy taxation, and I should be very sorry to see that taxation reduced. I think it is a most important and valuable element. Then, in addition to that, there is the political and moral argument that a country, the large majority of whose population is not taxed at all, is in a thoroughly unsound business position altogether. I mean a democracy which does not pay its way, and which is run by a majority of people who do not pay any taxes, is obviously in a very dangerous position.

2438. *Sir Josiah Stamp*: Can you decide which are luxuries? Do you regard tobacco as a luxury or a necessity?—It is a necessity to me, but it is a luxury to the majority of people!

2439. *Mr. Hichens*: You say that British industry would suffer more from an extension of indirect taxation. Do you suppose that British industry has benefited more from the Sugar Duties being taken off than it would have from a reduction of the Income Tax?—I honestly do, but I can quite understand your taking the other view.

2440. I am not taking any view; I wanted to know if you had thought of it at all?—Yes, I have; and for this reason, that a reduction of the Sugar Duties reduces the weekly budgets very considerably of all the comparatively poor people in the country. The result of that is that those people, or some of them—and a good many of them, I should imagine—will put more money than they did before into things like boots and shoes and clothing; whereas if you had for instance, spent that money in reducing the Super-tax you would have increased very slightly the demand for clothing and boots, and other staple manufactures.

2441. The money might have been saved, might it not?—Yes.

2442. You deplored just now the lack of saving on the part of the rich?—It might be saved, and that is the answer. I do not deny that there is a good deal in that answer. I have pointed out in my answer to this very question that, in my opinion,

the reduction of direct taxation tends to increase the supply of capital more than the reduction of indirect taxation.

2443. So that really it is only a question whether the supply of the capital or of boots is most important?—I quite agree, yes. I was thinking of the immediate stimulus to trade, and I think on the immediate stimulus of trade the Sugar Duty has it.

I do not think there is much more to be said about these remaining answers. With regard to paragraph **14** the fear that a managed paper currency may be mismanaged and watered has, I think, been a very powerful influence on sterling in the last year or so.

Then with regard to paragraph **15**, I do not see how an Income Tax could enter directly into price.

With regard to paragraph **16**, I think it is a fair point that taxes do not deter savings. The fact that I am taxed does not make me wish not to save; I am just as eager to save as I was before, but it may prevent me from saving.

2444. *Sir Alan Anderson*: Does it not depend on the facts. Suppose your tax is a Death Duty, for instance?—Well, I am not taxed.

2445. Your corpse is taxed; that deters, does it not?—You think that is a deterrent upon the living man?

2446. *Sir Josiah Stamp*: Do you not think that the will to save is altered if you only get 2½ per cent. net as compared with 5 per cent. that you were hoping to get; would you not prefer to spend it?—There may be something in that.

2447. That is the whole point, is it not; it is a deterrent from saving?—No, there was no question saying: "Do you think, if you can get 12 per cent. for your money, you are more likely to save than if you can get 2 per cent." That is not the question I was answering.

2448. That is not my point. The point is that, owing to a heavy rate of tax, the net interest that is going to accrue to you is lower; does not the fact that it is lower make you less inclined to save?—I do not think the net interest, as far as I can remember, is as low as it was before the War. The taxation is much heavier, but the net interest that you get on gilt-edged securities is quite as high as it was before the War.

2449. *Chairman*: Higher.—Therefore we cannot say there is any deterrent there; I think not.

Then I have a passage about Death Duties. This discussion of the Death Duties is rather in the nature of sophistry, but I do feel that when politicians, for instance, and statesmen tell us that we ought to be economical, the proper answer to them is that they ought to be economical with the public money. What is desirable, and the most desirable thing of all, is that the old Gladstonian tradition about the stewardship of public money, and the feeling that a public man who has got public money in his control ought to be, not less careful with it, but more careful with it than he is with his own, should be re-established; and if that feeling could be re-established and you could get the Treasury put back to its old position in the 'eighties or 'nineties—or the 'seventies still better—then I personally should feel no anxiety about the future of the country; at present I feel a very great deal of anxiety.

With regard to paragraph **19**, as to the tax on commodities being borne by the consumer, I think the Committee will have no difficulty in following my argument about that; they may not agree with it; but you cannot any longer say that it is an ordinary assumption that the tax is borne by the consumer, because many eminent people have told us frequently, and still tell us, that a tax upon imports competing with home products may be borne by the foreigner, and very often is.

2450. *Mr. Bell*: Does anybody believe that?—Well, I think we ought to assume that some people do believe it, because they say it, and it appears in the books. I think Professor Marshall and some of the Cambridge School of Economists maintain that sometimes, and under special circumstances, the tax may fall upon the foreigner.

Lastly, I think I am entitled to point out that where you have a Customs duty, which raises the price of a commodity, and is therefore a burden upon all the consumers of the country, the Chancellor of the Exchequer can raise possibly a large amount of revenue by applying a corresponding Excise duty to the same commodity; and in that case you have a case of a tax being laid upon a commodity without causing any burden to the consumer. The consumer's burden remains exactly the same. All that happens is that the profit which the manufacturer reaped from having a Customs duty without an Excise duty corresponding is taken away from him. There you have a case which I think cannot be controverted of a tax upon commodities which does not affect the price of the commodity, and which raises a large revenue without any loss to the consumer.

2451. *Mr. Lees-Smith*: There is no such tax open to us?—Yes, there is at the present moment.

2452. What is that?—An increase in the Excise duty on sugar. It would not raise a large amount, but the difference between the Excise and the Customs duty operates to encourage me to give up growing turnips and grow beet sugar at the present moment. I think I am right in saying, in addition to having that advantage between the Excise and the Customs duty, I have a subsidy given me as well by my fellow taxpayers.

Chairman: Thank you, Mr. Hirst, for your very interesting evidence.

(*The Witness withdrew.*)

Mr. W. T. Layton, C.B.E., called and examined.

Evidence-in-chief handed in by Mr. Layton.

Taxation in Great Britain and its Relation to National Wellbeing.

1. Of the many ways by which the problem before the Committee can be approached, I propose to adopt that of examining the amount and effect of taxation in the light of some of the general statistics which are available. The method is much more difficult to apply than in normal times owing to inadequate statistics, the disturbing influence of great changes in price levels and the shortness of the period since the War. The figures therefore contain a large number of estimates and I cannot claim more for them than that they may serve to create a sense of proportion.

(1) *The National Income and the Proportion of Taxation.*

2. The first step is to ascertain the amount of taxation in relation to the total national income of the country. The national income is not, however, capable of very exact measurement and this basic figure can only be guessed at until we have a census of production and a Wages Inquiry which will make it possible to build up an estimate from the component parts. In the meantime we can only make a rough calculation on the basis of pre-war estimates.

3. Dr. Bowley has estimated the national production in 1923 at 87 per cent. of the production in 1913. He arrived at this figure as follows:—Taking the

population in 1913 as 100, the employable population has increased by 6½ per cent.; 11·3 per cent. of the whole were unemployed in September last (the figure is now 9·4 per cent.), which gives 94·5 per cent. in employment (88·7 per cent. of 106½). In 1913 there were 2 per cent. unemployed, so that the numbers in employment were in the ratio of 98 to 94·5, *i.e.*, there were actually in work in 1923 slightly over 96 per cent. of the numbers in work before the War. But there has been about a 10 per cent. reduction in hours of labour, and Dr. Bowley estimates that productivity has fallen in this ratio, which gives his 87 per cent. This last link in the argument seems to me to be defective. There have been reductions of hours in a very large number of occupations, but it would be true to say that in the majority of cases they have not been followed by a corresponding reduction in output. The improvement in output per hour may be influenced to some extent by the worker's ability to produce more in a shorter working day; but it is due even more to the great mechanical developments and improvements in organisation of the last decade. It has been said that the Lancashire cotton trade is at such a stage of mechanical perfection that a reduction of hours cannot produce an increased output per hour. This is open to doubt; but even if it is true, the cotton trade is certainly not typical in this respect. In all the metallurgical groups of trades the output per man-hour is better than ten years ago.

4. It would require a very exhaustive investigation to ascertain whether the production per man per hour is greater to-day than it was before the War or not. I have made a few personal inquiries on this point with the following results. In the cocoa and chocolate manufacturing trade it is stated that mechanical development during the last decade has been at least equivalent to 10 per cent. but there are also increases due to improved organisation and in some cases to increased effort as the result of revised wage systems, and, to some extent, to shorter hours. Out of these selected processes the increase per employee per hour varied between 15 per cent. and 47 per cent., the processes covering both cocoa and chocolate manufacturing and packing and distribution by road transport. As regards the wool industry the following short statement is a summary of information from various manufactures and associations. In wool certain outputs per hour were unchanged; in wool combing some increase occurred, particularly where processes were not up to a high standard in 1913. In worsted spinning a considerable change took place. "In 1913 two-side spinning was the standard, to-day, the average is three sides per spinner. The result is an increase in output per head per hour, but a decrease in output per spindle per hour." In wool carding and spinning no change; in weaving it is estimated that half of the reduction in hours has been made up; in dyeing and finishing "there has been an unquestionable and considerable increase in output per hour"; no figures, however, can be given. Again, in a letter from a large firm engaged in wire manufacturing, "There is no doubt that in certain classes of work the reduction in hours has not been accompanied by any reduction in output, either owing to better shop organisation, better time keeping, or the effect of the fatigue factor, and it is my experience that in the case of the actual operation of wire drawing there has been little if any reduction in the daily out-turn." In railway transport the figures for an important British railway show an increase of nearly 10 per cent. in ton miles per engine hour, but the tonnage handled per man hour in goods warehouses of the same railway show no change. In the silk industry I am informed that there is no improvement in output per man per hour.

In general these statements tend to over-estimate the reduction in work per day because it is easier to find examples from which to calculate such figures from those industries where processes have not improved and where machinery is comparatively simple. The cases I have selected show that, though there is considerable variation, on the whole production per head per hour is better than before the War, but has not improved sufficiently to make good the loss of working time. When, however, we consider processes of production as a whole I am sure we shall find from the census of production that the loss from reduced hours has been made up.

5. There are two pieces of evidence which confirm the view that last year's production was better than Dr. Bowley suggests. The first is that the total consumption of coal at home in 1923 amounted to 181 million tons, against 193 million tons in 1913, a reduction of only 6 per cent. The consumption of fuel is closely related to the total production of the country; but in this particular comparison the figures exaggerate the fall in production, for there have been in the interval in various directions economies in fuel consumption. For example, the consumption of coal per ton of product in the iron and steel trade, with its modernised equipment, has been reduced. The use of electricity is another influence of the same kind. The London Electric Companies supplied 298 million Board of Trade units in 1922 compared with 188 millions in 1913. The second piece of evidence is the general merchandise carried on British railways—leaving out coal and ore, the weight of which is so great as to swamp the figures in any combined total. The figures for Great Britain are 67¾ million tons carried in 1913 and 62¾ million tons carried in 1923, a fall of about 7½ per cent. But here again the figures exaggerate the decline, for in 1923 there is no doubt that a very large quantity of general merchandise which would have been put on the rail in 1913 was carried by road.

6. The following table contains a certain number of indices, all of which have some bearing upon the volume of the nation's production. I have separated from home coal consumption my estimate of the amount used in the primary stages of the iron and steel industry since coal consumption in blast furnaces and steel works is a large part of the total of industrial coal consumption, and I have, therefore, shown it separately. The railway transport figure, which partly reflects wholesale and partly retail trade has already been referred to. The agricultural index represents only the production of wheat, barley and oats, and would probably be flattened out considerably if meat production, milk, etc. was included. It is noticeable that in 1921 and 1922 the agricultural index affords some compensation for the depression in industry which was most marked in the iron and steel trade. The foreign trade figures and particularly exports show a big drop from 1913, but it has to be remembered that that year was at the top of a peak of a trade boom. After the depression of 1910 the volume of these exports increased in the four succeeding years by 10 per cent., 3 per cent., 5 per cent., and 3½ per cent. respectively on the figures of each preceding year. This is a far more rapid rate of growth than that of the national income as a whole, and we are therefore justified in regarding 1913 exports as being an abnormally high proportion of the national income as a whole before the War. This should be borne in mind in using this particular figure as an indication of the present national income. In the last column I have added the figure which I suggest approximately represents the variation in the nation's production during the years in question. In reading these figures it has to be borne in mind that under the conditions which have obtained since the War (insurance against unemployment, payment of war pensions, the reimbursement of war gratuities, etc.), the nation's consumption has been much steadier than the production of basic industries such as coal, iron and steel. This steady consumption involves a corresponding steadiness in retail distribution, secondary manufacture, etc. This last column is frankly a guess, but I do not think economists would seriously dispute the general relationship between the figures for the last four years:

Year.	General Coal consumption excluding coal exports and iron and steel trade consumption.	Coal consumption in the Iron and Steel Trade.	Railway Transport (General Merchandise).	Cereal Products.	Volume of Exports.	Volume of Imports.	Volume of Employment (disregarding reduction of hours).	Suggested Index of National Production.
1913 ...	100	100	100	100	100	100	100	100
1920 ...	96	94	101½*	100	70·9	88·4	102	95
1921 ...	73	33	82½	108	49·8	74·3	83	80
1922 ...	91	61	88	100	68·9	85·8	87	86
1923 ...	94½	90	93	96	74·5	93·0	96	95

* Including small amount of traffic carried free for Government.

From this table one can make a rough estimate of the national income at various dates with the assistance of the index representing the change in the level of prices. For this purpose I have taken an intermediate figure between the wholesale price index number and the retail price index number. Perhaps the average of all prices in the national income follows the retail figure more closely than the wholesale, and this assumption strictly applied would tend to show too high a figure for 1920. I have, therefore, taken the round figure of 250 for that year as between a retail figure of 240 and a wholesale figure of 280. In the last two years the figures have been closer together and there is less likelihood of error. From these indices I have drawn up the following table. As the object is to see what sum is available as a basis of taxation we must add to the national income so arrived at, the interest on the internal National Debt. This is not, of course, an addition to production, but is a claim upon a share of the total of the nation's production which is taken by taxation from the producers of income and handed to specific holders of the debt. But after it is so transferred, it is itself subject to taxation. Similarly, we must add war pensions (but not Old Age Pensions, which are already included in the figure for 1913). I have added a column showing the revenue of the country excluding Post Office receipts, special receipts and other non-tax items of revenue, and calculated the ratio of this taxation figure to the gross national income.

National Income and Taxation.

Year.	Production Index.	Net National Income at pre-war prices.	Prices.	Net National Income at prices of each year.	Add interest on internal debt plus war pensions.	Total National Income (in round figures).	Tax Revenue.	Ratio of (7) to (6).
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
		Mln. £s.		Mln. £s.	Mln. £s.	Mln. £s	Mln. £s.	Per cent.
1913 ...	100	2,300*	100	2,300	—	2,300	163	7·1
1920 ...	95	2,090	250	5,225	400	5,600	1,032	18·4
1921 ...	80	1,760	200	3,510	375	3,900	857	22·0
1922 ...	86	1,890	166	3,140	355	3,500	775	22·2
1923 ...	95	2,090	166	3,470	350	3,800	718	18·8

* For purposes of calculation £2,200 millions is taken as base in 1913 to allow for the separation of Southern Ireland.

This table shows that the situation has improved since 1921 and 1922, when the drop in production raised the proportion taken in taxation to 22 per cent. Since that date production has improved to an extent which just about off-sets the fall of prices. Taxation has also fallen and the ratio is now back where it was in 1920 when an exaggerated level of prices and a large national output enabled us to bear very heavy taxation with comparative ease.

7. Before leaving these figures two comparisons may be made. The first is that, after the Napoleonic Wars in 1818 the national income was estimated at £400 millions, the Budget at £57 millions, and the ratio at 14¼ per cent. But the Government in those days gave very little in return. This figure is mainly debt charge, defence and a heavy item for cost of collection (*see below*). The second is a comparison with France. French statistics are more scanty in this matter even than our own. I will merely record that an estimate published in the "Economist" of March 15th last by a French economist, in an article which was not intended in any way as a defence of French finance, estimated the French national income at 140 milliard francs. Last year's taxation amounted to 22·6 milliards, giving a ratio of 16 per cent. If the taxation reforms recently inaugurated are carried through as originally designed, the percentage will rise to 20 per cent. in the current year. As compared with England, a comparatively small proportion of this taxation is levied by direct taxes, the great revenue producer being the turnover tax. The figures are not in all respects comparable with our own, and it would be a lengthy task to analyse them on to a similar basis. But I mention them because it is certainly true that, while our ratio is falling, that of France is rising and will soon cross, if it has not already crossed, our own.

(2) The Effect of Taxation.

8. It is hardly necessary to observe that other influences than taxation and financial policy are responsible for the enormous changes shown in the preceding table, and when we attempt to consider what part national finance has played in affecting the production index and the price level, we are to a very large extent driven back upon a theory. This is particularly the case when we are considering its present influence and not the effect of Government finance during the War.

Whether we consider taxation as a whole or in detail, we need to know the effect of the increased burden upon the amount of the national production; whether it is reducing consumption and whether it is reducing the amount of saving. These three aspects need to be borne in mind when dealing with each individual problem.

The effect of taxation depends largely on two considerations: (A) The objects on which it is spent, and (B) the way in which it is levied.

(A) *Objects of Government Expenditure.*

9. As regards expenditure, our present burden may be considered under various heads:

(i) Interest on the External Debt.
(ii) Interest on Internal Debt.
(iii) Defence.
(iv) Pensions.
(v) Civil and Other Services, and
(vi) Cost of Collection.

Taxation for expenditure on such items is not a simple deduction from national income, but a transfer, and in almost every case a transfer for services rendered, its influence on the production of the country depending on the character of the benefit received.

(i) The payment of external debt is the most serious tax on the national income for it transfers a claim on that income to foreigners who have to give nothing in return. It takes away a source of saving and/or lowers the standard of consumption. But having incurred an external debt it is obviously to the tax-payer's advantage to pay since the alternative is repudiation and that means that his country would be a bad country to lend in, that all interest charges would tend to be high and there would be insecurity for his own investments. There is a distinct though not measurable benefit in the enhanced credit of the country.

(ii) Interest on internal debt is less of a burden; for not only is credit maintained by payment of interest when due, but as the transfer is only between individuals within the same country the standard of consumption is left unchanged unless the effect, as is often the case, is to *increase saving*. It is obvious from recent experience that a country which repudiates its internal debt either by inflation or in other ways will have to pay an enhanced price for all the capital it uses.

At the same time it is possible that the act of transferring considerable quantities of the national income to certain groups of persons in return for past loans might increase the number of persons in the country who have no need to work and contribute to the total of the nation's production. It might also conceivably produce an altered distribution of wealth if the transfer were made mainly to the well-to-do. Some light on both of these questions may be thrown by considering who it is that holds the National Debt. This cannot be ascertained at all accurately but I have made an estimate which appeared in a recent number of "The Economist." According to the most recent table, the total of the war debt amounts to about £7,765 millions, which is reduced, after deducting £115 millions of assets, to about £7,650 millions nominal. But for purposes of analysis we will take it at £7,700 millions, which takes no account of assets, but excludes what the Treasury calls "other capital liabilities," i.e., "Items in respect of which there is a liability, but in many cases a specific asset on the other side." The following is an estimate of the holdings of the largest creditors:—

	Million £.
The Government of the United States	958
Colonial Debt	22
Debt to other Allied Governments (which is more than offset by the debts due to us)	128
	1,108

	Million £.
Carried forward	1,108
British Joint Stock Banks and Foreign Banks with offices in London (including an estimate of £100 millions of Treasury Bills)	750
Bank of England	70
Post Office Savings Bank (£285 millions less £120 millions in guaranteed or other securities not forming part of the deadweight debt), and Trustee Savings Bank (£80 millions, less £30 millions)	215
Government Securities purchased for depositors through the Savings Banks (£210 millions), and Trustee Savings Banks (£30 millions)	240
Treasury Note Reserve	240
Ways and Means Advances Public Departments £160 millions, less amount included under Treasury Note Reserve, say ...	70
Insurance companies, approximately (of which the Prudential holds £70 millions)	350
Railways	80
	3,123

These items total £3,123 millions, but as a number of the items are entered at market value or less, we must add, say, £275 millions to bring the statistics to a basis of nominal value—making approximately £3,400 millions in all. But in these items we have not taken full account of Treasury Bills, practically none of which are privately held. The amount included in the statistics from which the above are calculated will not exceed £300 millions. The balance of £300 millions is held by various concerns, bill brokers, and others needing liquid resources, largely as part of the floating money system of the country. These bring the above total to £3,700 millions nominal.

The second large section on which we have indirect information is the holding of private persons. The Inland Revenue records that in 1921-22 wealth passing at death included £63¼ millions in the form of Government securities. The ratio of estates passing at death in a single year to estates in existence was calculated by Sir Bernard Mallet before the war at 1 to 30. This figure has been criticised as being too low, and, moreover, mortality has since tended to improve, and the high rates of Death Duty tended to encourage gifts *inter vivos*. We shall probably be near the mark if we put the amount of Government securities privately held at £2,200 millions—a figure which includes a part of the £240 millions invested for individuals through savings banks. But the Death Duty figures, in fact, omit the mass of very small estates, and there is probably not much overlap. This figure is, again, one of market value. It may be assumed that it represents, say, £2,350 millions of nominal debt. We have thus accounted for £6,050 millions. There remain £1,650 millions which may be analysed broadly under three heads:—firstly, there are the holdings of British public companies other than those included in the above table; secondly, the endowments of colleges, hospitals, and other charities, and the investments of trade unions, friendly societies, and trusts of all kinds, and finally, the investments of foreigners and colonials. We know of no means of estimating these respective holdings. The second category must be very large indeed.

These estimates may be shortly summarised thus:—

	Million £
Debt to Foreign or Colonial Governments	1,108
Bank of England and Other Banks ...	820
Savings Banks or invested for subscribers through Savings Banks ...	455
Treasury Note Reserve and Advances by Government Departments ...	310
Other Holdings of Treasury Bills ...	300
Insurance and Railway Companies ...	430
Add to preceding items to bring to Par Value	277
Held by Private Persons liable to Estate Duty	2,350
Held by Foreigners, Trusts, Charities, Trade Unions, Joint Stock Companies, etc.	1,650
	£7,700

It is obvious that the effect of the payment of interest varies greatly according to the groups holding the debt. Thus the interest on the Government Debt held in the Treasury Note Reserve is mainly profit and comes back into the revenue under the heading of Miscellaneous Receipts. The interest on the sums invested by railway companies will in the long run either benefit the users of railways (since the railway companies are limited to a standard revenue) or will permit them to pay higher wage rates. That part of the debt held in connection with the monetary system of the country cannot be said to make the rich richer and the poor poorer or to add to the number of "drones." From the point of view that we have been considering the chief important item is that held by private persons, the interest on which may be roughly estimated to amount to £100 millions.

(iii) Pensions represent a transfer similar in some ways economically to the payment of interest within the country. It has relation to past history and there is no corresponding reaction on the national production, probably very little is saved. It is a means of maintaining the consumption of a class of people who would otherwise fall below the average standard or become dependent upon charity. The payment maintains a certain number of non-workers, but this is due not to the fact that the pension is paid but to the War. This item of expenditure is definitely an added war burden, but it is one which no one would wish the nation to evade.

(iv) Other items may be interpreted in the light of the maxim that "taxation is that part of a man's income which he pays to the State in order to be secure of the rest." This clearly is the way in which the nation must look at expenditure on defence, an item which fortunately is a diminishing proportion of the national income.

(v) The same argument also applies to the cost of Government as well as social expenditure, both of which presumably contribute to efficiency and social order and so facilitate production. This is most evidently the case in regard to education, sanitation and other measures which directly increase national efficiency. At the same time there must clearly be some proportion between such expenditure and the national income. It would clearly be possible to maintain numbers of officials on such a scale that their contribution towards national efficiency was substantially less than the value of what they consumed. Moreover, social expenditure tends to produce its full result after an interval, and clearly a sudden increase might for the time being have the effect of reducing the national income. It would, however, take us too far afield to examine this point here.

(vi) The cost of collection is low thanks to the high proportion in our Budget of direct taxation.

The following table compares for a hundred years ago, for 1913 and for 1923 the proportion of various kinds of Government expenditure, excluding expenditure of the Post Office, in relation to the national income:—

——	1818.	1913.	1923.
	Million £s.	Million £s.	Million £s.
National Income ...	400	2,300	3,800
Internal Debt Service:			
Interest and Management.	31·28	16·94	271·45
Debt Repayment...	1·22	7·56	28·54
External Debt Service:			
Interest and Management.	nil	nil	35·85
Debt Repayment...	nil	nil	11·46
Pensions (War and Old Age).	1·20	12·46	92·95
Defence	14·50	77·18	105·80
Other Services ...	6·70	54·26	182·15
Cost of Collection (Inland Revenue and Customs and Excise).	3·88	4·48	10·82
Total Expenditure ...	58·78	172·88	739·02
Total National Debt	840	650	7,700
Ratio to National Income of—			
Internal Debt Service:	Per cent.	Per cent.	Per cent.
Interest and Management.	7·82	0·74	7·14
Debt Repayment	0·30	0·33	0·75
External Debt Service:			
Interest and Management.	—	—	0·94
Debt Repayment	—	—	0·30
Pensions (War and Old Age).	0·30	0·54	2·45
Defence	3·62	3·36	2·78
Other Services ...	1·68	2·36	4·80
Cost of Collection	0·97	0·19	0·29
Total Expenditure	14·69	7·52	19·45
National Debt ...	210·00	28·26	202·63

(B) *Effect of the Method of Collection.*

Indirect Taxes.

10. As regards different methods of taxation it will probably be accepted that indirect taxation is more likely to alter the character of national production than direct taxation. A tax on a commodity whether levied per unit or in proportion to the price charged, will tend to restrict its consumption and to divert national resources into other channels. It is likely to be a wasteful method because the cost of collection is large in proportion to the revenue received, and because it often tends indirectly to divert money into private pockets. By arbitrarily altering the character of the national production it is likely to diminish it (except in certain special cases such as that of alcoholic beverages). This harmful effect is, however, likely to be small if the article taxed is a necessity the demand for which is inelastic. Fortunately most of our indirect taxation is on articles of general use, the incidence of which is probably shifted to a very slight extent only by altering consumption. In other words the tax is paid by the consumer. The general system of indirect taxation indeed does not seem to have depressed the standard of living in the case of the working classes at all events. Judging from general observations it would seem that the general standard of living is at least as high as before the War; moreover, this is confirmed by certain statistical indications. For example, Dr. Bowley's

estimate of average wages shows them to be above the level of pre-war wages by about the same proportion as retail prices. In other words the purchasing power of wages remains the same. His index number of wages in June, 1923, was 176, the cost of living index 169. In June, 1924, the wages index was 178, the cost of living index 170. There are not many good pieces of evidence on this point, but one test is tea consumption, the average per head in the country as a whole being 6·31lbs. in 1910 and 8·66lbs. in 1923. The increase in the number of picture theatres, the sale of motor-cycles, etc., point in the same direction. On the other hand the high taxation on alcoholic beverages, together with changing habits, has undoubtedly restricted consumption. The production of beer in 1913 was nearly 36 million standard barrels, in 1923 21 million barrels; in 1913 the consumption of spirits was 31·8 million gallons, in 1922 17 million gallons. This restriction is probably one of the causes for greater expenditure in the other directions noted.

Broadly, one may conclude that our system of indirect taxation does succeed in imposing some of the burden of national finance on the masses of consumers. But in view of the objects on which it is levied it does not seem to have substantially reduced or modified production and has certainly not reduced the standard of living below that of 1913.

11. *Direct Taxation.*—The important problem is, however, to decide what is the effect of direct taxation and particularly taxation in proportion to income. In theory the Income Tax should not affect the economic action of any Income Tax payer. It is not directly an item in the cost of production. Whether we consider a whole industry or a particular business, production under competition continues up to that point where the last unit of output makes no contribution towards profit and therefore nothing towards the revenue of the State. This is the unit of production which determines prices, which should therefore be unaffected by a tax on those units which yield some profit. On the same reasoning, the amount of output should remain unchanged. Theory and practice are in harmony on this point. Manufacturers do not include profit on their cost sheet unless it be under a system of costing in which one department of an integrated business has to fix the price at which it charges other departments for its products. In this case it is not unusual to add to costs in the strict sense a standard rate of profit. But this exception does not alter the fact that broadly the manufacturer estimates his cost exclusive of profit and that he adds to his cost whatever margin for profit he thinks the market will stand. If the market will not permit any profit to be made *no tax will be paid.* This theory governs his share in whatever surplus is realised over and above the cost of production.

But when we are considering the whole field of finance over a considerable period, the theory needs substantial qualifications. If the tax is very heavy it may indirectly influence production for a number of reasons.

12. (a) *Taxation and Profits.*—As a result of tradition, there may be a conventional rate of net profit for a certain class of commercial activity. Thus, in the case of the manufacturer making up a tender, it may be that he has been in the habit of expecting to make 10 per cent. profit. With present taxes he only sees his way to make, say, 7 per cent. net though he may be getting the same gross rate of profit. The economists will argue that as 10 per cent. before the War equals 7 per cent. now in every other direction in which he can employ his capital, the manufacturer will accept his 7 per cent. with what grace he can. But he will feel that he is not getting a *proper profit* and may refrain from tendering and leave his capital idle. Alternatively, if the individual is living on the proceeds of his capital, the difficulty of retaining a given standard of living will emphasise the fact that profit is reduced and may lead the tax-payer to seek more profitable, though perhaps more speculative, outlets for his capital.

13. It is sometimes suggested that the argument that a tax on profits does not affect price or the amount of production is untrue if and to the extent that the businesses under consideration enjoy some degree of monopoly, for it is presumed that the monopolist can take advantage of his position to raise prices. If the argument were true it would be important to enquire to what extent monopolistic conditions in the widest sense prevail in British industry. But the argument is not a very strong one, for if a business is exploiting its position to the utmost, it presumably is charging such a price that it is making the largest possible profit out of its monopolistic position before taxation is imposed upon it. If this is so it cannot raise its prices as a result of taxation without reducing its profits.

I do not imagine that many monopolistic concerns have in the past been deliberately making smaller profits than they could have done. But if such moderation had been practised, new taxation would provide a good excuse for raising prices. On the question, however, whether higher taxation is held to justify a monopolist in charging higher prices, a sidelight is thrown by the experience of British railways. The Government, wishing in 1921 to institute a system of control based upon a "fair return," decided that the new Rates Tribunal should fix such rates as to give the British railways, not a fixed net profit after payment of taxes, but the same gross profit as in 1913. The railway shareholder to-day is therefore getting a reduced net income.

14. It is extremely difficult to find any definite evidence as to whether the expectation of a conventional rate of profit is having any effect on business. I am inclined to think not, but have no real grounds to go upon. The only statistics remotely bearing upon this question are the returns of profits of public companies compiled by "The Economist." These figures are so full of traps and their character is so changed as compared with pre-war times, that it is dangerous to press them in this connection. For what they are worth the average rates of dividend on preference and ordinary capital in the quinquennium before the War and in the quinquennium since the War work out as follows:—

	Rate of Dividend on Preference Capital.	Rate of Dividend on Ordinary Capital.
	Per cent.	Per cent.
1909-13 ...	4·8	8·1
1919-23 ...	5·2	10·2

The preference figures naturally do not show very great change, but the increase in the ordinary rate is such that if allowance be made for increased taxation the net yield is not far short of the net yield before the War. But a glance at the annual figures shows such enormous variations from year to year that this can hardly be regarded as more than an accident unless it be that the influences to be mentioned next have tended to raise the net return. The annual average rates of dividend since 1909 are as follows:—

	Dividend on Preferential Capital.	Dividend on Ordinary Capital.*
	Per cent.	Per cent.
1909 ...	4·3	6·3
1910 ...	4·5	7·0
1911 ...	4·9	8·5
1912 ...	5·2	8·5
1913 ...	5·1	10·2
1914 ...	5·0	10·0
1915 ...	4·8	9·0
1916 ...	5·1	11·0
1917 ...	5·1	10·3
1918 ...	5·1	11·1
1919 ...	5·3	10·7
1920 ...	5·0	12·6
1921 ...	5·2	10·2
1922 ...	5·2	8·4
1923 ...	5·3	9·3

* These figures generally include Income Tax and Supertax but not E.P.D. and Corporation Profits Tax which are paid before the dividend is provided.

15. (b) *Taxation and the Rate of Saving.*—Although taxation (except in the case of payment on a foreign debt) merely involves a transfer and does not reduce the total national income from which saving can be made the process of transfer may take money from those who would save it and hand it to those who desire to raise their standard of consumption, or it may have the opposite effect. Such a reduction in saving would slow up the rate of development of industry. It is generally believed that there has been reduced saving as a result of heavy taxation. It has, however, to be noted that a reduced rate of saving is not necessarily due to taxation, for it may be due to a rise in the conventional standard of consumption. There is some reason for thinking that such a rise is one of the results of the War and the post-war boom.

There never has been an exact test of the amount of national saving, but we may examine whether and if so what change has occurred in this respect by reference to three sets of figures, viz.: life assurance, new public issues, and sums set aside to reserve by public companies. None of these figures necessarily represent an exact net addition to the capital of the nation, but in a general way they throw light on the rate at which savings are being made.

(i) The premium income of the insurance companies submitting their accounts to the Board of Trade shows the following increase:—

Premium Income of Insurance Companies.

——	Ordinary.	Industrial.	Total.
	£	£	£
1913	31,490,627	17,291,641	48,782,268
1914	32,283,820	17,982,777	50,266,597
1915	32,401,486	18,565,276	50,966,762
1916	33,065,002	19,572,728	52,637,730
1917	33,290,768	20,958,849	54,249,617
1918	37,040,478	22,398,430	59,438,906
1919	41,246,118	25,349,822	66,595,940
1920	45,549,464	29,268,521	74,817,985
1921	47,406,872	31,087,690	78,494,562
1922	48,914,630	31,580,117	80,494,747
1923 (estimate)			(82,500,000)

In the main these figures represent new savings. It is true that there is some corresponding reduction of capital in respect of the claims paid by the Companies but only part of these claims are withdrawn from the nation's capital. Some of them are spent in payment of Death Duties. The figures include certain policies taken out for educational purposes or even (in the second column) to pay funeral expenses, but the bulk of the claims paid is undoubtedly treated as capital by the recipients. The figure for 1913 represents 2·16 per cent. of the figure for the national income for that year given in a preceding table. The figure for 1923 represents 2·1 per cent. In other words the premium income of the companies remains a constant proportion of the national income, though it dropped substantially below this percentage in 1920.

(ii) *New Issues.*—As regards new capital issues on the London Market the figures, exclusive of Government borrowing, are as follows. The figure for the post-war quinquennium is a little higher than for the pre-war quinquennium but the average is brought up very much by the figure for 1920 and the current figures are if anything slightly below those for representative years before the War. New issues do not necessarily represent a net addition to the nation's savings. Part may be subscribed by foreigners especially in connection with loans for other countries issued on the London Market. Again part of the shares issued may be taken up by those already in ownership of the business though in compiling the figures of new issues an attempt is made to exclude items of this kind, and to tabulate only the amounts actually offered to the public. Part again represents the capitalisation of bank loans—a change, not an increase, in capital. The figures do not show a sufficient increase to balance the rise of prices and so far as they go suggest a slower rate of saving.

	Capital Issues (exclusive of Government borrowings).
	Mill. £
1909	178·5
1910	242·9
1911	191·7
1912	210·8
1913	196·5
1914	180·0
1919	211·4
1920	330·0
1921	186·1
1922	204·1
1923	215·0
1924 (six months)	95·0

In the year 1919-20, the nation's savings were swollen by the fact that the Government spent £326 millions more than it received, and had to cover the deficit by borrowing. In the ensuing four years on the other hand the Government had surpluses amounting to £426 millions. This, together with Sinking Fund payments of £169 millions, was used to repay National Debt; and for the most part the repayments so made furnished funds for reinvestment. In other words, taxation became an important instrument for maintaining savings which became available for business indirectly through the medium of debt repayment.

(iii) *Reserves.*—In the five years before the War the public companies whose accounts were analysed in the quarterly investigations of "The Economist" showed a gross total profit of £275 millions. Out of this sum they placed £67 millions to reserve. This represents 24·4 per cent. In the five years since the War the considerably larger number of public companies whose returns are analysed showed for five years a gross total profit of £565 millions, of this they placed to reserve £124 millions, *i.e.*, 24 per cent. In the first case the amount placed to reserve represents 2·3 per cent. of the capital of the companies concerned. In the latter case it represents 2·8 per cent., this rise being entirely due to the high proportion set aside to reserve in 1920. The figure for the current year again is 2·3 per cent.

To sum up: the savings through life assurance, and through the action of public companies by means of their reserves show no signs of a slower rate of saving; but the subscription to the new issues, which represents a larger amount than either of the former categories, while as large as before the War has not increased in proportion to the rise in prices. All we can say therefore is that savings generally in terms of money have increased in total amount since before the War, but probably not sufficiently to be a constant ratio to the national income of the country.

I venture to suggest, however, that the slackening in the rate is due to a higher standard of living rather than to the fact that taxation is putting money into the hands of those who wish to consume rather than to save.

16. (c) *Taxation and the Character of Savings.*—The third consideration is that the transfer of national income by means of the engine of taxation may change the character of the nation's savings. It is suggested that it takes money away from people who might be enterprising and gives it to the people of the rentier class—thus tending to divert the nation's capital into safe hands rather than into channels where it would be risked in development. It is even harder to get any evidence on this question than on the total amount of savings. Reverting once more to "The Economist's" analysis of company returns and taking two particular years, 1914 (which was the first year for which particulars in regard to debenture capital were compiled) and 1923, the following table shows how much capital of the companies included in "The Economist's" analysis is divided between different classes of capital:

—	Number of Companies.	Debenture Capital.	Preference Capital.	Ordinary Capital.	Total Capital.
			1914.		
All Companies Average Capital ...	910	£254,000,000	£244,000,000	£390,000,000	£889,000,000
Per Company	—	£279,000	£268,000	£428,000	£977,000
Percentage of each kind of Capital ...	—	28½	27½	44	100
Yield	—	4·10 per cent.	5 per cent.	10·9 per cent.	7·3 per cent.
			1923.		
All Companies Average Capital ...	1,350	£325,000,000	£466,000,000	£787,000,000	£1,578,000,000
Per Company	—	£241,000	£345,000	£581,000	£1,170,000
Percentage of each kind of Capital ...	—	20½	30	49½	100
Yield	—	4·95 per cent.	5·3 per cent.	9·3 per cent.	7·22 per cent.

17. Discretion must be used in drawing conclusions from the figures. The average capital has only risen from £977,000 to £1,170,000, but this probably understates the actual average increase which has taken place, since more companies are included in the post-war figures, and, on the whole, these will tend to have been the smaller companies. I know of no way of making the comparison more exact. Even if one attempted to restrict the comparison to the same concerns the result would be affected by the amalgamations which have taken place in the last ten years. This consideration qualifies any conclusion that may be drawn at all from the figures, but not, I think, so much as to render them altogether valueless. The fact that on the larger sample in 1923 ordinary capital amounted to 50 per cent. reflects partly nominal additions and partly money subscribed privately by owners or by purchasing companies, for the amount of ordinary stock put on the market is less, not more, than before the war. On this point the analysis of new issues of the last few years tends to confirm the general expectation that the public is playing for safety.

New Home Issues for Industrial Purposes.

(Million £s.)

—	Ordinary.	Preference.	Debenture.	Total.
	Mln. £s.	Mln. £s.	Mln. £s.	Mln. £s.
1913 ...	20·0	20·6	13·0	53·6
1921 ...	17·9	14·4	56·8	89·1
1922 ...	12·3	12·9	50·4	75·6
1923 ...	14·0	15·2	37·8	67·0

18. On the other hand there is undoubtedly the desire to get increased income and it is sometimes assumed that this has caused an undue investment of capital abroad at high rates. It is true that the foreigner has to pay high rates but he has not got an increased amount of capital. In the five years before the War there were £482 millions of foreign investments and £381 millions of colonial investments, in the five years since the War there have been £145 millions of foreign investments and £321 millions of colonial investments.

This reduction is confirmed from another direction, viz., the estimate of the real balance of trade which aims at calculating the amount "available for investments abroad." The figures are as follows:—

	(Million £s) Board of Trade Estimate.
1910	153
1913	181
1920	252
1922*	155
1923†	97*

19. The general conclusion from all these figures is that the heavy direct taxation of profits may have had some small effect in checking business through reducing the net profit of given enterprises below a conventional standard, that the desire for an increased standard of consumption has reduced the rate of real saving, that nominal saving has grown and that the tax system by transferring wealth to the rentier class has had some small effect in diverting what savings there are into safe rather than into enterprising forms of investment. But taxation does not seem to have driven capital abroad and it is indeed hard to get any direct evidence that enterprise is really checked from inability to get its supplies of capital. With a smaller national income, there seems to have been no fall in the standard of the working classes compared with 1913, but it is common knowledge that certain classes of "rentier," and those the least articulate ones, are worse off.

* After allowing £25 millions due on American debt.
† After allowing £50 millions paid to America.

2453. *Sir Charles Addis (in the temporary absence of the Chairman)*: For the purposes of record, may I say that you are the Editor of "The Economist," you were formerly a member of the Munitions Council, the Director of the Economic and Financial Section of the League of Nations, and the Director of the National Federation of Iron and Steel Manufacturers?—Yes.

2454. Your memorandum has been circulated among the members of the Committee, and I hope you may find it convenient just to go through it with us, and perhaps amplify the statement as you go along?—I will take it in any way you like. I have started by attempting to make a very rough estimate of the national income for the purpose of comparing the proportion of taxation in relation to that income, and the changes over recent years. I first of all looked at Dr. Bowley's estimate of national production, and have given some reasons for giving a rather different, slightly higher, estimate of production as compared with his. The figure I give is 95 per cent. as compared with Dr. Bowley's 87 per cent. for last year, and I would here add that I think in 1924 the present rate of production is higher than that 95 figure. I would also like to add—what I have not said in the memorandum—that my personal opinion is that the figure of 95 is too low. I cannot give you any evidence for this opinion that I can substantiate, but I have a very strong instinct

that that is the case. However, as I could not substantiate it, I am not prepared to put it down in an estimate of this kind.

2455. *Mrs. Wootton*: Is that for 1923 or 1924?—For 1923. I have discussed it with a number of people, and I should be very surprised, if we really could get an accurate measure, to find that it was far below 100 per cent. I am not really prepared to defend that statement; I am merely saying that it is my own impression.

2456. *Sir Alan Anderson*: What is the common denominator of all these things?—100 in 1913.

2457. That is what they are related to, but how do you relate iron and steel to cereal products, and so on?—I think you would get the best impression of what I am trying to get at if you were to say: What would the national income be if prices were the same as in 1913 as compared with the national income of that year.

2458. *Sir Josiah Stamp*: Or to put it in another way, if you took a percentage for each particular class of thing and weighted that percentage by reference to the total volume at pre-war value?—Yes, that is the same thing. It really is very much like the calculation that is made from time to time of the volume of foreign trade which merely says: we assume that pre-war prices are being paid; then we will add up the total trade at pre-war value. There may be changes in the content of the total number, but the total number would be somewhere about 95 per cent. in relation to pre-war. It does not say that every individual item is 95.

2459. *Sir Alan Anderson*: So that if a big trade which is now idle, such as shipbuilding, for example, got going again, our national income would be considerably higher than it was in 1913?—Yes. When I say it is 95, it is to be presumed that there are some stages of production which have gone ahead more than 95 to balance those which are less. In support of my 95 figure—not the 100 figure, which I am not going to attempt to defend—I have given the results here of some private inquiries into output per man hour—of course nothing more than sample cases on which I was able to get some information. I do not think I need read them; they are representative cases, but they are very few in number. To make an exhaustive inquiry is a work which might be undertaken by a Committee such as this; it is very difficult for a private individual to undertake. Then I have attempted to supplement that evidence in various other ways, and I have suggested that the internal consumption of coal is rather a good check, being to some extent an index of the general industrial condition of the country. I have also attempted to check my estimate by the internal carriage of goods by railway. As the Committee are aware, the railway returns are divided into three heads, coal, other minerals, and general merchandise. Obviously, a total figure of all railway goods is most misleading, because if circumstances happened to throw out of business for the time being the carriage to South Wales of low-grade iron-ore from the Midlands, it would make a great change in the figures. Hence, the total figures vary very widely and they are not a true test of general prosperity. On the other hand, general merchandise traffic is truly representative of the general business of the country. Both those indices—general coal consumption and general merchandise—show a drop to about 94 or 93 or thereabouts; but in both cases they under-estimate the comparative volume of production—in the case of railway transport, because of road transport, which has undoubtedly taken quite a substantial amount of short haul business, and in the case of coal consumption, because there has undoubtedly been steady improvement in fuel economy, partly by the use of electricity, and partly by direct economies in the use of fuel. It is therefore to be presumed that there is a bigger volume of production from a given consumption of fuel in industry. Those two figures and the two considerations I have mentioned, are among the reasons why I think this figure of 95, as a general measure of production, is too low. Then I have suggested some other figures which I put in a table in paragraph 6.

2460. *Sir Arthur Balfour*: Really to complete that table you ought to show the increase in population?—Yes; I have mentioned the increase in population in the text, but I am not attempting to relate this to population. Of course, I should say in that connection that, even if production is at 100, it still represents a reduction in production per head.

2461. After all, that is the important thing?—Yes. I am not attempting to show that the production per head of the population is as high as before the War, but I think 87 per cent. is much too low for the volume of production. I think 95 per cent. can be substantiated, and I believe it is nearer 100; it ought to be 106 in order to reach the per head production of 1913.

2462. After all, for people to live at the same standard of living you have to reduce it to production per head of population?—Yes.

2463. *Sir Josiah Stamp*: It should be 106?—Yes. But in this connection it is relevant to consider the point which I shall come to later, as to how much of our production is being saved or consumed.

2464. *Sir Alan Anderson*: Surely, if your volume of exports has sunk to 74 and your total is 95, it means that very much more is being consumed internally, does it not?—Yes, I think that is the case. I think certainly more than 95 is being consumed internally.

2465. You have got to make up that big balance of 26 per cent. in the export business that has gone somewhere; it is in the internal use, is it not?—Yes, but as I have stated here, I think that 100 figure for exports is on a rather misleading basis. In the case of both imports and exports it is a more misleading base than in any of the other indices used. The internal consumption of goods in the country, the consumption of coal and these other indices of the national life tend to increase or to fluctuate comparatively mildly. Foreign trade figures have very much sharper ups and downs, and it so happens that the 1913 foreign trade figure was exceptionally high. I think it was exceptionally high in relation to the national income, and that a lower figure than my 100 base ought really to be taken if we are considering let us say, the three or four years before the War, or, to put it more exactly, if we are considering the mean point of the pre-war cycle, which did not finish but was nipped in the bud at the top.

2463. *Sir Josiah Stamp*: In other words, if you were to take the increase for 10 or 20 years before the War, while these various indices fluctuated about, you had reached a point in 1914 where the amplitude of foreign trade was about twice as great as that of railways or other internal tests?—Yes.

2467. Therefore, if you start off with that as 100, you get rather a false sequel?—Yes. I did contemplate attempting to make the base, right through, a five year period before the war, but I was not certain that I had got the proper central point of the pre-war cycle. In any case it wants a great deal more research.

2468. *Sir Alan Anderson*: Have you looked at all at the invisible exports?—No; I have not attempted to make a statement.

2469. They would be down, would they not?—Yes, they are down, but not substantially down. It is very difficult to put invisible exports into this statement of volume at all, because invisible exports consist of such items as the earnings of banks and finance houses.

2470. And shipping?—I should find it very difficult to give a figure for volume of banking profits and

so forth. When you get to figures of that kind, the phrase "the volume of business" is rather difficult to define, except in terms of money, and then you get the confusion of the variation in prices.

I have gone on from that estimate of national production to link it up with taxation. Just before the table of "National Income and Taxation," I have said that we must add to the national income, as calculated on the method explained, the money distributed as interest on the National Debt. I have also said that we must add War Pensions. Both items are subject to taxation, for though War Pensions in the main are paid to people of modest income, they pay taxes on the commodities they buy. I have not added Old Age Pensions for the obvious reason that that was in the estimate of national income before the War, whereas the War Pensions are a new form of internal transference of wealth. Column 7 is the tax revenue pure and simple and excludes other forms of Government receipts.

2471. *Mr. Hichens*: It does not include local taxation at all, I suppose?—No. I was going to make a reference to that in a moment.

2472. *Mr. Lees-Smith*: Of course it does not include insurance contributions?—No.

2473. Have you any figures showing how this proportion 18·7 per cent. that you get at the end would be affected if we took local rates and also if we took insurance contributions into account?—I have not attempted to look at any figures of insurance contributions, but I have looked at the local taxation figures. They are rather complicated, for example, I do not know how to deal with the Irish local taxation figures. Also, the returns that I have got do not analyse the Scottish returns quite in the same way as the English returns. I have not gone into this matter fully, but I have made one or two rough calculations which lead to a rather interesting conclusion. Local rates in the base year 1913-14 amounted approximately in England and Wales (I can only give the England and Wales figures, so the comparison with the national income for the whole country is not a strict one) to £71,250,000; in 1923-24 they amounted to £141,000,000. In both years the poor rate, education and police approximately amounted to half of those sums. The poor rate includes not merely the upkeep of the poor, but many other charges; I have not gone into those; but the Treasury return circulated with the Budget only analyses the recent figures under the headings that I have given you. Those separately distinguished heads amounting to about 50 per cent. are in a sense more of a tax than the rest, which are more specific payments for benefits received—drains and roads and things from which the ratepayer presumably gets a corresponding benefit. If you take them in relation to the national income you find that the onerous rates (I would not like to say that the items distinguished are properly to be called onerous rates, because one would need to go into that much more fully) the onerous rates amount both in 1913 and in 1923 to an additional tax which is under 2 per cent. of the national income; but the interesting point is there has been no appreciable change in the ratio of these local rates to the national income.

2474. *Mr. Lees-Smith*: That would make your 1913 proportion 9·1 per cent., and the 1923 proportion 20·7 per cent?—Yes—the decimal points I cannot answer for at the moment, and also we are comparing England and Wales with the United Kingdom less the Free State; so I would not like to say what the combined ratio is without getting out the national income for England and Wales; but it is quite clear that there has been no change in the former proportion which the burden of rates bears to the national income.

2475. It would be interesting to know if you can arrive at any estimate of the limit to which we can go in the proportion of the national income to be paid in taxation? Other witnesses have been giving their views on that subject. Is it possible to arrive at any sort of scientific answer to that?—No. I frankly do not think it is possible to arrive at any answer that means much.

2476. It would be very useful to know that?—Obviously in theory you could increase taxation till it absorbed the whole savings fund, which would push it up a good deal higher than the present figure; you can presumably go on pushing taxation, and in some stages of history the impositions on nations have been so heavy as to drive down the standard of living. You ask me a theoretical question. Well, in a slave State you can reduce people to the very bare minimum of existence by taking away the product of their labour, and I presume in theory in that sort of sense you could drive down the consumption of the country to an enormously lower figure than any that modern taxation has done. The only meaning that can be given to the phrase, "the limits of taxable capacity," I think, is to put it much more conditionally; that, if you drive taxation beyond a certain point, it will have such and such an effect. The purpose of this paper is to try and see whether we can trace what effect this actual burden has had on savings, and on the standard of living. I cannot conceive that there is an absolute figure—I cannot tell you where it is at all events—which is the absolute limit of the burden of taxation.

2477. I think it has been stated that it is £1,000,000,000, but at any rate you would not attach any importance to that kind of estimate, would you?—Not merely stated in a bald form like that; it would have to be accompanied, as I just said, by a statement that, if you exceed the figure, you will produce certain results on the national life.

Then I have referred briefly to the comparative figures abroad. There has been a great deal of work done, but I have not attempted to summarise or examine it. I would only say for my own protection that in giving a comparison with France I have quoted a French economist; but I do not make myself responsible for his estimate. He is one of the leading economists of the day in France, who might be expected to produce the most unbiassed and scientific estimate of this kind, but I give it purely on his authority and not on my own.

2478. *Sir Alan Anderson*: When you refer to the amount they raised in taxation, did they actually get that money, or is that what they ought to have got if everyone had paid?—It is given as the amount they raised, but I suspect that it is not quite as net a figure as the one that I have included in the preceding table; for example, I suspect that it includes such items as the proceeds of the sale of war stores.

2479. *Professor Hall*: Is not the value of any comparison affected by the difference in practice of bearing expenditure locally or nationally in the different countries?—Undoubtedly.

2480. Do you think the comparison between our percentage and the French percentage is a comparison of any great value?—I think it is of some value. It clearly requires that one should go further into it, and explain exactly what it does mean. But I would say this: that before the War the French percentage was unquestionably higher than the British percentage. That is shown by the figures that were collected and compiled for the Brussels International Financial Conference of 1920, where an attempt was made to compare the national income with taxation at that date. Before the War, France's percentage was, I think, 12 per cent. against the figure of 7·1 that I gave for this country, which suggests that in fact more expenditure comes out of the central fund in France than in this country.

2481. We should have to go more deeply into it to find out what services were paid for locally in the two countries to make it comparable?—Yes. But the comparison does show the trend of events; for, whereas France has risen from 12 to 16 and is getting towards 18 and even 20 per cent., we jumped from 8 to 22 and are now back to 18 or 19 per cent.

2482. *Mr. Lees-Smith*: Taking the comparison between the Napoleonic period and now, this does not give you an estimate of the actual burden; you have to take the figures per head for that. Taking the Napoleonic Wars, the proportion of income taken in taxation is only 14 per cent., and it is now about 19 per cent.; can you deduce from that that we are more heavily burdened now than after the Napoleonic Wars, taking into account the increase in the general prosperity of the country, and so on?—It is not necessary, first of all, to take it per head, because if you take the total taxation and compare the total income, you get a comparative figure to the one I have given. If you divide both items by so many millions you get exactly the same ratio, of course.

2483. The point I have in mind is that 19 per cent. in a country where the wealth is high is not so great a burden as 14 per cent. in a country where the wealth is low?—That is perfectly true. To-day there is a larger margin over what we should call the minimum necessary for existence. There is a larger margin undoubtedly which can be taken in taxation. But in that connection I would call attention to paragraph 9 (vi), where I have inserted the 1818 figures in the table. As the point has been raised, I may take that table here perhaps; it brings out this point. If you look at the second half of the table you will see the "Ratio to national income of various items." The ratio of the internal debt service to the national income was 8·12 in 1818; it is now 7·89, substantially the same, though, of course, we have to add the external debt, making the total debt charge something over 9 per cent. as against 8 per cent. 100 years ago. But, of course, the big difference, if you are comparing the total percentage, is first of all in our big pensions bill, and secondly, in the other services, which to-day are practically 5 per cent., whereas 100 years ago they were just over 1½ per cent. In other words, we include in our budget the collection of taxes for a large number of services which were not performed 100 years ago, and if you are getting value for money, it is not a burden. This makes it necessary to consider what you are spending the money on. Are you spending it productively from the country's point of view; are you educating your people and producing a more efficient population, and so forth? Clearly, you might push total expenditure up to 30 per cent. if you were getting value for money, and still perhaps be better off.

2484. *Sir Alan Anderson*: You might be better off in the long run, but it might be a dangerous investment in the first few years?—Quite so; but with regard to this figure of 5 per cent., expenditure on social services has been rising to that figure—I was going to say for a century, but perhaps I should say half a century, or better still, one third of a century. It has been slow in the main; it is not a sudden jump.

2485. There has been a pretty rapid jump lately, has there not?—Yes; it jumps from 2·4 per cent. to 5 per cent. in the last 10 years.

2486. I think I remember that there is £40,000,000 more being spent on Civil Service pay than was being spent before the war?—There has no doubt been a very large increase, and it may have increased too fast, or it may be that we are investing for some time ahead and are not getting any return yet for it. But if we are comparing the total figure of the Napoleonic Wars, 14½ per cent. with 19 per cent. now, it must be borne in mind that the latter includes items of what are in the long run presumably reproductive expenditure.

May I return now to paragraph 8? I proceed to point out that the burden of taxation depends on two things, the object on which it is spent—as I have just been saying—and the way in which the money is levied. As regards the objects, I have separately considered interest on the external debt, interest on the internal debt, defence, pensions, civil and other services, and the cost of collection. The only favourable thing I can find to say in favour of the payment of external debt in its reaction on production is, of course, that it maintains credit. Clearly if Great Britain repudiated its external debt it would give a great shock to credit, and probably reduce national production later on; otherwise the payment is economically a loss to the country.

2487. *Mr. Lees-Smith*: Could you very briefly deal with this point, because many witnesses have spoken to us about it? Do you hold that to pay £30,000,000 a year to America is no greater disadvantage to us than to pay £30,000,000 a year to our own citizens; that there is no difference in the effect of internal interest and external interest?—No; I hold that there is a substantial difference.

2488. Will you put briefly what that difference is, and what is the reason for it?—The payment to citizens in a country is transferring to them purchasing power; that is spent in the country, and in any case those people have to live in the country. They have to be provided for somehow, and you are transferring to them claims on the general store that constitutes the national income. Their expenditure therefore tends to maintain the standard of consumption in the country. If you pay these sums outside the country, it goes to other folk who are entitled to take something right away out of your heap of goods and services, which constitute the national income, and spend it without any return. It is true that the people here who receive interest on war debt do not now make any specific contribution to the national income in respect of the interest they receive; but, as I say, they are people who are living in the country, and if the interest were paid abroad, the country as a whole would be the poorer.

2489. And they can be taxed?—And, of course, above all, they can be taxed.

2490. How do you answer the argument that on this view it would be better to raise money at 5 per cent. in London because the interest would go to our own citizens, than to raise it at 4½ per cent. in New York?—I think it is necessary first of all to be clear as to what you are going to do about taxation.

2491. Practically the argument that has been put to us is this: If you say that it is more advantageous to raise a loan internally than to raise it externally, do you then say that it would be more advantageous to raise a loan at a certain rate of interest internally than at a lower rate of interest externally?—May I put your question in this way? Would it be more advantageous to raise a 5 per cent. loan on which the Government takes back, say, 1 per cent., and which, therefore, is equivalent to 4 per cent. net, than to raise a 3½ per cent. loan abroad on which it could not collect tax; that is what you are comparing?

2492. Yes.—I should not like to put it in terms, but I should say that the advantage of raising an internal loan was worth something very substantial on the rate of interest, but I would not like to say what. Clearly, if you could raise money at 1 per cent. abroad it would be worth it, I think. But what the difference is worth in figures I could not say. But there is an economic advantage in having the debt in the form of an internal loan.

Then I have gone on to discuss the interest on the internal debt, and there I thought it might be of interest to the Committee to put in an estimate which I made analysing who it is that holds the National Debt. The summary of that is late in paragraph 9 (ii), a rather more detailed statement coming earlier in the paragraph. I do not know that it is necessary for me to go through it, but I shall be very glad to answer any questions, if I can, to explain how the particular figures are arrived at.

2493. *Mr. Hichens*: In this connection it is often stated that there has been an important alteration

in this country, as also in America, in the class of investor; that owing to the campaign in both countries to induce people to save during the War the less wealthy section of the population have acquired the habit of saving. How far would you say that that is the case in this country? How far is it true that there is more saving among the comparatively poor than there used to be; have you any views that you can give us?—I have a general impression; I do not really think it is worth much. I have not any real grounds to go upon, but I do think there is an increase in saving, since the commencement of the War, due to the fact that during the War, and, in some trades afterwards, there was a substantial margin available for saving; there has always been a desire for security among the poorer as among other classes of society, which can be satisfied when such margins exist. I think we may regard a substantial part of the savings certificates taken up as the result of the War Savings campaign, and certainly a large part of the investments in Government securities for savings bank depositors—not the deposits in savings banks, but the investments made on behalf of depositors—as representing in the main new savings by the working classes. But this is only an impression. The actual figures of the savings banks do not lead to any definite conclusion. So far as I can see, both before and after the War there is a rough balance between deposits and withdrawals. It looks as though people who have not got an ordinary banking account use the savings bank as a substitute. Roughly, the increase in the funds of the savings banks and the trustee banks is due simply to the surplus of interest received on their investments over that paid to the depositors; but the savings certificate movement and investments through the savings bank in Government funds indicate growing working-class saving.

2494. *Sir Alan Anderson*: The interest is being saved?—In the savings bank itself, yes.

2495. *Mr. Hichens*: Would you say that the same thing is true of investments generally? I have seen it stated that in America, owing to the very high taxation on big incomes, the richer people have ceased to invest in speculative securities because the inducement is not great enough, and that, as a result of that, the financiers have carried on the Victory Loan campaign, and have induced smaller people to invest in the more speculative securities, and that they have done that with some success?—In more speculative securities?

2496. Yes, because the taxation on them is not so high; therefore the gamble is a better one for them than for the very rich man, you understand?—Yes.

2497. I was wondering whether you had any view as to how far, if at all, that tendency is operating in this country. Would you say that it is at all true that the people with smaller incomes are investing more in speculative securities than they did; have you any idea on that point?—I am not in a position to judge. I should not have thought it was the case. I should have thought that during 1920 the poor and the moderately wealthy, as well as the very wealthy, all engaged in an orgy of speculation; but that is nothing new. We have had many corresponding eras in history, from the 18th century onwards. I should not have expected to find any evidence that there was a general tendency among small savers in more normal times to go in for more speculative securities; but it may be so.

Mr. Hichens: Thank you; I just wanted to get your view.

2498. *Mr. Lees-Smith*: Are there any figures which enable you to judge what are the savings of different classes? This is the question I have in my mind: We have had a good deal of evidence to the effect that if you reduce the Income Tax, say, by £50,000,000, most of that will be saved, and it will go to increase the capital of the country; on the other hand, it has been suggested that if you were to reduce indirect taxation by £50,000,000—sugar and tea duties—very little of it would be saved; it would all go in extra consumption. Are there any figures anywhere which enable you to judge of a given reduction in taxation, say, in direct taxation, how much is saved?—No. I do not think there are any figures which are worth anything. In recent years we have had both experiences. You have a reduction in this year's Budget mainly in indirect taxes; you had a reduction last year and the year before mainly in direct taxation. As you see from the figures in this paper, the figures bearing on saving, how it is done, and when, and so forth, are so general that it is quite impossible—at least I think it would be quite impossible—to deduce from them what the effect of these remissions upon saving has been; moreover, the changes are so much influenced by more general considerations as to the state of trade, and things of that kind, that you cannot isolate the effect of a reduction of taxation.

2499. Broadly, from your general knowledge and impressions, would you assume that, suppose we reduced indirect taxation by £50,000,000, say, in sugar and tea duties practically the bulk of that would simply go in extra consumption and very little of it would be saved?—I should be disposed to think that a larger proportion of it would go in increased consumption than in a corresponding remission of direct taxation.

2500. *Mr. Hichens*: There is in your view some reduction in saving, is there not, during the past few years; there is some reduction in capital investments, and therefore inferentially in saving?—I think there is a substantial reduction in real saving, but I am coming to that later on. But before I come to that, I should be very glad to answer any questions on this estimate of how the National Debt is held.

2501. *Mr. Lees-Smith*: With regard to the figure of debt held by private persons, can you break that up broadly into what one may call the working classes and the other classes, or the Income Tax paying class and the non-Income Tax paying class?—No. Much the largest part of that I think is held by the Income Tax paying class.

2502. *Chairman*: Are not Savings Certificates held largely by working people?—Yes, but there are also a lot held, I think, by Income Tax payers. I think it is quite evident that at various stages, at all events, the middle-class Income Tax payers realised that War Savings Certificates were an extremely good investment, as indeed they were, and they quite naturally took up the maximum that they could. I have no idea what proportion that represents of War Savings Certificates. On the question of the holdings of private persons, I would like to say this: I think the figure in the table is a maximum one, and that perhaps I ought to have taken a lower one. But I was so struck by the fact that it worked out at such a small proportion of the National Debt that I hesitated to take a lower multiplier than 35. The figure is arrived at by taking the Death Duty figures and using a multiplier of 35; that is, we assume that there are 35 estates of living persons for each person dying in the year under consideration. Sir Bernard Mallet's multiplier is 30, and it has been suggested to me—I do not know whether there is anything in this—that in the case of Government stock the multiplier would tend to be even lower than this general multiplier on the ground (and the Committee will be able to judge better than I as to whether this is sound or not) that as people get older and retire from business they are more likely to have their capital in safe securities than in active business operations; and therefore the percentage of Government stock among those actually dying will be higher than among those actually living. If that is true, the multiplier for Government securities as distinct from all forms of wealth passing at death should be nearer 20. But that would bring the figure down to a remarkably low one. I therefore took the highest multiplier

that I reasonably could, because this estimate was certain to be commented upon as showing a surprisingly low total held by private persons. I confess myself I was surprised, when I worked it out, to find what a large proportion of the Debt is held as part of the monetary system of the country; what a large part is held by the Government themselves; what a large part is held by concerns like the railway companies. The benefit of these last holdings in a sense goes back to the public, owing to the fact that we control the railway companies now on the principle of allowing them a standard revenue; if they receive large sums in respect of their investments, they will be able to operate on a lower level of rates and fares and still get their standard revenue. With regard to the interest paid out to railway companies, to financial concerns such as banks, insurance companies, and so forth, and certainly, of course, that paid to the Government, does not seem to me to affect the distribution of wealth in the country as between rich and poor.

2503. *Sir Alan Anderson*: It is only a distribution of a part of the wealth?—Well, it does not affect the distribution of wealth as between individuals.

2504. I do not quite see what you can hope to get from analysing the holding of the National Debt, or what practical effect there would be unless someone said: "Let us confiscate the National Debt, because it creates drones"?—I was struck by the fact that a comparatively small proportion of this interest payment is made to people who might be called drones. My point was this, that by paying interest to the railway companies, to the banks, or paying out of one pocket into the other, as it does, in leases on the Treasury Note Reserve, and in other cases, the Government is not creating or maintaining drones.

2505. I am not sure that even that clears the drones, because there may be drones whose fathers made their wealth by making bad shells, or something, and they have now got their wealth in something else that is not National Debt. They would be drones just the same as if they were getting interest on the National Debt; they have peddled off the National Debt to someone else?—I quite agree it does not settle the question whether there is a larger proportion of drones or not, but it does bear on the point whether the existence of the National Debt is a means of maintaining a much higher proportion of drones than used to be the case before the War; perhaps it does, but I do not think it does to the same extent as is quite commonly supposed.

2506. *Mr. Bell*: Do you mean that all private persons holding debt are drones?—I am very careful to put it in inverted commas.

2507. How do you differentiate between the man who is working and also holding War Loan, and the man who does not work but holds War Loan? Is it not quite impossible?—Of course, but there comes a point where the inducement to work is less if you can live on your War Loan.

2508. It depends how much you have got?—Exactly.

2509. *Sir Alan Anderson*: There is no difference in the point of view of the community between the drone who sucks his honey out of railway dividends and the drone who sucks it from War Loan?—No. I may put it in this way, perhaps: the existence of the National Debt has added some £7,000,000,000 to the volume of interest-bearing securities. The others were there before; they are still there, and perhaps they are increasing; but there is an enormous addition to the volume of securities. Has that produced an enormous increase in the number of drones or semi-drones?

2510. Would it not be fairer to say that the spending of this vast sum of money on shells and ships, and one thing and another, has distributed great profits to a large number of people and their descendants?—I would like to put it in this way, that the National Debt has added a substantial amount to the amount of stock which *is* privately held but nothing like the total debt, because so much of it is used in these other ways; that is really what I want to show by my table.

2511. *Mr. Lees-Smith*: I want to be clear about this: What is the distinction between debt paid to a private individual and debt paid to a banker which will then go, I presume, to the shareholders of the bank? What is the actual distinction in the effect on the distribution of wealth, which I think you are trying to bring out?—The interest which a bank receives on its investment is not all net profit available to the shareholders; it goes on to profit and loss account. It is only part of it that is paid as dividend on its shares. The fact that the banks hold £750,000,000 does not mean that interest on that amount is straight away distributed to the shareholders.

2512. *Mr. Bell*: I should have said substantially it was?—That the whole increase in securities has gone to them?

2513. Substantially the interest arising therefrom?—All gone in increased dividend distribution?

2514. Substantially in distribution—not necessarily increased, but in the distribution?—But you have to compare the distribution with what is was before the War.

2515. Yes, I agree?—Are the dividends paid by the banks so much larger? It amounts to something like £40,000,000.

2516. No, but they are paying interest for the money which they invest in the War Loan; they do not pocket that money. It is only the margin that accrues to them; it is not the whole of the amount that they receive. It is just as much working capital for them as a loan to a grocer?—Exactly; that is what I am saying.

2517. *Chairman*: That is your point, I think. Supposing you borrow £50,000,000 and pay 2 per cent. or 2½ per cent. for that and invest it in War Loan, there would be a margin of 2½ per cent.

Mr. Bell: Not after paying Income Tax.

Chairman: No, not after paying Income Tax, but Mr. Layton says that not all the interest on the £750,000,000 will be distributed; that is the point, as I understand it?—That is certainly so. If a depositor deposits money and you invest that in Government securities, you have to pay the depositor interest, you have to pay the cost of running the bank, and the investment has to yield enough to cover that cost and the interest to the shareholders.

2518. *Mr. Bell*: That is perfectly true, but the investment is not differentiated from the payment for use of the money?—Certainly not; I do not differentiate it in any way.

2519. Therefore, substantially the whole of it comes back to the shareholders?—I do not think so.

Chairman: His point is that, very largely, it does not come back.

2520. *Sir Alan Anderson*: A practical application of the analysis would come in, if one had to consider a capital levy?—Yes.

2521. That is really the value of the analysis as to the way in which the loan is held, or at least an important part of its value?—Yes, it has a bearing on that question undoubtedly.

2522. *Sir Alan Anderson*: Is not the Capital Levy directed solely to holders of permanent debt?

Mr. Lees-Smith: The assumption is that the National Debt is very largely held by private persons, and would yield a large sum of money by a Capital Levy, but if a very large amount is held by Government Departments and Trustee Savings Banks, and so on, it would not have that effect; there would be no new money?—I did not raise it in that connection because I understood the Committee had not yet got to the point of discussing the Capital Levy.

Then I refer to pensions and other items in the same way; I have not examined them in detail. That brings me to the table in paragraph 9 (vi) which I have already referred to, showing what the per-

centage of expenditure for various purposes is relatively to the national income. Then I have gone on to consider the methods of collection.

2523. *Sir Alan Anderson*: The general effect of that table is to show that there has not been any great difference as a whole?—No. It shows that, as compared with 100 years ago, these items of debt, and so forth, are about the same in relation to the national income, but there is an increase from 14¼ per cent. to 19½ per cent. in the total, very largely the result of the increase in expenditure on other services which I have noted. You will notice that the 19½ per cent. is higher than the percentage I have previously spoken of—which relates to tax revenue. The present figure relates to expenditure, some of which is met, of course, out of other sources of revenue.

Then I go on to deal with indirect taxes; I have suggested that there has not been any reduction in the standard of living of the wage-earner. I cannot find any evidence that suggests that there has been, and I think it would be found, if you took the working-classes as a whole, that the consumption has probably gone up in proportion to population. In other words, the reduction in the national income has not impinged upon the consumption of that class. It is very difficult to get figures about it. Apart from the index numbers of rates of wages and cost of living which support my conclusion for individual workers in employment, I have only given the consumption of tea per head, and made some general observations. But I think it would be within the observation of most people that, substantially, there has certainly not been a reduction in the standard of living of the working-classes.

2524. Except in alcoholic liquors?—Except in alcoholic liquors—which may be of considerable importance.

2525. You do not go further than that and say that there has been an increase?—Well, I think myself there has been, and I think the improvement has taken place partly in this way, that the quality of what the mass of people can purchase with the margin of their income over what they have to spend on food, necessaries, and house room, has very greatly improved. There are all sorts of things that have been brought within their reach—things for which you cannot point to any index number of retail prices, or anything of the kind. The cinema obviously does not come into the retail index number, nor do things like wireless, which come within the purchasing power of many wage earners; and, apparently, instead of spending some of this surplus on alcoholic liquors, they are consuming more of these things.

2526. Or motor chars-à-bancs?—Motor chars-à-bancs, motor cycles, and so forth. So I think the content of what the worker's wage does buy has changed a great deal, and changed to his advantage a great deal as compared with pre-war conditions.

2527. *Mr. Lees-Smith*: In that estimate, are you taking into account the worker who is out of work, or are you merely taking into account in your estimate the amount of wages of those in work?—I think it does take into account the worker who is out of work, because in the main the worker who is out of work is at all events provided with a certain income to spend which was very often not the case before the War. Certainly the available income for expenditure of the unemployed worker was much more precarious before workers were all covered by insurance.

2528. There are many more of them?—Yes, but there are not so many more of them as is sometimes thought.

2529. About half a million more?—Less than half a million more; a good deal less at the present moment.

2530. But actually did the estimates which you have given us here take into account any provision for the fact of this extra number of men out of work?—You have to look at it in this way: the man who is out of work is getting his food and his rent and his clothes; he is probably not getting any margin; but the others are getting a larger margin than before the War; and on balance the total available for expenditure by the working classes, I think, is substantially more, or, at all events, goes further on the whole. Otherwise you would expect to find the figures of consumption about the same—the expenditure of those who are in work being balanced by the lack of expenditure of those who are out of work, and I do not think that is the result of observation.

2531. Can you take this a bit further? Can you break up, say, the income tax-paying class into sections in any way and tell us which of them is bearing the loss which must come from the fact that the average income per head is lower?—I am coming to that at the very end; really it is the question of what is happening to savings, is it not?

2532. Of course, we know that the persons living on fixed incomes are bearing the loss?—Yes.

2533. But can you differentiate further and say the professional class as distinct from the manufacturing class, or commercial class; are there any estimates which take us any further than that?—I have not attempted to make any estimates, and I am not sure whether estimates are possible. One can only argue on general observation and on theoretical grounds.

2534. Could you on those grounds give any indication as to how the loss is being shared out between different classes of taxpayers?—No, I should not attempt to give a quantitative figure. I know, and we all know, that people who are accustomed to live upon a fixed income, who had a fixed income before the War, are worse off; everyone must know cases where that is the fact. We all know that a person who is receiving rent is worse off; his income has not gone up in proportion to prices. We all know that people whose incomes from, say, railway securities, are worse off, since dividends remain the same. But as to who they are, and how many of them there are, I would not attempt to guess, and I do not know of any means of doing so. All that one can say is that there is a section, mainly of the Income Tax paying class, who quite clearly are worse off, and I think the loss of the national income is attributable partly to the loss of a particular section, of which I do not attempt to estimate the size, of the Income Tax paying class, and partly to the fact that there is less saving; that, I think, is the way that we have to account for the insufficient increase of the national income.

2535. An argument that has been put before us is that, if there is less saving, it is the working classes who are going to suffer in the long run, and therefore direct taxation is very harmful, but you have rather indicated to us that there has been less saving, and yet the working classes have become better off?—I was coming to that, but I will take that point now, if you like. The conclusion of this paper is that saving is going on; that there is a margin of production over consumption, but that, estimated in real values as distinct from nominal values, it is not so large as before the War. To some extent it is of a different kind from the saving that went on before the War.

2536. *Mrs. Wootton*: Is that a slowing down of the rate absolutely, or a slowing down per head?—It is total savings. Per head the difference would be still more marked; but I am speaking of the total. The total has increased, but not in proportion to prices. I know of no exact criterion as to how fast the national savings ought to increase, and I do not know that it is essential that we should increase the rate sufficiently to save the same proportion of the national income as we did before the War; it does not necessarily follow at all. We saved something like 15 per cent. of the national income; that was added to the nation's capital during the years immediately preceding the War.

But it does not follow that, if we only save, say, 8 per cent., we shall not be getting along very well. Some of that increase before the War was being added to our foreign investments which we were not bringing home to live upon, but which were rolling up at compound interest abroad. They were not contributing to the national well-being, and it is not quite certain that they were contributing in any way either directly or indirectly to the nation's productive apparatus; in any case, I do not know that we can say offhand that there is any definite percentage of the national income which must be saved if we are to maintain the standard of living of the working classes and maintain in our competitive position in the world as a whole. I cannot tell you at what rate capital is increasing in the world as a whole, or at what rate we ought to increase our particular industrial equipment to keep pace with it. The argument that we have got to save at the same rate as before the War assumes that if we do not do that we shall drop behind, and our standard of living will fall. I am not at all clear that that argument is necessarily a sound one.

2537. *Mr. Lees-Smith*: The argument may be that we shall not advance our standard of living as rapidly as before the War?—That may be so.

2538. *Sir Alan Anderson*: What you do find, looking at facts as they are now, is that we are paying our way and putting something aside for savings, and the working classes are at least as well off, even allowing for unemployment, and probably are rather better off than they were before?—That is right.

2539. And that includes, in your view, the shortage of hours—the fact that they work less hours?—Yes.

2540. I think it is rather going back to the beginning of your paper, but I do not think you told us this: Do you find in balancing up the reducing of the hours against the improvement in machinery whether the sum of those two things is producing more per man or less per man?—I have taken it that we are producing approximately the same per man in my 95 per cent.; I say that I do not think that is high enough.

2541. You think we are probably producing a little more per man?—Yes. I think that any case that you may pick out, in which you compare the output per man-hour, takes for granted that there is a similarity of comparison in other factors; but progress consists in the fact that processes change, and it is in the changed processes that we get the greatest improvement, and there you cannot get any comparative estimate of man-hour production.

2542. I was seeing a multiple punch yesterday where two men are now doing four times the work eight men used to do?—Yes; that is the type of case which I have not got here. My cases are those where, broadly, the workers are doing the same sort of work, in similar processes but usually with improved plant, and generally with improved organisation.

2543. *Professor Hall*: The man-hour output comparison is not necessarily the same as the man-year output comparison. The reduction in the number of hours worked per week may affect the comparison?—Yes, but my attempt has been to give reasons for thinking that there has been an improvement in the man-hour output equivalent to the reduction of hours, and therefore that the man-weekly production is as big as it was.

I think I am now at paragraph 11. I have turned aside into theory at that stage and have shortly set out the argument as to the effect of direct taxation on economic action, on profits, prices and output. I have not developed that fully, as I assumed that the Committee has had that matter put before them and discussed at very great length by other witnesses. I think I put something like the orthodox view here—the orthodox economic view, not the universal view amongst business people—that on the whole a tax on income ought not to affect economic action for the reason stated, viz., that prices and the amount of production are determined by the cost of output at the margin where no profit is made, that the Income Tax is a tax on the surplus, and that production will continue under competition to the point where profit stops. But this theory has to be qualified in important respects. It is not quite certain that people act so exactly according to the laws of economic theory, or that competition works quite in that way. It is suggested, and I think there is something in it, that people are actuated by an idea of a conventional rate of profit—what they think is the proper rate of profit. One is always being told that people will not do this, that, or the other, because taxation is now such that the net profit is much lower than it used to be, and it is not worth it; in other words, there is some relation between a certain rate of profit and the effort that people think is worth making, or the risk that they think it is worth undertaking, and so forth.

2544. *Mr. Hichens*: Do you attach any importance to that view at all?—Very little. I think the economic theory is substantially correct, that in fact a tax on income does not appreciably affect actual action.

2545. *Sir Alan Anderson*: Except by reducing the reserves and weakening the country?—Of course, I am coming to this later; there are other reactions.

2546. *Mr. Bell*: Would you say that your account was true of the tradesmen? I know cases where they do make an adjustment in price; they keep prices high, so that, after the Income Tax is taken into consideration, the remaining income will be what they consider they ought to have for education, living and the rest. Is it not a very human and natural thing that a man should consider the net result of what he is going to get, and take into account all the factors, including the Income Tax?—Yes, but is it not a strong argument that if he could have got more profit before he would have done so?

2547. I agree, but that does not seem to me to touch the point. He has been accustomed of late years to have a certain resultant income, and he has altered his life and that of his children and dependents accordingly, in housing and all the rest of it, and he is always seeking to keep that up.—And therefore he seeks to charge higher prices?

2548. Yes?—My difficulty is this: Why did he not try to get those higher prices before, if they were within his reach?

2549. Because he would not then be educated to the higher standard which he now thinks he ought to keep up; he had not got that before him.—You think then that business people generally are subject to the same motive which is so often ascribed to working people, that they have a standard of living, and when they have attained a certain income they do not bother to earn any more? It seems to me that your argument is that the same applies to shopkeepers and business people generally; I should have doubted whether that was the case.

2550. I was thinking particularly of the traders. It is the experience of most of us with regard to the retail charges, which I think are seriously too high—and probably that is behind it—that there is a very close ring of retailers to keep up prices.

Sir William McLintock: Does not the retailer get the same margin of profit that he always had, owing to the higher prices of the commodities that he sells? Take a rough and ready method: a man buys a suit of clothes; the trader put down one-third for the material, one-third for the wages, and another one-third he adds on to cover his working charges and his profit. Take the retail drapery establishments in London; they all work on a gross profit of a given percentage, but they are working with a higher priced commodity, and by the time they have paid their tax they are left with very nearly the same net profit that they had before?—Not the same real profit. Suppose the price of the suit is doubled, and his ratio of profit is 33⅓ per cent. We will assume for simplicity that the suit, pre-war, was £3: his profit is £1; the suit is now £6, and £2 is

profit. We are assuming that the prices have doubled. He now pays 20 per cent. tax or 25 per cent. tax; he has 30s. left as against, perhaps, 19s. 6d. before. He is not as well off as he was before.

Sir William McLintock: I should put it the other way. He takes the cost of material, which is high, and wages which are high, adds the two together and adds on 50 per cent., so by that means he gets a very substantial balance to meet his working expenses and his profit.

2551. *Mr. Hichens*: Your view is, as I understand it, that the price must ultimately be that which will attract an investor?—Yes.

2552. If the price becomes high in relation to the market value of money, then people will go into that industry and in time will bring it down?—Yes.

2553. If it is low nobody will go in, then owing to the shortage the price will tend to rise?—Yes.

2554. That would be the governing factor?—Yes.

2555. I dare say you know of instances, as I do, of people who, during the War, protested that there was no incentive to work unless they got a profit of 10 per cent. on the turnover, and those same people are working to-day much harder than ever they did on a loss of 10 per cent.; one comes across that, does one not?—Yes. I think really it might be put in this way, that what the critics of the economic theory suggest is the assumption, which I believe to be wrong, that business people, manufacturers and so forth are in the position, or ever have been in the position, to vary arbitrarily the rate of profit they are going to get by putting up their prices: that is really the crux of the whole thing—the assumption that there was a margin, and always has been a margin, within which prices could have been adjusted, and my own opinion is that though there are undoubtedly special cases where that may have been so, it is not substantially true of the economic field, looked at as a whole.

2556. *Professor Hall*: In the first part of paragraph 13, what you say about the monopolist having already exploited his position to the utmost is the case put forward by Marshall?—Yes.

2557. He is getting his maximum profit and by altering his output he cannot increase the profit?—He is getting a maximum monopoly revenue. The point at which he gets that maximum monopoly revenue is not altered by the fact that there is a tax upon it; therefore, if the argument is sound, he cannot raise prices and get it back from the consumer.

2558. I should like to put something on this point before you. The price that an individual can obtain depends on the prices asked by his competitors?—Yes.

2559. Assume they are all of them influenced in the manner suggested by Mr. Bell, and all raise their prices because they have extra taxes to bear. Would they not in that case be likely to pass on the taxation to the consumer by obtaining higher prices?—In other words, what was before a competitive industry, because the tax is put on, becomes a monopolistic one, or subject to a monopolistic ring.

2560. Hardly that, but the competition is on a higher level, because they have all added their tax to the price they ask. There may be a reduction in the demand as the result of prices rising, but in general they will be selling the same quantity of goods and at a higher price, because they are all acting alike?—No. In theory, at all events, that is not quite sound. Supposing there are four competing firms, A, B, C and D, and a tax is put on. In no trade is it true that A, B, C, and D will be making all the same profit; therefore the Income Tax that D will put on will be quite different from the Income Tax that A will put on. Assuming that they were going to add their Income Tax, you would get a series of different levels. Let us assume for the moment that D pays the lowest tax; he is only just on his legs—just keeping his head above water. He adds a small tax to his costs. The others will certainly not add more than that tax, otherwise he will get their trade, which is exactly what he wants to do. The economic theory goes further than that, and it says that in fact production goes to the point where there is no profit.

2561. That assumes, of course, that you have differential rates of profit from zero to the maximum?—Yes.

2562. But that is not necessarily the case, is it?—I should have thought substantially it was true in competitive industry.

2563. Within the limits of the shopkeepers available to the particular consumer, you may find something like a general level of profits, but not the wide variation that economic theory assumes?—Well, it is quite true that there is not perfect competition all over the economic field, but it is my impression as I said in answer to a previous question, that it is sufficient in effect to make the economic theory substantially valid.

2564. *Mr. Lees-Smith*: Incidentally, I think you have got on to another point. You have got on to the question of the effect the Income Tax has upon industry and enterprise amongst business men?—Yes.

2565. You hold that the doctrine that the Income Tax diminishes the enterprise and industry and working will of the business community has got really very little foundation?—Yes.

2256. Is that the trend of your argument?—Yes; I hold it has very little foundation. To some slight extent I believe people do refrain from taking economic action, because they do not think the profit is good enough.

2567. *Mr. Bell*: Do you not think every business man ought to do that?—I only knew personally two or three cases of people who said that taxation was so enormous that it was not worth while going down to the office in the morning; they did not get enough out of it; but they are all still in business.

2568. *Mr. Lees-Smith*: The argument previously put before us has turned not so much on the readiness to work so many hours a day, as on the readiness to take risks. It has been put to us that a business man says: "Why should I take a risk? If I lose, I bear the whole brunt of it, and if I gain, the Government takes 10s. Under those circumstances I will not go into these very speculative enterprises."—I think there is something in that. I think it may be true that taxation may affect the extent to which people will take big risks, because the net return as between a speculative enterprise and a non-speculative enterprise is not sufficiently different. I think that the person who takes a really big risk is looking to the number of years in which he wants his money back rather than looking at it as an investment. If a man is only going to get 7 per cent. for a comparatively risky enterprise, it may be looked at simply from another point of view. He has got to have his money locked up in that speculative enterprise for a much longer period, because after all the high rate of profit on speculative investments is, to a considerable extent, a premium for amortisation. It has a relation to the number of years in which you can get your money back, and I think it is quite possible that the premium is unduly reduced now, and that it has some effect in deterring people from taking big risks.

2569. *Sir Alan Anderson*: The contrary argument was put to me by a stockbroker the other day, that the whole inducement of taxation now was to get Super-tax payers to buy things that were down away below par—speculative things—in the hope of a rise. That is what he found his clients were looking out for: they were all out for a speculation of that kind?—Well, I would not like to say really how the balance works out. These opposite motives are all in operation.

I then mention a point—it is not of very great importance, but it is a side light—that, when the Government considered what was a fair price to give to the shareholders of railways, it did not take into account net return at all; it took gross return as its standard. It said: "If we give the same income

gross they have nothing to grumble at," regardless of the fact that they were taking anything up to 30 per cent. or 40 per cent. back in taxation.

Then I have given some figures from the estimates which were made from time to time in "The Economist" of the profits of public companies, to see if one could trace any general increase in the rate of profit which might tend to support the view that what is aimed at is the same net rate of profit as before the War. I have given the figures as being the only ones available; but they are inconclusive on this point. The dividend on ordinary capital is the most significant figure; the rate of profit on ordinary capital before the War was 8·1 per cent. and it is now 10·2 per cent. Taxation would bring that figure below the 1913 figure, which means that industry is in fact getting a lower net profit than before the War.

2570. Still, it is not to be despised?—No, it is not. The net return on preference capital is substantially less than before the War, which is, of course, not surprising.

Then I come on to the second point, the rate of saving. There I have given two or three sets of figures. The first is the premium income of insurance companies, which is mainly saving. It is true that you should deduct from the premium income of insurance companies something in respect of the claims paid; but I think the deduction is only a small one, because when the heirs of a person who dies receive the insurance premium they treat it as capital as a rule; at least, I think it may be assumed so. There are certain exceptions to that; the figures include among industrial assurances premiums for the payment of funeral expenses, and the general group includes premiums of insurance against Death Duties—all cases in which the payment made by the insurance company represents something that is consumed, and does not represent a net addition to capital. But for the most part those insurance premiums represent a certain type of saving—and it shows an increase which is about equal to the increase in the level of prices. But I do not think we can draw too rigid conclusions from that, because it may be, and I think it probably is, the fact that the habit of life assurance is increasing, and that one might have expected to find an increasing proportion of the savings of the nation going into life assurance, and therefore we cannot take it for granted that, because that form of saving has increased at the proper rate, the total savings have increased, or even that the whole savings of the class that put their money into life assurance premiums have increased at the proper rate.

Then I have given the figures of new issues. These, except for the abnormal year 1920, are very much at about the same level as before the War.

2571. *Chairman*: Have you included the Government guaranteed issues in these?—Those are included in the figures, but there are not many of them. You mean loans under the Trade Facilities Act?

2572. Yes, and the money borrowed by railways and other undertakings under guarantees?—I do not think there are any Government guarantees for railway borrowings, are there?

2573. Oh, yes; the Underground?—There was one on the Underground and for South Eastern electrification; but I was thinking more of the main lines. I would like to say that a deduction really should be made from these new issue figures, because during the five years since the War the National Debt has been reduced. As I point out, there has been a certain amount of repayment of capital on the Government debt which was available for investment in these issues without involving new savings. The net budget surplus since the War is about £100,000,000. Of course, in the last two or three years it is much more than that; but, on the other hand, in 1919 and 1920 the Government was spending far more than it was receiving. But on balance about £100,000,000 has been paid back to the public. Therefore, we come to this conclusion, that the new issues are about equal, or slightly in excess of the new issues before the War. £100,000,000 of that has been found by taxation, which means that on the whole the amount of money voluntarily saved and put into new issues is slightly less than before the War. That is much too little. If we were maintaining our rate of saving, those new issues would amount to something like 75 per cent. above the pre-war level.

2574. *Sir Alan Anderson*: That may mean that there is not the demand for new companies?—Well, I think the demand would be there if there was a big surplus of capital seeking investment. That surplus would show itself in a lower rate of interest at which you could float new issues; I am fairly satisfied that, if the rate had been considerably lower than it has been in the last three or four years, the new issues would have been forthcoming. The third source of saving is taken from the company reports which we analyse in "The Economist"—namely, the sums added to the reserves of public companies. There, again, so far as the analysis is a sound one, the proportion of profits set aside to reserve remains about the same. The companies concerned are still building up their reserves at about the same rate as before. My general conclusion, therefore, is that while the life assurance premiums and the amount saved by public companies have increased in proportion to prices, the new issues have not increased at all; clearly, therefore, the total saving has not increased in proportion to the rise of prices, or anything like in proportion to the rise of prices. I would not like to attempt to give a figure as to how much it has increased; it has increased in total obviously, but not enough.

2575. *Mr. Lees-Smith*: You can give us no estimate of what we were saving pre-war and at present?—No, I should not like to do that. These three are only pointers. To continue, clearly if there is a reduced rate of saving, that will raise the rate of interest and will react on prices and production; to that extent it is not true to say that heavy taxation, if it prevents saving, has no effect on production. It may affect it through affecting saving, and therefore affecting the amount of capital in the market and the rate of interest. That indirect effect is the important thing.

2576. You have a very important summary at the end of that, in which you say that this slackening in the rate of saving is not due to high taxation so much as to our increased standards of comfort?—That is an expression of opinion; I think it is true.

2577. It is very important, because most of our evidence has been on the point that it is the high taxation which is preventing saving; you could not develop that for us, I suppose?—Well, it is very difficult to give any definite grounds for an opinion like that. One can only judge from observation. One knows that the standard of consumption among whole classes rose during and after the War, and they have been for the last two or three years striving to maintain that standard; the thing that has had to go to the wall has been savings. Very often they have hung on to the life assurance premium, but my opinion, and I only give it as an opinion, is that in the main it has been the desire to hold on to that standard that has been mainly responsible for reduced saving.

2578. *Sir Alan Anderson*: A standard higher than the pre-war standard, but materially lower than that at the end of the War?—Yes, certainly.

2579. *Mr. Lees-Smith*: You are really now referring to the Income Tax paying class?—Yes.

2580. To the better-off classes?—Yes.

2581. But their real income is, in fact, less than before the War?—Yes. Their real income is less than before the War, but they are holding on to the standard of consumption.

2582. And are taking it out of their savings?—Yes.

2583. *Sir Alan Anderson*: We have not any evidence to show whether they can go on doing that?

—That brings us to the point that was mentioned just now as to whether it is essential in the national interest that saving should resume the real rate that it had before the War, and frankly I do not know the answer to that. I do not think it is at all to be taken for granted that we must return to the same rate of real saving as before the War.

2584. *Mr. Lees-Smith*: Is it not generally true that the more you save, the greater the capital in industry, and ultimately the higher the wages of the country and the general standard of living?—I agree that it is desirable that the rate of saving should be as big as possible. In the end, that is going to raise the standard of living and improve the prosperity of the country generally; but I do not think it follows from that that we shall be unable to maintain our existing standard of living, even though we only save half what we did before the War. I am not arguing that it is a good thing or a convenient thing that we are only saving at this reduced rate, but I do not think it follows that it is necessarily going to react to lower the position as compared with that before the War.

2585. Our rate of saving before the War was one that gave us an increasing standard?—Yes.

2586. What you are now saying is that a lower rate of saving may give us a stationary standard?—Yes, really that is so.

Then I come on to the question of taxation and the form which savings take, and I have given some figures, the conclusion from which is that on the whole there is a tendency for savings, I think, to go into safer forms of investment rather than more speculative forms of investment. I have also added some figures which show that certainly we are not investing abroad at the same rate as before the War, if you reckon real values. Then I summarise the conclusions which have been brought out in the course of the discussion.

2587. I do not want to keep you over a point which is not in your paper, but I should like to ask you this: I noticed in the House of Commons that Mr. Asquith made a suggestion that taxpayers should be invited voluntarily to pay a capital sum towards the liquidation of the National Debt, and that they should be correspondingly relieved of Income Tax?—Yes.

2588. I believe that suggestion originally emanated from you, did it not?—It originally appeared in a little book I published on finance. I am quite prepared to submit a short statement if the Committee wish. There is not very much to be said about it. It is only of comparatively small importance, but, if it could be made worth while to both the Treasury and the taxpayer, I think it is a scheme worth doing.

Mr. Lees-Smith: I think it is directly within the terms of our reference.

2589. *Chairman*: Yes. We should be very pleased if you could let us have a statement. We shall probably be having another inquiry on a specific part of our work, that is, the Capital Levy, and we should be very grateful to you if you came before us on that point alone later on. I should have asked you to-night, but it is too late now to deal with that; perhaps you will be kind enough, if we require it, to help us in that direction?—I will be very glad to do anything I can. I do not know what dates you are thinking of. I would just say this, that I expect to be in America during October, November and December.

Chairman: Very well; we will arrange a date agreeable to you. I only want to say that I really compliment you on your paper; I think it is only a very fertile brain that could have produced so exemplary a paper. It has been of very great service to us.

Witness: I am very much obliged to you for what you have said.

(The Witness withdrew.)

(Adjourned to to-morrow morning at 10.30.)

EIGHTH DAY.

Wednesday, 6th August, 1924.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman.*
SIR CHARLES ADDIS, K.C.M.G.
SIR ALAN G. ANDERSON, K.B.E.
SIR ARTHUR BALFOUR, K.B.E.
MR. HENRY BELL.
PROFESSOR FRED HALL.
MR. W. L. HICHENS.
MR. H. B. LEES-SMITH.
SIR WILLIAM McLINTOCK, K.B.E., C.V.O.
SIR JOSIAH STAMP, G.B.E.
MRS. BARBARA WOOTTON.

MR. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

MR. J. WALKER CLARK, J.P., and MR. FELIX J. BLAKEMORE, F.G.I., representing the National Chamber of Trade, called and examined.

EVIDENCE-IN-CHIEF handed in by MR. CLARK and MR. BLAKEMORE.

Mr. J. Walker Clark is a Past-President of the Chamber; Chairman of its Parliamentary and Executive Committee, which is the governing body of the Chamber; Justice of the Peace, County Borough of Halifax, Commissioner of Taxes; was a member of the Royal Commission on the Income Tax 1919; Proprietor of businesses in the retail textile distributing trade, and is also connected with other undertakings at Halifax; Past-President of the West Yorkshire Federated Chambers of Trade, the Halifax Chamber of Trade, and the Halifax Drapers' and Hosiers' Association; Member of Council National Association of Trade Protection Societies; Member of Council Halifax Chamber of Commerce.

Mr. Felix J. Blakemore is a Past-President of the Chamber; a member of its Parliamentary and Executive Committee; President-Elect of the Wolverhampton Chamber of Commerce; was member of the Standing Committee on Trusts; member of the Board of Trade's Panel under the Safeguarding of

Industries Bill; member of the Postmaster-General's Advisory Council; Chairman of Directors of Messrs. Edwin Blakemore and Sons, Ltd., Wolverhampton, Importers and Wholesale and Retail Distributors of Foreign and Colonial Produce.

The Witnesses Will Say:

As representing the National Chamber of Trade we respond to the invitation of the Committee to submit our views upon the important points covered by the terms of reference. We do so, however, handicapped by the short notice received, and by the difficulties, some of them insurmountable, under which at this season of the year, our evidence has had to be prepared. We desire to make it perfectly clear that we do not pretend to approach the questions at issue as experts in any sense whatever. Therefore we have not felt it our duty, or within our province, to attempt any examination of the subject from the standpoint of the economist or the financier, although we fully realise that many of the factors which have to be taken into account require to be examined by those who are able to claim authority in these respects.

The National Chamber of Trade is a Federation of some three hundred local Chambers and Associations of traders throughout the country, which comprise upwards of one hundred thousand members, mostly distributing traders, and the smaller craft traders, who, in the natural course of their businesses, are daily brought into immediate contact with the consuming public. We are conscious that the factors operating in high finance and economic movements, and as more plainly seen in national expenditure and taxation, act and re-act upon every phase of industry and trade, including every activity of distribution as well as production.

To take the essential element of credit as an example, we can assure the Committee that the operation of credit on cheap terms is quite as vital to the small trader as to larger undertakings; the terms of credit are a material factor in the cost of distribution. When the bank rate is high, accounts are not paid so promptly to the trader, who, in turn, is compelled by the necessities of the situation to take longer credit for himself. Each extra month for which credit is taken, or in some cases even 7 days, render the terms of his purchase transactions less favourable to himself. Wholesalers and manufacturers, faced with their own difficulties, are in turn compelled to make their terms definite and rigorous, and find themselves unable to agree to that elasticity which was a characteristic of former days. Thus, the trader who turns over his stock of foodstuffs monthly, or oftener, and of dry goods about once a quarter, is directly and considerably affected by the interest lost on each of the manifold transactions in which he has been concerned as customer. The item is a serious one, and in his annual accounts may probably average as much as 5 per cent.

Many distributing traders are very largely financed by the merchants or manufacturers who supply their goods for sale. They hold no security, and if from suspicion or tightness of money the wholesalers withdraw their support from the retailer, he must from necessity cease trading. Credit depends upon goodwill, mutual esteem and confidence far more in small businesses than in larger ones. It should not be overlooked that the largest distributing houses in the world have been built up in the lifetime of one or two generations of proprietors and from the most humble beginnings. Small businesses are needed for the supply of necessities to a large section of the public. They depend upon the availability and cheapness of credit facilities.

Question 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?

The National Debt of nearly £8,000,000,000 does to a certain extent (at any rate as regards that portion of it held in this country) provide an instrument of credit to the trader, but it must always be remembered that a great part of the debt was contracted at a time when we had a debased currency, and if liquidated too quickly would impose an intolerable burden upon the taxpayer, and at the same time would have the tendency to restrict credits to the trader.

While we are gradually deflating the value of nearly all estate and commodities, rapid repayment of National Debt would so appreciate the value of State securities that they would attract investors and possibly starve both industry and trade financially. Floating Debt should be as far as possible converted into long-term securities at a low rate of interest, and that part not so converted should be repaid as favourable opportunities present themselves.

The Floating Debt by its very nature is a handicap to business, because it absorbs so much loose money which otherwise would be available for business, but especially because of its varying rate of interest. Trade wants stability, and all occasions for varying conditions as to rates of interest or overhead charges are inimical.

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

The terms upon which capital can be raised are certainly influenced by the rates of interest paid to holders of the National Debt. As the debt grew in size the terms upon which money could be borrowed became harder. This has a direct effect upon the raising of capital for industrial purposes. Invitations to subscribe capital for industrial undertakings on a security at fixed rate of interest, to meet with adequate response, must be on such terms as will favourably compare with the average rate of interest on holdings in the National Debt, which offers premier security, coupled with a comparatively high rate of interest from the investors' standpoint. We think there can be no question that a National Debt standing at the present enormous figure, involving an annual charge of nearly £350,000,000, must have considerable effect in determining the availability of capital for industrial purposes and the price at which it can be obtained. This will, however, depend to some extent upon the manner in which the debt is distributed, because certain types of investors who require long-dated securities of an absolutely safe character would not be likely to place their investments in industry and trade which necessarily involve risks that are not associated with investments in Government stocks.

The heavy demands of taxes and rates upon trade and commerce has had the effect of relieving many manufacturers and distributors of the national securities they held, and therefore there may not be a large holding in those hands, which would compete with the raising of capital for industrial enterprise, but so far as those securities have been transferred to banks, a necessary restriction of credit facilities obtains. With deflation proceeding in other kinds of estate, both real and otherwise, money is being directed to channels which seriously compete with capital required for industry.

Question 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 prosperity of trade? In other words should repayment be adjusted according to the condition of trade, and if so, on what principle?

The repayment of debt should be adjusted according to the conditions of trade. When trade is booming the burden of taxation becomes automatically lighter, and in a period of trade depression the repayment is not only relatively, but actually, heavier. It is somewhat difficult, however, to define trade depression from a national standpoint, because, while

certain industries and trades, although not booming, may not be suffering depression, others may, from various causes, be experiencing very severe setbacks. We would say that the annual repayment of debt by smaller or larger amounts should be regarded as an axiomatic principle, but that the extent to which it can be applied must depend upon the National finances, and notably upon realised surpluses, increased revenue and reduced expenditure, all of which embody considerations of policy on the part of the Government that may be in power.

If this question is intended to have any application to the proposal for the cancellation of any part of the National Debt by a compulsory levy on capital, then we would say that such a step would in our judgment be very disastrous to national and private credit, and would seriously effect all classes engaged in industry and trade. It is realised that the present amount of the National Debt is colossal and that its annual service makes a terrific demand upon the national capacity. Still, wonderful as it may seem, the nation has shown that it can sustain the burden, although a staggering one. Its ability to continue to do so will be greatly facilitated by increased productive power, reduction of expenditure, and reduction of taxation. Slow process although it may be, the gradual repayment of National Debt out of actual realised savings—*i.e.*, the profits of industry and trade—is a safer process than a forced levy of capital which would be accompanied by abrupt and heavy deflation, resulting in tremendous and far-reaching depreciation which would quickly be reflected in the fall of all values, and a consequent increase of serious unemployment.

Under normal conditions depression in trade brings cheaper money, values are depreciated and less capital is required to run businesses; such a time would appear to be a favourable opportunity to reduce debt, but care should be taken not to do so too rapidly, or to confine it to one class of debt alone. During a period of trade prosperity reduction of debt should be almost stationary at first, gradually receiving its momentum as increased profits accrue from the increased demand for goods. Nearly all industries at present are so short of capital that the rising tide of prosperity would call for the employment of every penny of capital or credit that could be obtained, and any attempt to reduce capital by either maintaining taxes at their present high level, or not reducing them when the national balance sheet justifies a reduction, must seriously prejudice an industrial revival. Excess Profits Duty, Corporation Profits Tax, Income Tax and high rates have in many cases been extracted at the expense of increased overdrafts, because profits made both during and after the War, were not represented by liquid assets. Stocks, book debts and "reduced terms of credit" were all holding up those profits, and the trade slump found many businesses with considerable wealth on paper, but a big overdraft at the bank, and the continual drain on the taxpayer since has not permitted this condition of things to be altogether remedied up to the present.

Question 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?

It is impossible definitely to state the extent to which high taxation operates in the direction referred to in the question, but there is no doubt that it does operate in a marked and extensive degree. It has been computed that during 1923 exactly 10s. in every pound levied by the tax collector was required for National Debt services. All taxation on the profits of a business necessitates a withdrawal of capital which could otherwise be left to fructify by the expansion of the undertaking. It is well known that during the past few years there have been many instances in which the liquid cash for the payment of Income Tax has not been available and in such cases it has been necessary to make special arrangements involving further monetary charges. Given the necessary capital, managing ability and personal enterprise will surmount almost every conceivable difficulty, but a concern impoverished in its resources by repeated drains upon its lifeblood is prevented from embarking upon that expansion and extension which in the aggregate mean so much for the welfare of all classes. Money left in industry and trade possesses increasing and ever growing possibilities, but, extracted for the State, these qualities are diminished or even lost altogether, and there is considerable suspicion that so long as the State continues to exercise this extracting process upon a scale of the present magnitude there will be danger of unwarranted expenditure. While we cannot define the extent to which the present high taxation operates, we are nevertheless convinced that it is very serious and that nothing would be calculated to give such a stimulus to trade and the material well being of the nation as a whole as a substantial reduction of the demands made upon trade income.

Enterprise and expansion must be the keynote of success in all fields of commercial activities; this cannot be done without both capital and credit. High Income Tax reduces the former, and, if collected too rapidly, deflates the currency and restricts the latter. With a reduced Income Tax greater incentive is given to industry to develop; that in its turn produces better incomes and widens the area of taxable revenue. If this incentive is lacking or stultified, then economies are necessary, which reduce employment and taxable profits and so tend towards higher taxation. Thus the vicious circle is perpetuated.

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

The first part of this question seems to be the last question put in another way. Different businesses are affected in varying degrees by the oppressive burden of taxation, but certainly all are adversely affected. In contemplating Imperial taxation, and the demands which it makes upon industry and trade, we must also bear in mind the enormous toll of receipts from local rates which in 1913-14 was £71,276,000 or 6s. 8¼d. in the £ and £1 18s. 11d. per head, and in 1921-22 had increased to £173,000,000 or 14s. 9¼d. in the £ and £4 11s. 4d. per head. Heavy taxes and rates reduce available assets and hamper operations. Thus they increase the cost of production and of distribution and in turn the cost of living. These conditions are accompanied by increased wages and consequently higher cost of production which seriously handicaps the manufacturer in competing against lower prices in the world's markets. The burden of taxation is taken into account by a trader in fixing his prices and the heavier it is, the dearer his goods become, and the dearer the goods, the smaller the demand, and in this way his operations are curtailed. Of course the exporter is seriously handicapped by high prices in competing in foreign markets.

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

In so far as individual holders who are engaged in trade and industry are concerned, we do not see that their receipts as such can fairly be set off against what they have to contribute for its service. Surplus funds, accumulated by profits arising from the working of a business, must be invested somewhere at a remunerative rate of interest commensurate with good security. Capital, wherever it may be invested, is entitled to its return for the service it renders, and this is just as true of capital represented by a holding in the National Debt as in any other form of security.

If, however, the question is intended to apply to the receipts of industry and trade in the aggregate as against the total tax contributions paid, then we have no information or data upon which to give a definite answer.

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

In order to extend and develop, the proprietors of many distributive businesses do not (in fact with limited capital cannot) distribute all their profits, and in many cases large "carry forwards" appear in the balance sheets which are income earning and so repeatedly taxpaying; one of the effects of high taxation has been to convert some of these "carry forwards" into bonus shares, but it has also had the effect of further accentuating the necessity of increasing these amounts by reason of the heavy drain on the earning power of the business, and always keeping the concern poor and dependent upon the credit facilities of the banks.

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

High taxation reduces the investing capacity of the public. It also reduces the earning power of industry and trade. In consequence they are less attractive to the investor; this has the effect of making money dear and adds further to the cost of the commodity produced and sold. If, however, competitive conditions do not permit this to be done, then the revenue suffers by reduced profits and incomes. The purchasing power of the public is severely contracted on account of their spending capacity being much restricted through high taxation. Hence the demand for commodities is reduced with adverse effect upon manufacturer as well as distributor. Distributors know well that there is a stage at which, generally speaking, the public will go without certain commodities rather than suffer a heavier drain upon their resources already depleted by high taxation.

Question 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?

We have no precise information on this head, but it certainly appears to us that in so far as the foreigner is called upon to bear the heavy Income Tax levied in this country, he would naturally be disinclined to invest his capital here if he could obtain equally secure investments elsewhere.

Question 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?

See reply to question 5.

Question 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?

It is impossible to determine the extent to which heavy taxation operates in the directions referred to in this question. The problem is very largely psychological. Perhaps the most notable example was furnished by the effect of the Excess Profits Duty, which undoubtedly led to extravagance in the administration of businesses, the result being against the interest of the State. Both in business undertakings and in the case of private persons the consciousness that a heavy proportion of earnings is taken by the State has a tendency to dull the edge of incentive and initiative. Therefore, while we do not say that it is conclusively proved that the present rates of taxation are a deterrent to saving and to thrift, they certainly have this tendency and reduce ability to save.

When at the end of the year's hard work the proprietor sees nearly 25 per cent. of his hard-earned profits being taken by the State, he begins to lose that greatest moral asset "courage," and he asks himself, "Is it worth while"? His enthusiasm becomes dulled, and unless he is endowed with great hope and recuperative power, he fails to produce the driving force necessary to success, and may eventually cease to be a source of revenue to the Treasury.

Question 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?

Death Duties really represent a payment of taxation out of capital, and therefore undoubtedly involve a drain upon capital to that extent. If the amount paid in Death Duties is disbursed by the State on non-productive enterprise, then the national income must accordingly be adversely affected.

Businesses and undertakings passing at death from father to son in quick succession have in some cases been seriously crippled, and have actually ceased to be sources of income at all. The fear of the payment of Death Duties is a very serious handicap in many businesses, particularly partnerships where the children are females, or not likely to take active part in management. Large payments are made in insurance premiums to provide for the evil day which, to a certain extent, prevents development. Undoubtedly, however, there are many cases in which it has become impossible to make effective provision by insurance within the life of a generation; consequently cash payments on account of Death Duties have to be effected by realisations, some of them "forced," and therefore involving loss of capital.

As regards undertakings carried on as going concerns, the unavoidable depletion of capital resources has crippled activity, reduced employment, and generally contracted the sphere and nature of business operations.

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

During the last two or three years we have from time to time urged the reversion to the penny Stamp Duty on receipts and cheques, which was raised to twopence during the War. It goes without saying that payment by cheque is a very useful and handy way of making disbursements. Doubtless a good many accounts formerly paid by cheque are now paid by cash so that in such cases there is really a loss instead of a gain to the revenue. All who used the method of payment by cheque had become thoroughly accustomed to the penny duty and made no complaints in connection therewith. Maintenance of the War increase of twopence for such a long period after the conclusion of the War has created a very definite sense of grievance, besides leading many to avoid payment by cheque whenever it can be done. As regards the receipt duty of twopence, this also has engendered a sense of grievance. The duty of one penny was never objected to, but one can easily understand that the duty of twopence on a receipt for so low an amount as £2 is regarded as a heavy percentage of tax. It would be equitable to reduce the respective amounts to one penny, and we think it would also be to the general advantage of the community, and especially to those engaged in trade and industry.

Stamps on agreements and contracts are now so much increased that many fairly large transactions are probably made the subject of non-stamped memoranda. This is undesirable both on account of the loss of revenue and because in the event of dispute there is no producible document upon which the issue can be determined.

The receipt from Stamp Duties for the year 1921-22 showed a sharp decline from £26,541,000 to £19,577,000, of which nearly two and a half millions occurred in respect of conveyances and nearly £600,000 represented decrease in the receipt from cheque stamps.

Question 14.—To what extent (*a*) in the present depression, and (*b*) in a period of normal trade, is the ordinary assumption correct that the *tax on commodities* is borne by the consumer?

Assuming this question refers to imported commodities, then the tax on such commodities (if in competition with similar articles produced here and distributed at the same price) is not borne by the consumer; in that case the foreign importer reduces the price of his article by the amount of the tax in order to compete with the home manufacturer, but it often happens that the home manufacturer takes advantage of the impost of the tax to raise his price, in which case, part, if not all, the tax is paid by the consumer.

Question 15.—What is the effect of the Customs and Excise duties on the prices of commodities? How does this affect internal and external trade?

Until recent years Customs and Excise duties on imported food goods were nearly always paid by the consumer, because they were nearly always non-competitive in price.

We got currants from Greece and Greece alone.

We got Valencia raisins from Spain and Spain alone.

We got canned fruits from California and California alone.

Sugar we certainly did get from different countries, but just before the war Germany was becoming such a dominating influence in the beet sugar production of Europe, that she was rapidly liquidating what other competition she had in the English market. This process of competitive destruction gave us cheap sugar, and the consumer possibly did not pay the tax, but with the elimination of the cane sugar competition from the West Indies, Cuba, Java, etc., and the beet sugar competition from Holland, Russia, Austria, etc., Germany undoubtedly would have made the consumer pay the tax in this country.

To-day the position is somewhat changed.

Greece is in competition with Australia for currants.

Spain is in competition with Australia and South Africa for raisins, and California is in competition with Australia for canned fruits.

Greece can only sell 10 per cent. of her production of currants to other nations than Britain, hence she has got to protect her interests in the English markets.

Spain is in a like position, only more so, and California has already to develop a selling campaign in order to maintain her market here for canned fruits.

With the increasing quantities of these goods coming from the oversea Dominions, and more keenly competing with the foreigner, the time will arrive when the Customs and Excise duties on such commodities will be borne by the producer instead of the consumer as at present.

General Observations.

The Need for Retrenchment.

A study of the questions covered by the terms of reference would be incomplete without recognising that attempts to solve them must be accompanied by continuous retrenchment and public economy. Comparison between the expenditure on the various normal services to-day and the expenditure of the year immediately before the commencement of the Great War shows that we are still a long way from realising that curtailment which is necessary, if the burden is to be made proportionate to real taxable capacity. The National Chamber of Trade has persistently tried to keep before its members the truth that taxation and expenditure are the effect of policy. To give illustrations of this might impinge upon the controversial field of political sentiment which is not our arena. New proposals for schemes of so-called social reform are continually being introduced, many of which, if adopted, would entail further heavy expenditure. Little or nothing is being done to check the false notion that somehow or other money can be found for every State project, or to demonstrate the truth that without the exercise of the fullest individual and collective effort, unhampered by artificial restrictions, the required standards of production essential to effective industrial advancement can never be reached. However valuable the recommendations of the Committee may be, they will have little effect in operation unless they are supported by an enlightened public consciousness in relation to these fundamental factors and considerations.

Local Taxation.

In relation to a part of the reply which we have given to question 5 we trust that the Committee will be able to bring the question of local taxation within its purview. There is great need for reform in the incidence of local rating, and for the adjustment of the financial relationships existing between local and Imperial authorities. Grants and subsidies from imperial sources should bear a more equitable proportion of the local rates raised for services of a national character. Transference of the cost of maintenance of national services to the national exchequer would lift a big burden from the shoulders of taxpayers, and particularly traders as such. Moreover, it would carry out the recommendations both of the majority and minority reports of the Royal Commission of 1901, the substance of which was that for imperial services the citizens of the country should pay according to their ability. In a great many localities local rates are exceedingly high, and in some they are increasing. It is unfair to burden traders with the heavy additional charges consequent upon new legislation, and the extra burdens of administration thrown upon local authorities.

There is still a marked tendency, and indeed a new impetus, in legislation, which in effect and operation places additional financial burdens upon local government. In this connection we would with respect submit the following suggestions for the consideration of the Committee:—

1. An estimate of local government expenditure should be presented to Parliament each year at the same time as the national Budget is introduced.
2. That when any Bill affecting local authorities comes before Parliament it should be associated with the estimated cost both to the taxpayers and ratepayers which its proposals involve.
3. That any proposal in Parliament involving fresh charges upon the rates should be assimilated to the procedure in force as regards imperial taxation, *i.e.*, that a special resolution must be moved in Committee and reported to the House before the matter can be considered.

As regards the basis and machinery for local rating we hope that the Government will make endeavour to carry out the Prime Minister's declaration of the 12th February last, that it would attempt to deal with rating, and that it hoped to produce its scheme for re-adjustment and reform. We trust therefore that during the next session the Government will introduce the draft Rating and Valuation Bill issued by the Ministry of Health during the last administration, and that there will be incorporated therein the amendments which those bodies consulted thereon have laid before the Ministry.

Co-operative Trading Societies and Taxation.

In considering the incidence of taxation as affecting individual traders and limited companies, we are compelled to take into account the distinction which in its present form the law makes with regard to co-operative trading societies. We fully realise that co-operativism is one of the systems of modern business existing for those who prefer it. Individual

traders, firms and companies are, however, entitled to protest against the maintenance and the extension of special privileges, exemptions and facilities possessed by the societies in relation to taxation, etc. These may have had some reasonable application at the time of the origin of small societies operating in a very limited sphere, and upon a strictly mutual basis, but we submit that they are entirely out of character for huge organisations which compete in almost every section of business, and seek by various methods to attract the custom of the general public outside their membership.

In this matter we would draw attention to the majority recommendations of the Royal Commission on the Income Tax, which were in effect that a co-operative society should be treated exactly as a limited liability company trading in similar circumstances and under similar conditions, and that if these proposals were acted upon it would be necessary to amend the existing law in so far as it confers special exemption on co-operative societies. In our opinion the survey of the present position with regard to the incidence of taxation should certainly include consideration of this particular phase, and we earnestly trust that the Committee will see the way clear to report in favour of the recommendations of the Royal Commission being carried out.

The Enormous Total of Public Assistance.

A complete and easily understood return should be published showing how the enormous total of Public Assistance is disbursed. When we speak of Public Assistance we mean all the grants from rates and taxes for which the recipient does not pay, or only pays a small contribution. We are not now condemning any particular item, as we realise this is not the occasion to enter upon detailed criticism involving questions of political policy or expediency, but the precise cost of public assistance should be so clearly stated that its full significance can be brought home to every citizen.

Despite the enormous expenditure upon "social reforms" designed to foster higher standards of life and well-being, there has been no accompanying diminution in the cost of Poor Law Relief which, according to published figures, increased from 15 millions in 1911 to 42½ millions in 1922, notwithstanding that the aggregate number of recipients and the percentage per thousand of the population have greatly decreased, and that in the latter year we expended 88 millions upon Health and Unemployment Insurance in addition to 80 millions upon War Pensions. It appears that apart from education and war pensions the amount received from rates and taxes in various forms of assistance has increased from 11½ millions in 1890 to over 200 millions, an amount equal to the total pre-war Budget figures. With war pensions, which we readily distinguish as a national obligation, and including education, the total about two years since stood at the stupendous amount of 400 millions. According to a motion submitted to the House of Commons in April, 1922, the expenditure upon public assistance had, so far as could be ascertained from Parliamentary publications, risen from £25,000,000 in 1890-91 to £332,000,000 in 1920-21, and would probably be not less than £400,000,000 in 1921-22 while 30,000,000 persons, exclusive of unemployed, out of a population of 48,000,000 had actually been in receipt of such public assistance in 1919-20. We would respectfully suggest that the Committee request information as to how these relative figures stand to-day.

Direct and Indirect Taxation.

Only one voter out of nine on the Parliamentary register is a direct taxpayer. We do not undervalue the contributions made by indirect taxpayers, but is it desirable, is it in the best interests of the State that so large a proportion of the electorate should make no direct contribution to the upkeep of the nation? This seems to us to be another vital consideration that ought not to be left outside the scope of the enquiry. In 1912 the indirect taxes produced 42 per cent. and the direct taxes 58 per cent. of the national revenue. In 1918 these proportions had increased to 18 and 82 per cent. respectively. To-day we believe they are about 25 and 75 per cent. In 1913-14 the amount raised by direct taxation in the United Kingdom was 163 millions, or £3 10s. per head of the *whole* population at that period. In 1921-22 the amount so raised was 856 millions, or £18 4s. per head. We hope that authoritative and workable proposals will be made both as to what amounts should be raised by direct and indirect taxation respectively, and also as to how the scope of direct taxation can be widened upon a fairly graduated plan so as to impart a more adequate sense of personal responsibility with regard to the finances of the nation to all who, by the exercise of the franchise, have a share in the fateful task of determining its political destinies.

2590. *Chairman*: We have your memorandum before us; would you like to make any observations upon it?—(*Mr. Clark*): The first part deals very largely with telling you who we are and what we are and whom we represent. The National Chamber of Trade is really a very large organisation; in fact, we sometimes boast that we are the largest organisation of employers that there is in the world. We have over 100,000 members of all kinds and descriptions, and distributed throughout the whole of the United Kingdom. We are sorry that we were crowded a little bit with our investigations; the précis we have submitted is very largely the result of our own investigations previously, rather than specifically upon the points which have been laid before us in the Questionnaire. Some of them, of course, we have investigated privately and at some considerable length. The précis has been submitted in chief to members of our Parliamentary Committee, who number 20, and are distributed throughout the country, and most of them are in a pretty considerable way of business, and every one of them has expressed approval of the evidence which we submit. We wish to stress the point that credit—and therefore the terms of credit—is very important, so far as even very small men are concerned. We are afraid that sometimes the terms of credit are regarded as very essential in reference to bankers and shippers and men in a very large way of business, but we should like to assure the Committee that the terms of credit are very important even to smaller businesses. Although the differences in the terms may appear to be small, and are small in one sense, they are much more serious than is generally understood, because of the constant turning over of money in small businesses. In a large business, you may turn over your money once or twice a year, but in a very small one it is turned over six or eight or even more times in the year; therefore half per cent. in the difference of the terms of credit becomes 3 per cent. or 4 per cent. or even more than that in many cases.

2591. *Sir Arthur Balfour*: I would like to ask whether your terms of credit are abnormally good or bad now. What is the position of the credit you are speaking of? Is that normal?—Is the question addressed with reference to the man who gives credit or to the man who receives it?

2592. The getting in of your money one way or another, or the credit you receive from the manufacturer?—The credit received from the manufacturer by the merchant or factor is less than it was previous to the War: it is shorter.

2593. Are you, then, getting in your money in detail as well as you were previous to the War?—No.

2594. Has there been a falling off in getting in your money in the last few months?—There has, since the slump, since 1920.

2595. But in the last six months has it been better or worse?—I should say it is very much worse. (*Mr. Blakemore*): I agree with that statement.

2596. *Sir Alan Anderson*: Is that in the case of a shop dealing with individual customers?—(*Mr. Clark*): Yes, and also in the case of a shop dealing with smaller shops—both cases.

2597. *Mr. Hichens*: How do you account for the fact that you get shorter credit from the manufacturer?—During the War terms were very much tightened, and they have never got back to the original state. I am in the dry goods trade, drapery. Previous to the War, we had abnormally long terms offered. They began from Scotland, and they spread bye and bye all over the country. There is no doubt that the terms which were offered previous to the War to distributors were abnormally long.

2598. They are not unreasonable now, at any rate?—They are difficult, I should say very difficult, for a man to begin a new business with limited capital.

2599. *Sir William McLintock*: It is only in one trade that these abnormal credits are employed, the drapery trade and the soft goods trade?—I would not say that. I should say it is true of others.

2600. You agree the terms of credit you got in pre-war days were altogether absurd, from the point of view of the seller of the goods?—They were. I agree, as a buyer. I think those terms were too long and too cheap; I am sure they were. In respect of flour, for example, they have been very much tightened, and in a great many other commodities they have been very much tightened. Then, continuing our *précis*, we attempt to answer question No. 1 in reference to the supply of credit and how it is affected by the National Debt. The first two paragraphs are from my colleague, and if there is any question to be asked upon them, I would like him to answer it. (*Mr. Blakemore*): I would like just to amplify that statement in this way. In addition to being engaged in commerce and industry, I am an accountant by profession. An estate in which I am interested was constituted three years ago by investments in railway and other trustee securities. These were all sold at a loss then of between 5 and 7½ per cent. and the money invested in 5 per cent. War Loan. The estate to-day is being wound up and shows an increment of over 10 per cent. This illustrates the reason why during inflation the National Debt must more or less seriously compete with and affect the terms on which industrial capital can be raised. While stating this, I do not wish to appear to support a policy of continued inflation of currency, nor do I desire to subscribe to a policy of non-deflation; I merely state what I consider are the facts. That illustrates what I mean in this first paragraph: that the National Debt, particularly if it is showing a fairly high rate of interest, such as the War Loan would do at 5 per cent., must take precedence not only from the point of view of the trustee who is investing funds, but also from the point of view of the ordinary investor who otherwise would probably invest his capital in industrial enterprise. Of course, I realise that these loans, as they fall due, are being converted into longer-term securities at a much lower rate of interest, and as that happens, of course, they will not so seriously compete with industry so far as capital other than trustee money is concerned. There was a point that was raised before this Committee by Mr. A. M. Samuel, which is a very interesting one. That was with reference to the fact that the National Debt does form an instrument of credit. Mr. Samuel gave a very apt illustration, far better probably than I could do, and I should like to say that so far as that illustration goes, that is my experience also. I think he took the illustration of £100 Government security which formed during its existence an instrument of credit, it produced credit from anyone almost who had credit to give, and gave assistance to those who required credit. But other than that, I subscribe to the fact that the National Debt, particularly the 5 per cent. War Loan and Government securities at a high rate of interest, do seriously compete with industrial enterprises and requirements for capital.

2601. *Sir Charles Addis*: Would you qualify that opinion by drawing a distinction between the debt in course of creation and the debt after it is created? I mean, that while the debt is being created it competes with the supply of capital, but after it is fixed it does not do so any longer, and as redemption takes place it returns the credit which has been absorbed?—I understand that question quite clearly. Of course a large portion of the debt redeemed would be invested in industry, but there is a large portion of redeemed debt which would go again into other Government securities. There is a large proportion of the debt held by trustees, who would reinvest in longer term securities.

2602. Then if they purchased a bond from another holder he in his turn has merely transferred the bond, has he not?—Yes, true.

2603. There is no loss?—No, not in a case like that.

2604. No diminution of credit?—No. (*Mr. Clark*): If the money is going to be used in business; but if it is going to be hung up, there may be diminution of credit.

2605. What I mean is that if one man sells and another man buys, there is no change?—But it depends on the purchaser and the seller. If it is a business man who is selling to an old lady who wants an annuity, who is investing, it is an interference with the claims of business, or it may be.

2606. It depends on the use to which the money is put?—Yes.

2607. *Professor Hall*: On the point of its being more difficult to obtain credit than it was prior to the War I should like to ask how the smaller trader fares as compared with the larger trader. It is suggested that the smaller trader is finding it rather more difficult and that the larger organisations, the better known ones, are not hampered to the same extent. How far does your experience support or deny that?—The facts in respect of the larger trader's financial standing can be better ascertained. For instance, if he has debentures it can easily be found out, and it is found out, because it is worth while to do so, but in the case of the smaller man it is very difficult indeed to ascertain his exact financial position.

2608. *Sir Arthur Balfour*: I do not think the witness quite understood the question. Is what is meant credit from the bank or is it the obtaining of capital?

Professor Hall: Obtaining, say, an overdraft from the bank?—I am not in a position to answer that. I should say that in the country years ago credit was given by banks very largely upon personal knowledge. The banks were local institutions, locally managed, with local directors, and it was not so much a question of what a man had, as his capacity for gaining, which gave him a standing with the bank. We do not find that to be quite so in the country to-day. It is now much more a question of figures; it is not what you are going to get; it is what you actually have which enables you to obtain credit; at least that is what I am told, and in that sense it is more difficult for a small man than it was years ago, because he has not got the assets to meet the amount of credit he is asking for.

2609. *Sir Alan Anderson*: That is a criticism of the change in the organisation of banks rather than of the National Debt, is it not?—It has nothing to do with the National Debt except that the debt absorbs so much credit.

2610. *Professor Hall*: But it is on the general question of credit?—Yes, on the general question of credit.

2611. *Mr. Lees-Smith*: You think that joint stock banking has been bad for small traders?—I should have to think out that question before I answered it.

2612. *Mr. Bell*: In the figures we took out, which we did very carefully, for numbers of absorbed banks of the smaller sort, we found that we had greatly increased the credit which was given in those cases?—You are speaking now as a banker?

2613. Yes. We gave evidence before the Commission, and took out these figures, and it showed how very greatly the credit had been increased. I do not want to go into this, because I do not think it is quite relevant to our discussion?—May I say, just in a word, that all credits are very much greater in their amount because of the difference in values. It may be that it is actually a smaller credit if reckoned in commodities, although it is a larger credit in amount, because of the difference in values. It is smaller in bulk so far as the article dealt in is concerned.

We want rather to stress the last paragraph in reference to the Floating Debt. The varying rate of interest which may be given, and which has from time to time been given, on short loans does interfere to some extent with the terms upon which credit is given. Money is diverted from business into what might be called investments, even when they are only short period investments, which makes a demand which percolates down to the very smallest credit, and the withdrawal of credit facilities. It increases the appeal for money, and in our judgment the variation in interest of the Floating Debt has a definite relationship to that. If the interest on the Floating Debt is small there is not that demand for the calling in of the money, and greater facilities are given, whereas if the interest is high the man says: "I must have this in because I am losing so much money in interest or investment somewhere else." We think that is very important.

2614. What you say is perfectly true, that a man who can get a very safe 5 or even 5½ per cent. is not prepared to lend money at 4½ or less; but the National Debt cannot be omitted from account, and there cannot be complete disregard of it when credit comes to be given?—It must be taken into account. The point here is that we suggest that as far as possible the Floating Debt should be minimised and long-term loans at low rates of interest, or as low a rate of interest as is available, should be as far as possible adopted in order to stabilise the rate of interest. If you know what the rate of interest is going to be for six months ahead you can plan your financial arrangements very much more easily than if you had to take into account a variation up or down. That is the real point.

2615. Would you maintain that if you knew, as I think is the fact, that the Floating Debt is really raised at 1 per cent. or 1½ per cent., or sometimes perhaps 2 per cent., below anything else that it is possible to put it into?—Has it not sometimes been ½ per cent. more?

2616. I will not say it never has, but for a year or two it has been extremely cheap, a very cheap way of financing?—Yes. Some corporations have also tried that method of raising money, and with varying success.

2617. Corporations have been borrowing at 4½ per cent. for years?—Some of them were borrowing on three months' loans without direct security.

2618. *Sir Arthur Balfour*: Before we leave that question of credit I would like to ask Mr. Blakemore what have been the relative failures and bankruptcies in business in his particular kind of trade. Have they been very much higher than pre-war?—(*Mr. Blakemore*): Yes. They were very low during the boom years of 1918 and 1919, but since the slump came in 1920—I am speaking now subject to correction—I should think the increase has been between 5 and 7½ per cent. over pre-war figures, so far as the food-distributive trades are concerned.

2619. Can you attribute that in any way to high taxation; can you connect that with high taxation?—Yes, I can in this way. I have a note here which I will read to you. "In many distributive businesses the capital is relatively small and price competition can only become effective by a rapid and continuous turning over of stock. A food-distributive business would, if well conducted, turn over its capital nine or ten times a year. The net profits thus produced show a relatively high percentage compared with the small capital employed, and must necessarily do so in order to provide a reasonable income for the proprietor. The capital being so small, there is very little margin left for extraction by taxation for National Debt reduction; and if it is true that debt reduction only saves the taxpayer 5 per cent. this would undoubtedly detrimentally affect the trader and tend to cripple his enterprise financially." Now what I mean by that is this. I can give you an instance of a business with a paid up capital of £5,000 and a carry forward in the balance sheet of between £8,000 and £9,000, that is reserve profits, making a total capital of between £13,000 and £14,000, doing a turnover of £120,000 a year. A large proportion of that is what they call cash trade, and the stocks are turned over, perhaps, between 10 and 11 times a year. Now when you are working on a small margin of capital like that the demands for heavy taxation in order to meet debt charges and other national expenditure are very crippling, and I know, where I have been called in consultation to help in a purely advisory capacity some of my fellow traders, I have had to go with them to the banks and secure temporary overdrafts in order to meet the demands of the surveyor of taxes where further extension of time for payment was not permitted. I do not know how many cases there are where that has not been possible and the businesses have been wound up; but seeing that the number of bankruptcies has increased so much in the food trades particularly—I am referring now to the grocery and provision trades—I should think that the demand for this high taxation on the man with a small capital has been very crippling and has been the cause of his liquidation.

2620. *Sir Arthur Balfour*: Would that be partly due to the fact that he was taxed on his stocks at high values and then in the fall of the value of the stock he was left with a liability to taxation up to a certain point?—Of course there was always the three years' average which affected it somewhat.

2621. But does the three years' average help in that case? If he has been taxed on his stocks at high values and then the values of the stock fell and he did not realise the stocks at those values, he was left with the taxation to bear?—That three years' average would be detrimental to him because he would be paying perhaps on two years' profit and one year's heavy loss.

2622. *Sir Alan Anderson*: There were heavy failures during this slump or immediately after the slump in values; there was a very heavy slump in values in those trades, no doubt?—(*Mr. Clark*): That would not be so much in the food trades as in our trade.

2623. There would be also in the food trades. Have you any record of what failures are normal in a time of severe slump like that? You have never had such a slump, have you?—(*Mr. Blakemore*): I do not remember one.

2624. Even if the taxation had been low, the trader whose stock was suddenly reduced by about one-half in value would be in great danger of financial difficulties, would he not?—Yes. (*Mr. Clark*): Our point is that the tax is the last straw.

2625. The fall in values was the real big load that knocked them out, was it not?—It was principally that big load.

Sir Arthur Balfour: It was a combination of falling values and high taxation, no doubt?—(*Mr. Blakemore*): Then there was another point, too. Mr. Clark is quite correct in what he says on the point of reduced terms of credit. In the food trade that was very apparent. The importers of food goods into this country did greatly restrict credits during the

War and immediately after the War, and those reduced terms of credit have been maintained almost up to the present time. I could give instances where in pre-war days a month and sometimes five or six weeks' credit was given. Now it has been reduced down to 14 days, and in some instances where 14 days' credit was given before the War you have to send your cheque with your order now. Several firms have adopted a policy of cutting down their counting house charges by offering a discount of, say, 2½ per cent. for cash with order, to save entering in books and the necessary counting house charges, and, of course, 2½ per cent. is *the* profit in many cases in the food trades. If you are not doing that and your competitor is, you are not able to compete with him in price. That is just the position that credit has arrived at.

2626. Owing to the much larger number of failures, which I think the bankruptcy people could give us, that has no doubt a bad effect, to some extent, all round?—Yes.

2627. *Sir William McLintock*: You do not suggest, do you, that the increase in the number of failures to which you refer, is due to the payment of taxes?—As my chairman, Mr. Clark, has just said, it was almost the last straw. I will just give you one instance. I went to the Inspector of Taxes with a trader who had already had three months' extension in which to pay this taxation, which amounted to about £450. He already had an overdraft at the bank of £3,000, and the bank had told him that he could not possibly have any more, and the Inspector of Taxes said he could not give him any more credit. I investigated his financial position, went through his assets and had a look at his stock, and I saw that there were possibilities of the business being pulled round if he could get this additional credit. We were able to persuade the bank to allow him this additional overdraft and he paid his taxes; but if he had not been able to do that, if I had not been there, I do not think there would have been any possible chance of that man paying the taxes out of his then available assets, and he would, naturally, I suppose, have gone under.

2628. Had he been making profits?—Yes, he had been making profits for the one year, but he had made heavy losses for the following two years.

2629. He gets the tax back on the losses?—My reply that I gave to Sir Arthur Balfour applies: you get the average. The fall in food values was very rapid and probably within a period of six months when I forecasted the fall in food prices in 1920, there was a liquidation of between 15 and 20 per cent. in food values. You see how much stock would depreciate.

2630. The important point is this, that the man's financial trouble probably arose from either trading beyond his capital or from speculating and carrying big stocks which depreciated, but it was not directly due to the payment of Income Tax on the profits. Your suggestion was that the payment of the higher rate of tax caused the failure. Now my experience has always been that while it may be the last straw, it is certainly the last payment a trader will ever think of making before he suspends payment?—(*Mr. Clark*): I think Sir William is right, up to a point, but I think there is more in the point than Sir William has admitted. Taxation now is very high and it is a moot point whether in some businesses you can recover Income Tax from the consumer. You can in some, I admit, but it is a moot point. The three years' average has handicapped many men. They enlarged their businesses beyond their capacity in good times and afterwards were handicapped by conditions which followed the boom period; then when it was necessary to draw in, it was impossible to do so, and, therefore, the high taxation does affect them; so it appears to me, anyhow.

2631. *Mr. Lees-Smith*: Is not the point that these men have made miscalculations?—We all do.

2632. You now propose that the rest of the community should repay the loss caused by that miscalculation?—I say we are all in the cart equally. (*Mr. Blakemore*): On the point that Sir William McLintock raised, the adjustment of accounts for taxation, in my view, is very unfair, and that has a reflex action upon the position of the trader. For instance, say you have made a loss two years running and you made a profit on the first year of the three years' average; there are lots of other things that have to be taken into account. The Inspector says: "I cannot allow this charge, and I cannot allow that charge, and I cannot allow the other charge," and the result is that by the time you have settled with the Inspector of Taxes, you find that you have only an allowance of about 50 per cent. of what you thought you were going to get.

2633. *Mr. Hichens*: Do you find that the Imperial taxation, that is, the taxation of the Central Authority, is more onerous to business than local rates?—Local rates depend very largely upon local user and the size or position of premises. It has nothing to do with the man's income or ability to pay.

2634. *Sir Arthur Balfour*: But he has to pay them whether he makes a profit or not?—He ought to pay them; they do not all do so.

2635. *Mr. Hichens*: At any rate, your experience is that it is the high central taxation which affects you, not the local taxation?—I should not say that; both affect us.

2636. *Sir Alan Anderson*: It is high central taxation you are talking about to-day?—Yes. There is another point which has been raised by Mr. Lees-Smith, namely, that one section of the community has been penalised by the trader. I think it ought to be remembered that the other section of the community got their wages very much raised during the War and they have not had them much reduced.

2637. *Chairman*: Will you go on to Question No. 2 now?—Question No. 2 deals very much with the same points that we have already been discussing. Perhaps the crux of it lies near the end of the first paragraph: "Certain types of investors, who require long-dated securities of an absolutely safe character, would not be likely to place their investments in industry and trade which necessarily involve risks that are not associated with investments in Government stocks." That really is a comparison between a Government security and the risk of a business, and states the reason why the terms for industry are at present more onerous than they would be if it was not for the competition with Government security.

2638. Then will you go on to Question No. 3?—Question No. 3, I think, very much follows on the same lines. This is a question really of the method of payment of the debt, whether it should be in a large sum or a small sum, and whether it should be spread over a long period or a short period. We hope that the Chancellor's forecast will be carried out and that Budgets will be estimated with a more close relationship to requirements than they have been in the past, and we trust that we shall not be compelled to raise very much larger sums than are actually needed for the exigencies of the situation, in the future. I was very much impressed with a remark which was made to me in coming down to the train yesterday morning by a gentleman who is one of our large local accountants; he is the auditor for many commercial firms in our neighbourhood. We were talking casually, and he said: "I am miserable." I said I was very sorry to hear it, and I hoped his health was good. "No," he said, "it is because my audit work is making me so awfully depressed. There is only one class of business in our neighbourhood where business is not being carried on at a loss." I looked at him in very great surprise and he repeated the statement and he said "that he regarded it as very largely due to high taxation."

2639. Have you anything to say on the question of reduction of the debt? Have you any views about

whether the Sinking Fund should be increased with good trade and decreased in bad trade?—I would say that it should vary with the general financial conditions of the country; because it may not be solely a matter of good or bad trade. The question of the surplus on the Budget comes in there.

2640. *Mr. Lees-Smith*: Then would you disapprove of the existing system? Would you disapprove of a Sinking Fund of £50,000,000 a year to be steadily applied, apart from the special financial position—Mr. Baldwin's principle?—If there was a very severe slump or if there was a very great boom, we think those things ought to be taken into account; but provided conditions are fairly stable, the method advocated by Mr. Baldwin, we think, is good. (*Mr. Blakemore*): I think where you have a big Budget surplus and the Budget surplus is limited to the reduction of debt, the additional Sinking Fund of £50,000,000 is rather superfluous; I think it is deflating the currency too rapidly. It is placing too heavy a burden upon the present generation and not extending it far enough. That is my view.

2641. *Professor Hall*: Supposing that social conditions remain the same, would you maintain the same rate of tax throughout a number of years and hope that the prosperity of industry would bring you a bigger amount during the years of prosperity to relieve the debt?—In my view that would be a very much fairer way of doing it than the present arrangement. Then, of course, you would be paying off debt by increased profits from industry, which would show that industry could afford to pay that.

2642. You would prefer a fixed rate of taxation rather than a fixed amount applied in reduction of the debt?—(*Mr. Clark*): Yes, if those two alternatives were put before us; because of stability.

2643. *Sir Alan Anderson*: In order to avoid having more taxes?—In order to avoid having a higher rate of interest really on the borrowed capital we require. That is the real point we want to endeavour to provide for.

2644. Surely the repayment of debt would tend to reduce the rate of interest?—It depends on the way it was repaid.

2645. *Mr. Lees-Smith*: There is a question which arises here which is of a general character. I think you make some remarks on the Capital Levy. I will not pursue it very far at the moment, but generally you object to a Capital Levy, and you wish for a reduction of the Income Tax, I gather, and a reduction of the Death Duties and a reduction of the Stamp Duties; and, on the other hand, you wish the central expenditure to be increased by transferring payments from local rates to central taxation?—Have we asked for all that?

2646. You want very large reduction from taxation and you want very large increase of central expenditure. Can you just develop your proposals as to how you are going to reach that result?—By very severe economies and by taxing some classes of business which are now exempt.

2647. By taxing the co-operative societies?—Yes.

2648. And you say economies would be made in what you call social reforms?—We do not say that, I think.

2649. After all, we have to look at the question as a whole; we cannot take any particular tax; we would like to reduce them all; but I gather from your last paragraph that your extra taxation is coming from co-operative societies and your economies are coming from what I think is described as "so-called social reform"?—I would rather put it that our economies would come in another way; they would come in reduced expenditure; and I think it would be possible to indicate one or two ways in which reduced expenditure might be possible without interfering greatly with those particular classes of expenditure to which you have alluded. (*Mr. Blakemore*): Taxation invariably follows policy, and I think if Parliament realised what additional taxation any new social legislation would impose upon the general body of the public, it is very likely there would be considerable economies, if that legislation was passed, in putting it into operation. Parliament now passes legislation without the remotest idea of what effect it is going to have upon the national financial burden, and I think that would be a means of effecting economy.

2650. *Sir Arthur Balfour*: If they were proposing to build houses and they had to announce at the same time that there would be 1s. 6d. added on to the Income Tax, or whatever it might be, it raises immediately the relation of the proposal to the taxation which it might entail. That is what you mean?—Yes.

2651. I do not want to be tied to 1s. 6d., but some figure?—(*Mr. Clark*): Yes, and some figure of local rates as well, as they may be materially affected by the proposal.

2652. *Mr. Lees-Smith*: What I wanted to get at, broadly, was what your outlook is. Is your outlook that we should diminish certain taxes and increase central expenditure, tax the co-operative societies and save the expense of social legislation?—No, I think we have not said that about social legislation. Our idea was rather general economy in administration with those already alluded to as a result of policy, also economies in Army and Navy expenditure.

2653. That is not mentioned in your paper?—We did not mention all in detail.

2654. Social reform is mentioned very clearly?—We give a lot of facts, and we ask for more information.

2655. In your general observations you speak of the need for retrenchment. There I see no reference to the Army and Navy; I merely see references to "schemes of so-called social reform"?

Sir Arthur Balfour: Does not that really boil down to what we can afford?—That is the real point.

2656. Social reform may be very desirable, but if it is going to put such a burden on trade as produces unemployment and makes social distress in another direction, it may have to be postponed. Is not that the real point?—Yes. The point I rather wanted to state was that when Mr. Lees-Smith says we speak of the reduction of the present social programme as part of our method of curtailing expenditure. I say no, but do not go further in the same direction unless and until after further inquiry has shown what is done at present and how the cost is to be met.

2657. *Mr. Lees-Smith*: My difficulty is that I do not see at the moment how you are going to reduce all these taxes if you are also going to increase the central expenditure by transferring local rates to taxation. I do not see how you are going to do it without having to reduce your social programme, or to reduce your expenditure in some other direction. It has either got to be on the Army and Navy or on social reform?—Or greater economy all round. Surely there is a great deal of overlapping between one Government Department and another.

2658. *Mr. Bell*: Over-staffing?—Yes.

2659. *Sir Alan Anderson*: Anyway, what you think is that the taxes are too heavy at present?—That is our real point.

2660. And that the small businesses are especially suffering under them and there are a great many failures and that you want the Government to economise and reduce taxes?—That is our point.

2661. Then you say: "I am not the Chancellor of the Exchequer, so I cannot give you the details of how to do it"?—That is so.

2662 *Mr. Lees-Smith*: We get some very clear advice as to the reduction of taxation, but witnesses are all very vague when it comes to reduction of expenditure?—We were not informed that it was necessary for us to bring a full and complete programme on those points, or we would have endeavoured to do so.

Mr. Hichens: I doubt whether it is within our terms of reference, even.

2663. *Mr. Lees-Smith*: You say you were not asked to do that. The reason I took it up was that you did mention it; you did go out of your way to give your views on that subject, which was not, as Mr. Hichens says, absolutely necessary under the terms of reference?—Yes. Is there any point the Committee would like to ask on No. 4; if not, I may perhaps pass on to No. 5.

2664. *Sir Arthur Balfour*: On No. 5 surely the figure of £4 11s. 4d. rates per head represents an enormous burden on every manufacturer?—Yes.

2665. You have to pay that whether you make a profit or not?—Yes; it has nothing to do with ability to pay.

2666. It has nothing to do with the profits you make?—That is so. The Imperial tax is based upon profits and we think that the Imperial tax is the fairest tax, on the whole, both in administration, in collection, and in incidence.

2667. And in the method by which it is expended?—Well, that is a very big point.

2668. It is a very important one. Do you think that the money is expended better under a closer control of your own corporation or city than it would be if it got into the hands of the central authority?—(*Mr. Blakemore*): The trader would have more to say on the matter. He has very little to say to the Chancellor of the Exchequer, but he can dictate sometimes to his local authority.

2669. *Sir Alan Anderson*: With regard to these local rates, your members are all engaged in local trade within the borough, or whatever it is?—Yes, very largely; not all.

2670. The local rates would not hit them nearly so much as a man who was residing within the borough and paying rates and then doing his trade outside; because you are gaining very largely, I suppose, by the increased expenditure on the local rates; the place is better paved and better lit, and people are moving about more and so on, and the shops do better business?—(*Mr. Clark*): If we all paid equally, if there was equal incidence, that would be so, but it is not so. The hereditaments in our borough which are a loss to us are enormous in number; that is to say, they get more in public service than they contribute, because the rates are based upon rental to a large extent, and if your rental is below a certain figure you are getting more in service than you pay in rates.

2671. You say the rates are not properly adjusted within the limits of the borough?—That is so.

2672. That is scarcely our business?—No, but I am answering the point which you raise.

2673. *Mr. Lees-Smith*: You have no special complaint to make with regard to payments under the Insurance Acts, have you? You do not mention them?—Where does that come in?

2674. *Sir Arthur Balfour*: As a charge on your business.

Mr. Lees-Smith: You do not feel the payments under the Insurance Act, do you?—You mean unemployment and health insurance? We do; we feel them to be a very heavy tax.

2675. You mention local rates, but you do not mention those?—They are a very serious tax. They are as much felt in distribution as they are in other branches of trade and industry.

2676. *Sir William McLintock*: But are not all these charges passed on to the buyer of the goods?—I wish they were. (*Mr. Blakemore*): Might I just deal with that question? You are referring to food, Sir William?

2677. I am referring to goods generally that are sold all over the country?—With reference to this question of unemployment and health insurance. In the food distributive trades, the conditions of health are very good. I am Chairman of directors of a concern that employ about 112 people engaged in the distribution of food, and their contributions, I think, last year to the health insurance were somewhere in the vicinity of £35 or £36, and their withdrawals in the shape of benefit amounted to only 30s., so you see that the State, or rather the fund, does benefit very considerably so far as food distribution is concerned. Now, in reply to Sir William, I want to develop this point in our evidence where we say: "The burden of tax is taken into account by a trader in fixing his prices, and the heavier it is the dearer his goods become, and the dearer the goods the smaller the demand, and in this way his operations are curtailed." Now I want to read to you, if I may, an extract from a speech delivered in the House of Commons on the 23rd November, 1922, by Mr. Pringle. I do not know Mr. Pringle personally, but he is a very well informed person, obviously, from the statement he makes. He says: "Take the 4 lbs. loaf; we are told that at the present time the price of wheat is 39s. a quarter and of the 4 lbs. loaf 9d., and that in 1913 the price of wheat was 33s. a quarter and of the 4 lbs. loaf only 4½d." He goes on to say: "It puzzled Lord Birkenhead, but it is quite simple if you analyse how these things work. You have here a difference of 6s. only in the price of wheat while the price of the 4 lbs. loaf is doubled. It means that every man who has handled the wheat between the farmer and the consumer has transferred his extra rates and taxes on to the price of the article. The farmer could not do it. He had the world price. He cannot transfer his rates and taxes on to his wheat. He is forced therefore to turn his land out of cultivation, the agricultural labourer is thrown out of work and his wages are now reduced to starvation rates. There you have inevitably the burden of taxation which has really been passed on to the shoulders of the working classes." Now this is a study in psychology. In pre-war days, when I used to go to a small trader who had got to pay £5, £10 or £15 in Income Tax per year, he did not think anything of it; he simply paid it and it was paid as it should be, out of profits. I think in every case that came to my notice that happened before the war. Now to-day with the demands for Income Tax, £50, £60, £75, and probably running into three figures for a small man he does begin to look at this; and he has probably bought a Ford car, he has indulged in a little luxury so that he cannot pay out of profits so easily. He is inclined therefore to say, "Where I can do so, where competition is not keen, I am going to pass the tax on in the price of the commodity that I sell." (*Mr. Clark*): So far as my business is concerned, it is not possible to pass on the whole of the tax. We may pass on a portion but we cannot pass it all on. An increasing amount of goods in distributive trades are sold at fixed prices.

2678. *Sir Arthur Balfour*: As a matter of fact if it is not passed on to somebody and you do not make the profit, you go out of business?—Yes, that is so. On Question 6 it does not occur to me to say anything further, unless there is some question asked. We have already said that money used in trade produces far more return than money which is invested. Then on Question 7 I think also our reply is quite clear; and the same on Question 8.

2679. *Chairman*: The increase in bonus shares is because concerns cannot distribute money; they have not the means?—That is so.

2680. If they are increasing the costs of all articles in your business, that increase of costs means increase of capital?—Yes, and the bonus shares are really a nuisance, because they bear interest later.

2681. But that is one reason why bonus shares are used—because concerns really cannot pay the money?—Yes, they have not the money to spend. Then Question 9, I think, does not really affect us, and we have no precise information, therefore we thought it was better that we should not say anything about it. Then No. 10 I think we have already dealt with pretty fully, and also No. 11. I am sorry to say that most of us have no free money to invest anywhere. (*Mr. Blakemore*): I should like to give

an instance on Question No. 11, if I may. I am interested in a timber business. In order to extend that business and meet the competition of America in English oak, it would be necessary for them to put down sheds and buildings in which the oak trees could be stored to condition, which may take anything from 10 to 20 years, or probably more. If they put these sheds down that would be non-productive capital for, say, 15 or 20 years. First of all, the assessor to the local authority comes round and assesses this property, on which they have to pay rates. Then Schedule A taxation follows, and the result is that at the end of 20 years by the time they want to use this timber they have paid a very big sum for it in the shape of rates and taxes. Now in the United States they are importing from this country very large quanties of English oak and they are conditioning it out there. The arrangement they have is this. If they put up buildings in which to store this oak timber from England, so long as it is non-income producing no tax or rate is paid upon the building. The result is that timber merchants in the United States are now able to import English oak from this country, condition it over there (they do adopt a more rapid method by means of artificial heat, I admit) and re-export it back to this country cheaper than our English timber merchants can put it on the market.

2682. *Chairman*: Is there no duty on English oak going into America?

Sir Arthur Balfour: There is a rebate if it comes back?—There is a rebate when it comes back.

2683. *Sir William McLintock*: On the other hand, you will get all the cost of storing that timber during the period when it is maturing deducted from your profits in this country. Does America deal with it in the same way? If you have to store timber 10, 15 or 20 years and it produces no income, the whole cost of the storage is a deduction from the other profits of the business?—Yes.

2684. *Sir Arthur Balfour*: It goes against the revenue each year?—Yes.

2685. *Sir William McLintock*: Really all your outlay is your capital outlay for your buildings, and it is assumed that you repay that by the extra profit at the end of 20 years?—The local rates, of course, you have to pay, which are very heavy in many cases. (*Mr. Clark*): Of course that is not peculiar to the timber trade. It is a more serious thing in wasting assets and other directions. Then I think Question No. 12 you had brought before your Lordship's Committee yesterday more ably than we could do it to-day.

2686. *Chairman*: You have nothing further to say on that?—No. On No. 13 we omitted to call attention to the heavy charges of penny postage, which is now 1½d., but we did not think that was within the terms of reference. We do feel that burden to be a very real and vital burden, but we thought that was dealing not with a Treasury matter but with a Post Office matter, which perhaps you might rule out, and we did not want to deal with it if you feel that is not within your reference. I do not know whether there is any other point you would like us to raise. On Question 15 we have dealt solely with the importation of foodstuffs. Of course this same answer could be given, I presume, with regard to other goods. I am personally not directly interested in that particular point, and Mr. Blakemore, my colleague, has answered it in respect of the matters in which he is interested. I do not know if there is any other point in the general observations unless it is to stress the point which was made in the Royal Commission on Income Tax by some of the members of the Commission, namely, the necessity for an inquiry into the exact bearing of all this enormous total of public assistance. We have the impression, and we have concrete cases, but of course they are not sufficient to give a general ruling, that there are those who benefit enormously at the expense of the public purse. We would stress the point very strongly that there should be an inquiry by some such Committee as this, composed of men who do know the relationship of one thing to another and quite independent of political influence, who could give some authoritative figures in respect not only to the amount but the distribution of these enormous amounts, and how it affects the public welfare as a whole. These figures are really very colossal.

2687. *Sir Arthur Balfour*: In your paper you speak of the figure of 400 millions in 1921 and 1922. That is an estimate; that figure is available to-day, surely, is it not?—That figure was taken from a statement which was made in the House by Sir J. D. Rees at the time.

2688. It is very striking that in 1921-22 we were spending 400 millions on public assistance; it was double our pre-war national revenue?—Those figures come from Hansard.

2689. *Mr. Lees-Smith*: You are dealing with a period of very great depression.—The amount of expenditure per head of population is enormous.

2690. Has your Chamber taken into account the fact that, had it not been for that expenditure in the last three years, there might have been a very dangerous revolutionary sentiment in this country? If you cut off unemployed benefits, for example, it might cost a great deal more in other directions?—We are not begrudging this expenditure, because we do not know exactly how it operates. We should like to know how it does operate. We should like to now whether some classes are receiving too large a proportion of this amount. We consider the fact that only one voter out of nine is a direct taxpayer is not a happy feature.

2691. You draw our attention to this very large expenditure?—Yes, these very large figures.

2692. *Sir Alan Anderson*: On this point about co-operative societies, of course, it is very annoying to a private trader. I quite see that you would consider it a very serious thing. I suppose you have to meet the competition of co-operative societies in the price, have you not?—We can knock them into a cocked hat in price if taxation and other conditions are equal. They are not in it in price, and never were.

2693. You meet that competition in the price?—Yes.

2694. Are they extending very rapidly?—I believe so.

2695. *Mr. Bell*: May I ask a question with reference to Income Tax in regard to co-operative societies. I asked a question or two and I was told that the net result would be that millions of claims would be put in by the individual members of co-operative societies for repayment of the amount which would be taxed upon the whole. Is that the case? Would the individual shareholders be able to recover the tax from the State after it was paid by the Society?—If they were able they ought to recover it; if they were not able they ought not to recover it.

2696. *Professor Hall*: Would that be a favourable proposition from the point of view of the Exchequer having to deal with all these claims for repayment and having regard to the small amount that would be collected?—I should say that whatever number of exemptions there are to-day those who are exempt from paying tax on their income must be very much less than they were years ago.

2697. *Sir Arthur Balfour*: Surely what you want is that any surplus that is retained in the business should pay Income Tax?—That ought to be so, certainly, but not only that; those who are liable to tax ought to pay.

Chairman: I do not think we ought to get into a general discussion on this.

2698. *Mr. Hichens*: We have had it in evidence that many people think that any surplus that is retained in business should not be taxed?—We have not said that, I think.

Sir Arthur Balfour: It did not bear very close examination.

Mr. Hichens: It was urged with some force.

2699. *Chairman*: Is there anything else, Mr. Clark? (*Mr. Clark*): No, thank you.

Chairman: We are much obliged to you and your colleague, Mr. Blakemore, for the evidence you have given on behalf of your Chamber.

(*The Witnesses withdrew.*)

Mr. Felix J. Blakemore, F.G.I., called and examined.

2700. *Chairman*: The evidence of the National Chamber of Trade has now been finished. Mr. Blakemore, you have put forward a separate paper, quite unconnected with that evidence, in which you express some personal views of your own. You had better read it, if you will, because it has only just been circulated.—This is an alternative scheme to the Capital Levy. (*Paper, as follows, read.*)

I think it would be stating the case fairly to say that the necessity for tax reduction was one of the causes which produced the scheme of a Capital Levy.

The national income, even with the present heavy tax burdens, is not sufficient to provide a sufficient surplus for social legislation after the necessary standing charges have been met. These charges, roughly summarised, are:—

(1) Services of Debt.
(2) Pensions.
(3) Defence (Navy).
(Army).
(Air Force).
(4) Education.
(5) Civil Service.

The expenditure on the above items is probably as low now as it ever will be, and you have therefore over three-fourths of your national revenue mortgaged; what can you further do to:—

(*a*) Reduce taxation.
(*b*) Provide a surplus for social reforms.

Organised Labour realised this, and propounded the scheme of Capital Levy.

In my view, the Capital Levy would not operate in the direction desired by its sponsors. Even if all capital was liquid and could easily be confiscated by the State, the resultant loss to the national revenue would not, in my view, be compensated for by the reduced debt charges, and in the process of putting the Capital Levy into operation we should destroy sources of national income which it would take years to replace.

My scheme is not to take capital (in the generally accepted term) to repay debt, but to take labour, and here at once we are presented with a study in human psychology.

Why is it easier to extract from the individual labour in the shape of service than capital in the shape of currency?

In the first place, labour only achieves a value when there is a demand for it, and can only be translated into "wanted things" after its conversion into currency, while capital being in currency has a direct purchasing power at once. Therefore the human mind is always prone to place a greater intrinsic value on capital or currency than on labour.

The man earning £5,000 per year will often give in hours of service the equivalent of five, 10, or even 20 pounds, with a lighter heart than he will write out a cheque for two guineas to a charitable cause, and, therefore, one may postulate the assumption that it would be easier to effect the payment of distasteful taxes by labour rather than by currency.

These are my proposals:

(1) That every wage earner and income receiver should contribute one hour's work per week to the nation, for the sole purposes of debt and tax reduction.

(2) The value of the hour's work per week of the wage earner to be collected by the wage payer on a similar principle to that employed for the collection of sickness and unemployment insurance at the present time, and the value of the hour's work of the income receiver to be assessed by the surveyor and collected by the tax collector.

It should be noted that this proposal, by reason of its simplicity, does not increase to a great extent the costs of collection, nor would it disturb the present methods and procedure.

Further, the tax being a personal one, does not lend itself to abuse by being passed on from one to another until it falls on to the shoulders of the consumer, and so increases the cost of living, but rather, by increasing production, it would have a tendency in the opposite direction.

My proposal would also have the distinct advantage of greatly extending the taxable area. I am afraid, as political power gets more and more into the hands of the non-payer of direct taxation, it is only natural that the feelings for the position of the 2¼ million direct taxpayers will not be so sympathetic as their case demands and deserves, and, therefore, in my view, it would be much more advantageous to the State if indirect taxation was replaced by direct taxation, so that each taxable unit might more readily realise his responsibilities and so give a more considered judgment upon the many schemes, Utopian and otherwise, which he is called upon from time to time to finance.

I have not consulted the officials of Inland Revenue, and therefore my figures are only assumed, but of the 22½ million voters in this country, I do not think I should be stating the case too high if I assumed that 20 million would be either wage earners or income receivers.

If the average wage received by these 20 million people was 1s. 6d. per hour, you have an additional annual national revenue of £78,000,000.

With this additional revenue you could liquidate nearly all Customs and Excise duties on food; you could reduce Income Tax by at least 6d. in the £, if not more, and then have a balance of over £50,000,000 per annum for debt reduction.

If you reduced the National Debt at the rate of £50,000,000 per annum, and assuming that the interest payable on the redeemed securities was 5 per cent., then you would release in the first year the sum of £2,500,000, which year by year would, like a rolling snowball, grow until at the end of 10 years you would have a sum released of between 15 and 20 millions of money, either for tax reduction or social legislation.

This gradual reduction of debt year by year would bring with it a healthy economic deflation of the currency. Trade and commerce would be stimulated, credits would not be curtailed, costs of living would fall, and, as a consequence, so would costs of production. Our exporters would be better able to compete in the world's markets, our workshops would fill up, and so we should in time solve the present difficult problem of unemployment.

The solution of this grave problem and the provision of Exchequer credit balances for social legislation in the national Budget would be almost a complete reply to Labour's demand for a Capital Levy.

2701. *Chairman*: What suggested this idea to you, Mr. Blakemore?—The inspiration that gave me this idea came to me years ago. I was talking in Johannesburg to a very intelligent Japanese. He was engaged in carving wonderful pieces of ivory. I was extremely interested in his great enthusiasm for the work he was doing; and I said to him during the many hours I sat and watched him: "I suppose when

you are in your own country you earn a lot of money?" He said: "I could if I wished, but I love my work and work six and sometimes seven days per week. I love it; it is my hobby. In my first three or four days of the week I can earn sufficient money to keep me and my family." I said: "What do you do with the other three days?" He said: "I give them entirely to my country." Well, of course they did adopt a system, as probably you know, of reducing their national debt in Japan by means of labour, and that was the inspiration that impelled me to draft this proposal, and I submit it to you in quite good faith.

2702. *Sir Alan Anderson*: Is it your suggestion that they should go on working at their ordinary work, or that each man should go away and do some other work?—That they should all go on working at their ordinary work.

2703. We should go on doing this. That would be our work?—I do not know what you would do. The Surveyor of Taxes would know exactly what your income was, because you submit to him a return every year, and he would say: "Well, this income is £5,000, £10,000 or £15,000 a year. I have to charge this taxpayer with 52 hours per year at so much on the basis of the return sent in."

2704. *Professor Hall*: An extra tax upon him?—An extra tax for the special purpose of reducing the National Debt. I suggest that there should be a reduction straight away of 6d. in the £ on Income Tax.

2705. *Sir Arthur Balfour*: Then it would simply mean that you would take the money, which he now pays for Income Tax, in another form?—Yes.

2706. *Professor Hall*: What work would you set the people to do who are not working at all now?—If a man was not working he would not be liable to pay.

2707. Suppose he has a fixed income of £2,000 a year, and he does not work, is he going to have his Income Tax reduced 6d. and not be liable for this levy?—No. If he is an income-receiver he pays the tax just the same. The Surveyor assesses him on his £2,000 a year for 52 hours per year.

2708. *Sir Alan Anderson*: And we are to be assumed to be working 48 hours a week, are we?—I do not confine it to that. It would be a very difficult thing to do, but if it could be worked, the industry would say: "We will work an extra hour." You would have an increased production, and that would be an ideal state of things, but I do not think it could obtain.

2709. *Mr. Hichens*: And your wife; would she have to be considered as a worker, too, even if she had no work?—No. I particularly state income-receivers and wage-receivers.

2710. *Professor Hall*: Would the shopkeeper, by working an extra hour, be able to increase his income?—Probably. I know I could, by working an extra hour per week, quite easily produce sufficient to pay that extra tax. It is an incentive to increased production.

2711. I am dealing with distribution for the moment. Take the shopkeeper: will there be an increase in the quantity of goods sold if all shops are kept open an hour longer?—I do not say he would work in that way. He would probably say to himself: "Well, I am going to do an extra hour this week in bringing my books right up to date or going through my accounts more completely and seeing how I stand—what my position is."

Sir Alan Anderson: I suppose what it would really come to is this. This is a means of taxing the wage-earning class by deducting from their pay roll 1-52nd, or whatever it is, of their week's earnings, and all the other people would simply be taxed by the tax collector and they would pay a cheque.

2712. *Sir Josiah Stamp*: What would be the result on the firms that are making losses?—Would the extra hour they work increase their loss?—It is not a tax upon limited companies or bodies or corporations. It is a personal tax upon the director or the managing director or the secretary, as the case may be.

2713. *Mr. Lees-Smith*: Have you put this proposal before the National Chamber of Trade?—No, I have not.

2714. Why have not you tried to convince them?—As a matter of fact, I have not had an opportunity of doing so. I have placed it before several of the Treasury officials. This meets Mr. Lees-Smith's demand as to how we are going to find the money for all this wonderful new social legislation if we are going to reduce taxation. This would be a direct means of reducing taxation.

2715. *Professor Hall*: Only if there was increased production?—True.

2716. And I do not think you have proved that we should get increased production. That, I think, is the weak spot. You have not proved that a lawyer can get more business, or that a doctor can do more work, or that a shopkeeper can do more work, or that the people who are not working are going to do more work?—Just look at the mental operation. If I were Chancellor of the Exchequer, I would try to get the mental outlook of the man who has really got to pay the tax. He says to himself, the same as I should: "Well, I have to pay an extra tax; I have to pay the equivalent of an hour's work. I will work that hour and it will be no loss out of my profit at all; I shall earn that extra tax by the work I do during that hour." That is the process that takes place in the man's mind.

2717. That assumes that he can get an extra hour's work, which in many cases of course he can, but in many cases he cannot where the worker is restricted to 48 hours per week, unless of course he decided to do something else.

2718. *Mrs. Wootton*: Is that the normal process in a man's mind when he has an extra tax to pay?—I think it is quite a reasonable thing. One naturally says: "Here I have to pay this extra money; how can I earn it; what am I going to do?" He may develop some other idea just for that hour, or something of that kind.

2719. If that is the normal process, I suppose you would not agree with the argument that has been put to us, that increased taxation discourages enterprise?—I would only disagree when the taxation is for this specific object. This is rather an appeal to national patriotism.

2720. It does not apply in the case of taxation generally?—No. If a man says: "I am paying this tax; it is probably going to be spent in increasing the number of the already large number of officials and will be paid in salaries, or it is going to be spent on some Utopian scheme that will never benefit me but may possibly benefit my great-grandchildren," he does not pay that tax with half the amount of enthusiasm that he would if he thought: "Now this is going to confer direct benefit upon me by reducing my cost of living."

2721. Then do you mean that taxes which benefit the taxpayer directly are not discouraging to enterprise, whereas another tax for things which do not benefit the taxpayer directly is discouraging to enterprise?—You are satisfying the inherent selfishness which is in all of us by conferring some direct benefit. Let me put it in this way: if you are going to spend money on something from which you would not be able to see any return to yourself. (*Mrs. Wootton*): Yes, I follow that argument, but I do not want to pursue the matter.

Chairman: We are very glad to have had your paper, Mr. Blakemore. We like to get independent views.

(*The Witness withdrew.*)

(*Adjourned.*)

NINTH DAY.

Wednesday, 3rd September, 1924.

PRESENT:

THE RIGHT HON. LORD COLWYN, *Chairman.*
SIR CHARLES ADDIS, K.C.M.G.
SIR ALAN G. ANDERSON, K.B.E.
MR. HENRY BELL.
MR. W. L. HICHENS.
MR. H. B. LEES-SMITH.
SIR JOSIAH STAMP, G.B.E.
MRS. BARBARA WOOTTON.

MR. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

BAILIE JAMES WALKER and Mr. JOSEPH F. DUNCAN, representing the Scottish Trades Union Congress General Council, called and examined.

EVIDENCE-IN-CHIEF handed in by Bailie WALKER and Mr. DUNCAN.

1. As the National Debt, in the main, is composed of unproductive expenditure, its very creation reduced the amount of productive capital, and its continued existence forms a dead-weight charge upon industry and reduces the ability of industry to create fresh productive capital. When a considerable amount of the debt is in the form of Floating Debt it tends to inflate the supply of credit. The amount of permanent capital is influenced by the National Debt to the extent to which the interest prevents the accumulation of "savings" out of which new permanent capital would normally be supplied.

2. The high National Debt tends to keep the rate of interest high, and so limit the amount of capital offered for industrial purposes.

3. The suspension of the debt repayment would enable a reduction in taxation to be made, but from the point of view of industry and employment the reduction in the rate of interest is more important. On the balance it seems more desirable to continue the debt repayment with the object of reducing the rate of interest as early as possible. At a period of trade "boom" the repayment should be accelerated.

4. A high Income Tax may reduce the incentive to "saving" and thus slacken the rate at which fresh capital is being offered for industrial purposes. On the other hand, it may prove an incentive to greater effort, to reduced costs, and to improved methods. Considered from the point of view of industry and employment, there is no other method of raising taxation open to less objection.

5. General taxation cannot be said to affect particular industries or to handicap particular exporters, but, as it means that a large part of the national income has to be diverted to the payment of interest, it is a burden which affects business generally and it does handicap us in competition with countries which have no such burden to bear.

6. A high Income Tax in the country has little or no effect on investments from abroad because Britain has in the past been an exporter of capital. The question would only affect new countries which required development.

7. It is difficult to see how Income Tax affects industry by entering into prices, as such tax is only paid on received income. The question presupposes the ability of the manufacturer or seller of goods being able to increase the price of such goods in order to recoup himself for extra taxation. This could only occur in cases where a monopoly is held.

8. As the greater part of industry is in the hands of joint stock companies which are not affected in the same way as individuals who are managing businesses they own, the effect of Income Tax as a deterrent to "saving" is not of the same importance industrially.

9. Taxes on commodities and Customs and Excise duties are paid by consumers, and from the industrial point of view, are undesirable.

2722. *Chairman*: You represent the Scottish Trades Union Congress General Council? Will you kindly refer to your points?—(*Bailie Walker*): We have put down these points in a short and concise form, giving in brief outline our answers generally to the questionnaire circulated by the Committee. On examination it looks as if it might be too brief and perhaps the various points require elaboration. Take the first one, for instance, dealing with the National Debt as an entity by itself. Knowing as we do that the National Debt is built up in the main of unproductive expenditure such as wars, &c., our contention is that its existence is bound to have in its very creation an influence upon the amount of capital necessary for carrying on the industries of the country. If for example, the National Debt was composed only of the amounts necessary to establish the postal system and the various public services, then the National Debt would not stand in the same relation. But we all know that it is mainly composed of expenditure on war purposes, and as such it is unproductive in the main and is bound therefore to have an effect upon the supply of industrial capital. At the time that it is being created it is attracting into Government loans capital that would otherwise be offered for investment in industry, and then later on the annual charges for interest and Sinking Fund have again an effect upon the amount of capital available for industrial enterprise. In our opinion the National Debt constitutes a continued dead-weight charge upon industry, and the influence that it has upon the rate of interest for money for working industrial concerns has the effect of reducing the amount available and prevents many undertakings from being carried on at the present moment. Take, for example, the steel trade, with which I am connected. The steel trade just now is in a very bad way. It is impossible for that trade to get its costs

down sufficiently to meet the lower prices offered by Continental competitors. A number of works would be able to get their costs down if they were able to get capital at a cheap rate for the purpose of wiping out much of the old plant and machinery and introducing more modern plant. Every one of them, however, tells the same story, that they are unable to get money except at a very high rate of interest. 8 per cent. in many cases, which makes it absolutely impossible for them to borrow and remodel their works in order to meet the Continental and American competition.

2723. You say 8 per cent.; has that rate to be paid for an overdraft?—I am taking as an example the case of Beardmore, Ltd., who two years ago floated a loan; 8 per cent. was what they had to offer; they had to offer 7 per cent., 7½ per cent. and 8 per cent.

2724. Has the rate of interest as much effect as the question of wages, for instance?—No, because wages in the steel industry are regulated entirely by the price of the commodity. If the price of steel goes up, wages go up automatically, and if the price of steel goes down, wages go down automatically. As a matter of fact to-day the workers in the iron and steel industry, taking all the branches of it, are working about 35 per cent. above the pre-war standard.

2725. How is it that Belgium can send us steel at a lower price than we can buy in this country? They have a war debt relatively as big?—So far as we can ascertain—and we can only ascertain it through the medium very largely of the daily press—we have been strongly informed that one of our troubles is that the Continental Governments are not meeting the burden of debt by taxation in the same way that it is being met here. But apart from that, the rate of exchange is having a very big effect upon prices in this country so far as the iron and steel industry is concerned. Every time the value of the French franc or of the Belgian franc falls, pig iron, for example, is quoted in the Glasgow area and in the North-east coast area at a cheaper price than it was before the franc fell in value.

2726. I am only referring to your point that a high rate had to be paid for money, and I was suggesting that that is not as serious in its result as the other matters with which you are concerned?—Take for example this: I am informed by a director of one of the largest companies that, excluding rates, and so on, which run out at about £800 a week in a large works, he is paying in interest on debentures and loans £1,200 a week. That represents roughly about 6s. to 7s. a ton.

2727. £60,000 a year?—Yes, and the output of that works is about 3,500 tons per week.

2728. That represents, say, an overdraft of £1,000,000?—I think it also represents something else. I think it represents the sum paid by the people who now own the concern to the people who formerly owned it, representing the war value which was placed upon it that does not exist in the post-war period. That is the position from that point of view; and we contend that the high burden of the National Debt tends to keep the rate of interest high and does affect the matter. There is no doubt that in large concerns, and they are mostly large nowadays, especially in the heavy branches of industry, half per cent. and one per cent. in the rate of interest does mean something big at the end of the year. The other point outlined in paragraph 1 is the question of the Floating Debt. We agree that the Floating Debt has a tendency to inflate the credit supply, and all forms of that kind of flotation do have that effect. One interesting thing in connection with its use in the manipulation of finance that I know from my experience as a member of the Glasgow Corporation is that we, as the Glasgow Corporation, during the War invested £1,000,000 that we never had. We did not have it in our coffers, we did not have it in the bank. We borrowed it from the banks and lent it to the Government, and on the transaction when we finally sold off the Bonds the Glasgow Corporation made £84,000 out of the deal. That makes one wonder where it came from and how it was created; because we did not have it to begin with, we merely signed a bond and at the finish we ended up with £84,000 in pocket.

2729. *Mr. Bell*: You might have lost it?—But the fact remains that we did not lose it.

2730. But you were speculating and it came off?—As a matter of fact when we commenced the operation we did not think we were speculating. We thought we were patriotic and assisting the country in its time of trouble. Instead of that we seem to have made £84,000 either out of the Government or out of somewhere that we do not know. It came to us, anyway.

2731. *Chairman*: You are the only country that could do that, I think?—(*Mr. Duncan*): There is another across the border, I think, just about as keen as Scotland. It is quite true that it may have been a speculation, but it is not very much of a speculation if you are speculating on the national credit.

2732. *Sir Charles Addis*: Before you pass from that paragraph, will you help me with regard to your first point, as to the existing debt reducing the ability of industry to create fresh productive capital. I mean quite apart from the object for which the debt was contracted, as I think you would agree that that might be laid aside now. It does not matter now, does it, for what the debt was contracted?—(*Bailie Walker*): Yes, because the debt still continues to live; it still draws interest.

2733. The interest now must be treated by itself quite irrespective of the object for which the debt may have been contracted?—Yes, you may treat it by itself, but you cannot get away from the fact that the interest of the debt this year has to come out of the production of wealth this year. Even though the debt may have been created a hundred years ago, that is still so.

2734. The question is the existing burden of debt?—If the country had not been engaged in War from 1914 to 1918 the amount that was spent in War might have been going in the direction of investing in industrial capital or some other form like that.

2735. I just want to simplify the question in order to get at the effect and incidence of existing taxation. I suggest we might eliminate the object for which it was incurred; that is to say, whether the debt had been originally incurred for one purpose or another, there would still be this interest to pay?—Yes.

2736. You agree with that?—Yes.

2737. I want to clear my mind as to how it is that this existing interest reduces the amount of capital available for industry?—You cannot separate it. Take, for example, a homely illustration. Take a working joiner who is working and earning decent wages and who saves up a certain amount of money. He makes up his mind that he is going to have a holiday and goes on what we call, in vulgar parlance, the batter. He spends all the money that he has, he pawns his tools, he mortgages or pawns his furniture and he wakes up one morning and he has got to stop, because he cannot go any further; he has borrowed from everybody and he cannot do anything. He has to get a loan of money to get his tools out of pawn and start work again; but now he has to pay off all that debt and all the charges on it, and the effect of creating that debt is bound to be a charge upon him all the time and to prevent him from ever having a holiday again in the future. That is to say, it has that double effect. If you are going on from day to day with ordinary expenditure the country can meet it, but if the country for four years plunges itself into a certain avenue of expenditure, and takes away from industry money that would otherwise have been invested in industry, there has got to be a lean period making up that leeway. That is what we are passing through to-day and that is why the National Debt created some years ago still has that effect, apart altogether from the interest payment to-day reducing the amount of capital.

2738. It reduces the amount of capital available?—In the whole country.

2739. In your opinion would the effect on industry be the same whether the amount taken from the taxpayer in taxation were used (*a*) to pay the interest on the National Debt, or (*b*) to reduce the capital amount?—If you reduce the capital amount of the debt you have a tendency to reduce the rate of interest that is demanded for that debt and you therefore ease off industry, and when debt is repaid that money has a chance of going back into industry.

2740. I wanted rather to direct your attention to the amount of capital available. Would the repayment of debt reduce the amount of capital available, quite apart from the rate required for it?—It is only taking it from *here* and putting it *there*.

2741. Then it would not reduce it?—It would not reduce the amount available for the country.

2742. Would the amount of taxation levied for payment of interest reduce the amount of capital available for industry?—The amount that is paid in interest may go in two ways. It may go for the upkeep of the individuals who get the interest, or the individuals who get the interest may use it in investment in industry. You generally find the creation of a large debt pre-supposes a great number of people who are living upon the interest and doing nothing else, and, therefore, they are consuming that interest and not investing it.

2743. Therefore your answer is that taxation for the repayment of the capital amount of the debt would not reduce the amount of capital available for industry, and the effect of taxation used in payment of interest on the debt would depend on the person to whom it went. If it passed into productive hands it would have no effect, and if it passed into unproductive hands it would reduce the amount. That is really your answer as to the transfer of the money?—Yes.

2744. Then with regard to Floating Debt. Would not your answer be again that its effect on credit would depend a good deal upon the way in which the Floating Debt was raised?—Yes.

2745. If the money were taken out of savings it would not have the effect of inflating credit, would it?—No.

2746. And whether it were a Floating Debt or a permanent debt, in your judgment the effect would be the same?—Yes, but there are Floating Debts which are not taken out of savings. For example, you would call the expansion of the currency a Floating Debt.

2747. I merely wish to put it that if it is taken out of savings there will be no inflation of credit?—No.

2748. But if on the contrary it is expansion, it will, of course, have that effect?—Yes.

2749. Turn from that point to the rate of interest to which you referred. Is not the position there that competition arises between the Government who want the money and the industries who want the money?—If competition is set up, there is bound to be a rise in the rate of interest. For example, before the War, Glasgow could borrow at 2½ per cent.; our average rate at the present moment is 5 per cent.

2750. So that the rate of interest is really determined by the demand and supply and other things?—Yes.

2751. And it would depend on the relative power of the Government to pay and of industry to pay?—Yes. People put money into gilt-edged securities at a time of industrial depression because it is safer.

2752. So that it would be a question of the amount that industry could bid for interest?—Yes.

2753. In your opinion is there a shortage of capital just now in the industry of the country?—In the industry of the country there is, but when one looks at the way that certain issues that are not purely industrial share capital are taken up, one wonders whether there is any shortage at all so far as investing money is concerned. But in the industries that are what one may term key industries, they do not seem to have a ready supply.

2754. If the rate of interest were lower, in your opinion could a good deal more money be used in the industries of the country at present?—If they were able to get money at a cheaper rate of interest they would undoubtedly take it and, as I have said, remodel some of the plant.

2755. And in the same way, if there were relief in taxation, would it remove one of the principal obstacles to the revival of trade?—I do not know so far as the relief in taxation is concerned. If you are referring to Income Tax, which is a tax upon income earned or received, many of these people who are running works, in the iron and steel industry particularly, are not earning any income at all; they are not earning any dividends for their shareholders, so that the Income Tax cannot be affecting them to any extent.

2756. If the Income Tax were lowered, it would not, in your opinion, afford any sensible relief to trades competing with countries less heavily taxed?—I do not see that it would at the moment.

2757. *Sir Alan Anderson*: It seems to me that your paragraph 5 which says that general taxation is a burden which affects business generally and does handicap us in competition with other countries which have no such burden, rather conflicts with your paragraph 7?—General taxation has to be considered under two or three heads. If you are thinking only in terms of Income Tax, the answer given to Sir Charles Addis would suffice. But taxation which is general, for instance local taxation, is a first charge upon industry. If I may go back to the example that I have given already, I understand that in those works that I referred to the local taxes run to about £800 a week. They are very heavy and much of that is what is, after all, an Imperial burden rather than a local burden, for example, unemployment and the health rate, and so on. Although part of that is borne by the Exchequer, a great amount is borne locally; that is taxation that must be met, and the higher it is, then, of course, the greater burden must rest upon the industry that has to bear it.

2758. So when you speak of general taxation you mean all taxation, excluding Income Tax?—Yes, we mean taxation that is a sort of first charge.

2759. *Sir Charles Addis*: Including taxes on commodities?—Taxes on commodities which would enter into the cost of production of the commodity that was being produced at the moment. (*Mr. Duncan*): The phraseology of paragraph 5 is perhaps not very clear. What we are dealing with there is the effect of taxation on particular industries, and the opinion of our Council is that we do not see that general taxation affects the particular industries of the people who are exporters. I do not think there is any real conflict between paragraph 5 and paragraph 7.

2760. I read paragraph 5 in the ordinary meaning of the words general taxation, that if the industry of the country is burdened with taxation, whatever form it is, it is a burden upon industry?—As a whole, yes.

2761. As a whole; whether it is Income Tax or anything else. But then further on you say it is difficult to see how Income Tax affects industry by entering into prices more than any other tax. I do not understand whether you mean in paragraph 5 to include Income Tax?—I do not know that I quite agree with Mr. Walker that it does include Income Tax. I think the whole burden of taxation has a certain effect. On the other hand, it is much more difficult to establish a connection between the Income Tax and any particular industry.

2762. That is how I understood it?—And it probably has less industrial effect than any other form of tax.

2763. *Sir Alan Anderson*: But, if you carried it to the extreme and had a tax of 19s. 11d. in the pound, obviously you would shut up industry?—Quite.

2764. *Mr. Lees-Smith*: The distinction that you are drawing is between taxation that is reflected in

the prices of the product and taxation which is not reflected?—Yes. (*Bailie Walker*): If I may give you another instance from my own experience in Glasgow—I sit on the Gas Committee and on the Electricity Committee—the Gas Committee made a profit and paid Income Tax, but the Electricity Committee made a loss and paid no Income Tax. It did not affect the price of electricity or gas at all.

2765. *Sir Alan Anderson*: Let us get quite clear your answer No. 1; it seems to me the language is rather puzzling. You say the National Debt in the main is composed of unproductive expenditure. Surely what you really mean is that the expenditure for which the National Debt was borrowed was unproductive. That is the real fact, is it not?—Yes.

2766. The National Debt was contracted by the people, and, excluding some speculations, it was raised out of savings. It was real things; it was effort and coal and wool and clothes and all those things, which had to be considered somehow—real things?—(*Mr. Duncan*): Yes.

2767. Then you say it was spent in an unproductive way?—You mean that it has not any direct economic return, and you might say the same about a great many other things—education and sanitation for instance?—(*Bailie Walker*): No. You would not say that about education. You would have an economic return because educated people are more productive.

2768. You mean ultimately?—And the same with regard to sanitation; to work in a city without sanitation would be very uneconomic.

2769. Take a personal case. Supposing you have a disease and you go to a surgeon and he says if you spend £100, which you cannot afford, you can be relieved of the cause of your disease; that would not be directly reproductive in the money sense, but of course you would do it?—Yes.

2770. In the same way, it would be a little unfair to single out a war as unproductive if the cause of the war was right?—It all depends. We are not dealing with causes, and of course if people will have wars (I have nothing to do with that) they will fight. You know the old story about the Irishman who was quite prepared to fight; if he goes home and has a scrap in the house then he must not complain if his house is short of crockery. We are to-day complaining and we want to find out why we are short of things, when the obvious reason is staring us in the face.

2771. Quite so, we spent our money on something that does not give a return?—And we should therefore turn our attention to ways and means of preventing uneconomic expenditure.

2772. I was merely turning my attention to the use of that word "productive"?—It is used in its purely economic sense.

2773. But if you maintain your liberty as a nation, I do not consider that any more unproductive than I consider educating the children unproductive. It is a question of whether it was good expenditure; but from the economic point of view I entirely agree with you that the money is gone?—The money is gone.

2774. Then going on with that, what was unproductive was the expenditure and was not the debt; the money was spent in an unproductive way and that money has been spent; you cannot get it back again. So the debt merely records that fact does it not?—It records that fact—not "merely."

2775. The continued existence of the debt, you say, is a burden on industry. But surely the burden on industry is the fact that we have spent the money?—That is the same thing.

2776. I do not quite agree, because I think from the way you put it, you might have gone on to say: Now if we could sweep away the National Debt by, for example, a Capital Levy, setting it off against something else, we should be clear of all this trouble. I think you might go on from those words to say that?—What we could say would be that we would have cleared off £300,000,000 per annum of expenditure in interest.

2777. On the one side and something else on the other side. You would not be clear of the fact that you had spent in what you describe as an unproductive way those vast millions?—Certainly not, but we would be clear of the burden of the interest upon us.

2778. But you would not be clear of the fact that you had spent this money?—Certainly not.

2779. That, I suggest, is the real burden upon us. We have actually done the thing, spent the money?—Yes.

2780. We can gnash our teeth and weep over it, but we cannot undo it?—But do we not say that by using these words, that the National Debt in its very creation caused a shortage?

2781. I think I have explained what I wanted to put about that?—(*Mr. Duncan*): I think we are quite in agreement, we are simply pointing out how it came to be raised and what it means. We do not suggest any means of evading the unproductive expenditure of these years. Even the suggestion of the Capital Levy does not mean that we are going to evade it; it simply means that we are going to take one method as against another of attempting to ease the burden somewhere; but we quite agree that there is no possibility of evading it. We quite agree that you have to pay for it, and you ought to pay for it as a community.

2782. *Mr. Lees-Smith*: I gather you are using the term "unproductive" in the sense in which every political economist uses it?—Yes.

2783. With regard to the other point that has been raised, is this what you mean: that as the result of some unproductive expenditure we are now paying about £350,000,000 a year to a group of individuals of the community, and that a group of individuals is obtaining this payment from the community as a whole. If the debt could be wiped out, if you could eliminate this payment to those individuals, then, although the original cause would remain, nevertheless the distribution of wealth in the country would be very permanently altered in the direction of greater equality of distribution?—Yes.

2784. That is practically your view?—Yes. (*Mr. Duncan*): In the ordinary sense we are speaking of debts that have been raised on unproductive expenditure. We argue that war is unproductive expenditure, whether you are defending or attacking or victorious or defeated. Surely it is the common experience of history that war is just about the worst kind of debauch that a community can indulge in.

2785. *Mr. Lees-Smith*: The fact is that there has always been discussion by economic writers, such as John Stuart Mill and others, as to what unproductive expenditure means, and all that you are doing is to use the orthodox phrase which all the political economists use?—Yes, you cannot use it in any other ways. We have to distinguish between productive works and others. For example, the sewage system for Glasgow is relatively more important than our system of public parks. Without our sewage system we would have a plague, but we could struggle along without parks.

2786. *Sir Alan Anderson*: I do not personally see why the question whether it is productive or unproductive comes in at all, except that if it was productive expenditure you would have an income on the other side?—That is very important, do you not think?

2787. It is, but in everything you spend, whether it is productive or unproductive in the economist's sense, if you are a wise man you have something on the other side. It may not be a tangible income. The point I wished to make, if you seek to use those words, if you have it in your mind that this was unproductive, is that it was not really unproductive except in the hide-bound economist's sense. It is just as important to have freedom from domination by Germany in this country as it is to have public

parks or education or any other things which an economist might say were unproductive?—Of course when you go into that line you are going into a very debatable line; because I read the "Daily Mail" yesterday and it said we had surrendered to Germany. If you stick to the economist's sense of it when you are dealing with such a question as national taxation, it is purely a question of economics and then you are on safer ground.

2788. *Mr. Lees-Smith*: Are you putting it in this way. Supposing we had accepted the proposals to undertake and negotiate a peace two years earlier, then we should have had only half the expenditure?—Possibly.

2789. Is that the kind of idea you have in mind?—Yes; we had all these things in mind; and do not for a moment think I am putting this politically, or that I am putting it specially from the purely pacifist point of view; that is not in my mind at all, but I am thinking more of the economic side of it.

2790. *Mr. Bell*: So far we have got, have we not, to the length of thinking that it has been a very unhappy expenditure from an economic point of view. The National Debt, or its symbols, are held by a certain number of people and it would be very nice, if it were just and equitable to take all that money from them so that we should not have to pay so much interest. Unfortunately the facts are that we cannot?—We have not come to that. We understood that we were limited to the question of taxation.

2791. I agree, but it has already been said, and questions have been directed to it, that not all the people hold this symbol, that is the National Debt scrip, but only a certain number of people, and it would be very nice if only we could take it away, because we would have no interest to pay?—I do not think we have suggested that, and I do not think we are going to suggest it.

2792. I agree, but if it could be done it would be very nice economically. That is all we have got to?—It would always be nice economically for one man to make the other man pay, if that is what you mean; but we do not agree with that; we have not put it forward, so I do not see any reason why it should be put to us.

2793. *Mrs. Wootton*: Your point surely is that you measure the burden of debt by comparing the conditions if we had no debt?—That is right.

2794. *Mr. Bell*: You spoke about works which were in want of equipment. My experience has been that the great difficulty is that they are over-equipped, that there is magnificent equipment, and yet they are standing idle. It is not for lack of equipment and capital, because even in those cases the balance sheets of a good many companies show that they have still considerable investments in War Loan. It is not a question of whether they get capital at 4 per cent. rather than at 5 per cent.; they even have capital and equipment and yet are idle from lack of demand?—As a matter of fact you would have great difficulty in finding a modern blast furnace in Scotland; and Scotland used to have the premier pig iron producing plant in the country; they exported pig iron all over the world; and half the plant is lying idle to-day and you could not find in Scotland anything as modern as what there is on the North-east coast.

2795. I am afraid I did not recognise that you were speaking of Scotland; I thought you were speaking of the conditions of the country generally?—I give you Scotland as an instance. I could give you other instances in England.

2796. I was asking if it is not the case, for instance, in England that there are many factories which are magnificently equipped and which have sufficient working capital and yet they are idle?—There are a lot of them that are well equipped, and the best equipped ones are the ones that are working to-day; last year, taking the steel industry, it actually produced and sold more tons of iron and steel in the year 1923 than it did in the year 1913, which was a boom year, but the price that was obtained for it was an uneconomic price because of the intense competition.

2797. My point is that I have knowledge of admirably equipped works which have capital to employ and which have to invest it because they cannot employ it, they cannot get orders?—The probability is that the cause is the shortage of capital in the other industries which could have provided them with orders, and they are both handicapped by that: it does not affect one industry only; it goes right round the whole, and after all, the demand for one particular commodity will always come from the supply or the production of all the rest, and if you reduce the world production in certain directions by wars or any other means you are bound to cause a shortening of the demand right round.

2798. The particular point made was that the lack of capital for works A. B. and C. in this country was stopping them doing things. I take the examples A. B. and C. where they have capital, and where they have equipment, and where they cannot get work?—You might find other instances on the other side.

2799. I only put it that there are such cases as that?—There may be.

2800. I know of companies which are paying a return on their shares, but it is done out of investments in other industries or in War Loan, and the fact that they are keeping that money in War Loan shows that they are wise not to put it into the industry, because they cannot get the same return?—(*Mr. Duncan*): We do not suggest over the whole of our industry that the high rate of interest is the principal factor in the present trade slump, but obviously a high rate of interest does act as an economic snag.

2801. What would you call a high rate of interest—anything over 5 per cent?—Yes. High rate of interest is entirely relative to the state of trade at the time. At the present time the rate of interest that has to be faced in the markets is higher than before.

2802. That is for permanent capital?—Yes.

2803. Not working day to day capital?—No; permanent capital, which is more affected by the extent of your debt. But the whole point that we were drawing attention to is that a big debt with a high rate of interest does affect the supply of permanent capital for industry.

2804. At a price?—The price does affect the supply of permanent capital to industry. I do not suppose that any of us would say that if you were able to produce industrial capital cheaper it is going to take us out of every difficulty in which we are to-day. It is only one of the factors, but it is an important one.

2805. *Sir Charles Addis*: May I just ask you, with regard to paragraph 2, how does the existing National Debt limit the amount of capital offered for industrial purposes?—It is really on the same point. If instead of 5 per cent. you were paying 2½ per cent., to the extent of what you save, the amount is available.

2806. So long as the amount of the debt is not increased by further borrowing, any tendency to invest in gilt-edged securities must release a corresponding amount of capital?—It releases it from where? People take it out of industry as in the example which Mr. Bell quoted of firms who have money in War Loan and are not putting it into industry. It is obvious that they are keeping it there because they are getting more out of it than they would get in the industry. If there was a chance of getting more they would transfer it; but I do not see your point.

2807. If a company invests £1,000 in War Loan somebody must also sell it, and, taking the existing debt, there is no increase of borrowing. How does that limit the amount of capital?—It limits it to the extent of interest that you are paying.

2808. May we take the interest separately and take the capital amount first? Does it limit the amount of the capital?—No, the capital is still the same

amount; if you are not borrowing further or are not spending, it is merely a transfer from *here* to *there*.

2809. So if an industrialist invested £1,000 in War Bonds it would depend upon the use to which the person who sold it was going to put the money?—Yes. (*Mr. Duncan*): But paragraph 2 deals entirely with the effect of the interest rate on the amount of capital available for industrial purposes.

2810. The rate of interest surely cannot affect the amount of capital?—It affects very seriously the direction of the investment, and that is our whole point.

2811. My point is that it does not affect the amount but only the direction?—Quite; we were not discussing that point.

2812. You say here that it limits the amount of capital?—(*Bailie Walker*): Limits the amount for industrial purposes.

2813. Then what direction do you suggest it takes?—For example, there is money lying in the banks on deposit that would go into industry and come out of War Bonds if they could get a suitable investment.

2814. But are not the banks lending the money that they have received on deposit?—But they are lending it at that high rate of interest.

2815. But the amount is not altered?—The amount that will be shifted will depend upon the rate of interest. For example, if I want £2,000 and the banker says to me 6 per cent. and I do not want to give him any more than 5 per cent., the £2,000 will remain where it was, because I cannot take it at 6 per cent. So that the amount that would be going in my direction would be limited.

2816. You are aware that the advances of the banks are maintained at their full extent; the banks do not in fact retain the money, but they lend it out?—They lend it out at a rate.

2817. To the person who chooses to pay the higher rate?—Yes, but there is a lot of money remains in, because people cannot afford to pay the rate.

2818. *Mr. Bell*: Is that really the case? Perhaps it is in Scotland; it is not here?—(*Sir Charles Addis*): There is no sign of it in England.—(*Bailie Walker*): There are signs of it in our district.

2819. Do you mean that your banks have a higher ratio of deposits?—I would not say they have a higher ratio, but it is absolutely the fact that there are people who are in want of money to carry on business and who cannot make deals because of the terms being too stiff.

2820. *Chairman*: As a general case if you offer sufficient security the rate of interest is not high?—The banks demand all the security they can get from you and also all the interest they can get from you, and the amount of interest they can obtain from you would be very largely, we say, determined by the rate of interest that is ruling on the National Debt.

2821. I think you would be surprised to find what a large amount of money is lent at a low rate of interest. The question comes in of the character of the man who borrows it. A man of very good character can very often get advances without any security at a low rate of interest?—Glasgow has the finest character in the world as a Corporation, and we cannot borrow under 4½ per cent. or 5 per cent. We used to borrow at 2¾ per cent.; so our character now is 2½ per cent. different.

2822. Have you borrowed from banks?—Our average last year was just a fraction under 5 per cent. and our average of pre-war days was 2¾ per cent.; we sometimes got it at 2½ per cent.

2823. Would you call 5 per cent. a high rate of interest?—That would very largely depend on circumstances. We used to think that when we paid 3 per cent. we were paying a high rate of interest. In asking me that question you are asking a question that different individuals would answer in different ways. There are some people who would say that no money is entitled to interest. Still, say 1 per cent., 2 per cent. or 5 per cent.; I cannot tell you whether 5½ per cent. or 6 per cent. would be high. I do not think we can afford to borrow at that rate at the moment, with a million and a half unemployed; I do not see how we can afford to pay 5 per cent.

2824. *Mrs. Wootton*: Do you think 5 per cent. is a high rate considering the security which the Corporation could give?—Yes.

2825. You think if you pay 5 per cent., that necessarily means that people with less good security are paying more?—Of course, according to what is laid down even in this room, the people with good security can get it for less. I think we have the best security in the world.

2826. *Chairman*: I do not agree with your general point when you say that the rate of interest is very high?—Are you asking my opinion whether I consider 5 per cent. high? I say the amount of 5 per cent. or 6 per cent., or whatever it may be, depends very largely upon the circumstances. If we in this country are in such a bad position that we have a million and a half unemployed persons who have got to be kept one way or another, who have to be kept in existence and who can only be kept out of the production of wealth, then 5 per cent. as a rate of interest is bound to be high as compared with 2¾ per cent. in a period when we had not a million and a half idle and when everybody was producing.

2827. *Mr. Bell*: It would be very difficult to lay down such a principle?—We agree there would be difficulty when you are keeping to the purely economic point and not speculating as to whether the thing was right or wrong.

2828. India has had a 10 per cent. bank rate—from 6 per cent. to 10 per cent.—whereas we pay 5 per cent. or 6 per cent. The bank rates of Europe to-day are generally higher, of course, than the Bank of England rate. I should have said that this country to-day was lending its money cheaply and that anything in the nature of 5 per cent., if you look at all the rates of the world, is a modest rate?—It is all a matter of comparison.

2829. I am comparing it, to the great advantage of this country?—But I say taking this country is a wrong comparison. We, in Glasgow, for example, can borrow money cheaper than a city like Edinburgh, so we are comparatively cheap, but that does not prove that we are all cheap.

2830. *Chairman*: Do you borrow a great amount of money from the inhabitants of Glasgow?—We do, but unfortunately for us the Government got in before us. To-day we have a Trustee Savings Bank in Glasgow where there is £14,000,000 lying in the investment department at 3 per cent., and it is loaned to the Government. It is all Glasgow money. Our Glasgow debt at the moment, with housing and everything, is somewhere in the region of £20,000,000; in pre-war days our debt would have been somewhere about £10,000,000 and the deposits in the Savings Bank were £10,000,000.

2831. *Sir Alan Anderson*: As I understand it, the real meaning of the second half of paragraph 2 is that the amount of capital offered for industrial purposes is limited because people who offer it want a higher rate of interest?—(*Mr. Duncan*): Quite.

2832. So that the English of this is a little inexact. That is not what you mean. What you mean, surely, is that the National Debt tends to keep the rate of interest high and at that high rate industry is not able to borrow as much as it could profitably borrow at a lower rate. Is not that your meaning?—The high rate of interest means that people are not prepared to offer capital for industrial purposes at a rate which the industrialist can pay, because of the competition of the National Debt and the higher rate maintained. That is all the paragraph means.

2833. But Sir Charles Addis pointed out that there is another meaning which would be covered by these words that "the amount of capital would be less." You mean the rate?—We are not referring to the amount of capital existing at any particular time; we are simply referring to the amount offered for

industrial purposes. (*Bailie Walker*): And as Scotsmen, we do not claim that we have a perfect knowledge of the English language, of course.

2834. *Mr. Bell*: There is another distinction. You do not say permanent capital or temporary capital. The banks do not in temporary accommodation, I think I may say, refer the price to the price of War Loan, but to the bank rate. So that you will find that for a long time banks have been lending for industrials at a less rate than they could have put their own money into War Loan?—(*Mr. Duncan*): I am afraid we have been thinking more of permanent capital.

2835. You are quite right, only I wanted to put that. It is permanent capital where, say, a firm wanted to raise £100,000 or £200,000 with an issue of preference shares and had to pay 7 per cent., whereas a few years ago they could have got it at 5 per cent.?—That is the position to-day.

2836. I always like to make the distinction between permanent capital and temporary capital by way of overdraft?—I am afraid as Trade Unionists our knowledge of what goes on in the banker's parlour between the employer and the banker is a good deal less than we can gather about businesses where we can see the balance sheets.

2837. *Chairman*: Would you continue with your paper now?—(*Bailie Walker*): I do not think we can elaborate it much more; we seem to have covered it fairly well. In our last paragraph we deal mainly with the question of indirect taxation. We do not agree with indirect taxation as a method of raising money for carrying on the country. We think it does not fall equitably on the shoulders of those best able to bear it, and it has a tendency, especially when applied to foodstuffs, to prevent the people who are wealth producers, that is, your units of labour down at the lower end, really obtaining the wherewithal to carry on and keep in a physical state to produce wealth. We think it has that effect and we are against indirect taxation.

2838. *Sir Alan Anderson*: That is what you mean in paragraph 9 by the industrial point of view, is it —the point of view of the individual wage-earner in industry?—Yes. (*Mr. Duncan*): We look at it from the point of view of the effect on industry.

2839. On business as a whole?—Yes. We are considering the effect of these things from the only point of view that we can be considered to have any authority to deal with them from, that is to say, the industrial effect of employment on the workers. Our knowledge of finance is necessarily very limited (we never had any to handle), but we do know something about employment. We do have to study the course of industry; we may be able to know when to apply to Mr. Hichens for a rise in wages, and so on; we do need to have some knowledge of that sort of thing.

2840. *Mr. Hichens*: But do you think that supposing you could drop the market rate of interest by say 2 per cent. to-day it would create much more employment? Take Beardmore's, for instance. To begin with, you have to remember in Beardmore's case that the 7 per cent. loans have been taken for a fixed number of years and cannot be redeemed earlier. —(*Bailie Walker*): But I understand they have to be redeemed very shortly, I think this year.

2841. Perhaps they have, but supposing they are redeemed at 2 per cent. less, is that going to make much difference to the amount of employment that Beardmore can offer?—It will make this amount of difference. I, who have to negotiate with Beardmore occasionally, am told about his losses; it would be very much easier for me if he could inform me that his losses are now less than they were before.

2842. But will they be less; because the rate of interest has gone down for me as well as for Mr. Beardmore and I am just as keen a competitor of his if the bank rate is reduced 2 per cent. as I was before. That is on the assumption that there is not enough work to go round. If you did reduce the rate of interest by 2 per cent. it would affect your manufacturing costs only to a very trifling extent?—Would you suggest that a reduction in wages would affect it more?

2843. Immeasurably more?—Take the steel trade. When the price was at £ 27 10*s.* 0*d.* a ton the wages were 250 per cent. above par. Wages are now 40 per cent. above par, and the price is at £9. The wages followed the price all the time, either way. Unless you want the men to work for nothing—and, as a matter of fact, in the steel trade even if they worked for nothing, in some cases it would not help you.

2844. I merely wanted to make it clear to you, if I could, that wages, I suppose, are about 75 per cent. of the cost of any given commodity—not at any given stage, but all through?—Sir Frederick Mills made a statement at a meeting at which we were present some time ago and he said it was 95 per cent. all through; so that is a difference of 20 per cent. between you and him. Now the next man I meet might put it another 20 per cent. further down. (*Mr. Duncan*): I do not know so much about manufactured commodities, but in agriculture, where it is not a stage process but where you have a complete process from beginning to end, wages in all forms of agriculture, whether you take dairy and grass farming or arable farming, vary from 23 to 25 per cent. of your total outgoings. These are ascertained figures; it is the only constant factor in agricultural costs—the constant relation of your wages to your costs.

2845. *Sir Alan Anderson*: But surely they must vary entirely with the form of agriculture?—It is a curious thing, but all the figures we have bring out this most remarkable result.

2846. I am interested in a farm and I am sure in our case it must entirely depend upon our policy. Supposing we are buying large quantities of foods we can buy them cheaper?—If you go into your costs you will find that.

2847. I am certain they vary enormously?—I have gone into this with figures that have been issued from all parts, and it is an astonishing thing how constant they remain.

2848. *Mr. Lees-Smith*: On paragraph 9 I think there is a point on which you can give us evidence which we have not yet had. We have had a good deal of evidence of the effect of direct taxation, Income Tax and Death Duties, and so on, but we have not yet had much evidence as to the effect of indirect taxation. Is it your view that indirect taxation, particularly taxation on sugar and tea, has any substantial and measurable effect on the physique of the people, upon their industrial capacity and therefore eventually upon our general productive efficiency?—(*Bailie Walker*): In the first place, the food taxes affect people earning the lowest wages to the greatest degree, because the greatest amount of income of these people is spent almost entirely on food, clothing, and so on. In those industries where the lowest minimum wage exists you will find the lowest type of physical efficiency so far as general labourers are concerned. Take the foundry trades. The foundry trades in pre-war days had about the lowest labouring rate of any of the heavy trades, and it was remarkable to note the difference between the physique of a labourer in a steel works—when I say a labourer I mean the bottom man, the man with the lowest wage—and the labourer in a foundry. The one would have made almost two of the other; and the difference in wages in the West of Scotland area at that particular time would be about 16*s.* 10*d.* as against 21*s.* or 22*s.* a week. That is a question of a difference in wage right down in the cost of living level, and every little, no matter how little it is, that takes away from the amount the man has for the sustenance of his family, has a tremendous effect. These people, especially in general industries, are the people from whom you draw your skilled men later on. That is in an industry like mining, or the iron and steel trade, the men start serving their apprenticeship after they have reached manhood. If you have a reservoir of men who are not physically fit, then

later on you do not get the type that is necessary for high production. In the steel trade they do get it, because, as I have said, up to the present moment they have always had a higher rate down at the bottom, and it has attracted a better type of man. So it affects it in that way. Every tax going on affects the man down at the bottom, and, of course, the degrees vary as the wages vary in the various trades.

2849. *Chairman*: You know something of the conditions of life in Scotland; would you take the tax off liquor?—I would take the tax off those liquors that are less damaging to the physical constitution, such as light beer, and so on.

2850. There is very heavy expenditure on drink, is there not, in Scotland as in England?—I could not say at the moment what it is per head, but the expenditure is very heavy because the prices are heavy. A man to-day pays 8d. for what is called a half whisky that he formerly paid 2d. for in pre-war days. (*Mr. Duncan*): Obviously one would only consider a reduction in the taxes on luxuries after one had removed the indirect taxes on necessaries. I think most people would agree that the taxes on liquors are in quite a different position from the taxes on ordinary commodities.

2851. *Mr. Lees-Smith*: One witness, in answer to a question from me, said he did not think there was much real distress in this country and therefore the reduction of taxes on sugar and tea had not any very substantial effect?—(*Bailie Walker*): He did not think there was much distress? I am afraid he was a bit of an ostrich.

2852. *Sir Alan Anderson*: It is difficult to get any very general view of the state of living of the wage-earning classes all through the country as compared with pre-war?—Yes. We can give you the figures in Glasgow.

2853. Glasgow is rather a peculiar case?—No, there is nothing peculiar about Glasgow.

2854. Surely on the Clyde shipbuilding is very much depressed?—Yes, but there is nothing peculiar about it. What I meant when I said we could give it to you is that we get the figures. Our infantile mortality figures have gone up with the trade depression; they went down when trade was good. We take a great interest in child welfare; we have child welfare centres all over the city, and can tell with diagrams that are absolutely correct what is the state of health of the mothers of the children in the various working-class areas.

2855. Is that a satisfactory barometer, do you think, of the state of living?—I do not know that you can get any other. Our nurses visit the houses, and the mothers and children visit the child welfare centres, and they are examined by doctors, and I understand that doctors are the people who can examine you as to your physical condition.

2856. So you would look upon that as a good barometer?—We accept it, anyway; we act upon it. (*Mr. Duncan*): We have also had some very careful investigations made quite recently by Professor Noel Paton, in which he has produced most startling results. There was a very careful scientific inquiry conducted by the Professor, and the facts brought out in that inquiry on the conditions in Glasgow are perfectly startling.

2857. Is that published?—The inquiry is still going on; all that I can refer to is a speech of Professor Noel Paton's as to the result of the work so far, but it is the first really detailed inquiry by any physiologist into the matter.

2858. *Mrs. Wootton*: Could we see that speech?—I will try to get it for you.

2859. *Sir Alan Anderson*: That was not comparative with pre-war, was it? This is a new inquiry?—The trouble is that you cannot get any comparison. Even if you take the comparison that Mr. Walker is referring to, your figures are vitiated by the fact that you have had a tremendous development in the last ten years in the public health service so far as these things are concerned. Even in spite of the Geddes axe, maternity and child welfare alone is a tremendous factor to consider in improving health. So you have no real test that you can make of these things; one can only take general impressions. Mr. Walker is entirely confined to the industrial area. My experience is in the rural areas, and there I should say that the present position in Scotland is that we have improved over the war period, that there is a general improvement in the standard of living in the last ten years; and I should say outside the purely industrial area there has been an improvement in wages during that time; there has been a permanent improvement which has been maintained. Then you have the other fact that one simply could not contemplate what the condition would have been in the present unemployment crisis if it had not been for the unemployment insurance scheme. I remember the 1903-04 unemployment crisis very well because I was actually dealing with relief work then, going round to the people who were unemployed, and there is absolutely no comparison between the condition of things to-day and the condition of things 20 years ago.

2860. *Chairman*: Was that in Glasgow?—It was in Aberdeen that my experience was at that time, but there is no comparison as to the condition in the unemployed crisis in the times before we had the unemployment insurance scheme and the able-bodied relief from the Poor Law authorities. That has made all the difference.

2861. *Sir Alan Anderson*: The distress is not nearly so acute as it was?—No. (*Bailie Walker*): While everything that Mr. Duncan has stated is quite true, what we find is that people are being relieved in a way that they never were relieved before; but the continuance of these people living on the line that is laid down by your insurance, or by your Board of Guardians, leads to this. We have had the opportunity over a period of three years of watching the physical deterioration of the people who are getting relief. We have measured and we find that the children born during that period are of less physical value than others. (*Mr. Duncan*): The fact is, of course, that it could not have gone on for three years, 20 years ago. The condition of things 20 years ago would have produced, not what people in London talk about as "the Clyde," but would have produced a revolution if the thing had continued. There was actual lack of food; at that time it was quite a common thing to go into houses and discover families without fire or food for 24 hours—absolutely without anything during that time. (*Bailie Walker*): We can find that to-day. (*Mr. Duncan*): Yes, but you are not dealing with a mass of it to-day in the same way as we did at that time.

2862. *Mr. Lees-Smith*: Do you say that you find that to-day?—Yes.

2863. There is no gap in the unemployment relief now?—(*Bailie Walker*): No, but there are a whole lot of things that happen that possibly are very difficult to guard against. An individual falls ill and there is extra expenditure, or something happens in other ways, and money that should have gone for rent is used. Then the factor or house owner takes them into Court and gets a decree against them and the expense is piled on and they cannot meet the extra amount they have to pay; then back into the Court they go again and expenses are put on again, and they reach a period when in order to clear it off they have actually to do without food for two days. They are so much on the margin that with the slightest slip they are over and it takes a lot of recovery. As regards clothing, you see them gradually going down. I have had people come to me, of both sexes, married people, not wasters or people in drink, I mean the ordinary respectable working class people, and I have gone to their house and found absolutely no furniture; they were kept going from day to day. The aged people are the worst, the people who are round about 50, 55 and 60. In the case of a couple like that the amount they are getting from the parish is somewhere in the region of 22s. 6d. a week. After

they pay 6s. or 7s. for rent, that does not keep them in food.

2864. *Chairman*: I am glad to hear that point brought out, that even these poor people are not people who are given to drink?—No, I am not going to sit here and say that some of them are not—just as there are a lot of rich people given to drink. But in the main the great mass of the people who are unemployed are not of that type. I represent a Ward in Glasgow which is a purely industrial Ward; it is a steel and engineering centre, and the people whom we have to deal with are the people who are occupying the labouring positions in all the industries in Glasgow; that is the people who in pre-war days were living on 20s. or 21s. a week. There was 4s. 6d. or 5s. of that for rent. Well, you know what was left for food and clothing. They have never been able to get up. A week's unemployment and they are down in the gutter. Any man who talks about them wasting their money in riotous living is a Gilbert; he should be looking for another Sullivan to write an opera; it is ridiculous.

2865. I have not heard that stated before?—We have just got an increase of wages in the steel trade for labourers, of 7s., a fortnight ago. That gives us a minimum wage after that of £2 1s. 10d. I put it to you a man cannot drink much on that. (*Mr. Duncan*): The great mass of the poverty has little relation to the personal habits of the people.

2866. That is what I understand?—I have been particularly struck with the complaints of local publicans and hotel keepers, who tell me that they cannot carry on their business because the reduction in wages in the last two or three years in the rural areas has simply cut off practically all the drinking, and as a publican put it to me: "They used to come here for a pint or two of beer on a Saturday night but I do not see them now once in a month." I was rather struck with that, because I had the feeling that even here if it came to a reduction some of them would insist on having at least their weekly pint of beer when they went into a market town. But even that has been cut off. Then to get back to the point of the effect of indirect taxation: one sees the effect of indirect taxation when you come to deal with the lower paid worker. I am thinking particularly of my own people at 35s. a week. The reduction in the tea tax was hailed as if it was something substantial and was going to make a difference to them. They talked to you as if it really meant something. When you are thinking of the figures of taxation you try to translate them into the figures of the working-class income. Just this last week I was speaking with a farm labourer's wife of a halfpenny going on to the loaf, and I was staggered to find how much it meant in the week. What I found was that they were using bread in such quantities that if you begin to go into their budgets you find that it is just the article upon which the tax is laid that forms a big part of their expenditure. Although a tax may seem little—2d. on a lb. of tea or 4d. on a lb. of tea, or 1d. on a lb. of sugar, when you come to work it out on the working-class income you begin to see the effect of it. The effect of indirect taxation is at once to limit their expenditure on these necessities if you put the tax on ordinary commodities.

2867. *Sir Alan Anderson*: I suppose the people who feel it the most are the ones who get the least protection really from the Trades Unions in the settlement of wages, and so on; they find it more difficult than the better paid ones to get their wages increased?—They would not be so low paid if they had Trade Unions to protect them.

2868. They have the most difficult battle to fight?—(*Bailie Walker*): It is the old axiom: they are poor because they are not organised, and they are not organised because they are poor. (*Mr. Duncan*): There has been quite a change in 20 years. To-day you find the docker or transport worker who used to be looked upon as the bottom dog in industry is now very much better off than the steel worker or the miner or those others who were looked upon as being rich men. It is the case that they are poor who get least protection because they protected themselves least.

2869. *Chairman*: We have had a most interesting discussion on that point, but we have had evidence from another very important witness, who said that the nation would be better off if the tax had not been taken off those commodities but had been taken off the Income Tax—that the future of the whole of the country would have been better if that had been done. That was his opinion. Would you agree with that?—(*Bailie Walker*): I would not agree with that at all. A man who says that seems to be thinking more in the realms of high finance than of actual realities and the lives of the people.

2870. I do not think that.—Let me get back to the point I put before. If he examines it he will find that you cannot produce in abundance with ill-paid and ill-fed labour. A working man in the steel trade, or a miner, will do more physical labour than in other industries where they are not so highly paid.

2871. *Mr. Bell*: That was not quite the point. The witness thought that if the capital was returned to industry there would be a great deal more work and better wages.—But how can you expect the man to work more if you keep his health down? After all, if that witness had been asked if modern machinery were not better than obsolete machinery he would at once say, yes. He would be thinking purely in terms of capital and machinery all the time.

2872. No, it was employment he meant—that the money returned into the capital fund would have given employment.—(*Mr. Duncan*): Our point of view is that, after all, it is relative, and capital is not the biggest thing in the situation we were faced with, and I rather took it from a good deal of the questions that have been put to us to-day that the real difficulty was not the capital fund. Then if the real difficulty is not the capital fund, a reduction in the Income Tax would simply take away a burden, but they would not be able to put more on to industry.

2873. He was a man who quoted his own sort of business, a small business, and he said that if taxation were not so heavy he knew of cases where a good deal more work would be given. I do not know whether he was right or not, but that is what he stated?—You cannot put it as a general thing. We know the industries and we give you the facts. I know agriculture and fishing, and in neither of these is the real difficulty the capital difficulty. The real difficulty is the price difficulty—that the demand is not there. You can produce your commodities, and you may be producing your commodities in excess of the demand that there is for them. So far as we can see, the thing that would help the industry most would be if you could increase the purchasing power of the people who use these commodities, our agricultural products and our fish, who after all are the big mass of the wage-earning population. One shilling a week of average increase to the wage-earning population of this country would do more to help agriculture and fishing than all the taxation put together.

2874. *Chairman*: His point was that, supposing he had collieries and the Income Tax was reduced, the amount saved would enable him to put that money into the opening of fresh coal mines, and then the development of the country would go on in that direction?—(*Bailie Walker*): But is there a shortage of coal mines? I understand just now that there is not. If he could show us where, by a reduction of the Income Tax, you could set up a demand amongst people who were not paying Income Tax for commodities—an economic demand—then he might be able to prove something; but he cannot show it now.

2875. *Mr. Bell*: Then you think the supply of money is not the chief point?—(*Mr. Duncan*): We are dealing with alternatives of reduction of taxation or reduction of the interest rate. Let me go back to the thing we were discussing. Our position is that

with regard to these alternatives of the reduction of the Income Tax, with a consequent reduction in the repayment of debt, and of an easing of the interest rate, from the point of view of the worker and employment, the easing of the interest rate is more important. As we show, I think, in our statement, you have to take the balance.

2876. May I ask a question on another point? I think you a little misunderstood the question dealt with in paragraph **6**. You say: "A high Income Tax in the country"—that is, this country—"has little or no effect on investments from abroad, because Britain has in the past been an exporter of capital." But that is not the question; that does not follow. All we ask now is whether somebody in, say, Austria, who wanted to invest in England, is prevented from investing in England because of the high Income Tax, which might be made higher?—(*Bailie Walker*): When you put the question about the high Income Tax in a country like Great Britain preventing somebody in South Africa or some other place investing money here, who never was in the habit of doing it, because we have always been sending money over there, we naturally just put that answer down; because that is the only answer that can be given; but, if you want a theoretical answer that has no relation whatever to the actual facts, then of course it is different.

2877. The point is whether the high Income Tax in this country prevents people abroad from sending their money into this country?—It would all depend on the circumstances. For instance, if I was a wealthy man in Japan I would prefer to invest my money in Great Britain and pay Income Tax rather than to invest it in Japan, where there might be no Income Tax but there were a few earthquakes. All the circumstances have to be taken into account.

2878. You do find as a matter of fact that a high Income Tax prevents money coming into this country from other countries?—You do find it, but I think on the balance it does not matter very much. (*Mr. Duncan*): Might I say on that, that supposing the circumstances were that a high Income Tax meant that we could not get the capital we required for carrying on industry, and that by lowering our Income Tax we could get the capital to carry it on, then that would be a very good reason for lowering the tax. But it does not seem to us to be a practical consideration.

2879. *Mr. Bell*: In paragraph **8** you have the words, "As the greater part of industry is in the hands of joint stock companies." Have any particulars ever been got out as to that? Has anybody really ascertained the proportion of business which is being done by private people and by joint stock companies in this country?—(*Mr. Lees-Smith*): I think on that point there was official evidence before the Select Committee on Increases of War Wealth which certainly showed that a great preponderance of the industries of the country was in the hands of joint stock companies?—(*Bailie Walker*): We saw evidence given on that. (*Mr. Duncan*): The figure I have seen is that if you take capital above £5,000, somewhere about 90 per cent. of it is in joint stock concerns.

2880. *Mr. Bell*: Is there any definite meaning to the word "industry" here, or does it mean all the business of the country?—When we took that figure we were thinking of the industry that would be likely to have to pay Income Tax. Where a business unit is earning sufficient profit to bring it within the Income Tax limit, I think there is no doubt, from the figures given to the Select Committee, that the great bulk of industry that comes under the review of the Income Tax authorities is in the hands of joint stock companies.

2881. I lived in Liverpool for many years, and the great cotton importers there were not joint stock concerns?—(*Bailie Walker*): They are importers, not manufacturers. Of course, people do a very great deal of that kind of business in a very small room.

2882. I was wondering whether they were included in the word "industry"?—Industry is generally accepted as manufacturing. For instance, you do not call a cigar shop an industry.

2883. Yes, I should?—You are talking about the retail end of it.

2884. No, I am talking generally of everybody engaged in industry. I should say that a man who sold cigars in a shop or a man who imported cotton into this country was engaged in industry?—Then you would have to take in the man who sold matches and newspapers in the street, and so on. Then you would probably make up a bigger number of individual units than otherwise.

2885. *Mr. Hichens*: You and I mean manufacturing, by "industry"; and selling matches in the street we should call trade?—Yes.

2886. *Mr. Bell*: That is what I wanted to get at—what was meant by the word "industry" here?—(*Mr. Duncan*): Remember, we are giving evidence on behalf of a Trades Union Congress, and naturally we think of industry as the people who are employing the folks we represent. We are also thinking all through this of National Debt and taxation to meet the National Debt, and the effect of that on industry; consequently, we were not concerned so much about the smaller things on which direct income taxation does not fall. We were thinking more of the Income Tax and the taxation that goes towards debt repayment.

2887. *Mrs. Wootton*: Going back to paragraph **9**, you mentioned the fact that you have yourself seen in the budgets of the people the results of taxation. I wonder if you could possibly give us any illustrative budgets. I know there is great difficulty in doing that, but I think your organisation has something of that kind?—We have some, as a matter of fact. Our Congress Council did take some over a period, but it is exceedingly difficult to get very reliable budgets. I remember some years ago attempting to take some for my own purposes for Wages Committees, to arrive at some basis as to the cost of living and what the wage actually produced, and I found that unless you get the housewife down in front of you and take the budget yourself it is unsatisfactory, simply because she was not accustomed to budgeting, and would mix up a payment that was made one week for a commodity that might last four weeks. But if it would be of any use to the Committee, I could get a number of illustrative budgets by our own people that I could absolutely rely upon. The ones I have are some years old, and I would have to get some new ones, but I could get some within a week or two.

2888. *Chairman*: You might get them to illustrate the point in your evidence.—Yes, and to show the effect of taxation.

2889. *Sir Alan Anderson*: To show what relative part of the total expenditure went on certain articles?——Yes.

2890. Of course, it would depend entirely on the class of worker you took, would it not? Take an agricultural worker. In many places he lives almost wholly on bread?—Not in Scotland, although I was staggered by the amount of bread that they did use in the lowland part of Scotland. Might I say that there is another aspect of it that has to be considered from the point of view of employment. Taxes on commodities are much more liable to cause political pressure than any others, and are exceedingly disturbing so far as industry is concerned. It would be very much healthier for us if our taxation were direct instead of having the continual political appeal that the industry is pushed into.

2891. *Chairman*: What do you suggest in place of it?—I suggest that anything in the nature of import duties or taxes on commodities should be removed. There are certain of the Customs and Excise duties that I think might be maintained which do not have very much industrial effect; and I suggest that the Income Tax should be increased.

2892. Increased?—Increased is not the right word: that the basis of it should be broadened. I think it would be very much better for the workman to pay

taxes directly on his income than to pay the tax that he does through these taxes on commodities. The ratio of indirect taxation is very much heavier on the workman.

2893. *Chairman*: The Inland Revenue would say that it would be very expensive to collect. (*Mr. Hichens*): Would you accept it as a deduction from wages?—(*Mr. Duncan*): Yes, I do not see why it should not be.

2894. *Chairman*: Did you come before the Income Tax Commission on that point?—(*Bailie Walker*): I did.

2895. Discussion took place as to whether there should be a deduction from wages, and it was resented. (*Mr. Hichens*): I know it was unpopular. That is why I asked the question.—(*Bailie Walker*): I was putting forward then that a deduction should take place, and that at the end of the quarter, just as they send a man now a statement telling him how much he is owing them, they should still continue to send him a statement telling him that he is either owing them or that he had something to come back. It would be a method of taxation and a form of saving as well, because one man would have something to come back because of his allowances.

2896. *Chairman*: Do you think that would be popular?—Nothing in this world is popular in the way of taxation.

2897. It is very interesting to get the alternative to the tax on commodities. That is your alternative. (*Mr. Duncan*): That is our alternative. I say this simply on my own; I was not on the Council at the time of the previous inquiry, which Mr. Walker referred to, but I am glad to find my colleague agreed. No taxation of any kind is popular, but my experience has been that when taxes are put on there may be a great deal of outcry at the time they are put on, but people adjust themselves without very much difficulty. Most of the opposition to the deduction from wages came from the farming community and from the farm workers. They made more row about the 4d. and the 3d. and so on that was taken off their wages for insurance than they did about very much more serious things; but it is all over and done with now. It is better to face unpopularity in order to get on to a good basis.

2898. *Mr. Hichens*: Would you accept or reject the old-fashioned theory that every voter should have some financial responsibility in respect of public expenditure?—I do not think there is any possibility of any voter escaping it. I do not think he can relate his responsibility for expenditure to his vote.

2899. I am not saying he can, and the theory is put in a very vague way. I gather from your statement rather that you thought it would be better if the voter had a conscious knowledge that he was paying definitely through the Income Tax rather than that he should pay, perhaps without knowing it, through indirect taxation?—(*Bailie Walker*): We agree to that, subject to this, that you do not put a tax on a man which will mean a reduction in his standard of life when he is on the subsistence level. You would have to fix some point at which he started. Taxation must be according to the ability to pay, and if you are going to tax a man, merely shifting off the indirect taxation on to his income on the basis that that man who was on the subsistence level would be having a loaf taken, then I do not think we should agree.

2900. It could be argued that the level of wages would ultimately adjust itself; that is to say, that wages would probably find a lower level if the recipient were responsible for no taxation at all than would be the case if he were responsible for some. It is argued, for instance, that the fact that house rent is almost negligible in Germany to-day is an important factor in the reduction which has taken place in wages there.—I think the circumstances in Germany are such that if anyone is to argue about house rents, he might as well argue that because there are house rents in Glasgow wages should go up.

2901. They are higher than they are in Germany. —But they are not relatively higher than when house rents were lower. (*Mr. Duncan*): Take the extreme position. If the wages of an agricultural labourer in the Eastern Counties is at the 25s. level, we would never agree that you have any right, either by direct taxation or by the present indirect taxation, to tax these people and take away something from their 25s. Supposing that you remove all the taxation, and the woman finds that her 25s. provides a little bit more in the household, I do not think there is any fear that the result would be that their wage would drop to, say 24s., because you had eased the taxation.

2902. You would not fear that?—I would not fear that.

2903. But supposing it were possible to do one of two things: to say to this good woman: "Now your wage remains at 25s. and you pay no taxation at all, or it is raised to 26s. and you pay 1s. taxation," which in principle would be the best plan?—(*Bailie Walker*): It would be better if everybody had a wage which would allow them to meet the national obligations.

2904. And meet them consciously?—Yes, we agree generally; we believe that everyone should have an ideal of citienship. You can depend upon us backing up anything so far as citizenship is concerned. We believe that every individual man and woman in the country should have an ideal of citizenship and take an interest in the affairs of the community.

2905. And some financial responsibility is essential? —We spend a lot of money trying to inculcate that into their minds.

2906. *Mr. Bell*: You recall probably that in Germany before the War there was a direct tax on all incomes of £45 and over?—Yes.

2907. It started as low as £45?—Yes, it was really the same here, since Income Tax in Germany was used to meet local expenses. You had a system of local rating here, which they did not have there.

2908. I think they had both.—They had more of the other. The Income Tax that the worker was paying in Germany was going very largely in the direction of local taxation.

2909. *Mr. Lees-Smith*: You do not put forward any definite limit of income on which Income Tax should be levied; you are not saying that the present Income Tax limit should be lowered?—No; we are saying that it would be a far better thing to raise the revenue necessary in this country by a method of direct taxation. Along with that, we say that taxation should go on the shoulders of those best able to bear it, and we say that there should be a minimum laid down below which people should not be taxed, that people earning below that limit are on the subsistence line, and therefore they should not contribute to the taxation, because it would mean reducing their standard of life below the recognised standard; but it would be very difficult to say what that line should be, at the moment, because things are in a state of flux.

2910. You would not go below the present limit? —No.

2911. *Chairman*: You are going further than that, are you not. You say that instead of there being a tax on commodities the tax should be put on income?—We have not stated that. What you want to do is to take off the tax on commodities and put it on people who have an income. We say that the people down at the bottom, who are paying the tax, are paying something that they are unable to pay, and they are paying it through a method of indirect taxation at the expense of their general health. If you were to have a system of Income Tax alone, we could not say just at the moment what the minimum should be, because things are in a state of flux.

2912. *Mr. Lees-Smith*: The reason I ask that question is because, so far as I know the views of your organisation, your tendency would be to resist any

lower limits of Income Tax?—Yes, from the point of view of trying to raise the standard of life of the lowest.

2913. Then may I put to you one other question which has been raised this morning? The argument has been put before us that everybody should feel that he has a responsibility for the government of the country, and that has been adduced as a reason for having substantial taxation upon the working classes. That would even lead to taxation of persons who have not the necessities of existence. Would your answer to that argument be that, quite apart from taxation, the poorer classes of this country feel the importance of government, because the effect of bad legislation shows itself first in their lives, and more heavily in their lives than in those of others?—We agree with that, because our position is that we want to raise the standard of life of the people down at the bottom. In putting forward the idea of taking off indirect taxation we say they cannot afford it, and we at the present moment cannot lay down, because things are in a state of flux, the point when people would be able to meet taxation. But we can say that the great mass of the working classes at the moment cannot afford to pay the taxes that they are paying, because these taxes are being paid at the expense of the lives of themselves, their wives and their children, which is evidenced by the physical state that the people are in at the moment.

2914. *Chairman*: That is not quite in harmony with your previous answer, is it? We were on the question of what you would suggest in place of the taxes upon commodities. The answer to that is that, upon certain conditions, there should be a direct tax upon, and collected from, the people?—(*Mr. Duncan*): That presupposes that we are accepting the present incidence of taxation; but we were simply discussing the thing without entering into the question of the incidence of taxation.

2915. It is quite fair that you should put that in addition?—If we were to go into that point we should have a great deal more to say about the incidence of taxation; but what we thought we were dealing with here to-day was the question of the National Debt and the taxation to meet that, but not the question of the wholesale revision of taxation.

2916. On the question of income taxation some of the representations of labour were very strong, so I thought perhaps you would deal with that?—(*Bailie Walker*): As a matter of fact, many of my members to-day pay, and in pre-war days paid, Income Tax; there were a good number of people working in steel works, but the man who came to the £160 point paid Income Tax plus the other taxes. The other man just paid the indirect taxes. Now we put to you that as to the man down at the bottom, until you can give him a higher standard of life than he is getting you have no right to put this tax on him. There must be a minimum point. What that point is I am not at the moment prepared to state, because of the general position of the wages standard, and so on. (*Mr. Duncan*): May I just add one point bearing on what Mr. Hichens said? He put a question to me about making everybody feel responsibility towards the State. It has just occurred to me since I answered that question, that all our people, the farm workers in Scotland, pay no direct taxes at all. They live in houses which belong to the farmer, they get their houses as part of their wage, they do not pay rates directly at all, but I would not say that there is less civic spirit amongst them, or less feeling of responsibility thereby. I should say that the civic spirit is quite as strong and their interest in affairs is quite as keen although they have no direct contract by payments of rates, and so on. They pay, of course, through their employment; it is simply part of their wage. They pay indirectly, but the relation is very much less direct than with the ordinary person and the local rate.

2917. *Sir Alan Anderson*: They are critical of extravagance, are they?—They are not quite so critical of extravagance as the farmers are. I suppose they are rather more sensible on the whole. There is not much extravagance in local administration, I can assure you. The boot is on the other leg; there is parsimony rather than extravagance.

2918. *Chairman*: I think this has been a very interesting morning and many points in your evidence should be of very great value to us. We are very much obliged to you. I have personally enjoyed your evidence very much, and I think my colleagues have had the same pleasure in listening to your remarks.—(*Bailie Walker*): Thank you. We hope we have been of some use in coming here

(*The Witnesses withdrew.*)

(*Adjourned for a short time.*)

Professor A. W. KIRKALDY called, and examined.

EVIDENCE-IN-CHIEF handed in by Professor KIRKALDY.

Question 1.—How does 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?

1. This question covers a very wide area. Credit to the extent that it is temporary bank assistance to business is a very different thing from capital available for permanent investment in trade and industry. Thus, to find a satisfactory answer one should understand some of the fundamental conditions of British banking. One leading characteristic of our banking system is the holding of deposits at call. The credit thereby available for the assistance of business can only to a limited extent be of a permanent character. In this, British banks differ from most foreign banks.

2. Accumulation of wealth available for investment is a very different matter. The National Debt and movements in connection with its repayment would not appear to have much direct influence on the one, but may have considerable influence on the other.

3. What is the extent to which the banks in this country can give credit? This will depend greatly on the conditions that the management of a given bank prescribe as to granting loans to customers. For instance, there is usually a definite ratio maintained between cash and deposits. Practically every increase in the supply of credits affects this ratio, and should this ratio throughout the banking system be reduced to a minimum there would be an increasing difficulty in providing accommodation for further demands. And the converse of this is probably true; that is, that when the ratio is above the minimum, and to the extent to which it is above the minimum, the banks will be willing to increase their loans. Hence it may be suggested that there is very little, if any, direct relation between the National Debt and its movements and the amount of credit the banks may be able and willing to create.

4. But repayments, movements and conversions of the National Debt may have some influence over the

way banking assets are distributed between investments and advances. The repayment of National Debt may lessen the former and increase the latter. Banks, presumably, exercise great care as to the class of security in which they invest. It is one thing to invest in British Government Stock and another to invest in miscellaneous stocks. To the extent that banks might be unwilling to lock up funds in non-Government securities, their loanable funds would be increased.

Thus debt reduction or even conversion might affect the volume of credit available from banks for advances to business.

5. A repayment of debt to private individuals would undoubtedly liberate funds for investment. To what extent those funds, under present circumstances, would be invested in industrials is somewhat difficult to determine. Difficulties between employers and employed do not help to make industrials an attractive investment.

6. In this connection it may be suggested that what the country needs is a period of tranquillity, both industrially and politically. Our industries appear to be suffering from uncertainty. Take, as an instance, our heavy industries. Old-fashioned business men used to look to the heavy industries for indications of improving trade after a time of depression. At present our iron and steel manufacturing industries are suffering, among other things, from the uncertainty of what is likely to be the result of European reorganisation. Hence the market price of steel companies' shares is low, with a tendency to go even lower. Such an industry would find some difficulty in attracting capital that might be available for investment owing to repayment of War Loan.

7. As to the last part of the question, it is suggested that there is no necessary difference between the effects of the Floating Debt and the long-term debt. Still, the Floating Debt, to the extent that it affects bankers' balances, will affect the amount that bankers can utilise as advances to business. This emphasises the need, pointed out in answer to Question 4, to keep the Floating Debt at a minimum.

Question 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?

8. The existence of the debt or movements in the debt affect the terms on which capital can be raised for business purposes. The yield of the best gilt-edged securities affects the market rate for money.

As Government credit improves, and it becomes possible to lessen the rate of interest on Government debt, the effects are widespread Hence the importance of the success of conversion schemes to business. A certainty that Government will act in the utmost good faith will have a beneficial effect, but a suspicion that Government did not intend to act with absolute integrity would adversely affect the money market. Investors would look with increasing favour on overseas investments, and sterling exchange would suffer. The hint of possible inflation or of a Capital Levy would have a similar effect.

Question 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?

9. To postpone repayment until the conditions of trade improve is not sound finance.

Regular provision should be made for repayment of debt each year. So far as possible the amount should be the same each year, but there should be elasticity in this, though the amount repaid should not necessarily be affected by good or bad years.

The Budget surplus—the Old Sinking Fund—makes a very convenient elastic element in the repayment of debt, and so should be maintained. In good years this would tend to be greater and in lean years less. During the past four years these surpluses have amounted to over £400,000,000. Our national credit has by this means been improved, which facilitates conversion and enables us to obtain money on easier terms.

10. Reduction of debt also may increase the amount of capital available for industrial and trading purposes. This will depend as shown elsewhere on other conditions.

11. The last clause of the question is practically answered above. It is a sound practice to apply any surplus to debt reduction; it supplies a useful elastic element in debt reduction and as suggested above, may result in greater reduction taking place in prosperous years whilst easing matters in lean years.

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

12. It is suggested that the principle be adopted, and rigidly acted upon, and the Floating Debt be always kept at a minimum and be regarded as temporary.

Where circumstances lead to the Floating Debt, or any part of it, ceasing to be purely temporary, as great an amount as possible should be funded. For where the debt is funded the country knows its liability. This leads to the recognition of the necessity to take measures for the regular payment of interest and the reduction of the principal. Moreover, by these means the country is kept better informed as to the financial position, so that it is more easy to suggest and to make arrangements for reduction, or, as the credit of the country improves, to take steps to convert.

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

13. This is somewhat difficult to say. It may be that the charge connected with the service of the debt has the effect of lessening our public expenditure on luxuries or doubtful benefits, and so may teach a much needed lesson in public economy.

A good deal of public expenditure on "desirable objects" may be of a disputable nature.

To the extent that our present inflated expenditure compels the country in general, and the spending departments in particular, to face facts and look into alleged benefits accruing from certain items of expenditure, a great deal of good may be effected.

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

14. Does repayment of debt result in putting more money into circulation? Does repayment result in giving industries additional capital, either fixed or circulating, and so enable production to be carried on on a larger scale under better conditions, and so result in lower costs and prices? If the latter be correct, and, on the face of it, it is, then at the present time, when there is the possibility of a shortage of capital owing to heavy unproductive expenditure,

increased resources might enable the banks to supply extra credit to business operations in the form of circulating capital, whilst money returned to the individual investor, to the extent to which it was permanently invested in industry, would increase the amount of fixed capital in business. But the whole question would have to be considered in the light of what is put forward in other answers.

Question 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?

15. This is a difficult question adequately to answer. But it should be noted that London is holding its old position in connection with world borrowing. In 1923 the total of new capital applications, exclusive of Government requirements, was upwards of £200,000,000, of which 33 per cent. was for Great Britain and 67 per cent. for overseas countries. This amount brings the proportion of new capital loaned abroad last year somewhat on a par with pre-war figures. We are thus rebuilding our accumulation of foreign investments, which were badly depleted during the War. These investments were a great resource during the War for regulating the exchanges and for raising credits abroad.

It must be noted also that foreign investments help to extend our trade.

16. Whilst our national liabilities remain high there must be high taxation. This is a position that has to be faced, but every effort should be made to lessen the burden of taxation, and not to add to it.

High taxation usually tends to discourage saving. Debt redemption, to the extent that it increases taxation, calls for the exercise of the greatest care; for, if carried to an extreme, it would adversely affect the accumulation of savings for investment, and so lessen the supply of new capital.

In pre-war days, it is now evident, we did too little in the way of paying off the debt. Caution is necessary in order to avoid going to the other extreme.

17. Purchasing power, too, is affected by high taxation. Take the case of a man with a family of school or university age; the income fixed at say £1,500 per annum. In such a case economy may have enabled the man to save a certain sum each year in pre-war days. But now he finds himself with perhaps two children at school and one at the university. School fees, university charges, clothing and other expenses are considerably increased; previous estimates have all been falsified. Even with the greatest personal economy such a man can only win through by trenching on his savings, possibly to the extent of paying rates and taxes out of them. This is not to the advantage either of the family or of the community. And yet there are many families in this case.

18. The present high taxation bears hardly on all those whose incomes are not elastic and capable of considerable increase. It would probably be impossible to differentiate for purposes of taxation between those having increasing and those having fixed incomes, but it should be noted that the present condition of affairs is bearing heavily on not only those with moderate fixed incomes, but also on the comparatively wealthy who have charges on their wealth which they cannot disregard. Our old families are an element of strength to the nation, and many of them are either losing, or are in danger of losing, their status through high taxation.

The banker knows very well the difference between a mortgage and a bill of exchange; yet this difference appears to be disregarded in our system of taxation.

19. It would not be possible to say with certainty as to whether there will be a shortage of capital when trade improves. The success of some popular issues during recent months helps to reassure one on this point.

Question 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?

20. Generally speaking high taxation—especially if it reach the point of being excessive—is usually considered to be a deterrent to saving. At the present time many would-be "savers" have commitments they have to meet—they are in many cases trenching on their savings, and have to forego further saving. This is a direct effect of high taxation. If the individual in question be engaged in trade, it may affect the scale of his operations; though it is probably correct to say that a business man having the possibility of developing his operations, if he can convince his bankers that his plans are sound, would not have to go empty away.

21. In the case of joint stock companies, those in existence already have their capital, and if the investor has been satisfied with results, extra capital required for well conceived developments would be forthcoming.

But it should be noted that, in the case of either an individual trader or the joint stock company, uncertainty as to the future would undoubtedly have a deterrent effect. Business requires tranquillity and security if it is to flourish and progress normally.

Question 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 profits proportionate to managing ability and to the risks of personal enterprise, and higher on the average than the rate of interest on Government debt?

22. Most debtors could point out how profitably they could engage in business and carry on generally if they had the means.

At the present time this country has debts and obligations which necessitate the collection of a very considerable revenue. The effects of this may adversely affect many interests, but only certain items of our national expenditure can be reviewed with the object of effecting economies.

23. It is suggested that the best answer to this question would be:

1. To make further efforts to effect national economies in those items of expenditure which might be reduced without endangering the national honour.
2. To consider whether our system of taxation in any of its component parts violates the accepted canons of taxation.

There is an irreducible sum that must be provided. How can this be best and most equitably raised?

Thus it is suggested that an investigation should be made to discover whether the irreducible revenue bears on those interests which can most justly be called upon to bear it. Every remission of taxation before being accepted should be submitted to the acid test.

Question 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?

24. A clear distinction should be made here between wholesale and retail prices.

Income Tax should not enter into prices, but undoubtedly its rate influences the fixer of a price where competition, and especially foreign competition, is lessened or absent altogether. That is to say, a high Income Tax is an incentive to get the highest price possible. The price could probably be obtained without this incentive, but the incentive is undoubtedly a spur and has its effects. Where a manufacturer or exporter is very keen to compete in foreign markets he cannot exclude local rates from his cost of production; they are an important part

of working expenses; but Income Tax being levied on results is not really an element in cost.

25. The present position in both internal and external trade is, of course, abnormal. Where agreements through Associations exist there is rather more than a suspicion that a more or less liberal allowance is made for taxes and other charges on results. In internal trade some people contend that retail prices are in many instances too high. To the extent that this is so, it leads one to suspect that price agreements may be settled by Trade Associations. Where one has knowledge of cost prices, and compares them with selling price, the cost of distribution frequently appears to be too heavy.

A retailer may use his Income Tax as an explanation for his high prices, but it may be questioned whether prices would be lowered to any great extent even though the tax were less.

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

26. So far as joint stock companies are concerned, the Death Duties cannot lessen the amount of their paid-up capital. The individual inheriting shares may have to sell a certain number to pay the Duty, but this will not affect the capital of the company. As to the effect of the Death Duties on new capital, this has already been considered.

27. In the case of private businesses the position is different. Take a business with a capital of £100,000, of which father and sons are partners. If the father's share is one half, his death entailing the payment of, say, £4,500 may inconvenience the operations of the firm. But I understand that bankers are willing in a case like this to allow accommodation on terms which reduce the strain to a minimum. Hence the hardship is reduced to a bearable point.

28. It has been suggested before, I believe that Mr. Gladstone rather favoured the idea, that the amount realised by Death Duties should be earmarked for debt redemption. This might be considered. I would refer the Committee to Mr. Austen Chamberlain's Budget Speech in 1919, and, for convenience sake, quote one portion of that speech at some length, as it bears on several of the problems now under discussion. The Chancellor, having given details of very considerable increases in the Death Duties, continued as follows:—

> "There has been a good deal of discussion of late about a levy or tax on capital. If by a tax on capital is meant a small annual charge, then I think that that charge is as widely distributed and more fairly and conveniently raised in the shape of our Income Tax. If, on the other hand, there is meant a large levy on capital, a large slice to be taken out of accumulated capital, then I beg the Committee to consider what the result might be. It is a bad time to propose such a tax when, for the past five years, you have been begging people to save, and when you are still obliged to ask them to save, and to give you their savings. It is a bad time to tax those who have responded to your appeal by reducing their expenditure and making economies, and to let those go free who disregarded your instructions and who spent their money when it was not in the interest of the State, or in ways which were not in the interest of the State.
>
> "Consider a levy on capital apart from the circumstances of the moment. The Death Duties make such a levy, and they make it once in a lifetime, at a time when the taxpayer receives an accession of income, and since they are levied only at death, and we do not all die at the same time, the process of making the valuation and of levying the tax is a task of manageable proportions. It can be done justly and fairly as between man and man, and it can be done with a minimum of evasion or of fraud. Since only a portion of the capital of the country is dealt with in any one year, the tax is paid without any disturbance of credit, and without any depreciation of securities to the detriment either of the State itself or of the home. If a levy was to be made on all the capital of the country at one and the same time by the tax collector, all these advantages would be lost. To make an efficient valuation, fair as between man and man, and fair as between the revenue and the State, would exceed the power of any revenue administration in the world, and I make bold to say that our own is the best. It would exceed their power at any time, and still more now, when the staff is still depleted owing to the war, and when they are charged with the overwhelming new responsibilities which the war has brought. It would be open to all the objections which arose and all the difficulties to which simultaneous valuation of the whole land of the country and the taxation of the land of the country gave rise under the Land Values Duty, and open to those objections on a vaster scale, because you would have to value not only real, but personal property. Since very few people would have money lying idle sufficient to pay their obligations under the tax, it would mean an immense disturbance of credit. Everyone would be seeking to sell securities of one sort or another, and where all are sellers who would be buyers, and who shall measure the loss to the country by the depreciation of all securities and who shall measure the loss to the individual through the same cause?
>
> "If to avoid these difficulties the State takes payment in kind then all the difficulties of valuation still remain. The State cannot refuse to accept property of any kind at a valuation which itself has put upon it, and we should be left the owners of parcels of land, odd parcels of shares, in every conceivable undertaking, many of them of very doubtful value and very difficult to realise. I will only add that if it were thought that this expedient, once resorted to, would, as well might be the case, be resorted to again at every moment of difficulty or of extravagance, it would then be the greatest possible discouragement to industry and enterprise that the mind of man or Parliament could devise. It would be the strongest deterrent to saving and the creation of new capital, and it would be the strongest incentive to wasteful expenditure and to the dissipation or withdrawal of existing capital. I say boldly that whatever be our views on the distribution of wealth or on the respective shares of the fruits of industry to which capital and management and labour are entitled, our great need now and for years to come is that we should have, not less capital, but more capital, and I hope the House will lend no countenance to so hazardous, and, in my opinion, so disastrous an experiment."

Parliament was persuaded to accept these increased duties in lieu of a Capital Levy. The arguments advanced stand to-day and are well worth remembering.

29. The only further suggestion I have to make on this subject is to repeat what was said in answer to Question No. 7, that in taxation we should bear in mind what is the practice of the banker, viz., the difference between a mortgage and a bill of exchange.

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

30. As to Stamp Duties, bankers have from time to time protested against the 2d. stamp on cheques. This affects buying and selling and is a tax on trade. When the time for remission comes, taxes on trade might receive greater consideration than say, taxes

on entertainments. The one *must* be paid, and has adverse effects; the other can be avoided.

It may be replied that the proceeds from stamps on cheques tend to increase and therefore there is no need to reconsider the subject. On the other hand the double receipt which results from the use of cheques is now understood by the public, and it is possible that a penny stamp on cheques would make payment by cheque of small sums popular, and so prevent a loss on this item of revenue. The same may be said of heavy postage rates. The penny post as enjoyed in pre-war days was of great assistance to our trading interests, and a return to the former charges is being continually called for by Chambers of Commerce.

Question 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?

31. It is suggested that at any rate in normal times a ratio should be maintained between direct and indirect taxation in order that the system of taxation as a whole may make all members of the community so far as possible contributors on a just and equitable basis. Earned incomes below £150 per annum do not pay Income Tax. Death Duties are not levied on estates of less than £100 and are only taxed at one per cent. up to £500, hence, by exercising care, people of small means may almost escape taxation altogether. The principle on which the ratio should be determined might be worked out by making a careful investigation on the lines of that followed by Dr. Bowley in his "Analysis of the National Income" published in 1919. Much of the data available for the investigation was not sufficiently recent to give exactness. It would probably require a good deal of time to prepare the necessary data for a satisfactory analysis; but it would be worth attempting. There is a suspicion that the poor are called upon to contribute an inequitable amount through indirect taxation. By acting on the results of a satisfactory investigation a just and proper ratio might be fixed; with the result that our system of taxation would benefit, and people would be more satisfied as to its justice to all. Taxation for a long period must be heavy, if we are to retain our national character for honesty. Let the burden be distributed as equitably as possible so that all may realise that each is contributing his fair share.

Question 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?

32. This is a big question.

There might be simplification; the amount to be paid by one individual or from one source might be assessed by one office and paid to one office in the half-yearly payments. At present an individual sometimes pays his taxes by a series of cheques each half year where one cheque should be sufficient.

There is overlapping too in the assessments for local and central purposes. It is suggested that there should be one authority to assess for both rates and taxes. What is required from each individual is a definite sum according to his means. A great deal of irritation and probably a great deal of expense might be saved by a careful re-organisation of the present system. One set of officials might be substituted for several, and the troubles of the citizen lessened.

A re-organisation on these lines would mean the establishment of one office in each district to which the individual rate and tax payer would know his liability. There would be unification of assessment and a simplification of machinery. The one office would be responsible for handing to the local and central authority the amount due to each.

I understand that a system on these lines operates in France, but have not had time to confirm the statement. An inquiry might be worth while.

It would require harmonious co-operation between local and central officials; but this if successfully worked might lead to further economies and benefits.

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

33. Increased productivity in trade and industry, other things remaining constant, should result in decreased cost of production, and so increase the purchasing power of the consumer. This would indirectly lighten the burden of debt in two ways. The individual would have a bigger margin of income and the producers would pay taxes on an increased amount of profit, which would bring nearer the possibility of regular remissions of taxation. Increased productivity should result in an all round financial benefit to the community. For it would help to develop demand and consequently have an effect on unemployment. All these taken together should result in easing the burden of debt and taxation, both directly and indirectly.

Supplementary Question 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 market than in 1914?

34. This is an extremely difficult question to answer with anything like completeness. In different parts of the country it is probable that an investigation would yield rather different results.

If general observation and an individual opinion be considered of any value, I would suggest that since the War, perhaps as a consequence of the War, large sections of the community are living at a higher standard than before 1914. Higher wages and salaries, obtained in occupations connected with War supplies, accustomed large numbers of people to live more comfortably, perhaps it may be said more extravagantly, than in pre-war days. People whose incomes (earned or unearned) were fixed have had to reduce their expenditure or are supplementing their incomes by trenching on their savings.

Taken as a whole, my opinion is that the standard of living has on the average risen rather considerably during the past ten years.

35. The standard of production is an even more difficult matter on which to express an opinion. The experience during the early years of the War showed that in pre-war days we were by no means producing up to our maximum. The War demands led to many of our industries being re-equipped with new types of machines, and other industries were carried on by means of new processes. The result of obtaining a large War production when peace was restored was to frighten both the working classes and employers. The former saw the possibility of satisfying the 1914 world demand for British goods in a greatly reduced period of time, and they naturally dreaded long periods of unemployment or of short time. Hence there was lessening of effort and a disinclination to work the new equipment to anything like a maximum output. Employers also feared the effects of a glut and apparently gave attention to discover what output would yield the best financial results.

It is probably safe to say that employers in certain occupations are unable to find a market at the present time for their maximum possible output, and without having buyers in view, neither employers nor workers are willing to produce this maximum. It is also safe to say that our present industrial equipment should in many industries enable us to produce a great quantity, although it is probable that the new methods in many instances do not produce such highly finished goods as the pre-war methods did.

36. There must also be taken into account the fact that we can no longer get cheap power from cheap

coal. The old wasteful methods of using coal will have to be discontinued if we are to get power at a price that will enable us to be on equal terms in this respect with some of our foreign competitors. This change will require time, and while the change is taking place our industries ought not to be allowed to suffer, or both capital and skilled labour may be lost to the country. What form the power of the future will take is only just beginning to appear. It is too early yet to say what it will eventually be—but this creates a very serious situation and should receive careful consideration. Possibly it may do so from Sir Arthur Balfour's Committee. But the question is raised in the questionnaire—hence these suggestions.

A survey of our industries and resources, a knowledge of what has been effected in the past, and how the war demand was met, warrants one in feeling optimistic. What is required is that public opinion should be kept well-informed and that authoritative information as to our industrial position, and our commercial position both at home and abroad, should be clearly and truthfully made plain. There is danger, but that danger can best be met by making facts known. No better tonic against foreign propaganda could be administered than to make our industrial army conversant with the true state of affairs.

37. As we are at present, one fears it must be confessed that we are relatively less able to compete in the world's markets than we were in 1914, but this is to a great extent due to conditions which are mainly temporary, and all of which could be overcome.

It is suggested that wages, prices and conditions of the leading industries in Great Britain, Belgium, America and Germany should be tabulated, and that the present conditions in home and foreign markets be made known to all the interested parties.

If it were possible to make analytical reports on the leading industries on the lines of the American report on the Pottery Trade, most helpful data would be available for the use of the representatives of both employers and employed.

We should be relatively more able to compete in the world's markets if every section of the industrial and commercial classes would face the existing position honestly and act in accordance with the facts. On equal terms we can more than hold our own, and we can maintain our high standard of living. But it means that peace at home and abroad is necessary, and that there shall be hearty and unequivocal co-operation between employers and employed.

2919. *Chairman*: Will you please amplify any of the points that you deal with in your Paper?—With reference to my first paragraph, of course the banking members of the Committee know perfectly well the origin of English banking and what differentiates it from the banking system on the Continent. Most of the banks on the Continent would hardly be recognised as banks, I suppose, by an English banker; they are rather finance corporations, but that is understood. They are able to assist business to a greater extent and more permanently than the British banking system.

2920. *Mr. Bell*: Possibly the rigidity of English banking as described here is mitigated by the renewal, as long as things are satisfactory, from year to year, of the accommodation which bankers give?—Perfectly.

2921. So that really it is not quite as rigid as is sometimes thought?—No, but there is that difficulty of fluidity that our bankers have to face, which is not usually recognised, I believe.

2922. *Mr. Hichens*: And it is also, is it not, that businesses to a large extent require only temporary capital advances?—Quite. I suppose, roughly speaking, you would admit, as a big employer of labour, that businesses to a great extent obtain assistance so far as their circulating capital is concerned from the banker, but their permanent capital they obtain from the investor.

2923. Yes, but the circulating capital is a real thing and it meets a very real want, does it not?—Yes, quite.

2924. *Sir Charles Addis*: Is your answer in paragraphs 1 and 2 to be qualified at all by a distinction between internal and external debt?—Practically the only external debt now is the American debt; we have paid off the whole of the other countries; there is only the thousand millions to America at the present time.

2925. In principle, does that affect your answer upon the supply of credit and the supply of permanent capital?—I do not think it would.

2926. Not even *pro tanto*?—It would want consideration.

2927. It was suggested by a previous witness here that the distinction between internal and external debt was very much exaggerated, and that the real distinction from the point of view of this question was between productive and unproductive debt. Would you agree with that?—It is a very big question. Take, for instance, the American debt. We have to send them, say, £40,000,000 a year. Now they will not take goods; we have to create credit balances abroad to hand them that money; that is how it has to be done. Now look at the effect of that on business. Of course, we shall not know that till we have got further figures over a period of months, or even years, but what one is watching is the effect of the new tariff in America in reducing their exports or causing some effect on their exports, and the extent that we, with this impulse behind us, pick those markets up in creating these credits that we have to hand over to them.

2928. So that am I right in concluding that, in your view, those payments made in respect of the external debt to America, so far as regards their effect upon credit and the supply of capital, do not differ from the taxation imposed for the payment of the internal debt, the supposition being that in the latter case there is merely a transfer from one to another?—There is a good deal more in it than that, is there not?

2929. Perhaps you would rather not pursue it at present?—Yes; I will think of it later on, perhaps, if you will allow me.

2930. Is there not really an alternative to your suggestion in paragraph 3? Is it not the fact that the bankers are always pushing down their ratio of cash to deposits to the minimum in order to employ their funds profitably?—One would want to know the inner working of the banks to answer that question. One can only answer from a theoretical and outside point of view. That is an internal banking question which is very difficult for a man who is not a banker to answer. One merely understands what is the practice.

2931. That is to say, that sometimes you think the ratio varies very materially?—Perhaps, yes.

2932. *Mr. Bell*: I think it is often felt that the ratio alters because of something the bank does, but really the fact is that the ratio alters because the state of trade is asking for something?—Yes, but the bankers would not go beyond a certain point.

2933. But a bank might conceivably have, and does have in present circumstances, a good deal more money to lend than is demanded. What it does is to put it into investments, but as soon as the money is wanted for trade then the bank sells those investments and uses the money. But the boot is very often on the other leg. It is not so much the conscious policy of the bank: "How much will I lend to trade?" as really trade coming and saying: "This is what I want." I think that is a thing to be borne in mind?—Certainly.

2934. *Sir Charles Addis*: Do you think there is any evidence at present of a shortage of credit?—Not where there is a good opening, funds are available there; but I have made careful inquiries from various bank managers, and I have heard of a shortage.

2935. You say here that there is little if any direct relation between the National Debt and its movements and the amount of bank credits?—Yes.

2936. You are aware of the argument that has been put forward in public by Mr. McKenna that where a reduction in the debt involves a reduction of loans at the Bank of England then there is such an effect. Do you accept that view?—I suppose one would have to accept that view from such an authority.

2937. But speaking on general grounds, if the facts were that repayment of debt led to a reduction of loans at the Bank of England, that would reduce the cash in the banks?—Quite.

2938. And that would lead the banks to call in their loans?—It might not actually induce them to call in their loans but they would certainly consider applications for further loans with very much greater care.

2939. So that to that extent the statement in your paragraph requires some qualification?—Yes, but to what extent the repayment of the debt or movements in the National Debt do affect the situation would be a very difficult thing to say.

2940. I agree there is that difficulty but it is the fact that is important?—Yes.

2941. *Mrs. Wootton*: Could you expand paragraph 5 a little?—If a man had £1,000 in War Loan and it is paid off he has got £1,000 which probably he wants to reinvest. Then he looks round for a suitable investment and he consults a stockbroker who says: "I have these industrials, I have these Colonial loans, I have Municipal loans, I have various other things, and I suggest so-and-so," and among others he suggests an industrial. The investor says: "But is it not a fact that in that industry there have been a good many strikes, and dissatisfaction and irritation between employers and employed? How do I know that the present position will be maintained if this industrial friction continues?" A cautious investor takes that into consideration and it is probable that he will give that industrial investment the go-by and put his money into a Colonial or some other investment, waiting to see how the industrial situation is going to clear up.

2942. *Sir Charles Addis*: Would the effect of that process not be to push into industrials the man on the margin, the man who is weighing between security on the one hand and the yield on the other? As the yield on the gilt-edged securities falls and the yield on the industrial rises will not that tendency be present?—It might have some effect; it would depend a good deal on the temperament of the individual. If he had been about among certain groups of industries and seen the difficulties there, he would make very careful inquiries about industrials before he put money into them.

2943. No doubt, but if the interest on the one fell and on the other rose?—That would tend to weigh in the other direction certainly.

2944. There is another suggestion that has been made to us in the course of the evidence, that one of the results of that increased yield was that people were tempted to put their money into new and not very well-founded companies, with the ultimate result of national loss?—I think that has always been the experience. If you take what happened a century ago, as the Government credit improved and debt was either paid off or converted, you had the South American Republics getting assistance from this country, people putting their money there, hoping to get a bigger rate of interest.

2945. You think there would be a diversion to foreign stocks, among other effects?—You said new stocks; I only gave that as an instance. I think it is common knowledge that when the rate of interest on gilt-edged securities goes down, when the yield tends to diminish, people begin to get more speculative.

2946. How far do you think that process is accelerated by the idea that English industries being crippled by high taxation are not likely to be so remunerative in future?—I think that is operating at the present time, but on the other hand you get certain industrial issues which are attractive and people go for them. It all depends again on the class of the industry and the type of security offered.

2947. I merely ask you whether you recognise those tendencies. There is a tendency to invest in new businesses which are speculative, and secondly in foreign investments?—Yes, but I think you will find that the new things are as a rule taken up by the bigger investors, and that the old and established concerns tend to appeal more and more to the small investor. I do not know what Mr. Hichens would say to that. (*Mr. Hichens*): Yes.

2948. *Sir Charles Addis*: That is the general tendency, is it?—(*Mr. Hichens*): Yes, I think that is so. (*Witness*): For instance, just before the War there was a great deal said about the capitalist railway owners, and one of the directors of the North Eastern Railway Company called for a return of the number of shareholders in the company and it was discovered that there were more shareholders than employees. That is a remarkable fact, and I believe it is true of most of our railway companies, that the number of employees is not so great as the number of shareholders.

2949. *Sir Alan Anderson*: With reference to your paragraph 6 you do not find that these heavy industries are suffering from a lack of capital at present?—They are not, but the point is that if there were repayment of War debt a man who wanted to invest would not consider them so much at present.

2950. One witness has told us that in his view the steel industries were suffering from lack of capital. You said just now you saw no evidence of that?—I do not think that is a fact. I think some of the steel companies were over capitalised. (*Chairman*): The witness said rather that the charge made by bankers for money was so high that the steel industries could not borrow. (*Sir Alan Anderson*): That the price charged for capital was too high and they could not improve their plant.

2951. *Sir Charles Addis*: You say in paragraph 8 that the yield of the best gilt-edged securities affects the market rate of money, and the existence of the debt affects the terms upon which capital can be raised for business purposes. Is it not rather the rate at which capital can be borrowed which fixes the yield on the National Debt?—Is there not action and reaction in that? In the first instance, it may have had to do with it, but when you have once got that rate fixed is there not a reaction?

2952. I do not think I quite follow you. (*Sir Josiah Stamp*): I understand you to mean that there is considerable inertia in the rate of interest owing to the existence of so large a sum with a nominal rate of interest?—(*Witness*): Yes.

2953. *Sir Charles Addis*: Is not the price of advances for business reflected in the price of War Loan? (*Sir Josiah Stamp*): It begins to affect the War Loan. Is not that your point—that there is inertia to be overcome?—(*Witness*): Quite.

2954. *Sir Charles Addis*: Between what two points? Where does the inertia come in when trade demand revives?—If you go to the start, of course the rate of money is fixed primarily by supply and demand, I suppose, but there is something more than supply and demand, because according to the credit of the borrower so the rate varies. Then the Government, so long as it retains the best credit, enjoys the minimum rate.

2955. *Sir Josiah Stamp*: I understand inertia to mean this: that here you have a very large number of people who are investing money to get 5 per cent. on it; that is regarded by them as the sort of rate they like to have, and if rates are lower they are more reluctant to lend at lower rates than they would be if they had originally lent at 4 per cent.

Psychology affects it. (*Sir Charles Addis*): Yes, but subject to that qualification I think it is clear that it is the rate at which capital can be borrowed that determines the price of the National Debt?—(*Witness*): Quite, but surely the yield of the best gilt-edged securities has an effect on the market rate.

2956. *Mr. Bell*: As a minimum?—As a minimum. I think so. I have no practical experience of it, but I would advance that. I do not know what Sir Josiah Stamp would say about it. (*Sir Josiah Stamp*): I certainly think that the inertia is important.

2957. *Sir Alan Anderson*: With regard to paragraph 9, do you think we are paying off about the right amount of debt now, or ought we to pay more or less?—I suppose we are beginning to settle down. The amounts that we have paid off have varied very considerably.

2958. But a fixed amount?—It is now £50,000,000, but this is the first year for that sum. It was £45,000,000. I do not see why we should not risk it at £50,000,000. It is a good round sum.

2959. Do you think we ought to stick to that figure even if we had to tax more to do it?—It all depends what your system of taxation is. If you are going to make recommendations for altering the system of taxation you might be able to get round that, but leaving things as they are, if you once fixed on that figure of £50,000,000 I would stick to it.

2960. *Mrs. Wootton*: And apply the Budget surplus as well?—Maintain the Old Sinking Fund, certainly.

2961. *Sir Charles Addis*: Your reference to Budget surpluses suggests the idea that there is an automatic increase in good years and decrease in lean years?—I think you would find it would work out in that way in practice.

2962. Except so far as that is modified by taxes being levied on the average of previous years?—If you look at what has happened in the last three years with the surpluses I think you will see. During the War of course there were deficits. For 1920-21 the surplus was £230,000,000; in 1921-22 you got the slump and it goes down to £46,000,000; in 1922 and 1923 it was £102,000,000; and last year it was £48,000,000. That is £426,000,000 of surpluses in those four years.

2963. *Sir Josiah Stamp*: But there is no reason why the surplus should be greater in good years. It is merely due to the psychology of the people who estimate receipts and expenditure?—In a time of prosperity there is a possibility of under-estimating.

2964. *Sir Charles Addis*: If improvement took place in the course of the year the estimate would be out?—(*Sir Josiah Stamp*): Yes, if an improvement took place in certain revenues, not all, you would get a surplus. (*Sir Alan Anderson*): If revenue were buoyant they would be much less likely to cut things low. (*Sir Josiah Stamp*): I understand that the Treasury make every effort to anticipate the conditions. (*Witness*): And of course the three years' average does help it, but I make the suggestion anyway, for what it is worth, that I think you will find that in prosperous years there is more likely to be a bigger surplus than was expected, and in lean years the reverse.

2965. That is probably true, but it is a thing that might easily disappear by a little more optimism on the part of the officials in good times and a little more pessimism in bad years?—Quite.

2966. *Mr. Hickens*: That is all the provision you would like to make, is it—a fixed sum of £50,000,000 for the Sinking Fund?—Quite.

2967. You are satisfied that that is adequate?—I think so. I was reading an article the other day and it was calculated that if we go on as we have begun, in ten years' time the burden of the debt may be reduced to what it was in 1914. On an increased revenue the debt charge will be about 12 per cent. I could not confirm the figures, but I just mention that there was that estimate. Still, I do think we are doing quite enough at the present time for the redemption of debt.

2968. It was mentioned by one witness that it might be desirable to aim at paying off the whole debt within the lifetime of people now living, say in 35 years. Do you think that would be excessive?—I do not see why we should. We fought the War for posterity as well as for ourselves, and I think we have the right to expect posterity to pay part of the bill. We have had to put up with all the misery and bloodshed and all that sort of thing; we only ask them for pounds, shillings and pence. I think it is foolish to cripple ourselves unnecessarily. I own that in pre-war days, from what we have seen recently, we were paying off too little; we ought to have got rid of that £600,000,000 in the Nineteenth Century quite comfortably; but now that it is a matter of £7,000,000,000 I hope that the pendulum will not swing to the other extreme, and I say so in my evidence. I think we have to get the just mean. We want to have an investigation and get a just figure. But when you think what this generation has suffered, and posterity will not suffer in this connection, I think we have a right to expect them to pay some of the bill.

2969. Is the principle which you put something like this, that as far as possible posterity should foot the bill, we having footed another bill of bloodshed, and so on, but we must do something for the sake of the national credit? Is it the maintenance of our credit that makes you want to do something?—No, I think it is a business transaction. A business man, if he had a heavy debenture liability, before wiping out those debentures would take the conditions of the case into consideration and he would do the wisest thing under the circumstances; and I think that is what we should do in this connection.

2970. And it is his credit that he is thinking of?—No, I would not say that. I suggest that what he is thinking of is the well-being of the whole concern. He wants the business to improve and to progress; he wants to give the utmost possible employment and be able to satisfy the shareholders with the dividend paid, and he looks at the whole thing all round, and does the best possible; and I look upon running the country as the same sort of thing on a very much bigger scale. You want to have the best conditions possible, especially for the mass of the people who are not well off, and you have to take financial measures, as a business man does, to get the maximum benefit.

2971. It is not quite analogous, in so far as he has not the special reason that you mentioned for making posterity foot his bill. What I am getting at is this. You think it is desirable to make posterity foot the bill; I want to know why we should foot it to the extent of £50,000,000, plus our Budget surplus. I suggest to you that it is for the sake of our credit; would you say there is some other reason?—No. I do not think there is any other reason. We have this debt and we have to pay the interest on it, and, like honest men, if we are honest men, we have got gradually to pay it off. Now naturally we pay it off under conditions which will be the best for our credit so long as the action we take does not militate against the interests of the nation as a whole.

2972. *Mr. Bell*: There is a very good business reason, too; that when you come to have re-issues you get them at a lower rate of interest?—Quite.

2973. *Mrs. Wootton*: That is the consequence of the credit of the country?—Yes, the Government credit improves.

2974. I feel the trend of your argument logically is that we should not pay off too much, but on the whole we should err on the side of little rather than much?—No, I would not say that. I would say you want to get the just mean between the two. It is a difficult thing to do, but it should not be impossible to find. If you pay off too much you are risking national prosperity and that entails unemployment, among other things. If you pay off too little, then,

as has been pointed out, the rate of money will remain higher than it need be.

2975. *Sir Josiah Stamp*: By a just mean, you mean an expedient mean?—Yes.

2976. *Sir Alan Anderson*: I suppose you want to pay off something substantial and regular to maintain your credit?—That is so.

2977. And the more you can pay off to maintain your credit, the better, but this paying off must be a burden on the whole community?—Naturally.

2978. It must debase the standard of living if you do it too fast, and when you say that posterity has to pay its part of the burden, posterity would not thank you if you lowered the standard of living during the next 20 or 30 years?—Quite. It is a very heavy burden that we are facing, and I do not think we ought to face the whole of it.

2979. *Mr. Hichens*: Your proposals imply, I take it, that there should be no additional borrowing. When you say that £50,000,000 should be paid off each year you are assuming that the State does not borrow that on the other hand?—Quite.

2980. Whether for housing or for anything else?—We shall probably come to that under another part of the subject.

2981. *Sir Charles Addis*: Coming to paragraph 12. What is really the objection to the Floating Debt?—The objection to the Floating Debt is that you do not know what it is costing you. As soon as it is funded and there is regular interest on it you know exactly what it is costing.

2982. Then the objection is that the rate is variable?—The objection is that so far as Treasury Bills are concerned, the interest element does not appear.

2983. *Sir Josiah Stamp*: Is there not the further objection that in times of rising interest you run into competition with commercial firms?—That is so.

2984. And the thing gets outs of hand?—Quite.

2985. *Sir Charles Addis*: How far are these objections overruled by the relative cheapness of doing it by this means?—Of course, all things may get overruled when you come to a period of emergency. We have just been going through a period of emergency and we could not help ourselves, but now we are getting back to normal we come to a time when the old rules of finance should be applied again.

2986. *Mr. Bell*: You say in paragraph 7 that the existence of a Floating Debt will affect the amounts that bankers can utilise for advances to business. But that is not the case?—The Floating Debt does not affect business advances?

2987. Not the slightest. What happens in practice is that the banker holds the Treasury Bills that he has bought till such time as the money is wanted for trade. If business improves he lets his Bills run off at the end of three months. It is then up to the authorities, the Treasury, to look after those, but I do not see that it takes any money from business?—Of course, there is the position of the Bank of England to be considered in the matter.

2988. They need not carry Treasury Bills?—No, but the Bank of England is a last resort of the bankers holding the balances, and that has to be considered.

2989. That does not affect this question as to the necessary competition between Treasury Bills and the requirements of business. It happens every day with us that when we see the requirements of business growing we let Bills run off. We do not reckon to compete?—You would prefer Treasury Bills to giving temporary assistance to business?

2990. No, the other way round. It is far more profitable and is also helping our clients?—But if you have taken up a quantity of Treasury Bills it hampers your operations so far as ordinary business is concerned. (*Mr. Bell*): Not in the slightest; they run off every day, and they are not renewed.

2991. *Sir Alan Anderson*: Would it be much better if it was a fixed debt; because then the Government would have got the money out of someone?—Yes, but not out of the banks necessarily.

2992. *Sir Josiah Stamp*: The Government would have a fixed rate; they would not be pushed up and down. (*Sir Alan Anderson*): They would not be pushed up and down, but the capital would be withdrawn from the service of industry. (*Sir Josiah Stamp*): But there cannot be any fluctuation, as it seems to me at present, in the amount that is available for business, seeing that the Government have to have their amount, whether they pay a high rate or a low rate, or whether it is funded or not. (*Sir Charles Addis*): The danger is in the rate of interest varying by way of competition?—(*Witness*): Yes.

2993. *Mr. Hichens*: So long as the rate of interest on Treasury Bills is lower it is a definite advantage to the Government to have Treasury Bills rather than a fixed loan?—Yes.

2994. *Mr. Hichens*: And is it not usually the case that the rate of interest on Treasury Bills is substantially lower than the rate on a permanent Government loan. That points to it being a definite advantage to the Government to have an important amount of its debt, I will not say a predominant proportion, but an important proportion, in Treasury Bills at any rate until such time as the rate of interest on short-dated securities is higher than that on long-dated securities. Is not that so?—I should think so.

2995. In that case why should the Government pay off?—Do you mean pay off or fund?

2996. Fund?—Funding may not be an advantage to the actual Government itself, but it is an advantage, I think, to the whole country, because then you know exactly what the debt is, and what it is costing you.

2997. You have to pay a good deal for that knowledge, do you not?—It is sound finance, anyway. You probably have to pay for sound finance, but it is worth doing, and when it comes to the cost of t you know exactly what the cost of your funded debt is; you do not know what the cost of your unfunded debt is.

2998. *Mr. Bell*: The cost is shown under National Debt services in the Finance Accounts?—But it is not in the Budget return as a rule.

2999. *Sir Josiah Stamp*: Why were we so alarmed in March, 1920, when the Floating Debt was more in the neighbourhood of £1,200,000,000 or £1,300,000,000? Why should we be alarmed at that amount, and not alarmed at £700,000,000? Was it not because it was too large in relation to the general requirements of the money market? We have only to read the evidence that was given before the Select Committee on War Wealth in March, 1920, to see that it was the constant nightmare of having to renew that amount every two or three months in competition with excited business opinion, and it was thought that if £500,000,000 could be funded there would not be nearly so much danger with the remaining margin. Is it a question of degree or not? Is it a question of the proportion between the Floating Debt and general business demands of an unfunded character? You see, business has its funded debt as well as its unfunded?—Quite.

3000. And when capital rapidly changes its form the Government have too large an amount to be at the mercy of the money market. Is not that the real position?—Quite.

3001. Is it not a question of degree? Is it not a question of the proportion which this figure bears to the whole sum of national circulating capital?—(*Mr. Bell*): I think it is. (*Witness*): The whole theory in pre-war days was that you should get your Floating Debt to a minimum. That is what you always aimed at, and that was considered good finance.

3002. *Sir Alan Anderson*: On paragraph 15, you think these loans to foreign Governments are a good thing?—Not necessarily foreign Governments. This is money invested abroad.

3003. Do you dislike loans to foreign Governments?—It depends on the Government.

3004. There was an article by Mr. Keynes the other day in which he said it was a most dangerous thing. A Government would go on honouring its obligations as long as it hoped to get fresh loans. Directly we dried up and would not supply its recurrent needs we should lose our money?—I have heard that said, but I do not believe it. It may be true of some foreign Governments, not of all.

3005. You do not generally despise these loans abroad?—It depends on the country. Some countries I should not have money in, if I had any.

3006. *Sir Josiah Stamp*: You distinguish the political consequences from the economic?—Yes, quite.

3007. From the economic point of view you have no fear?—No.

3008. From the political point of view you might share perhaps the views mentioned by Sir Alan Anderson?—In regard to certain countries, not all.

3009. *Sir Charles Addis*: Do you regard the amount of £200,000,000 for new capital applications, so far as it represents the savings of the country, as a satisfactory amount? It is just about the same as in 1913 apparently.—Yes, I take it, seeing what things are, that it is satisfactory.

3010. According to the estimate of the Board of Trade the amount available for investment overseas last year was £97,000,000, but the amount actually invested in overseas issues on the London market was £136,000,000. I want to know how was the difference made up; was it partly by loans being funding operations, partly by borrowing in this country and partly by foreign investments?—It might be so, but it would be very difficult to analyse the items and find out what the figures were.

3011. You have not considered that?—No.

3012. *Sir Josiah Stamp*: When you say that capital loaned abroad is somewhat on a par with pre-war figures, what do you mean? It is £136,000,000 at the outside?—Yes.

3013. You mean in actual money value rather than in real value?—Yes, the amount.

3014. It would not really go anything like so far, would it?—No.

3015. It does not represent in actual fact more than half the pre-war figure?—Perhaps a little more than half.

3016. *Sir Charles Addis*: On paragraph 16, high taxation, as well as discouraging savings, may also discourage consumption?—Theoretically, but from what one sees going on and what has been going on since 1918 I do not think it has much effect in discouraging consumption, except in certain directions.

3017. *Mrs. Wootton*: With reference to your remarks on purchasing power in paragraph 17, there are quite a number of families who must try to meet the effect of taxation by earning more?—Yes, but a great many men have fixed incomes, and that is the trouble.

3018. It is only a makeweight against that?—Yes; there is all the difference in the world. A man may have a big income and he makes his arrangements and fixes his standard of living in accordance with it. Then, owing to circumstances such as have occurred during the last few years, all his values and estimates are upset, and that man's income is worth perhaps two-thirds or a half of what it was. It still looks a comparatively large income if you compare him with, say, the best rates of pay for working men, but he is suffering a very big hardship. In the case of a working man whose wages have gone up, the increased wage may still be very small compared with the income of this man, but he has got an improved status, while the other man is pulled down. It is a thing which I think is not sufficiently taken into account.

3019. *Sir Charles Addis*: Surely in the case of professional men who wish to keep up the standard of education for their families there must be a decreased consumption?—But the serious thing is, that if you take the men at our universities, it is from that rank in life that the men who have made scientific discoveries and so on are drawn, and there is the danger, with taxation weighing on this type of people, that the education given may have to be economised.

3020. Do you consider the class of people with the sum you mention, £1,500 a year, have been specially hard hit?—I take it that people with that amount are hard hit at the present time.

3021. Do you think also among professional people at universities, and so on, you do get the opposite tendency working, the tendency to take on rather more work in order to increase income?—If they take on more work to increase income they have to give up investigation, which again is a dead loss to the nation.

3022. It may be in the end?—If a man has got to make more money by doing hack work, he cannot go into his laboratory and investigate.

3023. *Sir Charles Addis*: But do you suggest that the distribution of taxation has not been well made; that the middle people, especially the man with an income of £1,500, are particularly hard hit?—My point is this. It would be a very good thing if a real investigation could be made. Professor Bowley tried to do it in 1919, but the data were out-of-date and insufficient for the purpose. Now there is a good chance, and it is a thing that really wants doing, to make this investigation and find out how you can get the system of taxation and the rates fixed really scientifically instead of by rule of thumb.

3024. *Sir Alan Anderson*: Is not your real trouble about the man with a fixed income of £1,500, not that he has £1,500, but that he has a fixed income. Whatever it may be, whether it be £2,000 or £2,500, it is the same thing?—I only take that as a figure.

3025. Sir Charles Addis was speaking as if there was a special burden thrown on people round about £1,500, but I think the argument is that the man with a fixed income is bound to feel the draught just now?—I have cited three instances here, affecting all grades of society. Working people—I know a great many of them—talk over these things; they feel that the taxes on food hit them too hard. When you come to men with moderate sized incomes of £1,000 to £2,000 they feel that the system of taxation hits them too hard. If you go to the old families, as I point out, they are feeling the thing very much indeed, and you find them grumble. No matter where you go, everybody feels he is being unjustly treated by the present system. Now have you not got an opportunity of getting out an analysis like Professor Bowley did, have you not got a chance to make clear to the country that the system of taxation is equitable, or if your investigation proves that there is one rank of society which is being unfairly treated, then you could adjust it?

3026. *Sir Josiah Stamp*: Did Professor Bowley's investigation do anything more than write up the products of industry as between different functions? He did not set out to deal with different incomes in that. He wrote another work in which he dealt more with that point?—But he could not get a satisfactory solution, because he had not got the data to go on. (*Sir Josiah Stamp*): Professor Bowley has never to my knowledge tackled the question of what is the fair proportion for incomes of different sizes to bear. He has touched on the national income, but he has never to my knowledge considered what was the proper amount of tax for incomes of £100, £1,000, £10,000, £100,000 to bear.

3027. *Sir Charles Addis*: The married man with three children used to pay in Income Tax on an income of £1,500 before the War 9d. in the £: He now pays 2s. 9d. The man with £20,000 who formerly paid 1s. 7d. now pays 8s. 4d., including Super-tax. The point of my question is whether you thought the middle man at £1,500 had been dealt with fairly as compared with the man with

£20,000 a year?—I say that what we want is an investigation to see what is the right figure, and it ought not to be impossible to get it.

3028. Whether the graduation made ought to be steeper or less steep?—Yes; and I have a further suggestion later on, as you have perhaps noticed.

3029. *Mr. Bell*: You would take into that consideration the factors of children and dependents?—Of course there are existing allowances, but they are very inadequate.

3030. That would be one of the various factors that you would go into in this examination, would it—the man's family and his dependents and their ages and whether they are wage earners?—Do you mean, is it an adequate amount?

3031. Would that be one of the factors of the examination; would it be one of the things you would go into?—Quite.

3032. It would make a great differentiation not only as to the men's salaries but as to their circumstances?—If it was possible, if it did not make the thing too complicated.

3033. *Sir Josiah Stamp*: This is in relation to what is a fair burden for a certain income. It is independent of aggregates of classes and all that sort of thing?—Quite.

3034. Is not that the very thing that the Royal Commission on Income Tax did go into in 1920 and publish a report upon? Do you regard our work as obsolete?—1920 and 1924 are two very different times; so many things have altered.

3035. The fact is that the classes up to £2,000 have a whole benefit of reduction of tax?—I have only got a bowing acquaintance with that report, I must say, but did they take a broad enough survey?

3036. That is not for me to say?—I think a very broad survey should be taken, seeing what is happening at the present time. For instance, I was talking to a chartered accountant the other day about the Death Duties, and he gave the opinion that the Death Duties in a few years time will show a serious shrinkage, because they will have had their effect on the large fortunes, the big accumulations; and the big amounts you get now from the large fortunes will have diminished those fortunes; there will not have been sufficient increase to bring them up to the old figure, and the fortune that was £2,000,000 will be in a lower grade and so on. In his opinion, for what it is worth, we cannot look to the Death Duties for the large sums that have been coming in.

3037. *Chairman*: Have you read the report of the Income Tax Commission?—Not through; I have it, but I have not read it through.

3038. That is all I want to ask; because that question of differentiation was examined very closely and some very able men who were sitting on that Commission went very fully into it. I was wondering whether you had read it, because that might qualify the opinion which you have expressed?—Quite.

3039. *Sir Josiah Stamp*: Do you mind expanding paragraph 18? I have not quite grasped the idea.—You know exactly what the money values of stocks and shares are, and business capital, and so on; there is no difficulty about that, because it is either money or in terms of money. So far as land is concerned, you may get a valuation and really it may be worth that or it may not, and yet these big landed estates have to find cash every time they change hands. I think that is one of the causes of the discontent among that section of the people. I bring that in because I brought in the other two; I brought in the poor people who grumble at indirect taxation, and the men with moderate incomes; but there are also these people who also have got a just grievance because they are being wiped out.

3040. You say: "The banker knows very well the difference between a mortgage and a bill of exchange; yet this difference appears to be disregarded in our system of taxation." In what way is it disregarded in taxation?—In the way I say. When there is probate of an estate, the land is put down at such and such a value, and according to the grade of Death Duties that sum of money has to be found. To put a money value on land causes very great difficulty to these people; they have to find money and they have land to do it with. Now with ordinary money instruments you can get the cash much more easily.

3041. You mean that if your assets are land you are in a much worse position than if your assets are business capital —Quite. There is a further point. I was over one of the big collections not long ago in one of the fine houses, with a fine library and a very good collection of early printed and illuminated books worth a very large sum of money, and some very fine paintings, and so on, national treasures. Now I suppose we all regret that those treasures go abroad, but they have to go when they are under the hammer. Now, if anybody wants to study those books or pictures, and so on, they are given ready access, and yet every time the life tenant of those things dies they have to pay very heavy Death Duties, with the result that some of these things have to be sacrificed and go across the Atlantic, or, if we want to retain them, we have to buy them by getting up a subscription. I would suggest that where people have valuable collections of that sort and are at the expense of maintaining them, on condition that they are retained in the country and that they give public access to them, there should be a very big remission, or a total remission, of Death Duties on those things. These people have to stand the cost of maintaining them, and their security, and so on, and they are retained in the country. It is a very heavy burden on people with collections of that sort at the present time.

3042. *Sir Charles Addis*: On paragraph 20, what is the test of excessive taxation?—It all depends on the circumstances.

3043. At present, would you say taxation was excessive?—We all feel it so.

3044. *Sir Josiah Stamp*: Do you not find that feeling existing in practically all ages?—I suppose you would.

3045. Read the literature of all times; no matter what the taxes were, they were always thought excessive?—Yes.

3046. Read the literature particularly of 1909, 1910 and 1911; the end of the world practically had come?—Yes. I should say taxation is excessive when it affects numbers of taxpayers to the extent that they cannot pay out of income, and have to pay it out of capital; and I think an investigation will show that a good deal of taxation at the present time is being paid out of capital.

3047. *Sir Charles Addis*: The test might be the exhaustion of savings?—Yes.

3048. Do you consider we have reached that point in a great many instances?—Yes.

3049. But as a whole?—Probably not as a whole, but a good many people are feeling that. That is why I feel an investigation on that point would be useful. It is not sound that people who have been saving for old age in any group should now feel that their savings are slipping away from them.

3050. *Sir Josiah Stamp*: You mean individual savings?—Yes.

3051. Not aggregate savings?—No.

3052. Would you test excessive taxation by looking at aggregate savings at all?—Yes, I think so.

3053. Since on the hypothesis the tax is being raised for payment of debt, and payment of debt is part of the savings, you cannot bring that about very easily?—No, it is difficult.

3054. Therefore that seems to fail as an absolute test if you look at the aggregate?—Yes, but where you get groups of people like professional people of medium standing, I think you will find at the present time they are feeling things very heavily, and they

are eating up their little bit of capital. For them the tax is excessive.

3055. You would take a group of people and say, if these people by this particular rate of taxation are saving less than they would save with some other rate of taxation, it is excessive?—Yes, I think so.

3056. You do not know any statistical means of ascertaining the savings of any particular group except by sampling them?—No.

3057. The difficulty I feel about looking at the aggregate is this. Suppose you say: "We will put another shilling on the Income Tax for the purpose of repayment of debt"; some people would say that is excessive taxation. You would say that the test of taxation is whether it reduced savings. If you look at the aggregate savings, they are not reduced? —You want to get the aggregate savings improved, if such a thing is possible.

3058. Would that hold good of the working classes? Would you say that you could test the excessive taxation of the working classes by the amount that they would save if they were not taxed?—No. I think the only thing to do with them would be to try to get an idea of their standard of living, by means of working men's budgets. I think the conditions are so different that what would apply to one would not apply to the other.

3059. *Chairman*: How do you recommend that we can get that tranquillity and security you speak of in paragraph 21?—I make a suggestion at the end. I think what is wanted is that the country should know exactly the state of affairs in an authoritative way. It has never had it. I can give an analogy. There are some of us who have been working for the last 10 or 12 years on the subject of the wastefulness of the use of coal. We have been voices crying in the wilderness. A well-known statesman writes a book and immediately the whole country is agog with it. It is the same way with these difficulties in industries: when ordinary people talk about them or write about them there is very little effect, but if some really prominent man would take these questions up and go through the facts and bring the facts to public attention, the matter would have much more consideration.

3060. *Sir Josiah Stamp*: You mean a prominent politician. The way to get notice taken of a thing is to make it a political matter; is not that what your argument comes to?—Perhaps the cure would be worse than the disease, but it is a fact that if you can once get attention drawn to a matter interest is aroused in it. Some years ago, when the Prince of Wales went round the world, he came back and told us to wake up. That speech did have some effect, and it was not a political speech, and no part of a political programme, but that speech did have an effect.

3061. *Mrs. Wootton*: What sort of fact exactly do you want us to take notice of?—We come to this in the last question that I have attempted to answer; it is the fact that we are perhaps in many ways not working satisfactorily now. Arrangements between employers and employed and the whole conditions of business in many of our industries are absolutely unsatisfactory because of misconceptions, and these misconceptions want putting right.

3062. *Chairman*: Do you mean in paragraph 23 to suggest an examination such as we had under Sir Eric Geddes' chairmanship?—A thing like that is very salutary. Of course there are grumbles, but I suppose on the whole the effect was quite salutary. I think it had a great effect even where the axe did not fall; it made people look into various items of expenditure, and improved the methods of application. There is an interesting letter in to-day's "Times" from Sir D. Drummond Fraser on the point raised in paragraph 30, and he also emphasises the importance of utilising more cheques in the interests of deflating the amount of notes. That is a big point. I was talking to a banker not long ago and he was of opinion that the country would be well advised to drop the stamp on cheques altogether, in the interests of deflation; but that is going a bit far.

3063. *Sir Charles Addis*: I should like to ask some questions on your paragraph 31 dealing with the ratio between direct and indirect taxation. You say: "There is a suspicion that the poor are called upon to contribute an inequitable amount through indirect taxation." Are you familiar with Sir Herbert Samuel's investigations on that point?—No.

3064. It is not based upon that?—No. I was considering old women with old age pensions who live principally on tea and bread and butter. They do grumble. They say: "Look what we pay on our tea; Rothschild does not pay any more. We live on this, and look what we are paying." Some of them argue on it, and it may be that they even have a just grievance that with their few shillings a week, they are paying too much for what they get in return.

3065. Then the other question is on your last sentence of paragraph 31: "Let the burden be distributed as equitably as possible so that all may realise that each is contributing his fair share." How is that possible with indirect taxation? Does not that logically involve you in the argument that all taxation ought to be levied by Income Tax?—No, I do not think so. I think if there was such an investigation made as I have suggested, a much more fully developed investigation than the Income Tax investigation, you would be able to show the extent to which the burden of taxation fell both directly and indirectly on people of various incomes and expenditures. You would have to get at that. If you once get that out, and were able to frame a system in accordance with the findings on your investigation, you would have something to point to when people grumble

3066. My question was rather directed to the word "realise." Have you considered, for example, how very unequal the consumption of tobacco and of alcohol is? How is any person, or any group of persons, to realise that they are bearing their fair share of the national burden so long as you continue indirect taxation?—All you can do is to take a typical instance from each section.

3067. Do you think that would enable people to realise?—I think so. Say you were in a section and a man who was in your section was taken as typical and he smoked so many pounds of tobacco in the year; if you were taking tobacco you could say: "Well, do I smoke that amount?" You could probably find out exactly what you did smoke, and you could find whether you were an average man or not, and you would be able to realise whether you were being over-taxed or not.

3068. There are two points: the first is, does anyone really calculate in that way, and the second is, by stopping smoking might he not escape the burden of taxation altogether?—Yes, I point that out.

3069. Then the only logical conclusion is that the only taxation would be Income Tax and that you might levy that downwards?—A single Income Tax, although theoretically it sounds so just, in practice one knows perfectly well would be a most unjust tax.

3070. *Mrs. Wootton*: Have you in mind any particular ratio like the old-fashioned fifty-fifty ratio?—No, I think that is what wants to be investigated. I would like to find that out, but a private person could not do it.

3071. In following your argument in paragraph 31 it seemed to me possible that it was difficult to reconcile the two things that you say. You want to have a ratio, and apparently some fixed ratio to be determined after investigation, and you also want to have as just and equitable a spread of taxation as possible. Would it not in practice work out that if you are to have an equitable distribution of taxation you would necessarily have to alter your ratio between direct and indirect taxation at different periods?—You might, but in a good many things you have to alter your arrangements. You have, for instance, quinquennial valuations of property.

3072. What I want to get at is whether you think there is some fixed reliable ratio which would be

ascertained, or whether it is not rather true that the ratio itself must be altered in different periods. Can you take some fixed proportion?—No, I doubt it. The investigation might bring that out but off-hand I should rather doubt it. But I believe the investigation would help to show whether or not you would have to make a variation from time to time.

3073. Quite possibly there is no theoretically correct proportion even for the next 10 or 20 years?—Quite.

3074. *Chairman*: With reference to paragraph **32**, have you seen the Report of the Departmental Committee on Simplification of Income Tax and Super-tax Forms?—I know there is one; I have not seen it.

3075. It was published in 1924, and it might alter your views on the point you raise.—I should like to see that. I came across a case a little while ago where the local assessment of a man's house was increased by the local body and he objected. His objection was accepted and the assessment was left where it was. Then that same house for central taxation purposes was put up 15 per cent. At the present time there are two valuations on that house. I suppose that is common. It seems a bit of a farce, if a house is worth a certain amount for local purposes it is worth the same amount for any other purposes. This is due to the fact that you have two sets of people at work. There is a complicated machinery overlapping which costs the country money and is unnecessary. I throw out the suggestion that there might be a great simplification if you had one office; and I believe there is this simple system in France.

3076. *Mrs. Wootton*: Referring to your paragraph **33**, do you contemplate that this increased productivity in trade and industry will be accompanied by a fall in general prices?—It should be, certainly, because increased productivity would mean decreased cost, other things remaining constant.

3077. Does not that rather limit its effectiveness in reducing the burden of the debt, the debt being fixed in terms of money?—No, I think the effect would be that instead of being in a vicious circle as we are at present we should get into an increasing circle, that is to say, that the purchasing power of money would go on increasing, and hence the demand of the ordinary person would go on increasing; there would be more employment because there would be more demand for goods and you would get an increasing and beneficent circle instead of a vicious one.

3078. You would have to pay a larger real value to your debt holders. If prices have fallen and the debt is fixed in terms of money your £300,000,000 or £350,000,000 per annum represents a larger amount of commodities, and this is a makeweight on the other side?—I do not think it is appreciable.

3079. It may have been very important in the past.—It may; but you are pledged to that payment; you cannot help yourself. The debt is a fixed quantity. On the other hand you have the purchasing power of the individual; and increasing productivity, all other things remaining constant, should make his purchasing power greater and create a greater demand all round; and a greater demand again has a tendency to lessen cost and increase the purchasing power of money.

3080. A greater production of goods all round would certainly make it much easier to meet an obligation that was fixed in terms of goods, but what I suggest to you is that if the obligation be fixed in terms of money and the purchasing power of money is increased, that, so far as it goes, limits the importance of the greater production as a means of reducing the burden of debt?—It would be a very important thing if the obligation of the man to taxation is more serious than it is. It is serious enough. Before the War the amount that an individual paid in rates and taxes, I think, on the average (we can only talk about averages now) was one-sixth of his expenditure, if I remember rightly, and probably it is more now. If you have five-sixths of your expenditure which is subject to the beneficent law and the other remains constant you are in a very much better position. If the tables were reversed and five-sixths went in taxation and one-sixth in the ordinary expenses of life there would be something for your position, but I think so long as there is a big margin the other way your position is to that extent invalidated.

3081. I was referring not so much to the position of the individual as to the position of the country as a whole. If you take the period since 1914, it is common knowledge that so long as there was a rise in prices each debt holder suffered, and during the last two years when there has been a fall in prices the debt holder has gained. That will always be true during a period of falling prices?—But these same people, if they had any debt before, were losing whilst prices were rising. In the case of people of middle age now who were saving in pre-war days, the sovereigns they saved in pre-war days are now worth 12s. 6d. at the outside; those sovereigns are beginning to appreciate. If they put up with one side of the question there is no reason why they should not benefit from the other.

3082. Looking to the future we cannot tell which side of the question is going to be the more important; but why I raise the point is that you suggest that we may look to increased productivity in trade and industry to lighten the burden of the debt. What I put to you is that if we get that increase, and if it is accompanied by falling prices, those falling prices, so far as they go, limit the effect on the debt, because they mean that the debt holders gain?—If you fix your attention on the payment of the debt only you are correct, but if you take the man's whole expenses, his whole position has improved.

3083. I suggest that this matter, as far as it goes, operates in the opposite direction?—It may do so, but taking the individual's position all round he is going to be better off, because the increase in purchasing power is in connection with five-sixths of his expenditure, or some proportion like that.

3084. In paragraph **34** you say the standard of living has risen rather considerably during the last ten years. Has that rise been met out of savings? If the average standard of living has risen during the last ten years we must have supported it somehow?—There are various things. Again, you have to take a broad outlook. Restriction of hours in public-houses, and so on, has resulted in a great saving on the amount spent on alcohol, and that has had a very considerable effect as those of us know who have been conversant with the conditions of the working class before and since. There are a number of things. Through the War period high wages accustomed people to handling more money—a very healthy thing indeed on the whole. In some instances it was not wisely done, but in the majority of cases I think the working classes of this country showed up remarkably well with the increased wages.

3085. *Mr. Bell*: Have you any suggestion to make as to how public opinion should be kept informed in accordance with your proposal in paragraph **36**? We now know that rival bodies of speakers in market places are trying to point out, the one the dangers of capitalism, and the others the necessity that capital should be encouraged and work given. Have you thought of an impartial body like the Board of Trade setting forth as fully as possible and as widely as possible just what was going on? Is that in your mind?—Of course, where you get a body like the Board of Trade issuing an official statement, it does not get a very wide circulation as a rule. The instance I gave of Mr. Lloyd George's book was a case in point.

3086. You get back then to this: that some great speaker, such as we had in the case of Mr. Gladstone, should always be pouring forth economic truths in great speeches to the nation?—No, I should think that would be very wearisome.

3087. Then how do you propose to go about it?—I do feel that at present there is an immense amount of ignorance on the subject, which is at the bottom of a good many of our troubles,

3088. I agree, but how do you propose to deal with it precisely?—By getting a well-informed public opinion on the subject.

3089. What means do you suggest to get at that?—The Balfour Committee is now sitting, and if they produce a readable report I think that, with the status that Sir Arthur Balfour has in the country, that report would be very widely read, at any rate amongst employers, and it would be well if it were as widely read among the representatives of labour; and possibly the representatives of labour on that Committee will commend that report to the labour side, and then we shall have a better informed public opinion on these points.

3090. You look, in fact, to the report of the Committee being widely spread to show people the truth of things?—That is one way of doing it; but of course what goes on in the market place on either side is mainly mischievous.

3091. *Mrs. Wootton*: Do you think this will produce the tranquillity of which you spoke in paragraph 21?—I should like it to, but I am afraid it will not.

3092. I understood you to say in reply to the Chairman on that paragraph that one of the best ways of introducing tranquillity into our industries was to increase the knowledge of the conditions?—Quite.

3093. You think that is so?—I think so, but we are up against some very awkward things in connection with this question. Take the position of London as the financial centre of the commercial world. It is due to the London banking system and the credit and integrity of London finance people and bankers, and it is due to the position of London as a great shipping centre and a great marine insurance centre; but there is also another big thing, and that is the entrepôt trade of London, which is a big element in the financial position, so I am told. Now the tendency of recent years is for London to become a more and more expensive port to come to. I believe in the course of the last two or three years the cost of handling a sack of flour has doubled. This entrepôt trade of London is very much hankered after by certain Continental ports, a port like Antwerp, for instance. Now if you get the statistics for Antwerp for the past few years you will see some rather remarkable things. Antwerp shot up from the time of the dock strikes in the late eighties in London. London was beginning to get a dearer port. During the War Antwerp was stagnant. The War ended, and Antwerp began again. There were troubles in London, and London became a more and more expensive port, and the figures of Antwerp have shot up again enormously. Now I do not want to be misunderstood in this. I want labour in this country to have the utmost possible standard of comfort and to earn the highest possible wages, but it is one thing to have a high nominal wage and another thing to have a high real wage, and it is no good having a high nominal wage if that high nominal wage affects either your entrepôt business or your production and manufactures. If labour in Antwerp, Hamburg and other Continental ports is very badly paid, it is nothing more or less than suicide for British ports to put up their labour bill, their wages and other expenses. It simply means that you may get a high nominal rate of wages in those ports, but the trade begins to go elsewhere and the real rate of wages goes steadily down. Now it is points like that that want making known all over the country, both to employers and employed. Under the Treaty of Versailles you have the labour clauses. What is the sum and substance of them? That the industrial and commercial nations of the world should, as far as possible, get identical conditions for the employment of labour, the hours, conditions of work and wages. Nobody is paying any attention to that now. If we had anything like identical conditions of wages and conditions of hours among industrial peoples we could easily hold our own, there would be no difficulty about it; but while there is the great difference that exists to-day, you are creating an absolutely unbusinesslike, or, if you like, uneconomic, condition in this country, which is adversely affecting us and is going to be more and more pronounced and felt as time goes on.

3094. May I come back for a moment to this point. I think we shall all agree that the relations between employer and employed are about as important to our industry as anything can be. You state as your opinion, I think, that the increase of knowledge will tend towards tranquillity and harmony. When I put the question that I did before, I understood you to say that it will do so partly because it will make clear to workpeople that there is not enough to go round on the standard of living which we should all like to see. Am I right in thinking that is your view?—You are, to a certain extent, but I have not suggested there is not enough to go round.

3095. What I want to go on to is this. Such an investigation as you suggest may reveal difficulties in the way of the high standard of living if it showed that there is not sufficient to go round. At the same time as the result of such investigations you would see the inequality in the distribution of what there is to go round. What I want to put to you is this. Do you think that the discovery that we have not enough to go round and that we distribute the little that we have rather unequally, tends to make for tranquillity?—My point is that with our present resources and equipment there is enough to go round if we would only utilise them. There is the trouble: that with the equipment and resources at the disposal of the world at the present time there is ample to go round, but we are playing the fool and refusing to take advantage of the advantages we have got.

3096. May I have an answer to my question? I understood you to say, in speaking of investigations of this kind, and you gave the illustration of London and Antwerp, that we in this country at present are not able in the face of foreign competition to maintain the standard that we would wish; in other words, that we have not got enough to go round at the moment. One thing we can do is to reorganise our industries so as to meet foreign competition better; but taking the immediate position, do you think that knowledge of their conditions, coupled with the inequality of distribution of wealth, would make for tranquillity in industry?—I have suggested that there should be an analytical investigation into our leading industries, and I give the instance of how this was done by the American Government some years ago, perhaps you are familiar with that Pottery Report which covered an investigation into this industry in the United States, England, Germany and Austria; you know the effect of that. It is the one industry in this country that has done that, or at any rate it is the only industry in this country that has all the data to go on; and what has been the effect is that there is a Standing Joint Committee in the Potteries. They have used that report. That report now is getting a bit out-of-date, but I understand from friends in the pottery industry that when the Standing Joint Committee meets now, they have got so accustomed to having exact data before them that the employers bring forward their books and give any information that is wanted. In other words, by getting knowledge, by getting the facts and understanding each other's attitude, there has been a lessening of friction in that industry. I am suggesting, is it not worth while to see if we cannot get the same sort of thing in other industries as well. That is an answer to what you put.

3097. I do not for a moment want to be misunderstood. You suggest that one should have these facts, and of course I am entirely in agreement with you there. The only point on which I feel doubtful is whether the discovery of the great difficulty in the way of a higher standard of living, coupled with the obvious inequality of distribution of wealth, tends to produce tranquillity?—I think

that so long as there is inequality of distribution of wealth there is bound to be a feeling of resentment; but the more the facts are known as to the impossibility of improving the standard of comfort and improving conditions of wages and work by giving attention to the facts, the more I think you are getting away from an evil situation towards a good one. That is the reason for these suggestions that I have made. I have always found that the working people themselves are perfectly willing, when the facts are put before them, and they are made to understand, to accept them and to try to act in consonance with them; and it is a great pity that there is not more of that sort of thing.

Chairman: Thank you very much for the information you have given us.

(*The Witness withdrew.*)

(*Adjourned.*)

TENTH DAY.

Tuesday, 30th September, 1924.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman.*
SIR CHARLES ADDIS, K.C.M.G.
SIR ALAN G. ANDERSON, K.B.E.
SIR ARTHUR BALFOUR, K.B.E.
MR. HENRY BELL.
MR. J. W. BOWEN.
MR. FRED BRAMLEY.
PROFESSOR FRED HALL.
MR. W. L. HICHENS.
MR. H. B. LEES-SMITH.
SIR WILLIAM McLINTOCK, K.B.E., C.V.O.
SIR JOSIAH STAMP, G.B.E.
MRS. BARBARA WOOTTON.

MR. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

MR. A. G. WALKDEN, MR. A. PUGH, MR. W. KEAN and MR. MILNE BAILEY, representing the Trades Union Congress General Council, called and examined.

EVIDENCE-IN-CHIEF handed in on behalf of THE TRADES UNION CONGRESS GENERAL COUNCIL.

I. INTRODUCTION.

We have thought it advisable to preface our evidence by stating clearly what we conceive to be our particular function with respect to this inquiry. We are speaking on behalf of 4,500,000 organised workers and their dependants, and it is their point of view which we are endeavouring to express.

The terms of reference of the Committee deal with the incidence of taxation and the effect, if any, of the National Debt upon trade prosperity, etc.—matters of great importance to the workers.

We have, therefore, come to the conclusion that our evidence should deal mainly with the question of what effect has the National Debt—with particular reference to the interest charges, etc., arising from that debt—on the standard of living and general conditions of the working classes.

II. LIMITATION ON SCHEMES OF SOCIAL REFORM.

1. We hold the view that it will be necessary for the State to increase its activities in the direction of the provision of new and more extensive social services than exist at the present time.

2. Taking this view, we submit that by far the most important injury to the working classes involved in the National Debt is the limitation which the debt imposes upon schemes for the improvement of social services.

3. The annual cost of the debt is now about £350,000,000. If this charge could be removed a considerable part of the sums now raised in taxation to meet it would be available for expenditure on such social objects as Mothers' Pensions, extended Old Age Pensions, Infant Welfare, and increased educational facilities.

4. We are strongly of opinion that taxation for improving social conditions is not only just but is ultimately remunerative. We are aware that, at the moment, taxation for the debt service and taxation for social amelioration are regarded as alternatives, and that the debt has priority over proposals for expenditure which is necessarily involved in extending social betterment. It is largely because of this fact that we desire to see the National Debt reduced very considerably.

5. The present cost of *interest* on the debt alone amounts to £305,000,000 in the current year, while the total Civil Service estimates for *all* the expenses of Civil Government do not exceed £228,000,000. If we had no debt interest to pay we could largely increase our outlay on education and Old Age Pensions, make provision for Mothers' Pensions, and still have approximately £200,000,000 a year to the good.*

III. THE DEBT AND TAXATION.

1. Whilst the heavy debt charge is the chief obstacle in the way of extended social expenditure, it is also the most formidable difficulty in the way of removing those taxes to which we, as Trade Unionists and members of the working class, are in principle strongly opposed. We hold that indirect taxation lays inequitable burdens upon the workers. Whereas in 1912-1913 the total revenue from indirect taxation per head of population was £1 8s. 10d., in 1923-1924 the corresponding amount was £5 16s. 8d., *i.e.*, four times as much.†

2. The food taxes alone, even after the reductions in this year's Budget, are estimated to yield in the current year (1924-1925) £28,510,000 of revenue. The present total of indirect taxation amounts to £5 5s. 11d. per head of population and yields no less than £237,062,000.

3. We hold that the food taxes should be abolished, and if it were not for the debt charge they could be abolished quite easily, and there would still be substantial funds available for expenditure on social reforms.

IV. EFFECT OF THE DEBT ON THE DISTRIBUTION OF WEALTH.

1. We recognise that in discussing the question of the general effects of the debt on the wealth or poverty of the country and the workers generally, it is essential to distinguish between the internal and the external debt.

* Budget Statement, 1924-25, and allowing £50,000,000 for Mothers' Pensions.

† Commissioners of Customs and Excise Annual Reports for the years named, divided by population.

2. The external debt, that due to the United States of America, forms only a small portion of the whole, and the annual charge in that respect is about one-tenth of the whole annual debt charge of £350,000,000.

3. This external debt, which enables America either to draw upon our production without sending us equivalent exports in return, or to charge higher prices for the goods she does export to this country, reduces our national income, and, therefore, the real incomes of the workers tend to be smaller than they otherwise would be.

4. The internal debt involves a series of payments by taxpayers to bondholders. If each individual citizen were a bondholder, and his payments for debt taxation equalled his receipts from the interest on his War Bonds, there would be no burden, but we believe, although we have no means of ascertaining by whom the debt is held, that so far as the vast majority of those we represent are concerned, they pay considerably more in debt taxation than they receive as bondholders.

5. In so far as this statement is correct, the net result is that the internal debt does involve a transference of wealth from the poorer sections of the community to the richer sections, and by this means aggravates the inequality of incomes.

6. The following table from the Finance Accounts for the years named shows that the proportion of State revenue absorbed by debt interest is materially increasing:—

Year ending 31st March.	Total Revenue.	Debt Interest.	Percentage of total revenue devoted to Debt Interest.
	£	£	Per cent.
1919 ...	889,020,825	267,152,216	30·0
1920 ...	1,339,571,380	324,556,406	24·2
1921 ...	1,425,984,666	328,136,835	23·0
1922 ...	1,124,879,873	304,248,669	27·0
1923 ...	914,012,452	300,213,792	32·8
1924 ...	837,169,000	305,769,196	36·5
1925* ...	794,050,000	305,000,000	38·4

* Budget Estimate, 1924-25.

7. The above table demonstrates the fact that the position of the State is becoming, as regards the meeting of the National Debt charges, exceedingly onerous. At the present moment we are paying *every day* over £800,000 in interest to bondholders. Admittedly some of this money is reinvested, but a very considerable amount is spent on the immediate enjoyments, often luxurious, of the interest receivers. In this respect we think that the necessity of paying interest to the bondholding class may act as a drain on business enterprise and limit the extent to which new undertakings affording increased facilities for employment are promoted.

8. We desire to emphasise the point that the interest charges of the National Debt are absorbing too high a proportion of the national income, and that any serious development of this tendency may ultimately compel any Government to resort to drastic financial methods.

9. We concur in the view expressed by Mr. J. M. Keynes:—

> "If the fixed charges of the National Debt bear too high a proportion of the national income, it may offer a problem insoluble by orthodox methods. The active and working elements in no community (ancient or modern) will consent to hand over to the 'rentier' or bondholding class more than a certain proportion of the fruits of their work. When the piled-up debt demands more than a tolerable proportion other solutions of the problem must be faced."*

V.—The Reduction of Taxation.

1. As representing a large body of workers, we are desirous of securing by every means possible a greater measure of prosperity to our industries, provided that the working people are to share adequately in such prosperity. However much truth there may or may not be in the assertion that a reduction in Income Tax and Super-tax would help trade, we can see no way of reducing such taxes until we first rid ourselves of a considerable portion of the debt. We suggest, therefore, that if there is any substance at all in the plea that high taxation is impeding trade, the wisest and sanest thing to do is to take the bold policy of instituting what is sometimes described as a "Capital Levy," or a tax on accumulated wealth privately held.

2. With regard to indirect taxation of the working classes there is no need to stress the regressive character of such taxes. These bear hardest upon the poorer sections of the people, and we would point out that such taxation considerably lowers their purchasing power, and in this manner reduces the demand for such commodities as they would undoubtedly desire to purchase were they free to do so; as it is, large sections of the workers are denied the possibility of satisfying even what are regarded as elementary needs.

3. Any remission of indirect taxation would, in our opinion, increase the purchasing power of the working classes and thereby serve to stimulate trade.

VI.—The Reduction of the Debt.

1. It was brought out in the evidence taken by the Select Committee on Increases of Wealth (War), 1920, that the view of the Board of Inland Revenue was that it was urgently necessary to reduce the National Debt.†

2. We are not unmindful of the arguments used against the policy of a substantial and rapid reduction of the debt. It is sometimes stated that posterity should bear its due share of the cost of the Great War, and that the magnitude of the debt is something to admire, but a policy of "do nothing" will mean that the people will pay for the War not once but several times over.

3. In this connection the case of the cost of the Napoleonic Wars is often cited to show the comparative ease with which this country carried the debt that arose therefrom, but we are not sanguine enough to believe that this country will enjoy so beneficial a set of circumstances—such as growth of population, inventions, increased productivity and increased gold supplies—as occurred in the 19th century, and we consider it imperative that the present debt should be cleared as soon as possible.

4. It appears to be the view of some members of the business community that anything in the nature of a Capital Levy would deprive industry of its necessary supply of capital.

5. We do not believe this to be true. If it were true that a Capital Levy would withdraw capital from industry, is it not also true that distributed profits also come from industry, and is it any the less likely that payments by the Government for the redemption of War loans, etc., would be spent in a less economical manner than payment in dividends? We concur with the views of the Board of Inland

* "Manchester Guardian Commercial" Reconstruction Supplement, Section II, December 7th, 1922 p. 658.

† Report from Select Committee on Increase of Wealth (War) 1920, p. 184, 3129.

Revenue, who declare in a note on the possible effects of a War Levy upon business:—

> "Indeed, examination of the problem in detail supports the conclusion which *à priori* reasoning suggests, viz., that, having regard to the character and incidence of the 'tax' and the fact that its proceeds would be earmarked for redemption of internal debt, and not to supply funds for current or new Government expenditure, its results can only be to effect a redistribution of resources, and that it cannot destroy any real wealth available for the support and development of industry."*

6. We do not think that the creation of a War Debt Redemption Fund would diminish to any appreciable extent the amount of capital available for investment, whilst the fixed capital would remain the same.

7. In most instances it would undoubtedly be the case that, when the debt holder received money by way of repayment of his holding, he would re-invest the whole, and the taxation and transference for debt repayment would, therefore, not reduce the total saving and investment of new capital.

VII. THE DEBT AND THE SUPPLY OF CREDIT.

1. If by "supply of credit" is meant "the advances made by banks to traders," we do not think that a substantial reduction in the amount of the National Debt would have any serious effect on the capacity of the banks to advance loans to traders. We understand that banks make advances in conformity with a definite principle, *i.e.*, the ratio of the bank's cash to its liabilities. The bondholders who became receivers would, in the first instance, place such receipts in their deposit accounts, and such deposits would increase the possibility of the banks making advances to traders.

2. We do not think that the ability of banks to furnish credit depends upon the size of the National Debt.

3. On the other hand, we hold the view that, as far as national credit is concerned, this would be materially improved by a substantial reduction in the amount of the debt and by its ultimate clearance. Consequently, if the nation at any future date found it necessary to raise money, it could obtain it on better terms.

VIII. CONCLUSIONS.

1. We are aware that some representatives of the business world appear to regard debt repayment, even on a modest scale, as definitely injurious. Such persons minimise the burden involved by the debt, and appear to be satisfied if the national credit is just maintained by means of a minimum Sinking Fund.

2. We who speak for organised Labour must emphasise the fact that the debt charges absorb tax revenues which might otherwise go to finance schemes of useful social legislation. The presence of the debt, and the necessity of high taxation to pay interest, is causing the working classes to be deprived of the social amenities and educational necessities of civilised life.

3. Again, the pressure of the debt makes it difficult to remove food and other taxes which hit the most needy section of the community, *i.e.*, those below and on the poverty line. *Our considered opinion* is that steps should be taken immediately to reduce the internal debt by means of a graduated levy on accumulated wealth, above a certain margin, in the possession of individual citizens.

* Appendix to Report from Select Committee on Increase of Wealth (War), 1920, p. 270, para. 22.

3098. *Chairman*: Mr. Walkden, we have had the written evidence of the Trades Union Congress on the Capital Levy. One member of the Committee remarks that it would be a great pity if you only dealt with this matter and abstained from giving us firsthand information about the actual position of organised workers, now and pre-war and at earlier points of time. He suggests that it would also be very interesting to hear something about the condition of workers in other European and non-European countries. That question might easily arise in the course of your examination. If you would be prepared to help us on the further points, it would be very valuable to us.—(*Mr. Walkden*): I will do my best in that direction, but the suggestion is rather comprehensive, that we should make a review to-day of the position of workers in other countries.

3099. If you can answer any of the questions that may be addressed to you, we should be very glad. Will you now kindly take the points in your paper, section by section?—In regard to the first section, I might add that we shall have a word or two to say about the question of taxation generally, in which we shall emphasise our view that we favour direct taxation rather than indirect taxation.

3100. *Sir Alan Anderson*: On that introductory section: you speak as experts from the point of view of these organised workers; you know where they think the shoe pinches. That is the point, is it not?—Yes, we have endeavoured to explain that.

3101. I very much share the view that the Chairman put to you, that we should like to know really how much the shoe is pinching. You do not speak as financial experts, or as experts in currency or anything of that kind?—No.

3102. But you do know exactly how these organised workers are feeling, probably much more intimately than most of us do?—We are forced up against financial questions frequently in connection with their work, in the arguments that are put to us by employers against propositions of our own for betterment of the workers' conditions; therefore to that extent we have to look at these matters and we are familiar with them to a certain extent. Of course, we could not claim to be experts in the sense that bankers are; but these questions do come into the range of our consideration.

3103. As they do in the work of all of us?—Quite.

3104. We are all experts in something, and your particular business is to find where the shoe is pinching?—Yes.

3105. Just as it is a bootmaker's job to make a shoe?—We want to help the bootmaker, if we can.

3106. *Mr. Hichens*: There is one general question I should like to ask. Do you think that on the whole the standard of living of the working classes is higher or lower now than it was, say, pre-war?—On the whole, our information is that it is rather lower, taking into consideration the rise in the cost of commodities. The index figure shows that the cost of living is round about 70 per cent. above the pre-war date, that is August, 1914, but prior to that date there had been a rise of 16 points from 1900. But taking it at the precise pre-war date, August, 1914, it is about 70 per cent. above, and wages are not up to that standard on the whole in the largest industries in this country.

3107. Some are considerably above and some are below, I suppose?—A few, perhaps, are above; I think quite a minority. Perhaps in the public services the standard that was set up during the War period has been maintained.

3108. Is the standard of railway workers higher?—The railway standard was established in the inquiries that took place by the Ministry of Transport, and previously by the Board of Trade. The settlements then made have in the main been maintained.

3109. I ask that because we have had evidence from other experts that on the whole the standard of living is higher, that there is more free spending in all classes. That was given as a reason why there is less saving on the whole to-day than there was pre-war?—I think there is less spending on the part of the working classes in those large groups of industries like engineering, mining, cotton spinning, and so on, where the standard is really lower than it was before, taking into consideration the cost of living.

3110. In your experience of the working classes, you would not agree that their standard of living on the whole is as high as, or higher than, it was before the War?—No, I should say that it is lower on the whole. In those instances where it may be higher, as in the case of the railways, it was really dreadfully low before the War, far lower than it should have been. The railway authorities recognised that. There it is really making up the pre-war leeway that gives them a rather high appearance.

3111. One other general question of the same nature. Is it your view that, speaking generally, as the result of the industrial development of the world, the wealth of the working classes is greater than it used to be, or not; in other words, is material comfort greater now than it was a hundred years ago, would you say?—It is rather less at this date because the industrial development of the world has been broken and has not yet been restored; but in our view the development of the industrial resources of the world must be to the benefit of our people.

3112. Is it your view that there has been, perhaps not a steady, but a definite improvement over the course of years, in the condition of the working classes, as the result of the development of trade and industry generally?—Some degree of improvement. But, in our view, it has not been proportionate to the growth of the general wealth of this country and of the world at large. For example, I heard a very great industrial magnate once say that our wealth to-day is one hundred times greater than it was 100 years ago. That, I dare say, may be true; he was a great millionaire and should know something about that; but I do not think the working class improvement has been in any way whatever proportionate to the growth of the wealth of the country itself.

3113. *Mr. Bramley*: Regarding this standard of subsistence now as compared with 1914, would you agree that this is a question of fact and figures, more than a question of opinion?—Yes, that is rather why I hesitated to give an unqualified affirmative to the question whether I could answer any and every question raised on that point. It does need research if you want precise evidence showing percentages and actual facts affecting the development of the country and the workers' position.

3114. Could you give us any comparisons in general terms, comparing now with pre-war conditions, for instance, of men employed in large industries who are evidently worse off than they were. You have had the railway question mentioned. The comparison, so far as railway men are concerned, I think you said, is rather in their favour, but are there any other large sections that would show a reverse comparison?—Yes. It is our information that, in the mining industry and engineering and cotton and many of the large industries, the workpeople are substantially worse off, not merely in the rates of wages, but in the degree of employment and general position. Their position is less secure and less satisfactory than it was before the War.

3115. *Mr. Hichens*: If you take the shipbuilding industry, which is supposed to be one of the lowest-paid at the present time, would you say that the unskilled workers there are worse off than before the War, or that the reduction has practically entirely taken place at the expense of the skilled worker?—I think it is generally true to say that, in so far as any betterment has taken place or any increases in pay as compared with pre-war times, the unskilled men have had a relatively larger uplift than skilled people. There has been a great movement, and there was before the War, to help the bottom dog, as we call him, and that has been given effect to, as far as possible, and the skilled have willingly agreed to betterment for the unskilled.

3116. *Chairman*: If they worked full time, would their wages be very much better than in 1914?—Only in money figures, not in real wages, because of the purchasing power having been reduced so enormously.

3117. *Mr. Hichens*: In the unskilled branches of the shipbuilding trade would they not be materially better?—I could not answer that, without precise knowledge.

3118. The statistics that we have had, for what they are worth, show that, while the position of skilled men is very materially worse than it was, yet the position of the unskilled is quite evidently better. Is not that true; I am asking for information, you understand?—I dare say that may be the case, but I cannot of my own knowledge give evidence on that particular point.

3119. Perhaps the gentleman on your left can?—(*Mr. Milne Bailey*): Our information is that it is not true. If you are taking rates of wages the rates even for unskilled workers in the shipbuilding industry are rather below the 1914 average. I am not saying they are as much below as the skilled workers; they are better off in relation to the skilled workers than they were in 1914, but the rates are still below in purchasing power what they were in pre-war times. (*Mr. Walkden*): I might add that the position of the skilled men is the reason for most acute unrest and dissatisfaction. When they know that in America, for example, the rates of pay for skilled people are so much higher than they are in this country it causes them very serious concern.

3120. One result, perhaps you will agree, has been, has it not, that you have, so to speak, levelled down the skilled men to the position of the unskilled, and so made it very difficult to get apprentices in the skilled trades, which may be a great drawback to this country?—I should not say *we* have done that; it may have been done.

3121. I did not mean *you*. When I say "you," I simply mean that it has been done?—In so far as the rates of pay of the skilled people have not made the progress that in our view they should have made, undoubtedly it has militated against accessions to their ranks, and it has also had the effect of many men leaving this country and going abroad, and if we get, as we are optimistic enough to believe we shall get eventually, a great trade improvement when the trade of Europe is restored, the country may find itself very short of good skilled English artisans.

3122. *Sir Alan Anderson*: Can you suggest any way of checking the material prosperity of these organised workers, comparing the present and some other time, except by the standard of living?—There are records of the wage rates paid in pre-war days, official records compiled at that time by the Board of Trade, and there are index figures of the cost of living. In my view, those would be the most reliable figures to consider. There might be important supplementary facts that would need to be borne in mind, I think. Perhaps I had better say at once that if you would like this dealt with thoroughly, we would be prepared to come again, if you desired that, with a review of that aspect of your inquiry. We perhaps had got too much in our minds that you were concerned about the debt and how it should be dealt with, and taxation and how that might be modified. (*Chairman*): Thank you, that may be necessary.

3123. *Mr. Bramley*: Before we leave this section: you state that you are expressing the view of about 4,500,000 organised workers "and their dependants." Do you mean by that, that the majority of those

4,500,000 are adults?—The majority of them undoubtedly are. There are single men amongst them and single women, too; the women are a relatively small minority, and the single men are in a minority amongst the men. I should think that a moderate figure for the workers and dependants, if you want to get them altogether, would be about 10,000,000 persons.

3124. That is the point I was going to ask you. You take into consideration, in your evidence, the fact that they are mainly adults. I was going to ask you what, in your opinion, was the proportion or the number of population represented. Is that 10,000,000?—10,000,000 or 12,000,000, I should say.

3125. *Chairman*: Now we will pass to the second section of your paper, if you please?—That deals with the limitation which the debt imposes on schemes of social reform.

3126. *Sir Charles Addis*: Is it quite correct to say that payment of the debt and schemes of social amelioration must be regarded as alternatives?—It is our experience that when we press for schemes of social amelioration, we get right down to the bedrock of the difficulty and we are always told that there is no money available, and that there is such a large charge to meet for the debt interest.

3127. You would agree, however, that in spite of the heavy demands made for redemption of debt, there has been at the same time a considerable increase in the expenditure on social objects?—There has been some increase in social service. We do not think there have been very large sums paid in the redemption of debt—somewhere about £40,000,000 or £50,000,000 a year; we do not think that is nearly enough.

3128. You think that ought to be increased?—Certainly.

3129. Do you say also that if there were no indebtedness to pay, the amount might be available for social objects?—A large proportion of it.

3130. Have you taken into account there the reduction of taxable capital that would follow?—Yes, we have had some regard to that.

3131. It would be very considerable, would it not?—It would not be so large as the reduction of the debt. There would have to be a discount allowed for the reduction of taxable capital—or rather, income; we have not taxed capital yet.

3132. Supposing that £6,000,000,000 of the debt were wiped out, you could not get the same revenue unless in some way or other fresh capital were created?—There might be a time when you would have not quite the same income to tax. If the £6,000,000,000 were raised in the sense you suggest, it might take some four or five years to do it; then it would work through, and when the bondholders of the debt had been paid out, they would reinvest their money again and get a fresh income from it, and that income would be taxable.

3133. Fresh capital would be created?—Yes, and even in the meantime you would only lose 4s. or 5s. in the £.

3134. It was just that this paragraph might be held to suggest that, if you wiped out the whole of the debt, there would be £300,000,000 odd of tax available for social expenditure, and that is not what you mean?—I mean that largely, in the main, but there would be a discount off the £300,000,000 to the extent that the interest received would be either suspended or diminished very much for a time.

3135. It would not be operative, you will agree, until a corresponding amount of fresh capital, not necessarily the same amount, but a corresponding amount of fresh capital had been created?—No, there is no destruction of any capital in our suggestion, and not necessarily any creation of fresh capital. The £6,000,000,000 of the debt, if paid back to the bondholders, would be reinvested—that same capital.

3136. I quite agree, but if you wipe out the debt, the area of taxable capital available to the State would decrease to that amount?—Not altogether.

3137. What takes its place?—The people who received the money that was raised would put it in the first instance on deposit; they would get perhaps 2 per cent. on it then, instead of 4 per cent. or 5 per cent., and afterwards they would reinvest it in the main in productive enterprise, and there you get your taxable income available again.

3138. *Mr. Bowen*: Do you think such capital would be invested in gilt-edged securities, or do you think it would be invested in industrials?—When there is abundance of capital seeking investment, it flows where it can, of course. There is only a limited supply of gilt-edged investment; that would be diminished by the reduction of the Government stock, and the fluid capital seeking investment would make itself available more readily for industrial development. The best period I can recall in which there was a great abundance of capital was round about 1897. There had been a long period then of freedom from wars anywhere in the world, I think, from the Egyptian War until the Hispano-American War broke out in 1898. By 1897 there had been a very large accumulation of marginal capital, and it was abundant then for all sorts of purposes; and municipal corporations—bodies with which we are more closely in touch than private capitalist undertakings—could raise money and did in fact raise it for great enterprises, like waterworks and tram systems and sewage works and so forth, at very easy terms. I think Leeds got £2,000,000 in 1897 at 2½ per cent.; at any rate, you will all remember, perhaps, that Mr. Goschen, who was then Chancellor of the Exchequer, was able to reduce the rate of interest on Consols because of the abundance of capital, and in our view the conversion or redemption of the National Debt by means of a Capital Levy would provide money, by means of the abundance of capital that would be available to help industry.

3139. *Mr. Hichens*: I should like to be a little clearer, if I can, as to your view. I take it you would agree with me that assets represented by that £6,000,000,000 of debt have mostly gone up in smoke or in explosions of one kind or another?—I have been thinking about the realities of that expenditure, and it seems to me that it was spent for a great service.

3140. I am not saying it was not?—An enormous service; and that service was rendered by the soldiers, who were more or less without any pay—they were not paid so well as the Colonial soldiers—and by the people who provided them with their equipment, munitions and so forth, and the service was rendered and the freedom of the country was retained and the object we had in view was achieved.

3141. I am not saying it was not worth having—enormously worth having, and worth everything that was spent upon it, but at the same time that does not represent any material assets in the shape of new waterworks or electric lighting schemes or anything of that kind?—I quite agree.

3142. This is what I was going to lead up to. It corresponds rather to an item of goodwill in a balance sheet. Goodwill is something which has no material asset behind it?—Yes; you might call it a security asset, or something of that sort. If you will get into a lesser sphere, which is easier to consider, we may picture it as a calamity or a disaster that befell the community. If a town or village had a disaster, a flood or a plague, or something like that, and they had to spend a lot of money to deal with that situation, it would be very bad for that village if it borrowed money and then kept it as a debt for evermore hanging round its neck. No one would want to live in that village, because of the high charges for interest on the debt.

3143. What I want to get at is this. If one agrees, as one generally does, that there is no material asset behind this big debt, how would you increase the wealth of the country in any way, and enable more to be spent in other directions, if you cancelled the whole lot?—We are not proposing to cancel it in the sense of repudiation. We do not stand for that at all.

3144. Supposing you *did*, to take an extreme case, how would it leave any additional wealth available for social purposes? How would you be any better

off in the sense of material wealth than you were before?—We have not said that the operation would create additional wealth. We have tried to show that it would have beneficial effects in the transference of the credit represented by that debt into productive channels. If I might go back to the village illustration again, I should think that the operation might be very similar to the case of a village calling upon its wealthy people, of whom there might be quite a number in the village, to subscribe to a fund to pay off the expenses incurred in dealing with the disaster. When that was done, the village would be in a better position than previously for everybody.

3145. *Mr. Bramley*: Is this the point? Do you agree that it is not a question of increasing the total amount of wealth of the country, but it is a question of retaining a bigger proportion of the national income for social purposes by reducing the nation's liability to private persons?—Yes, that is our point.

3146. With reference to that, and with reference to a question that has been put to you just now, in your opinion, would the reduction in the national income by taxation be less than the saving in the total amount of annual interest we have to pay?—No, the reduction, if you had no debt interest to pay, would be far greater than the reduction of revenue from the taxation of that interest itself.

3147. That is your opinion?—Yes.

3148. *Professor Hall*: Should I be right in saying that this is your view: that the cancelling of the debt does not reduce the power of the community to produce wealth, and therefore does not reduce its taxable capacity?—If we redeem the debt, we do not destroy anything in the sense of productive power; we do not disturb the machinery of the country, the equipment of the country, the skill of the people or anything of the kind. Its capacity for production is as great as ever.

3149. And therefore you think its taxable capacity remains as great as before?—Substantially so, certainly.

3150. And therefore there would be this margin available for social services which we now have to pay as interest on the debt?—Yes, there would be a very large margin available for social service.

3151. I just want to get your point of view: that is essentially your point of view?—Yes.

3152. *Sir Charles Addis*: Is it not your point of view that it would be eventually available, but not immediately; that there are people holding £6,000,000,000 of bonds for which they receive interest, no doubt paid by another portion of the community, but on which the State is able to exact Income Tax; if those were redeemed it is true that the potential taxable capacity of the country would not be affected, but surely it would be a result that the revenue of the country would be decreased at first?—The revenue of the State might be affected to some degree; probably it would be affected to some extent during the period when you are carrying out the operations; but when you had completed them, it would right itself, and the country, in our view, would go on very much better than before.

3153. *Mr. Bramley*: But immediately the *net* revenue to the State would surely, in your opinion, be on the right side. Supposing the revenue from these securities held by those who are participating in the advantages of the debt is lower than the total amount of interest the State is compelled to pay, immediately the transaction would leave the State with a balance on the right side, would it not?—Yes, enormously on the right side; it would have a very great advantage from the standpoint of national liability and expense, and you would not have an appreciably diminished income; there would be some diminution of a temporary character.

3154. *Sir Charles Addis*: The whole of the interest on the debt must be paid by the State and taken from the taxpayer? That is quite clear?—Yes.

3155. The State recovers part of that from the bondholder in the form of Income Tax?—Yes.

3156. If the bondholder ceases to exist, it can no longer recover tax from that particular body of taxpayers?—If we really cause him to cease to exist, which we do not wish to do for a moment. If we executed him, we will say, or in any political sense caused him to cease to exist, that might be the case; but he does not cease to exist; his bond value is paid to him, and with that money he can earn a fresh income which would be taxable.

3157. When the adjustment is made?—Yes.

3158. *Mrs. Wootton*: Would you agree that, ultimately, what determines the taxable capacity of the country is the amount that the country produces?—Yes.

3159. Is it your view that if the debt were wiped out—suppose you got a super-American to wipe it out for you—in that case would the production of the country be affected in any way?—Not at all; there would be a stimulus to the country; the freedom from debt would have the effect of helping the country.

3160. So that the removal of the debt does not influence the factor which in your view ultimately governs our taxable capacity; that is, our production?—The redemption of the debt would not influence it adversely but favourably.

3161. *Mr. Bowen*: What would your view be in regard to the statement made by a very important witness, that the country is now getting accustomed to a very heavy debt charge, and that it can really stand it, and we need not worry very much about it?—I should say at once that the country is not getting accustomed to it, but the country is getting very resentful of it. I, of course, speak for the active working classes of the country that we are continually in contact with. They know the facts about this debt; they know that every working day the year round pretty well, £1,000,000 has to be found for interest and they know that social schemes for improvements which they desire for the benefit of themselves, their children, their old folks and so forth, cannot be brought into operation because of the charge of this debt. They know the debt is a burden, and they are not getting used to it; they want it to be dealt with.

3162. I suppose when you speak of social reform, you have in mind that it cannot be levelled as a charge against the workers that they are selfish in demanding social reform without regard to anything else; but am I right in saying that the idea of social reform would lead up to greater efficiency and greater productivity?—Certainly, that is our view. Working folks consider social reforms of the kind that I have just referred to, as being things which cannot be brought about except by communal action through the State, and to the extent they were brought into operation they would relieve the minds of the active working men, and their pockets, of many onerous burdens. Their own purchasing power would be increased, and to the extent that they were relieved of trouble and difficulty, their productivity would be increased. A man who is fairly free from trouble will get along with his work very much better than a poor fellow who is dragged down by misfortune.

3163. Is that what you mean in paragraph 4, where you say that you are of opinion that taxation for improving social conditions is not only just but is ultimately remunerative?—Yes. We mean that in every sense in regard to matters of which I have just spoken, such as, for instance, widows' and mothers' pensions, improvement in Old Age Pensions, and improvement in measures for infant welfare; those come within the range of what I was speaking of just now. With regard to increased educational facilities, we are strongly of opinion that that is really directly productive expenditure, that a well-educated community of working people will be far more productive than an ignorant, backward body of workpeople.

3164. What would you say is the effect of the existing taxation for such purposes as that? Has it

any bad effect upon industry?—Not at all. The progress of education since 1871 has caused a diminution of crime and many other evils of that character, and has enabled all the business of the country to be carried on more comfortably and effectively than at the time when the people were ignorant and you had riots and all sorts of difficulties, as well as footpad robberies and individual troubles of that character.

3165. *Mr. Bell*: Might I ask, Mrs. Wootton, if you distinguished, in your question, between payment by the super-American and by the people themselves? You asked what would happen if a super-American paid off the debt?—(*Mrs. Wootton*): I was putting a theoretical case—that we had no debt, by whatever means it was paid. (*Mr. Bell*): Is not that the crux of it—by what means?—(*Mrs. Wootton*): I will take that as a separate stage. In this Section II, Mr. Walkden, you say that the present cost of interest on the debt is £305,000,000. You also mention certain lines of social reform, but I take it that they are by way of illustration—education and Old Age Pensions, and so on. You hold that those kinds of social reform are very important?—(*Mr. Walkden*): Very important.

3166. And ultimately remunerative: I think you have already given a reason for that?—Yes, ultimately remunerative.

3167. They are also, of course, expensive; they cost a good deal of money?—Yes, they will incur expense; the problem is to make such adjustments as will provide for that expenditure to be met.

3168. I take it that you are, as it were, looking round, as these things are important and expensive, to see what is the most likely place to get the money from to finance them?—Yes.

3169. And you suggest that one possible place is in connection with the National Debt, if we could effect economy in the cost of the debt service?—Yes.

3170. Can you suggest any other source from which we should be likely to get an adequate amount? Supposing we leave the National Debt untouched, can you hold out any other prospect of our obtaining these social services that are needed?—There could be other expedients adopted; it is doubtful whether they would yield the same amount of revenue as the debt interest absorbs now. The Super-tax might be increased; the Death Duties might be increased; there are ways and means of getting other money, but, in our carefully considered view, the most desirable thing to do is to get the debt redeemed and to get free from the necessity of paying interest on it.

3171. You do not immediately see any other comparable source of income with which to finance these social schemes?—No, nothing like so good.

3172. *Mr. Bramley*: Regarding the advantages to be secured by the reduction of the National Debt, I think you state that the wage earners are conscious, by experience, of substantial disadvantages to them arising from the debt?—Yes.

3173. Can you suggest any section of the community who are gaining an advantage by the perpetuation of the National Debt?—I cannot see what good it is to anybody, except that it may be regarded as a very nice comfortable thing by those who hold the scrip to sit indefinitely, they and their heirs for ever, receiving out of the community the interest on this money, which does not represent, as Mr. Hichens said, any productive enterprise at all.

3174. *Sir Alan Anderson*: Even they would be all right, because they could substitute something else if it were paid off?—We think it would be a good thing for them to have to exert themselves to look round for new avenues of investment instead of sitting still.

3175. Their only change, as holders of this interest-paying security, would be that they would have to get another interest-paying security?—Yes.

3176. And as taxpayers they would pay their share of tax or whatever it was?—Yes.

3177. *Chairman*: Are there many working people investing in the debt?—Our information is, that the number is very few. We hear more of workers having to sell up their homes and pawn their tools, and being in very great difficulty through the distressful times they are now living in. They help one another a great deal. We do know that many who took up Savings Certificates have had to sell them to get the money to live by. There are now over one million—there have been two million—working people unemployed; and they do help one another in a real sense, and fathers help sons and sons help fathers and relatives and friends, and so forth, and a great deal of what they did save in Savings Certificates, which ran into £300,000,000 or £400,000,000, I believe, has been liquidated, so far as they are concerned; and our information is that it is held more largely by the middle classes, the trading classes, than the working classes; but the holdings of the working people in the debt are very negligible, compared with the whole six thousand millions or so.

3178. *Mrs. Wootton*: Savings Certificates are free from tax, I think?—Yes.

3179. That makes them an attractive investment?—Very.

3180. So that a considerable sum is invested in Savings Certificates because they are free from tax?—They are very popular with shopkeepers and people like that. They can get up to £500 worth face value and need not return them for Income Tax purposes at all.

3181. *Mr. Bell*: I want to get, if I can, back to elementals. It is the case, as you put it, that you think a real service was done by the expenditure represented by the debt. You were very frank on that. It brought security and it brought service rendered by soldiers and others at the time of the War?—Yes.

3182. A real debt has been incurred?—Yes.

3183. And you gave the example of either a private person or a village. Now it may be the case that a private person having contracted a debt would like to do many nice things. He would like to take his children to the seaside; he would like to educate them in a certain way, and he would like to do many things, but if he is an honest man, is not the debt a matter which he has first to look to?—I think it is the thing we ought all to look to first; and those who receive most value from the service rendered should be the readiest to help to redeem the debt.

3184. Let us put that aside, because that, of course, is disputable, as you know?—I do not think so. In my view that is very absolute—that the benefit to property holders has been vastly greater than to anyone else.

3185. I think not. It might have been the case, and it was the case, that vast wages were paid also as one of the results—greatly increased wages?—Those wages were only paid because of the increased cost of living, that flew up terribly to 176 per cent. above pre-war.

3186. You know, of course, that wage increase also brings up the cost of living in a very remarkable way?—We know it affects the cost of commodities, of course.

3187. I do not want to get on to disputable points of various sorts of services rendered during the War; but a debt has been created?—Yes.

3188. Is it not right that that debt should be discharged?—We think so.

3189. And that it ought to be discharged by the proper method of being paid in the usual way?—That is our view; we do not favour repudiation or cancellation at all. We favour redemption.

3190. But if you take from a man who is holding it some of the debt by what is called a Capital Levy, and what I call partial confiscation—if you take from him a certain portion of that, you are doing what you say you do not intend to do?—Some great authority said that all taxation is confiscation.

3191. I agree to that extent, but are you going to make here a special difference, and for this special category of debt are you going to say: "We shall cancel some of that debt in the hands of certain people"?—We take the view that taxation can only be got out of those who have the money to pay. Working people are taxed as high as they can pay at the present time. The service rendered during the War secured the value of property and maintained it in this country and augmented its value very heavily in some cases, particularly in the case of house property, which affects the working classes very seriously; but the whole value of property arises from the existence of the State, and from law and order and security. The State is the community in its organised capacity, and wealth would be of no value if you had anarchy in place of order, and those who own wealth are rightly the people who should help to redeem the debt.

3192. Anarchy is, I take it, just as inimical to the interests of the workers as it is to the property owner?—I am not sure whether you think I was specialising against bondholders of the National Debt. We consider that all wealthy people should subscribe to the clearance of the debt.

3193. I quite follow; I am only asking why is this differentiated from a private man's debt. A private man has to pay a certain amount which he has borrowed from somebody else?—That is a private debt—not a State debt. All this debt was incurred by the State.

3194. Quite so, but the man to whom the money is owed in the case of the private man, is told by the man from whom he borrowed, that he, the borrower, would like to engage in various things; he would like to send his children to school, and he would like to do a hundred and one things, and therefore he proposes that the man who lent him the money should cancel part of that debt?—We are rather getting away from the fact that it was a State service; the call was made by the State; it was a communal matter.

3195. Did you not compare the thing to a village or a private man?—I compared it to a village or community which had a disaster befalling it, that it had to meet immediately, and which had to borrow money to do so. I said it would be an advantage to get rid of its debt.

3196. Suppose the village borrowed from the next town a certain amount of money to put its waterworks in order, they having burst, is it going to ask that other town to pay off some of the debt?—That allusion is rather analogous to the case of America. We have differentiated in the method in which the two sections of the debt have to be treated, the internal debt and the external debt. When I say "we," I mean those of us who are representing the Trades Union Congress.

3197. *Mr. Bramley*: Regarding this question of differentiation between one section of the community and another in the payment of this debt, I would like to ask a few questions. You take the view that the National Debt is a national danger?—A national disadvantage; it may become a danger.

3198. Therefore, you take the view that the disadvantage should be removed by those who can render that particular kind of service necessary for its removal?—Certainly.

3199. Just as during the War, for instance, those who could render physical service to the country were called upon to do so?—Yes, the young men.

3200. You now suggest that the financial danger to the country should be met by those capable of meeting it in precisely the same way?—Certainly, because they are best able to do it and they themselves received in their relationship as property owners an enormous advantage from the winning of the War.

3201. In general terms, then, the point is this: that a national danger or a national disadvantage should be removed by the contribution of service by those capable of removing it. (*Mr. Bell*): I was in the middle of my examination when Mr. Bramley tried to elucidate it. You do not agree, then, that as all parties were benefited, all parties should help in this matter of the reduction of the National Debt?—(*Mr. Walkden*): The working classes of this country contributed most in life. Most of their sons and fathers died in the War.

3202. *Mr. Bell*: Excuse me; you cannot take the total in that way. Each individual taxpayer had losses, as I had, in regard to the War; but there is no totalling those matters?—I am conscious that all classes of the community had their losses; we are not unmindful of that at all; but it is true to say that the wealthy and more prosperous classes of the country have smaller families than the less prosperous, that the larger families of the workpeople were drawn upon for men to do the fighting, and they gave their boys and their men folk for that service. And it is their feeling—I speak here very emphatically—it is the feeling of the working people of this country that, as they did not stint to give that service, as they gave it wholeheartedly, without flinching or any difficulty at all, as the whole voluntary system of England was swept aside and conscription accepted and worked by the working people of this country, without resentment, as you had in Ireland, and that was given——

3203. By all classes?—But the working classes were most largely affected, because they had the most men-folk to give and per family the largest number: they having given that service, I do submit that it is not unfair to expect the more fortunate citizens of the community to render the service they can in clearing the country of this debt.

3204. Take the case of two men in exactly the same position in life, one with a wife and three children having been thrifty, and the other in exactly the same position and with the same opportunity and with a wife and three children also, and being unthrifty; do you think the thrifty man ought to bear the cost and the other to go free?—It is very difficult to sit in judgment on people and censure them for not accumulating money. Broadly, that cannot be done by a Chancellor of the Exchequer or anyone else. Money can only be raised from those who have it, that is, those who are fortunate enough to be gifted with energy and ability, including ability to save. They must provide the money.

3205. The Chancellor of the Exchequer in every reasonable and ordinary Government has always taken into consideration what is the effect of taxation upon habits of thrift and he has always asked what would be the effect of taxation on the habit of thrift, which he wishes to encourage. He has never set it aside in an airy way as though it did not matter?—He cannot, when he is raising taxes, say to the man who has no money: "Well, you ought to have some; you ought to have been thrifty; you ought to have done this, that and the other, and I will make you pay."

3206. Perfectly true, but he has always to think, in regard to any taxation which he levies, of its effect in the future, and therefore he has to be careful that anything that he does does not destroy thrift?—I gather that the sense of your question is that the virtue of thrift is exercised by people of the bondholding class, and is not, generally speaking, so prevalent amongst the working classes. I am very glad you have raised that, because our experience is that to the extent that the working classes have any margin they are just as thrifty as any other classes.

3207. I quite agree.—Their accumulations in such organisations of their own as the Co-operative movement, the Friendly Society movement, the Trades Unions, and so on, are astounding; they are wonderful, considering the awfully narrow margin that they have available.

3208. I am in entire agreement with you, but I am only talking now of those people who are not thrifty. I do not distinguish between the working classes and other classes for the moment?—I do not see quite what we can do with regard to the unthrifty, except to improve education and get everyone to be a good citizen.

3209. Take the case of a person who has saved and who goes on saving. Being a banker I know of many cases. I have cases of sea captains who have retired after many years' service, and who have accumulated a little sum of money out of which, at a considerable age, their income is now provided for them. I know others who have not saved a penny, who have not done anything to look after their old age or their families. Are you really considering that it is right to take from that thrifty man the surplus of his little savings?—We never know what the man who has nothing has had to do. We know not what has been attempted. They often have had family misfortunes. They have often helped friends privately.

3210. I am not thinking of those cases. I am thinking of deliberate unthrift?—It is not our intention to cut into the small savings of little people. It is rather to approach the possessions of those who have great possessions; and great possessions to-day are the result of civilisation. If you happen to be a soap maker, for instance, and make a great fortune out of soap, you only make that because people are clean people and use soap. You can sell your soap only in a country where people are sufficiently forward; you cannot sell it in countries where people do not care about being clean.

3211. If you are going to lay down a general principle of that kind there is no distinction between different classes?—We must lay down a principle which, I think, is necessarily worked upon by all Chancellors of the Exchequer of any party, that you can only raise revenue by taxation from those who have it.

3212. That is my point. Are you going to tax people proportionately to what they have, or are you going to select 300,000 people only in this country from whom you will take their savings?—We propose taking a levy in proportion to the wealth held by the individuals.

3213. No, I think not; you are going to say: "We are going to leave out a huge number of individuals and levy upon a small number"?—Because they are best able to pay.

3214. I am not talking about their ability to pay an amount; I am talking of the ability to pay in proportion. Is not everybody to pay in proportion?—The less fortunate citizens are already paying all they reasonably can for the general expenses of the country and their own expenses of living.

3215. The belief of some is very much to the contrary. The national expenditure, as projected in the present Budget, is something like £170 per head upon those who are Income Tax payers as against £5 5s. 11d. per head upon those who are not Have you seen those figures?—I am not familiar with them; I have seen them.

3216. I wish you would look into them. The contention is that a very heavy Capital Levy is going on now by reason of taxation?—Not for the purpose of redeeming the debt.

3217. Yes, for the purpose of redeeming the debt. There is a sum of £40,000,000 or £50,000,000 set aside for that very purpose and the surplus of the Budget, the old Sinking Fund as it is called, automatically goes to reduction, and those sums of money come, as I say, out of the £170 per head—a very heavy taxation which is really crippling industry in this country—and £5 5s. 11d. per head comes from that, as I think, very small taxation by reason of exemptions and other things, which falls on the working classes—and possibly rightly. You remember that there is exemption below £225 for a married man, so much for a child, and so on, so that practically everybody under that has entire exemption. Then the indirect taxation has been so reduced that we have come practically now to taxation upon tobacco and alcohol only?—£28,000,000 on food.

3218. It is getting reduced according to the last Budget, and that taxation on food is paid by all people who eat, whether they are rich or poor, but not to the same extent?—The proportion spent on food by a working class man is vastly greater than the proportion spent by a £10,000 a year man.

3219. Very much greater, but you see, as I tried to show, as against that taxation the other classes are paying £170 per head as against £5?—That rather shows the enormous disparity of the wealth of the country—how it is located.

3220. Not necessarily. It might show the enormous disparity between the proportion of tax charged on one class and another?—Chancellors are always bound to have regard to leaving enough margin for people to meet the bare necessities of life; and the working people get very little more than that. If the State needs revenue it must be levied out of those who have got income to pay it from. If it needs a large amount of money for reduction of debt it must come out of those who have it.

3221. I am not asking whether a larger or smaller sum should come; I am asking if a proportionate sum should come from every man?—Proportionate among those who have, in proportion to what they have.

3222. But everybody has something?—The majority of people have nothing. They are only about a fortnight from starvation.

3223. I am only asking with regard to those people who have something?—In our view they (the working classes) have not any adequate resources to contribute.

3224. You cannot say they have not, if I say "those people who have." I am asking if a man with £500 of capital is to subscribe?—No. Our view is that it is not worth pursuing small amounts capital in such a manner.

3225. Is the man with £1,000 to pay?—The lowest figure where you could begin in a practical way to raise money by a Capital Levy would be about £5,000.

3226. You are aware, of course, that it was at first £2,000, are you not?—When it was first suggested, I believe. Further figures were suggested, and further consideration has caused those with whom I am associated to come to a considered view that £5,000 should be the minimum.

3227. The considered view taking into account that it would be more popular among a large body of voters?—No. It was not considered from that point of view so much as from the point of view of the practical difficulty of getting particulars and receiving the money from very small people.

3228. As to that practical difficulty, is it not the case that people with £2,000 or £5,000 or £500 have now to make a return for Death Duties?—That is so.

3229. How then would it be more difficult for them to be assessed, seeing that they are assessed now?—When you get down to small operations and small people, the degree of disturbance and the difficulties of raising the money are so much greater.

3230. It is not the difficulty of assessing it?—It is the whole difficulty of dealing with it with very small people.

3231. It is not the difficulty of assessing it. You could get it, if you wanted it?—You can get returns rendered much better by people in large figures of money than you can by very little people.

3232. Not at all. You get the money rendered equally well for Death Duties in regard to a man with £3,000 as if he had got £3,000,000?—I am not a tax collector or a tax assessor, but I gather from friends of mine who are connected with that service that there is greater difficulty in dealing with small people from start to finish than there is with big ones.

3233. As a matter of fact it is not so difficult, and it happens every day as a matter of course that people with £3,000, or whatever it may be under £5,000, are to-day taxed; they are levied upon for Death Duties just like anybody else; it is equally easy?—On the occasion of death, but that is an incident of far less frequency. I mean, if you are going into a Capital Levy you are going to deal with everybody at once. In the case of deaths, it is only those who die who have to be dealt with, and there is more time and less pressure

in dealing with those; and there is generally a family friend brought in to help in clearing up the affairs.

3234. But I am not putting that point. I am putting the point that it is ascertainable easily, and is ascertained easily?—I do not think it could be ascertained so easily, but if it were, we could still make the point that it is not desirable, not worth while, and would not be fair to start taxing very small people.

3235. When you say "not worth while," do you mean as to the amount?—The amount would be relatively small.

3236. The amount would be very large, would it not?—It has not been ascertained.

3237. It is easily ascertainable. The amount of money in those sums is very great?—I cannot speak as to that.

3238. That is so; very great indeed?—Well, we do not propose to go below £5,000; that is our view for all the reasons I have stated.

3239. You do quite clearly differentiate between direct taxation, indirect taxation, and what you propose as a war redemption levy; there is a substantial difference between the three?—Exactly, but that comes within the third section.

3240. *Mr. Bramley*: On the question of the cost of getting the revenue compared with the amount you would receive, is not that determined by the fact that the proposal is for a graduated tax; it begins at a very small percentage on the £5,000?—Yes, that is so.

3241. If you are to graduate down from that proportionately, the revenue you would receive would not be more than the cost of getting it; is not that the point?—Yes, that is our view.

3242. That is all I want to say on that point, but with regard to the effect of taxation on thrift, is there, in your opinion, any form of taxation possible which does not penalise either thrift or ability?—It penalises those who have ability and those whose thrift has brought them in possession of means.

3243. I mean by "penalise" that, in actual effect, it is a tax either on thrift or ability, either on saving, or on income derived from either hard work or special ability? That is your opinion?—Yes.

3244. Any form of taxation would have that effect?—Yes.

3245. *Mr. Bell*: I do not want to interrupt Mr. Bramley, but are we going to continue the examination of the Witness until we have finished our points?—(*Mr. Bramley*): I beg your pardon. With your permission, I would like to follow up one point. Regarding this point of taxation on thrift, is it not a fact that the man who is taxed on his savings is very often the same individual who avoids taxation as a spender, that is to say, by limiting his consumption, and the proportion we receive from him in the form of taxation on commodities goes down?—(*Mr. Walkden*): That is so, particularly with the small saving person.

3246. That thrifty man is not a source of revenue to the State as a consumer?—No.

3247. So that it is not very unjust, is it, that we should call upon him to meet his liability as a saver?—No.

3248. *Mr. Bell*: I would like to elucidate that a little further. If a miser, though a very poor spender by reason of his savings, invests them in industry, may he not really be a better citizen than a thriftless person; may he not be doing more for the country?—I have never heard misers described as good citizens.

3249. No; but by reason of avoidance of personal expenditure and the re-investment of what he saves in the industries of the country, he may conceivably be a very much better citizen than the man who spends for his personal advantage?—That might be so, and he would be a very much better subject for taxation; quite a suitable subject, I should think.

3250. It does not follow that he would be a better subject for taxation than the thriftless man—a man who had the same income?—I say the man who has got the money is the only man you can tax.

3251. I am talking about another point. You said he would be a less good citizen, possibly?—I do not think much good purpose could be served by pursuing prodigal sons; I do not know what you are going to do with them.

3252. Suppose one of these bondholders was a foreigner, you would propose not to take anything from him?—If they are resident in this country, my own view is that you should call upon them like others.

3253. Even if he was not a citizen?—If they are getting the advantage of our communal life here.

3254. Take an American bank, a private bank, we will say, resident in this country, or somebody who would be levied upon, living in this country; the citizen of another country would have some of the indebtedness of the British Government taken from him?—It is not our suggestion that institutions and corporations, banks or firms or companies, should be taxed, but individuals only of great wealth. If, say, an American is residing here and having the advantage of our civilisation which he prefers to his own, and has got wealth in this country, owning some of these War Bonds or other British securities, we see no reason why he should not be called upon to contribute.

3255. Even if he were not naturalised?—I hesitate about answering that, because I am not familiar with the laws as to naturalisation; but without that knowledge I should say there is no reason why he should not be taxed in the same way as other people living in the country. If there are laws ensuring immunity for aliens living in this country, of course that is a side point; I do not think there is very much in it. There cannot be very many of those persons here. But we do know of wealthy Americans residing here who are taking part in our public life, entering the House of Commons and so forth; certainly those persons ought to be taxed like the British people.

3256. Those in the House of Commons would have to be naturalised?—Presumably.

3257. *Sir Alan Anderson*: In your Section II, paragraph 2, you say: "By far the most important injury to the working classes involved in the National Debt is the limitation which the debt imposes on schemes for the improvement of social services." If the debt caused us to fail to sell our goods abroad, and therefore brought about unemployment, that would be still more important, would it not, than not extending the social services?—If it had that effect, but in so far as the revenue to pay the interest is derived most largely from Income Tax, we cannot see that that is the effect. Of course, Income Tax is only paid on received incomes after paying all expenses in connection with earning those incomes.

3258. So you do not think that trade is suffering from the present taxation?—We think trade would be benefited by an easement of taxation and, as I say distinctly a little later in relation to the working classes, it would increase their purchasing power.

3259. But you do not think our foreign trade, our power to sell goods abroad, is damaged by the present taxation?—I am not aware that any producers of goods sold abroad have direct taxes levied upon them when they produce their goods, before they sell them, or that there is any kind of tax on foreign trade as such.

3260. I am not trying to argue the point; I am just trying to find out what is your view, and I gather your view is that trade is not being limited by the present taxation?—We think that trade is being restricted by such a large proportion of the national credit being focussed in this National Debt instead of working more freely in the country at large. We think, for instance, that if money were more abundant and cheaper, people would be disposed to open up new brickyards and supply the very empty market with bricks; that people would be enterprising in the building of houses which could

be built and let to very good advantage now. As it is, whoever wants to do it finds the cost of money a very serious item, and people are delaying proceeding with such enterprises because of the high cost of capital.

3261. I am afraid I have not quite got my answer yet; is it that you think trade is being damaged by the National Debt?—We do think that the existence of the National Debt has a depressing effect on trade and a restricting effect on credit.

3262. Would it not be a more important thing than the limitation of the improvement of social services? The failure to get employment at all and to get good wages is surely worse than failure to have some improvement in the social services?—In our view the failure to get orders for goods that would give employment to our unemployed people is due to the dislocation of Europe and of the world. When you have the international affairs of the world straightened out and trade begins to flow as it did before the War, employment will be resumed, and not before.

3263. You would agree that full employment for all our energies in the world's market is the most important thing for improving the condition of the working classes, would you not?—It is one of the primary things.

3264. Well, it is the foundation of everything, is it not? If we fail to sell our goods in the world's market we cannot exist as a nation, can we?—That is why we of the Trade Union movement are most anxious to get the world's markets stabilised and the world settled.

3265. Again, I am not trying to argue it; I believe that is your view?—Yes, but we have other ideas for realising our aims in that direction.

3266. I dare say. What I was going on to was that it gives one rather a wrong impression to have the social services put so very high up in the scale of values. The most important thing of all is to be able to compete and sell our goods in the world's market?—Yes. The working classes of the country realise that, and that is why they support every endeavour to prevent any further wars taking place. They are very active in that direction, and they do desire the development of the world markets and the restoration of trade and commerce.

3267. Very well; we agree about that point; that really is a fundamental thing, and social services are a very necessary benefit built on top of it?—I suggest they are also fundamental. Education is fundamental.

3268. *Mr. Bowen*: Do you think they are collateral?—Some are collateral, but certainly I regard education, which is one of our most expensive social services, as fundamental.

3269. *Sir Alan Anderson*: Then you go on in Section II, paragraph 3, and say that, if the charge could be removed, you would have money for these Mothers' Pensions, Old Age Pensions, Infant Welfare, and so on?—A considerable part of that money could be used.

3270. Supposing the act of removing it did a serious damage to our position as world traders, would not that affect your view?—It would affect our view, but we believe the act of removing it would not have that effect.

3271. Quite so; that, I suppose, is a difference of opinion, but some of us see great danger of undermining our credit and preventing our success in foreign trade?—I can appreciate that feeling, but our conviction is that it would improve our credit.

3272. You think it would help the energetic people who conduct this trade to do their business?—Yes.

3273. Because it would clear the account, as it were?—Yes, and improve the position of our own country in the world.

3274. Again, on paragraph 3, you say if this charge could be removed, a considerable part of the sums now raised in taxation and so on would be available. But, leaving aside the interest paid to foreigners, the whole of that charge goes in interest to people in this country?—The £305,000,000, yes.

3275. Then in paragraph 5 you say: "If we had no debt interest to pay." The "we" there does not mean the 4,000,000 organised trade workers, but it means the nation?—It means the nation as a whole.

3276. "If we had no debt interest to pay, we could largely increase." Of course if we had no debt interest to pay, we, again the same people, would not be receiving the debt interest; it is merely a cross entry, is it not?—In the State accounts there would be no charge for interest when the debt had been redeemed.

3277. I am not talking about the State accounts; I am talking about the nation as a whole. "We" is the nation, and we have to contribute as taxpayers what we receive as bondholders?—Yes, a very small number of us as bondholders.

3278. *Mr. Bramley*: May I just elucidate this point. What is the population?—Roughly, about 45,000,000.

3279. That is the first "we"?—Yes.

3280. What is the number of interest receivers?—Under a million.

3281. That is the second "we". Therefore, the two "we's" are not identical?—No.

3282. *Chairman*: Of course, there are a large number of Savings Bank holders indirectly included in that million. (*Mr. Bramley*): Yes; well, they would be included in the smaller "we". My point is that the two "we's" are not identical at all. (*Sir Alan Anderson*): Mr. Bramley's elucidation does not really lead me to light. My point is that "we" is the nation as a whole. We can consider it as an entity. I am quite aware that the same people do not pay the same taxes and receive the same amount of interest, but we as a nation pay interest to ourselves, to some of our units, to some of the people who make us up. What I cannot make out is how we should really be richer by ceasing to pay that. If you will just allow me to try and elucidate my mind for myself this time, what I see quite clearly is that it would take off items on two sides of the national account. I see advantage in that quite clearly, and it would make it easier to collect taxes, because you would not have so much to collect, and it would rivet this burden of the debt on certain existing people who might not be able to get away. Those are all advantages in favour of doing it, but I do not see for the life of me how we are going to be any richer as a nation after this operation. (*Mr. Walkden*): I am not aware that I have suggested that we should be richer. I say it would have a healthy effect, and it would bring into the market a large amount of money that would be available for industrial development.

3283. May we take it, then, that we are agreed that we should not be richer?—We should only be richer if we did as a country like the French did in 1789, and like the Russians did in 1918—cancel this debt right out, which is repudiation. I am not here to suggest that we ought to do that at all. Our view, as entirely constitutional citizens of this country, is that the debt should be dealt with by redemption by funds raised by Capital Levy.

3284. I think we are agreed that we as a nation are not richer; we are in exactly the same position after this item has been ticked off on the two sides?—Yes. We have not suggested that we would be richer.

3285. It simply arises out of a remark of yours at this moment. I suggest that we as a nation would be no richer if we repudiated it. Again, you would have ticked off an item on both sides with great heartburnings, great cause for annoyance, and great loss of credit, but I cannot see that we as a nation would be a penny richer?—I have not flirted much with that, but I have observed in studying history that, after the French repudiated theirs in the 18th century, the way they rose into prosperity and power was simply astounding. They were, according to Thomas Carlyle and other authorities, in the depth of poverty in 1789, but in the early part of the next century they were in a very strong position. Whether

the cancellation of that debt had that effect or not, I do not know; I would rather not dwell upon it at all. We cannot see that the cancellation or reduction of our own debt by a Capital Levy would have any damaging effect. I am not putting it too high by saying that it would have an enormously beneficial effect and make us richer at once; I say it would have a very healthy effect.

3286. In answer to Sir Charles Addis you said it would not make us richer at once, but you implied that we should very rapidly become richer. I think the answer really meant that it would be easy for us as a tax gatherer to get more revenues to the State, did it not?—We should become more productive after this process.

3287. From the point of view of taxes we should get more taxes in; was not that it?—That the money would seek re-investment and would, in fact, get re-invested in productive enterprise to a very large extent. When that began to fructify we should be better off as a nation, and there would be more taxable income available.

3288. In the last lines of paragraph 5 in your Section II you say: "If we had no debt interest to pay, we could largely increase our outlay on education and Old Age Pensions, and make provision for Mothers' Pensions, and still have, approximately, £200,000,000 a year to the good." That is taking the whole of the £305,000,000, I suppose, as a credit?—Yes, we have taken that.

3289. So you have assumed in that paragraph that you would actually be richer by £305,000,000—the "we" there is the nation?—That money would be available for other purposes. We do not say there would be more money; it is the same money.

3290. *Mr. Lees-Smith*: Is not the explanation of this that, while we should not be actually richer, on the whole, we should be able to distribute such riches as we have better; is not that what you mean?—That would be part of the effect.

3291. We should have to spare £300,000,000, which at present goes mainly to the wealthier classes. We could use that to assist those who are in need of assistance, and we should have a surplus to assist industry in general and so stimulate it?—That is our view.

3292. That is your argument?—Certainly.

3293. *Sir Alan Anderson*: There, again, the elucidation baffles me more than the original evidence, because I have got Mr. Walkden to join with me in agreeing that we should not be as a nation any richer; we have just ticked that off on the two sides. Certain conveniences would accrue; the tax gatherer would have rather an easier job, and so on; and, contrariwise, there might be certain dangers of loss of credit and other things; but we as a nation would neither be richer nor poorer. Now the elucidation tries to justify those four lines which imply that we as a nation would really be £305,000,000 richer. I submit that is a slip.—(*Mr. Lees-Smith*): May I just explain that was not my elucidation. It was not that we as a nation would be £305,000,000 richer, but that we as a nation should have command over £305,000,000 which at present goes to the richer classes, which we could use for the benefit, firstly, of the poorer classes, and then for the community as a whole. (*Sir Alan Anderson*): Yes, quite. I do not think there is much difference between what you say and what I tried to put into your mouth, because you say that you would have £305,000,000 a year which at present you have to distribute in interest, and, therefore, I submit you would be that much richer. We have agreed that we should not be any richer.—(*Mr. Walkden*): We should have it available for a better purpose. (*Mr. Lees-Smith*): That is the point.

3294. *Sir Alan Anderson*: You would not be able to collect it. You collect this money really out of this interest which you distribute?—Not the £305,000,000.

3295. Not the £305,000,000, but a large part?—I beg your pardon; quite a small part.

3296. Well, one could explore that. The real central point surely is that the wealth of us, the "we" here, would be unchanged?—We would have the money we now have to pay out to the bondholders available for other purposes such as I have suggested, and we maintain that its devotion to these purposes would be fruitful, whereas at present it is not fruitful.

3297. *Mr. Bell*: Is there no intention of reducing taxation as a result of this?—That might be practicable; it depends whether the whole of the debt was cleared.

3298. *Sir Alan Anderson*: One gets on to that point in later paragraphs. We are agreed, to start off, that "we" as a nation are not going to be any richer, and the whole £305,000,000 is used up, in paragraph 5, in these ways, if you include in that figure the £200,000,000 left over; then, in later paragraphs, certain other taxes are taken off, and there is an indication that Super-tax and Income Tax might come down?—We leave £200,000,000 for consideration in other directions.

3299. What you practically assume is, that you would be able to collect the same gross revenue after you had cleaned your balance sheet of those two items of debt?—Yes, for a time.

3300. *Mrs. Wootton*: I want to follow up for a moment a point arising out of what Sir Alan Anderson has said. I gather that the trend of Sir Alan Anderson's argument, if I followed it rightly, is that we are not richer as the result of paying off the debt, but that there are certain changes in distribution; is that your view?—Yes, and that is what we are after—making those changes.

3301. In view then of there being changes in distribution, the tendency of the argument seems to be that as there is no change in production there will be no change in our taxable capacity, that is to say, the change in the distribution of our wealth does not affect our taxable capacity?—That is so.

3302. And that taxable capacity will not be injured if wealth were very much more equally distributed than is the case; is that your view?—That is so. Anything that helps to improve the social arrangements of the country does not do an injury, and the taxable capacity is there available as before, if not improved.

3303. *Sir Arthur Balfour*: We have to alter the basis of taxation. (*Mrs. Wootton*): May I come back now to one point arising out of Mr. Bell's examination. Mr. Bell mentioned the case which he felt would be very hardly hit under your scheme of Capital Levy; that is the case of a man who has accumulated a certain amount of money and who has retired and is living on a moderate income. The case of the sea captain was given as an illustration. I take it that the numbers of people in that position are small, relatively, to the whole population?—(*Mr. Walkden*): I am afraid, very small.

3304. May we consider for a moment some of the rest of the population in order to elucidate what exactly is your view here. You would be acquainted, I expect, as representing the organised workers, with a good many cases of elderly people who are in very difficult circumstances?—Oh, yes. We are continually having those described to us. The most painful part of our life is trying to help in such cases.

3305. You mentioned the increased Old Age Pensions here. Do you feel that from your standpoint, perhaps, the present provision for old people is not adequate, and that there are many cases of hardship?—Oh, yes; a very large number of cases of very acute hardship.

3306. Do I understand you rightly when I say that your object, or one of your objects in proposing this Capital Levy, is to set free more money, now required for debt interest, in order to assist people in that position through the Old Age Pension?—That is our object.

3307. So you would wish to set the people in that position, as it were, against the sea captain; you

have to weigh up the one against the other in considering the right thing to do?—Yes. Of course, in the case of the sea captain, who has saved £3,000 or £4,000, the wisest thing he could do, I should think, would be to buy an annuity; I do not think he would be affected at all.

3308. You are not indifferent to the hardships of the sea captain, but you want to look at the thing from a national point of view and compare his position with that of the other people who would be affected?—Yes.

3309. The other question I wanted to ask you is about exemption. This also arose from Mr. Bell's cross-examination. As to people who would be exempted, it was put to you that there would be a certain inequity, because a very small number of people would contribute to a Capital Levy such as you suggest, and that this makes your proposal something in the nature of confiscation, or a burden on a very small part of the population. Have you any information as to the number of Income Tax payers?—I have no precise information, but I think it is in the neighbourhood of a million persons; that is my impression.

3310. Would you take it from me that it is, perhaps, a little larger than that? About two and a half million persons are affected as Income Tax payers—a figure of that order?—The extensions of recent years have probably increased it to that extent.

3311. *Sir Arthur Balfour*: There are 5,000,000 Income Tax payers, and 2,400,000 exemptions; that leaves 2,600,000. (*Mrs. Wootton*): So that this principle, which you are proposing, is a principle which is already carried out under our Income Tax—the principle that a substantial tax is paid by a relatively small part of the population?—Yes. The majority of people having incomes are exempted from Income Tax by reason of their inability to pay it.

3312. When you have a bondholder receiving War Loan interest, he now pays Income Tax on the interest on his bond?—Yes.

3313. That is not generally described as confiscation?—I do not think so.

3314. Your principle is exactly parallel to this principle?—Quite.

3315. If your owner of capital happens to possess a certain amount of War Stock amongst his capital, if he pays his tax in that form, that is exactly analogous to the payment of Income Tax by the bondholder on his interest. Is that your view?—Yes.

3316. *Sir William McLintock*: Have you considered the cases of large holders of capital in the country who do not hold any War Bonds, whose capital is sunk in their industrial activities?—Yes, we are aware of that.

3317. Shipyards and engineering factories, and so on—have you considered the effect that a tax on capital is going to have on them?—We are aware that there are many forms of capital security besides War Bond and municipal investments and so on. We are aware that a good deal of capital is held in businesses that are actively productive, but we know that that is held in the overwhelming number of cases in the form of shares on the joint stock system now in full vogue in this country, and we do not see any greater hardship in a wealthy man surrendering some of his wealth in that form for the good of the State, than if he happens to have got it put into the form of War Bonds. If he has got amongst other things £40,000 worth of 4 per cent. railway debentures, or something of that kind, we see no practical difficulty and no injustice in requiring him, if he elects to do so, to hand over those in payment of his Capital Levy.

3318. My question was more particularly directed not to the holders of shares in a limited company but to the large number of owners of plant and machinery carrying on business who are not limited companies?—Our observation goes to show that there are not a large number of industries organised in that way in single hands or in family hands. In cases where they are, we do not see any practical difficulty in their making their contribution. They would have to adopt the same sort of expedients that they adopted to put the money up when the country wanted it for the War. Take the case of a man who owns a works worth £100,000; if his Capital Levy was £10,000, it would not be at all a distressing thing for him to raise that £10,000 on the security of his possessions. That is how they provided the money when the War was being fought.

3319. Do you mean on his buildings and plant? Who do you suggest is going to lend it to him?—That is usually negotiated through banks.

3320. Do you find the banks at all keen to lend more or less permanently on that class of security?—Our experience of banks is that, if you have security or scrip or title or what not which you can hand in, they are not unwilling to provide credit if you need it; they do that even with Trade Unions, I am glad to say.

3321. I think you will find this is the one class of security that the banks are not at all keen to lend money on; still, that is the method you suggest?—That is one expedient I suggest off-hand. People of that standing in the country are usually more successful; they have greater experience of raising money when they want it than we poor folks have, and they did it so rapidly and apparently so easily when the War was running, that I think they could do it just as well to-day. The bankers would be conscious of the fact that the money was going to be used to redeem the debt, and on the repayment of the bondholders their money would come into the banks in rather a big flow; it would come in on deposit.

3322. *Sir Arthur Balfour*: If this transfer which Sir William McLintock points out to you cleared them out of their liquid working capital, and they had to close down the works and thereby cause unemployment, you would not look upon that as satisfactory?—I cannot see that it would have that effect.

3323. It does not follow from the fact that a man had works running in full capacity that he would be able to find the money. (*Mr. Bowen*): Surely large numbers did during the War. (*Sir William McLintock*): They found large sums of money and took the bonds, and they afterwards used the bonds to discharge their debts for the special war taxation, so it was only anticipating a payment in many cases that they were bound to make later on.—(*Mr. Walkden*): They did it in some very expeditious and very satisfactory manner from the country's point of view. The money was forthcoming when it was wanted then, and it is inconceivable to us that a £100,000 man could not find his Capital Levy money on the strength of his resources in one way or the other. It is very unusual that they have got it entirely sunk in the business, but if they have, there the value is and they can get help from another source on the strength of that.

3324. *Mr. Bowen*: When you were talking about thrift, Mr. Bell endeavoured to suggest that the thrifty man would be unjustly treated as compared with the unthrifty man. I would like to ask you from your observation and knowledge of the working-class movement, and of the Friendly Society movement, whether or not it can be truly stated on behalf of the working class generally that they are quite thrifty within the measure of their means?—I think they are extraordinarily thrifty. If you look at the deposits in the Post Office Savings Bank, in local Savings Banks and the co-operative movement, where they do deposit their capital in small sums, in the Friendly Societies, where it accumulates in the shape of contributions, in Trades Unions and in various other organisations for mutual aid, it is astounding to see the amount of money the working classes do conserve in that way.

3325. And they are satisfied with a very low rate of interest?—Yes, they are as a rule. They want security, and they are content with a low rate.

3326. One point with regard to something brought to my mind by Sir Alan Anderson. He spoke to you of the difficulty in his mind in regard to the failure that we should experience in selling our goods in the world's market. Have you any views with regard to the operation of your proposals on the home market, and the possible demand of the home market and the position of the working class being improved?—Yes. We bring that out rather in the next two Sections; we think it would have a very beneficial effect on the home market.

3327. *Mr. Hichens*: I gather that your view is that this Capital Levy and the extinction of the debt would achieve a better distribution of the existing wealth; it would not, as you have said to Sir Alan Anderson, create any fresh wealth, but it would make a better distribution of the wealth which exists in the country to-day?—Yes.

3328. Therefore the existing distribution is, in your opinion, bad?—Yes.

3329. Am I right in supposing that you think that the rich are too rich and the poor are too poor?—Yes.

3330. The object that you have in view really is to take more from the rich and give it to the poor?—That is our constant object always as organised people, and we believe that that is a very good thing to do, and that we are performing the highest possible social service in working in that direction. We have observed that in countries where the disparity between rich and poor becomes very acute, other Empires and Nations eventually have perished Where you can get the inequalities modified, there you can have a continuity of national life on a satisfactory basis.

3331. What are you aiming at? How far would you go? Would you give everybody exactly an equal income through taxation; is that your idea?—We limit ourselves here to the consideration of the National Debt, and taxation which now operates.

3332. I want to know what you are aiming at. Income Tax, to-day, on big incomes is about 10s. in the £. Obviously, you think that inadequate. In your opinion what would be enough in order that we may have a little peace?—Our immediate aim is to get rid of the National Debt in this connection. Our further aim, if you wish a little enlightenment on that——

3333. I do?———is that the process of making arrangements to equalise or minimise the differences in distribution of wealth should be continued; that it is necessary even for the security and welfare of the rich themselves.

3334. I want to know how far you would go. Is there anything that is just, except absolute equality of income as between one individual and another in your view, because that is the object you are aiming at?—I am not here to postulate absolute equality of income.

3335. What are you here to postulate?—Among the active community some render greater service than others; some have special values which may have to be paid for. Our object is to prevent the vast accumulation of huge volumes of wealth in certain hands. That is a very bad thing for any State or any community, and the late Andrew Carnegie demonstrated at great length that it was a very bad thing for the families holding that wealth, and their first duty was to get rid of it. He set us rather a good example in his own way how that might be done.

3336. Then we have got to this point, that inequality of wealth is natural and reasonable?—It is incidental to the working of civilisation to-day. I do not want to say it is natural or reasonable, but it happens. I would rather not theorise about it.

3337. It happens, and you do not object to it. You do not want to tax it out of existence. Your object is not to secure complete equality of income as between one individual and another?—With great respect, I think that goes rather beyond the terms of reference, but I will answer the question. I do think it would be a social advantage and an advantage to every individual citizen in the country that the progress of any measures that would make for relative equality is beneficial and good for everybody and should be encouraged.

3338. *Mr. Bramley*: By "relative equality" you mean income in proportion to the actual value of services rendered?—Yes.

3339. *Mr. Bramley*: I should like this point to be made very clear. Is there any proportion, to your knowledge, of the wage-earning community that actually postulate in their minds, or in their doctrines, the suggestion that all incomes should be equal? And, in answering that, I would like you to deal further with the second half of the question: Do the trade union organisations, for instance, practice that theory in relation to the services they pay for?—No. The theory is not held by any appreciable number of people; it is only held by a very few theorists. The working people of this country are willing to pay full value for services rendered to them and to the community, as they claim they should be paid fair value for the services they render. If they have valuable officers serving them, they are not unwilling to pay what they consider mutually is a fair value for the services rendered. They are not favourable to extravagant salaries, but they would not disagree with paying a good salary to a very valuable public servant like a town clerk, nor would they if you carried out some of the schemes for nationalising industries; for example, if the mines or the railways were nationalised, I do not suppose for a moment they would object to a very good salary being paid to a very capable man to be primarily responsible for the conduct of the business. I dare say, for instance, if nationalisation had transpired in the case of the railways instead of the scheme which has been adopted, and Sir Eric Geddes' services were desired, that none of the working classes would object to paying quite a good salary to a very capable and exceptional man like him to organise the railway business for the country.

3340. *Mr. Hichens*: And they would want him to pay an Income Tax of 20s. in the £ on it. (*Professor Hall*): You are considering what you regard to be equity rather than equality. (*Mr. Hichens*): I do not mean to say that I disagree with you; probably I agree with you more than you think. The distribution of wealth is not as good as it might be to-day?—(*Mr. Walkden*): No, it is, unfortunately, very uneven.

3341. But, for practical purposes, do you really go further than to say that you must find out how far it is practical politics to tax the right man without destroying the qualities for which he is valuable to the State, namely, his capacity for creating wealth and saving money? Would you go further than that as a practical proposition?—I am not sure that he is entitled to the credit, as high, at any rate, as it is sometimes put, as a saver of money; he is often a squanderer of money.

3342. He is entitled to something as a creator of wealth, is he not?—Rich families that have large incomes have often dissipated their incomes in very reprehensible ways, and, as against money received by working people inside this country, wealthy families often dissipate it abroad, which is unproductive and undesirable, whereas the working people of this country who receive their money usually spend it the very week they get it on commodities that give employment to the people of this country.

3343. There are black sheep and white sheep, but if you have a man who has great organising ability, for instance, and you pay him a good salary, you want to encourage such a man?—We want to encourage an *entrepreneur* or other man who can do the things you have in mind.

3344. And you want to encourage the saving of money for capital purposes, do you not?—We do not feel that there need be too much worry about that. Among the citizens generally the virtue of thrift and the common sense of thrift prevails, and

in so far as any redistribution of incomes brings more money to the working people, there would be a larger proportion of what they receive conserved for capital purposes. That is our view, and we speak with knowledge of our own people when we say it.

3345. The reason why I attach some importance to your answer is because we have had it in evidence more than once that taxation is about as high as people can bear. I should like to know what you think on that subject; whether, if you put taxation higher than it is to-day, that is to say, if you effected a redistribution of wealth in the sense that you want, you might not, perhaps, be doing more harm than good?—You will see in our evidence that we are not proposing higher taxation.

3346. The Capital Levy is a sort of tax?—Where one may want to get to eventually, and as to how high taxation may be, is a little beyond what we expected to be questioned upon to-day, but really, if a man has an income of £100,000 a year, I should think it would be far easier for him to pay 17s. 6d. or 18s. 6d. in the £ than it is for the poor taxpayer with £500 a year to pay his Income Tax.

3347. So your view would be that taxation has not reached the limit to which it can go without affecting the wealth of the community?—I might say this, that when preparing our evidence, we did consider whether the method to be adopted should be by further stiffening up the Income Tax and Death Duties to redeem a larger proportion of debt, or whether we should advocate the Capital Levy, and we came to the conclusion that any further forcing up of Income Tax would not, probably, yield a sufficiently appreciable amount of new revenue to help the matter forward very much. We are not here advocating a further increase of taxation, at any rate, at this stage. If the country needed more money at any time, we might have to consider that.

3348. But the Capital Levy is a form of taxation, is it not?—It is a form of taxation.

3349. Just as much as Death Duties are a form of taxation?—Yes.

3350. And you are considering imposing a Capital Levy; therefore you are considering increasing taxation?—Yes, in that form—not in the form of a higher Income Tax.

3351. It is a form of taxation and you are doing it for the express purpose of securing a better distribution of the existing wealth?—Yes.

3352. Which, as I say, you are trying to do through the means of taxation?—Yes.

3353. What I want to get at is whether in your view the amount which is now taken in taxation is not about as much as you can profitably get. You agree that that is so, I understand, in the case of the Income Tax, but I take it you think that if you impose a new tax you might perhaps take people unawares or hit them in some new place which they have not properly guarded?—I could not very well admit that we think that income taxation is as high as it could possibly be.

3354. I thought you just said so?—I said we have not come here to advocate at this moment that it should be higher.

3355. For the reason, I think you added, that it was as high as it could be; did not you add that?—I do not think so. We really want an adjustment of taxation and an adjustment of the burdens that are borne by the people in one way or another.

3356. *Mr. Lees-Smith*: I do not know that you have tried to develop it, but is not the view which you hold this, that the Income Tax and the Super-tax have certain defects, to which Mr. Hichens has pointed attention, but in fact one of the great arguments for the Capital Levy is that it does not suffer from the defects of the Income Tax and the Super-tax; it really is not a tax upon future savings and future endeavour, but it is a tax upon vast accumulations, and therefore, as you point out, it has not that deleterious effect upon industry?—That is so.

3357. Therefore it is quite possible that a Capital Levy may lead to a generally improved system of taxation, and under those conditions you would get a greater yield without the same disadvantage as results from the existing system?—Yes, we think that might well be the case.

3358. *Mr. Bell*: There never has been any suggestion here that the working classes are not thrifty, and I am aware of very remarkable cases of it where money is saved by a father, never touched, and passed down to a son, never touched, and passed down to another son. We have many accounts of that kind. My point is not that of two classes one is more thrifty than the other, but that of two people in the same class one is more thrifty than the other. The example has been given recently of two barristers getting the same income, one of whom saves consistently because he thinks he has obligations to his people, while the other has exactly the same income but spends it. That is the point I tried to put. I do not want it to be thought that in any questions I put there is any reflection on the saving habits of either one class or the other. I want to be fair about this. It is really between two people of the same class with the same opportunities, that I raised the question whether it was really thought wise, from the point of view of thrift in the nation, that one of those who had been thrifty should be imposed upon and the other practically left free?—I gather that Mr. Bell's statement is really in the nature of an explanation with regard to thrift.

3359. *Mr. Bowen*: I think Mr. Bell will remember a question that was put to another witness who held the view that the rich people were the saving people, and the working people were the spending people, and it is highly desirable that any margin that there may be should be in the hands of the richer people. Have you any views on that point?—It rather gave me that impression; I am glad to hear he did not really mean that.

3360. *Sir Arthur Balfour*: Do you really believe that if you had a Capital Levy it would not tend to destroy a desire for thrift and saving in the future? Would you not create a sense of insecurity where nobody would wish to save?—No, I do not think so. We should create a better and very much stronger confidence in our own country if it was free of debt.

3361. Do you think other people in other countries would want to come and invest their money here, or would want to come and live here with their money if they knew there was a possibility of a Capital Levy?—I am not too much concerned about the outsiders coming into this country; there is a good number of *us* here.

3362. But you must remember that we have a very heavy international trade, and we cannot very well live without it, because we cannot feed ourselves without it, and therefore it is necessary at times that other people should come here and trade?—If they are coming here to trade to their own advantage, of course they will keep on coming. I do not think, if we put on a Capital Levy here, it would deter them from doing international business.

3363. You do not think it would frighten international capital away from us altogether?—No. I think London is really the centre of the world between the two great hemispheres, and the influx of people into London from all parts of America and Europe and Asia would continue.

3364. Is not the reason that London is the centre of the world from the point of view of trade the fact that we have accumulated wealth?—That, and the fact that we had paid off our debt would increase that still higher.

3365. Would you not destroy it completely?—Oh, no.

3366. *Chairman*: I was wondering whether my colleagues would think that this discussion should be carried on a little later, because we have only got to the third or fourth section now. We could offer a

date, supposing my colleagues thought it would be wise, on the 5th November. I do not know if my colleagues would like that, or whether we should close at 1 o'clock with what we have done?—As you have been kind enough to take so much interest in sections I and II, I think we must have another day for the remainder of the paper, if you still feel as much interest in it. We shall be very glad to comply with your wishes if you would like us to attend.

3367. *Mr. Lees-Smith*: It might be as well if these gentlemen came back specifically when we get to the Capital Levy discussion?—We should like to continue with our paper.

3368. *Chairman*: Is it the wish of the Committee that we should do this, because we have the 5th November open?—(*Professor Hall*): Does that mean that we shall have an opportunity of asking the witnesses upon these further matters, because I should like to have the discussion developed further?—(*Mr. Lees-Smith*): What I meant was, as we are going to have certain special papers prepared on the Capital Levy going into very much greater detail than this, and presumably inserting some of the questions that have been put, would it not be better for the Trades Union Congress to prepare their evidence in reply to our special questionnaire on the Capital Levy and let us examine them on that? Otherwise we shall have the same position next time as we have had this time, that a great many questions have been put on the Capital Levy to which the answers ought to be given in reply to the preliminary questionnaire. (*Sir Arthur Balfour*): I think there are other points, and it would be very much more satisfactory to go through to the end. I think it is a pity to leave this valuable paper at sections II and III. (*Mr. Bowen*): I suggest that Mr. Walkden and his friends represent so considerable a proportion of the organised workpeople that whatever view they can give in addition to this would help the Committee. I would suggest, therefore, that they be asked to continue their paper and follow it on another date if necessary. (*Chairman*): Then, Mr. Walkden, if you and your colleagues can fix 2.30, the 5th November, we shall have very much pleasure in going through the part of the paper that we have not been able to deal with this morning. The discussion has been conducted with extremely good temper and has been very interesting?—(*Mr. Walkden*): That would be quite convenient to us, and we can fix the appointment now if that suits you. (*Chairman*): Very well.

3369. *Mr. Bell*: It would be a little interesting if you would discuss a point which is not brought out here. I shall be in America, unfortunately; I would have liked to ask questions upon it. You might possibly consider a point which is very difficult, but which I believe is quite sound. The paying-off of the War debt and the receipt of the moneys therefrom would not leave the position the same as it is now, with the money left where it is and the War debt left where it is. For instance, the War debt which is presently in existence is a great instrument for credit, so that you get two funds of credit, as it were, the sums of money which are not going to be absorbed in taking up the War Bonds and the War Bonds themselves. I asked the Director of a workmen's bank if I might be permitted to give the figures, and I am permitted to say this: we have evidence of very small people with small amounts of War Bonds who are using them continually as an instrument of credit, and borrowing upon those Bonds a great deal of money to carry on their business, and therefore the extinction of that might have a dynamic effect upon trade and its funds; you see the point?—Yes. We can quite understand that the scrip is very convenient as a security on which to raise money.

3370. You have two funds; that is the great point. When you have paid off the Bonds you are not in the same position?—Your two funds, I take it, consist of the money you have in hand from your clients—the deposited money.

3371. I am talking of the people, not of the banks?—I follow. Our view is that if the War Bonds, which are such a convenient security for business purposes to-day, were redeemed, the people who get the money would make new investments, and the towns in which they live would probably find they could get money easier; they would take up Municipal or Corporation Stock.

3372. That is the point. At present you have both funds, and you will reduce by this process the funds which would be available as credit?—I cannot quite see that the War Bond scrip fulfils a function that no other scrip can fulfil.

3373. Oh, no?—Take the case of a bank who had a shopkeeper client, or a small business man client, a little printer or something like that, in Leeds, if he had some War Bonds when he wanted money to buy paper, and so on, he would come to the bank with them. If he had got Leeds Corporation Stock you would no doubt be just as ready to accommodate him on that.

3374. I should not have said, if I did say it, War Bonds. It is all forms of bond equally, I agree. While they are both left in existence, there are two funds. I do not want to discuss it now, but if you will look into it you will find it is rather difficult; it is the case that there are two funds, I think you will find?—We will certainly look into that further.

(*The Witnesses withdrew.*)

(*Adjourned for a short time.*)

Sir Arthur Lowes Dickinson, representing the Institute of Chartered Accountants in England and Wales; Sir John Mann, representing the Joint Committee of Councils of the Chartered Accountants of Scotland; and Mr. George Stanhope Pitt, representing the Society of Incorporated Accountants and Auditors, called and examined.

Evidence-in-chief handed in by Sir Arthur Dickinson, Sir John Mann and Mr. Pitt.

1. At the request of your Committee we appear before you to submit a statement on behalf of the following bodies of Accountants:

Sir Arthur Lowes Dickinson, a Member of the Council of the Institute of Chartered Accountants in England and Wales, is nominated by that body, which now has a membership of 6,450.

Sir John Mann, a Member of the Council of the Glasgow Institute of Chartered Accountants and Actuaries, is nominated by the Joint Committee of Councils of the Chartered Accountants of Scotland, with a membership of 1,892.

Mr. George Stanhope Pitt, President of the Society of Incorporated Accountants and Auditors, is nominated by that Society, which now has a membership of 4,100.

The total membership represented is thus 12,442.

2. The statement which follows has been approved and adopted by the Councils of the Institute of Chartered Accountants in England and Wales and the Society of Incorporated Accountants and Auditors and by the Joint Committee of the Councils of the three bodies of Chartered Accountants in Scotland as a fair representation of their views

on the important questions of taxation which are now under the consideration of your Committee, and with the hope that it may be of some assistance to you in forming your conclusions.

3. In dealing with this question we have been guided by the questionnaire, which has been put before us by your Secretary, only so far as refers to taxation, and have limited our remarks to these questions and to subsidiary questions arising therefrom. On the subject of the National Debt, we feel that we are not specially qualified to speak, and prefer to leave such evidence to be given by bankers and other experts in that subject. We have also endeavoured to avoid questions which invite acute controversy, either political or economic, for the reason that it would be impossible to obtain the unanimous approval of the respective Councils and Joint Committee to such matters, upon which the opinion of members may differ widely.

4. We do not present detailed statistics, as these, to such extent as may be necessary, will have been furnished to you from other sources.

5. We understand that the statements you ask from us should be confined to the effect of existing taxation, and that you do not at the present time ask for suggestions as to possible alterations thereof.

6. While the statements here submitted to your Committee express the general views of our constituents, it should be understood that any opinions in explanation which may be given verbally, by any one of us, express his own individual views only, and do not bind either his colleagues or his constituents.

7. We propose to deal with the subject of taxation under the following headings:—

	Paragraphs.
I. Its general effect on trade and industry	8—18
II. Its effect on available capital ...	19—22
III. Its effect on savings	23—27
IV. Its effect on enterprise	28—33
V. Its effect on foreign investments ...	34—35
VI. Its effect on foreign investors ...	36—39
VII. Its effect on exports	40—42
VIII. General effect of Death Duties ...	43—47
IX. In its relation to repayments of the National Debt	48—58
X. As affected by the nature of Government expenditure	59—65
XI. Effect of Customs and Excise duties on trade and industry	66—70
XII. General conclusions regarding taxation	71—77

I. GENERAL EFFECTS OF TAXATION UPON TRADE AND INDUSTRY.

8. Taxation based on ability to pay, such as Income Tax and Super-tax (as distinct from rates), is not in theory an item of costs, but a proportion of profits contributable to the Government. It should not, therefore, in theory, be a charge upon trade and industry, and should have no effect upon prices.

9. In actual practice, however, high taxation has had a considerable influence in further raising the prices of commodities. There has been a scramble for higher wages, salaries and prices, in which only those with fixed incomes have been unable to take part, and in which old standards have disappeared, as a general rise of prices due to other causes has deprived the consumer of basic standards to which he had become accustomed over a long period of years. In a few years general prices have increased up to a maximum of nearly three times those prevailing for many years before the War and have fallen again to about twice that level. Under these conditions trade and industry have been apt to consider taxation as part of their costs of production; and have tried with some success to recoup themselves by raising prices, not only to the extent of the taxation, but so as to include a profit on the taxation. This tendency is, however, limited by the ability of the consumer to pay the prices and by the effect of competition in keeping prices down.

10. The effect of high taxation upon the profits of trade and industry *is* considerable. In regard to existing business it causes:—

(1) reduced available profits, and/or
(2) increased prices.

11. In the former case it directly reduces either or both the amount available for extension of business and the amount distributed to shareholders and partners, thus in the majority of cases reducing the savings of the individual taxpayer.

12. In the latter case it either:

(*a*) forces a corresponding reduction in consumption, *i.e.*, a less demand for commodities, and so ultimately reduces production (and profits) and increases unemployment; or

(*b*) reduces the savings of the individual consumer available for investment in business enterprises.

13. So far as the profits of an industry are distributed, the Income Tax paid is passed on by deduction to the owner or holder of the investment. If dividends are paid free of tax this is equally true, except that, without changing the nominal rate, a higher real rate may be distributed than would otherwise be the case.

14. The balance of profits not distributed has borne its share of tax, and the amount retained in the business is reduced thereby.

15. In effect therefore the accumulation of reserves in the business may be reduced in two ways:

(1) by increased dividends being paid to shareholders to make up for the high rates of taxation:

(2) by the high taxation paid on the profits not distributed.

16. There is evidence of considerable prosperity at the present time in certain industries which depend entirely upon the home market and among those who earn their living in or through those industries. This is mainly due to the ability of those industries to pass on to the consumer by high prices their additional costs and taxation. In some of these so-called sheltered industries (*i.e.*, those not subject to foreign competition) salaries, wages and prices are high as compared with other industries.

17. These increases have reacted disastrously upon other trades and industries largely dependent upon exports; industries which require low costs and low prices to enable them to sell their products in countries which have been greatly impoverished by the War and its after effects, both financial and economic. The result is that in these industries the wages are lower than in the sheltered trades, though still too high for economic production, and considerable unemployment exists.

18. The War and post-war conditions must necessarily result in a lower standard of living to the community as a whole. But if one large section engaged in sheltered industries continues to pay wages sufficient to maintain pre-war standards of living and still makes satisfactory profits, the other section must suffer correspondingly by making no profits or even losses; by paying low real wages and by unemployment.

II. EFFECT OF TAXATION ON CAPITAL AVAILABLE FOR INDUSTRY.

19. An abundant supply of capital, security and stability are the basis of commercial success and progress. The expansion of British industry has been largely due to the accumulation of capital from the profits of long periods of successful trading. Those who built up our important financial and commercial institutions found that one of the principal reasons for their success was their ability to

supply their expanding businesses year by year with the necessary increase of capital, derived from accruing and accumulated profits; this process is an essential feature of successful business to-day.

20. Numbers of our commercial institutions at the present day find themselves embarrassed by their inability during the War and post-war periods of high taxation to accumulate capital and are compelled to resort to their bankers for the necessary supply thereof. This they may be unable to obtain in addition to the temporary accommodation which they require to meet seasonal demands in the normal course of business.

21. Conservative finance in commercial and industrial enterprise implies, *inter alia*:—

(*a*) that each undertaking should preserve its capital intact;

(*b*) that it should, as far as possible, provide out of profits from year to year the additional working capital necessary to meet the normal requirements of expanding trade;

(*c*) that it should only resort to its bankers to provide temporary loans required either for seasonal requirements regularly discharged out of the proceeds of sales of produce, or for additional capital pending the completion of arrangements for obtaining it from the investing public out of their accumulated savings.

22. Heavy taxation, to meet which involves a disproportionate appropriation of profits at the expense of the ability to capitalise profits, is detrimental to trade expansion; the more so as in consequence of the great increase in the costs of raw material, labour, stock-in-trade, the replacement of wasting assets, standing charges and manufacturing expenses, trading and manufacturing companies now require more capital for the same output than before the War.

III. THE EFFECT OF TAXATION ON SAVINGS.

23. The continual supply of additional capital necessary to finance the growth of population, to replace lost capital, and to maintain or improve the standards of life, can come only from savings.

24. The power of the individual to save is diminished both by high taxation and high prices, and the effort which is required to obtain an equal amount of purchasing power is, in many cases, greatly increased.

25. High taxation also tends to extravagant business administration, and to lessened incentive to economy and thrift; as the State, by taking a proportion of the profits, indirectly bears a proportion of the expenses.

26. The great bulk of direct taxation falls upon those who have not only the largest margin available but also the will for saving; as from them the necessary increase in capital mainly comes.

27. A considerable portion of the expenditure out of taxation goes to the maintenance of those who have normally a small margin for saving, and is consumed in an endeavour to maintain, or improve upon, the old standard of living, which will be fruitless unless production per head is maintained and indeed increased. The accumulation of savings, i.e, the supply of capital available for industry, is thus materially reduced.

IV. EFFECT OF TAXATION ON ENTERPRISE.

28. An important feature of the growth of prosperity and the improvement in standards of living in the past has been the willingness and ability of capitalists (i.e., those who have had the foresight and ability to accumulate savings) to venture those savings in new and speculative enterprises which, where they have been successful, have brought not only profit to the venturer, but also benefit to the community; and, even where they have failed, have frequently afforded valuable experience to the community.

29. The high rates of Income Tax, Super-tax and, to some extent, Death Duty, tend to restrict investments in new enterprises which involve more than the average amount of risk as the net return for such risks is seriously reduced.

30. The persons who undertake such enterprises are usually amongst the largest capitalists, and those subject to the highest rates of taxation, but the same principle affects the small investor.

31. The effect of the high rates of taxation is that if the enterprise is a success the State may take from the individual adventurer up to 50 per cent. of the profits in each year, and up to a further 40 per cent. of the accumulated capital on death; while if the enterprise results in a loss, the whole has to be borne by the adventurer.

32. Under such conditions prudence suggests investment in safer and much less speculative enterprises; and the result is the loss of the great benefits to the community that have accrued in the past and would continue to accrue in the future from the success of these more speculative enterprises to which so much of British dominance and success are due.

33. A serious position also arises where companies registered in England with business abroad have decided to liquidate and change the domicile of their head offices by re-registering abroad with a view to escaping or reducing heavy taxation. Similarly there is a tendency for new enterprises to be domiciled abroad, and for individuals to reside permanently abroad so as to escape taxation.

V. EFFECT OF TAXATION ON FOREIGN INVESTMENTS.

34. One effect of high taxation is to encourage residents in Great Britain to make investments in foreign countries upon which a higher rate of return is obtainable with greater possibilities of evading taxation. Against these temptations must be set the greater security for investments normally obtainable in this country.

35. Individuals having made fortunes abroad, and holding investments there, may wish to return home and to purchase an estate, or to take substantial interests in new enterprises at home; but they are quite definitely deterred from doing this by the heavy Income Tax and Super-tax and the Death Duties. In this way the country is deprived of valuable capital resources from savings accumulated abroad.

VI. EFFECT OF TAXATION ON FOREIGN INVESTORS.

36. An important aspect of high taxation is its effect upon business done in this country by foreigners dealing through this country with other foreign countries.

37. While taxation was low foreigners made use of this country as the base from which they supplied other foreign countries, *e.g.*, American producers controlled their European and Eastern business largely from this country.

38. High taxation has undoubtedly driven many of them to deal direct with other foreign countries and has deprived this country of the income which resulted from this transit business, i.e., salaries and wages paid and expended in this country and supplies, etc., purchased here.

39. This would, it is believed, have occurred on a larger scale if many foreigners had not found it possible to retain the advantage of using this country as a base and to reduce the burden of taxation by reducing the profits subject to taxation in this country.

EFFECT OF TAXATION ON EXPORTS.

40. High taxation does not in theory hamper an exporter in competing in foreign markets unless the balance of profit left to him after sharing with the Government should be so small that it is hardly worth while to continue the foreign trade; especially if the Government does not equally share in the losses.

41. But in practice to drop the foreign trade in such a case might so decrease his output that his overhead costs per unit would be materially increased and his profit on the domestic trade be seriously reduced.

42. In these circumstances it might pay him to continue the foreign trade even if he made no profit (when there would be no taxation in respect of it) as the greater volume of production would result in lower costs for his entire output both domestic and foreign.

VIII. GENERAL EFFECT OF DEATH DUTIES.

43. Death Duties alienate capital from individuals. They do not destroy it in the sense that it disappears, but they diminish either the past or the future savings of the individuals concerned.

44. Death Duties press hardly and unevenly on different estates by reason of the fact that they are payable on death and in one estate the frequency of death may be much greater than in another.

45. High Death Duties like any other high taxation tend to discourage savings and also tend to a great increase in free gifts to heirs during the lifetime of the owner in order to avoid not only Death Duties but also Super-tax and to some extent Income Tax.

46. Death Duties definitely come out of savings either past, present or future; and, together with all other forms of taxation, they should not be so high as to diminish savings unduly.

47. In other words the aggregate of all taxation should bear a fair proportion to the aggregate of all savings; and that proportion should not be so large as to unduly diminish the accumulation of capital which is required for the increasing needs of trade and industry.

IX. TAXATION IN ITS RELATION TO REPAYMENT OF THE NATIONAL DEBT.

48. Any method of dealing with the National Debt should have regard to the fact that it was raised out of individual savings accruing over a considerable period and should be liquidated by means of appropriations by the State from future individual savings.

49. The need for capital continues to increase with the increase of population and the rise in the standard of living. The War has destroyed past savings (that is, capital); retarded development; and reduced the margin for saving; so that the struggle for improvement in the standard of living is proportionately harder.

50. In a long period of trade depression, the Government revenue on the same basis of taxation is less; and it must either reduce its expenses or its debt service, or increase taxation. The latter course is a bad one, so that it must either reduce expenditure or debt charges. There can be no doubt that the soundest course is reduction of expenditure. A private individual faced with reduction of income will, if prudent, reduce his expenditure to meet his income, and will endeavour, by increased thrift, to have the same margin over for savings or debt reduction as he had before. The Government should act in the same way.

51. A prudent Government will set for itself a minimum standard of debt reduction in good times and bad; and in good times will devote a reasonable proportion of any anticipated surplus to reduction of taxation, before it launches out into fresh expenditures however desirable they may be.

52. The rate of repayment of debt (both Funded and Floating) should be regulated by the excess of production over consumption, that is, by the net savings of the nation. But allowances must be made for accumulation of capital (*a*) to provide for growth of population; (*b*) to replace capital lost in the War; (*c*) to provide for new undertakings; and (*d*) to permit improvements in the standard of living.

53. In considering the period over which the National Debt should be redeemed, it is important to remember that the earning capacity of the country has been materially reduced, not only by the destruction of capital caused by the War, but by destruction of man power and ability.

54. An allowance of time should be made for the growth of a new generation of workers to replace the men killed and wounded; replacement of brains and skill is as urgent as replacement of capital destroyed.

55. It is therefore important that the methods adopted for debt repayment should in no way reduce the ability of the nation to maintain and increase its earnings and savings.

56. To ensure this ability, a continuous increase in the supply of capital is necessary. This capital can only be found out of savings.

57. It follows that the annual repayments of National Debt should at no time exceed the amount of the annual savings of the nation which remain after providing for interest upon debt, for the necessary expenses of government, and above all for a sufficient annual increase in the capital of the nation.

58. Repayment of debt should be steady and continuous in bad times and good, so as to maintain national credit and tend to bring about a steady reduction of interest rates, without disturbing the stability upon which the progress of industry and well-being depends. Slow repayment of debt retards the recovery of national credit; but quick repayment may deprive industry of necessary capital and slacken individual effort. Statistics before the Committee will doubtless afford a guide for suggesting what is a reasonable rate of reduction.

X.—TAXATION AS AFFECTED BY THE NATURE OF GOVERNMENT EXPENDITURE.

59. All taxation must come out of savings, either accumulated or current. If the taxation is so large that it must be met out of accumulated savings, the effect is to transfer to the Government the ownership of capital invested in trade and industry. If it is met out of current savings, the effect is to transfer to the Government a portion of these savings as they accrue.

60. The effect of taxation is, therefore, to some extent a question of the relative benefits derived from the use of these savings by the Government or by private individuals. The nature of Government expenditure is thus an important factor.

61. In so far as the proceeds of taxation are applied to the service of debt the effects are clear. Repayment of and interest upon internal National Debt transfers these proceeds from one set of persons to another. Repayment of external debt transfers from foreign countries to this country the ownership of a part of the capital of the country which had been alienated. Payment of interest on external debt is a continuous drain upon the savings of the country in favour of foreign countries in return for past benefits. Repayment of foreign debt is thus of greater advantage to the country than repayment of internal debt.

62. In so far as the proceeds of taxation are applied to other purposes than the service of debt, there are certain well understood services which must be performed by the Government and, provided these

are performed with due regard to strict economy, they contribute to maintain or increase the earning power of the nation.

63. Outside of these universally admitted functions of Government, there are many others around which considerable controversy exists. It is submitted that if Government has taken upon itself functions that might have been more efficiently performed by private enterprise, or extends its activities by taking over additional functions, without overwhelming evidence that they can give more effective service than private enterprise, the transfer of savings from individuals to Government for this purpose can only result in stagnation or loss, and will not produce the increase in wealth and the resulting benefits to all classes of the community which would result from similar expenditures by individuals, or groups of individuals.

64. It follows that high taxation of all kinds beyond the minimum necessary to maintain essential services, must interfere in the long run with that steady growth of the capital of the nation which is essential to maintain the present and future population of the country in those standards of living and comfort to which they are now accustomed.

65. In other words, the total expenditure of the Government must be kept within such limits of taxation as will not unduly restrict production and enterprise by lack of the necessary supplies of capital.

XI.—The Effect of Customs and Excise Duties on Trade and Industry.

66. The effect of taxes, whether Customs or Excise, on commodities, is usually to increase the selling price and thus to reduce international trade.

67. As the producer or distributor has to advance the amount in the first instance, he endeavours to recoup himself by adding to the price sufficient to cover not only the tax but a profit thereon; his power to do this is limited only by competition.

68. If foreign competition is largely eliminated, as may happen in the case of an import duty, he may seek to add to the price a large proportion of the duty. But the rise in price will reduce the demand, and it may pay him better to charge somewhat less if by increased production he can so reduce his costs as to make the same rate of profit on a larger production at a lower price.

69. Excise Duties, being usually confined to domestic products where there is no foreign competition, or imposed to equalise an import duty on a foreign product, are perhaps a greater burden on the consumer than Customs Duties, as they are treated invariably as part of the cost and added to the price.

70. An import duty on competing foreign products is usually a benefit to the particular domestic industry affected; but it is a matter of considerable controversy whether it is a benefit to the country as a whole or whether it is not largely, if not wholly or more than wholly, offset by damage to other industries. No opinion is expressed on the principle of taxing imports. This is a question upon which sections of trade or groups of manufacturers can supply first-hand information.

XII.—General Conclusions on Taxation.

71. The effect of high taxation is to reduce annual savings, to restrict enterprise, to drive both domestic and foreign capital out of the country, to raise domestic prices, to reduce consumption and to discourage thrift.

72. It is a sound principle that taxation should be limited to such a proportion of the national savings as will permit the accumulation of absolutely necessary supplies of additional capital, as well as a steady reduction of the National Debt.

73. To attain this object not only must the people practise thrift so as to increase savings and to repair War waste but also the Government should exercise the strictest economy in every direction; make every endeavour to use anticipated surplus for the purpose of reducing taxation, and avoid or postpone all expenditure, even upon desirable objects, that is not absolutely necessary.

74. It is equally necessary that every effort should be put forward by all classes to increase production and Government policy should be directed to this end. To what extent Government action should regulate or leave unaffected Trade Union policy, which limits individual output, is not a matter within our compass; though that policy is of far-reaching consequence as regards cost of production and ability to compete with imported articles and also in the foreign markets of the world.

75. The loss of capital during the War and the lower production per head, due to many causes, and, in part, to the effects of the War, must tend to reduce the standard of living; and attempts to increase or even maintain that standard cannot succeed without greatly increased effort. High taxation of annual savings does not promote these increased efforts, and the heavy taxation of large incomes has a specially deterrent effect on new enterprises.

76. Any attempt to tax past savings or to increase the National Debt for objects which the nation cannot afford to carry out from its annual savings, can only aggravate the situation and prevent that recovery which is essential to the restoration of pre-war prosperity. The success of such attempts must mean a transfer to the Government of a part of the capital of trade and industry and lead to further loss and expense if, as is believed, the efficiency of Government ownership and management must be less than that of private enterprise.

77. Taxation on a scale which must seriously hamper trade and industry is inevitable as a result of the War. Its ill-effects may be increased or mitigated according to the manner in which the proceeds are employed and the way in which the burden is distributed. To minimise the effects of War, reductions in personal expenditure, a higher scale of individual effort and production, and increased savings resulting in additional capital are necessary. Economy on the part of Government, and a scale of taxation which does not reduce the incentive to private savings are, it is submitted, two essentials which would be most effective in reducing to a minimum the sacrifices needed to make good the ravages of War.

3375. *Chairman*: I understand that Sir Arthur Dickinson will be the witness mainly to express the views of the various bodies of Accountants. We will take your paper in sections, and if Sir Arthur Dickinson will explain the sections, he can then be examined. I notice you state in Clause 6 that while the statements here submitted to the Committee express the general views of those whom you represent, it should be understood that any answers which may be given verbally by any one of you express his own individual views only. That we understand, so there may be freedom in speaking on any point?—(*Sir Arthur Dickinson*): The introductory section deals with the qualifications of our individual selves and the bodies which we represent. It gives the total membership—I do not know that I need deal with that—and it mentions the limitation which the Chairman has just referred to regarding any views which

we express in addition to those contained in the statement. I may perhaps emphasise that this memorandum has been considered, approved and adopted by the Councils of all the three bodies. Then Section I of the memorandum deals with the general effects of taxation on trade and industry as we, as accountants, come across them in the course of our practice. I might perhaps say that, as accountants, we are obliged to take an impartial view on all these questions, free from politics, and free from any desire to press any particular line of argument upon anybody. The practice of accountants extends very widely over all kinds of industries in the country, and while we do not each of us know individually about all those industries, which would be impossible, we all know something about some of them, and our views are not, or should not be, tinged in any way with politics or questions of that sort. I think that the section as we have put it is fairly clear. The fact of the enormous change in prices resulting from the War upset everybody's idea of what was a standard price; prices went so widely different from anything we had known, that the whole idea of what a thing ought to cost went by the board. That made it comparatively easy to force prices up. For instance, if a 5 per cent. increase in price was justified by something or other, it was very easy to say that the conditions of the War were such that we had to put up prices 10 per cent. I think that sort of psychology undoubtedly had a very considerable effect in starting the rise in prices which was so intensified at last in 1920. The other point that we bring out there is that after a War such as we have had, with the loss of capital and loss of life, it would be rather unreasonable to expect even to maintain the same standard of living as we had before the War. The inference would be rather that the standard of living must be lower. For all people with fixed incomes it is considerably lower than it was before. In many industries, especially those that are not sheltered industries, as they are called, I doubt if, even with the very high wages that there are now, the standard of living can be as high as it was before. It seems rather a mistake to expect that, until there is a great increase in production per head of the population.

3376. Have you gone into the question of wages, comparing the difference between 1914 and the present time?—No, we have not investigated that specially; but from general knowledge we know that there is a very large increase in wages.

3377. Sir John Mann, have you anything to say on Section I?—(*Sir John Mann*): I should like to supplement what Sir Arthur has said with regard to the accountant's functions. Far be it from us to arrogate to ourselves any particular knowledge, but I think it is commonly understood that from the nature of our work we do get at the heart of things, and we are very often engaged in negotiations in such matters as price fixing, contract terms, and things of that kind, and whether it is logical or not, it is borne in upon us that this question of high taxation does enter into the business man's argument. Just this week, if I may give you an example, that arose in the matter of fixing a price for certain service that had been rendered, what the lawyers call a *quantum meruit*, the very point was suggested and admitted that the fact that the resultant sum, whatever it might be, would be subjected to very heavy taxation, was an argument for increasing the amount, clearly in that particular case, which is typical, showing that the taxation is being passed on and is therefore increasing the cost. Although nominally it is a tax upon a surplus, in effect very often it does enter directly into and increase and swell what we nominally call costs. It may not be logical; it is, as I am inclined to contend, largely psychological, and a great many psychological factors enter into the whole of this question, that one would like to emphasise. While logic may be against certain facts, psychology may be the other way.

3378. *Mr. Lees-Smith*: In the case you have quoted, it was not a case of a competitive price; it was a case of salary, was it?—Something equivalent to that, where the *quantum meruit* had to be worked out; but it is typical.

3379. The case of a salary is not very typical of prices under competition?—Not under keen competition.

3380. *Mr. Hichens*: Do you know any steel maker to-day who puts up his price on account of Income Tax?—(*Sir Arthur Dickinson*): I should say that was one of the industries in which it could not be done, because of competition. (*Sir John Mann*): If you could use the argument, you would do it.

3381. *Sir Arthur Balfour*: But you do not contend that everybody could put up their prices?—No.

3382. Do you think that industry, as distinct from trading, has been less able to put up its prices than, say, trades retailing clothing, boots, foodstuffs, and so on; they do not have the same competition from outside?—(*Sir Arthur Dickinson*): It is much easier in the sheltered trades.

3383. Do you think that in the sheltered trades prices have been put up and kept up?—Yes, I think so, certainly. I think they have in the big industries to some extent, but probably not enough to compensate for the higher wages and higher costs.

3384. Then it comes down to this, that, although in looking at the cost of production you do not see the tax, it is there in the selling price eventually?—It gets there if it can. Of course, competition may be such that you cannot put it on. It ought not to get there theoretically, as theoretically it is a share of the profits that the Government takes.

3385. Actually it may get there, or it would not be there for the Government to take?—Yes; that is rather psychological too. You charge as much as you can get, and in considering what you have to charge you consider the tax as one of the items.

3386. *Professor Hall*: In that case, I presume that the seller gets a higher price because of the tax, and he would not ask that price if there were no tax?—I think he gets as high a price as he can.

3387. Whether there is a tax or not?—Yes, probably, but if times were very good—take the case of the steel industry, this is what would happen. In considering what the cost of the product was and what price should be put in on a contract, some regard would be had to the tax as well as other costs, and the price would be based on that.

3388. *Sir Arthur Balfour*: It would be more necessary to get a higher price if there were a higher tax?—Yes.

3389. *Professor Hall*: But the seller would endeavour to get the highest price possible, in any event?—Everybody does that, but when you are competing on tenders and things of that sort, you have to consider how high you can put the price and be pretty safe in getting your tender accepted. If you went much beyond what your actual costs and taxes were, you might find the work would go somewhere else, and you would have lost it. You cannot say it is actually the taxes that do it; that is merely part of the cost with other things.

3390. *Mr. Bramley*: You mean, I suppose, that the tax is utilised as an excuse for increasing prices. It is not that the tax increases the cost of the product, but it is utilised in a way to bluff the purchaser?—That is perhaps a little extreme way of putting it, but it is something of that sort. I will give you an instance. I was talking to a friend of mine in 1913, before the War, when I think the Income Tax had jumped to 1s. 9d. or something of that sort, and we were talking about it. He said: "Oh, well, we will just put up our prices to cover it."

3391. You state that in some cases the price is raised in order to provide, not merely for the increased taxation, but for a profit on the taxation itself?—Yes. That would come in as an extreme case, if you could do it.

3392. In the process of price fixing, is it your opinion that, in general terms, prices have been

increased beyond the increased cost of production and distribution?—I think the tendency is that way most emphatically.

3393. *Professor Hall*: Would you say that a fall in income taxation would mean a fall in prices?—Perhaps not immediately, but it must ultimately by the general pressure of public opinion, and so on. I can give you a case which only occurred the other day; it is not on income taxation, it is on tea duty. It appears that the price of tea has gone up in spite of the reduction of the duty which should have brought prices down. Somebody must have had the amount of the duty. They are selling tea at a higher price than they were.

3394. That is true of the wholesaler, I believe, but not true of the retailer?—This was a retail shop, a very big one too, where they were supposed to charge low prices.

3395. That may have been due to the increased demand following the lower taxation?—It may have been due to all sorts of things.

3396. *Mr. Lees-Smith*: Take that specific case that you have mentioned of the man who said before the War: "I will put the Income Tax on to our prices." Did every firm in the industry say the same thing?—A great many did to my knowledge. That is one reason why I did not want to mention the industry; it would not be quite fair. It was an industry in which it was possible to put the charges on.

3397. The argument you have brought before us rather assumes a combination in industry. If this had been an isolated firm and other firms had not added the taxation, this isolated firm would have found itself at a disadvantage?—Yes.

3398. Therefore it assumes that an industry is practically controlled to a large extent or to some extent by combination?—Yes, but it is easier to control it by combination if everybody feels that they are being hit and their profits are going down. It is much easier for them then to agree to put their prices up. If they are all doing very well they would find difficulty, because competition at once springs up; but if they are all in the position that they have to pay 5s. to 7s. 6d. or 10s. out of their profits in Income Tax, when they formerly paid 1s. 6d. or 2s., there is a much greater tendency for them all to increase prices, especially when you have much higher prices at the same time and have to pay much more for everything you buy. I might just add this. Those paragraphs which we put in later on about tariff duties rather apply in the same way. If you have an industry like a number of the sheltered industries which are not subject to competition—take electric light industries, for instance; many of them are governed by Act of Parliament and are regulated in that way, but some are not. I think it is generally admitted that their prices have gone up much more than any others have, just as wages in those industries have gone up much more than any others.

3399. *Sir Arthur Balfour*: It is perfectly true, as anyone can see for himself in balance sheets, that the average profits have gone down as the result of high taxation.—On the whole; not in every case.

3400. In a great many cases?—In a great many cases.

3401. The consequence is that it is very much harder with high taxation to raise capital for industry at a reasonable rate?—Yes; and I think people ought to work harder still; there is much greater effort required to get the same results than before the War.

3402. *Mr. Hickens*: I see you say that high taxation affects saving. Have you any evidence to show that saving is less now than it was pre-War?—No, I have not got the evidence. You remember that we state here that we have no doubt you will have been supplied with these figures. Ours is merely the general impression that we have got on this point in the course of our practice.

3403. But you do not know?—I do not know by figures. The tendency would naturally be that way. You can talk to your friends and you know what they all say, what they are doing, and that sort of thing; it is not worth saving now, the Government takes it in Income Tax. I have heard it said in the time of Excess Profits Duty: "We will put this building up. The Government pays 80 per cent. of it."

3404. It is merely an impression?—Yes, that is right. You see it in the case of companies where they are paying, for instance, ordinary share dividends at the same rate as before but free of tax, instead of less tax. Many preference shares issues since the beginning of the War have been made on the terms of dividends free of tax, which was a thing unknown before. All that results in paying away more of the profits than were paid away before.

3405. That leads up to my second question, which is this. The reserves of companies set aside out of profits are liable to tax, are they not?—Yes.

3406. Therefore if taxation is high, that hits the reserves very heavily?—Yes, it does.

3407. You have had a wide experience of business. Is it your experience that the most successful firms are those which have been built up generally out of reserves?—Most emphatically.

3408. And one of the most necessary things for any business is that it should set aside a substantial proportion of profits in order that it may have a big reserve?—That is right. I can give you an instance of that. It is in America, it is true, but it is just as good. A great friend of mine was chairman of one of the great railways at one time and this was his theory. He said: "For every dollar we pay in dividends we want another dollar to put back into the business out of our profits." Of course, that is a new country, and conditions are different and they have a good deal more development perhaps than we have, but the same principle applies.

3409. Is it your experience that the depreciation rates which are allowed for taxation purposes are not on the liberal side?—Yes; they are not enough, or they were not enough, I should say, before the War.

3410. But even now?—They were increased during the War a great deal, and I am not quite sure how far that increase has been kept up. To some extent it has.

3411. What about buildings, for instance?—They never allow anything for Income Tax for depreciation of buildings, and buildings get obsolete like everything else.

3412. If anybody is prudent and wishes to make a reserve he has to do that out of money which has previously been taxed?—Yes; and also in the case of the exhaustion of minerals.

3413. So the net upshot of it is that the businesses in this country at the present moment tend to be setting aside inadequate reserves as the result of high taxation?—If you do not pin me to figures I should say yes, that is my impression.

3414. And in your opinion that would be very grave?—Very serious indeed. (*Sir John Mann*): There is a struggle to pay what may be a more or less conventional rate of dividend—a conventional rate or a uniform rate—and the reserve suffers.

3415. The reserve suffers directly because if you want to put £100,000 to reserve, you have to take 4s. 6d. in the £ off it and give it to the Government?—That is so. There is a sense of injustice in the community with regard to the effect of the tax on the reserves that you have to lay aside. The Government does not recognise the prudence or necessity of building up a reserve which is absolutely essential to meet the expenses of emergencies and extensions.

3416. What would you say about depreciation?—We feel generally, in my experience, that the Revenue, in its methods, is over-exacting with regard to the rates. It is defending the general taxpayers' point of view; one knows that there is a distinct conflict of interests, but the application of the law operates very severely in regard to the low rates of depreciation that are allowed.

3417. So that the result of high taxation and of the action of the Government in respect of depreciation is to over-capitalise industries, which is a bad thing both for the worker and for the capitalists themselves; is not that so?—That is so.

3418. *Chairman*: Have you anything to say on these points, Mr. Pitt?—(*Mr. Pitt*): I should like to say that I consider that one of the greatest needs of the commercial community to-day is increased capital. It is perfectly true that during the War certain fortunate industries were able to increase their reserves very largely, but the vast majority were not successful in that respect, and the very basis of successful commerce is naturally to capitalise your profits; that is to say, if a man makes a certain profit, if he is going to look forward to the extension of his business, he necessarily must capitalise. Large numbers of our trading concerns at the present time are extremely short of capital. Even our great combines, it is within my knowledge, are pressed for capital, and if there is one thing more necessary than another at the present time, I believe it is that there should be provision for increased capital in order to provide for an expanding population and for the greatly increased cost of raw material and for the natural increase which an ordinary trading concern looks forward to. So far as depreciation is concerned, I feel quite strongly on that subject, because I do believe that the rates of depreciation always have been inadequate. It seems to me that, in the very best interests of the country, the Government should be liberal to a degree in that respect; because after all they are partners; and it is a first essential that obsolete machinery should be scrapped, and unless you allow adequate rates of depreciation you will get badly conducted businesses and obsolete machinery. I myself feel confident that the policy of the past has been mistaken and not sufficiently liberal and that if the Government had allowed large rates of depreciation, they would have benefited to a much greater extent in being able to tax larger profits.

3419. *Sir Josiah Stamp*: On the point that has just been raised, I would like to develop the question of the allowance for depreciation a little. Suppose that the rates of depreciation had for the last 20 years been half as much again as they were, in your judgment would the total amount now being allowed for wear and tear be greater than it is at the moment?—(*Sir Arthur Dickinson*): It is very difficult to say. I should think in all probability it might be less. It is taken on the diminishing balances in this country.

3420. That being so, in view of the fact that, under one system you are allowing depreciation on many things on which, under the other system, you would have ceased to allow depreciation, the question is whether, in the long run, if plant is allowed for during its life, either by wear and tear and obsolescence together, or by way of wear and tear entirely, there is the slightest difference in the aggregate amount allowed to industry, whatever your rates are?—I think there would be, for this reason, that presumably all the money you have written off in depreciation in back years goes back into plant and gets it up to the same value. You would have just the same value as you have now, only you would have more modern plant. A very eminent steel man said to me before the War: "Our steel industry is a scrap-heap," and compared with America—I do not know very much about it, but I have been over many works both here and in America—certainly the condition of the steel works here as compared with those in America was bad; and if they had had (of course it is only assumption) much higher allowances for depreciation all those years, it is quite possible you might have found us with a modern steel industry at the beginning of the War instead of an obsolete one. You would have had just the same depreciation now because they would have built it up again, and the value would have been higher than it is now. Since the War things have changed; great improvements have been made, and a number of plants have been modernised. But take it before the War; we were running our steel industry into the ground here as compared with America, and Germany too, I believe, though I do not know much about Germany.

3421. I do not want to confuse the fund with the question of the annual allowance. It is impossible to think that the mere remission of a tax on the difference of an annual allowance is going to provide an enormously greater fund for replacement?—Except that people will not as a rule write off more depreciation than they are allowed for in Income Tax.

3422. Until the War the effect was that 1s. in the £ had to be paid on any depreciation written off in excess of the allowance. Now the question is whether that 1s. in the £ would have made all the difference. But this is getting away from the point at which I started. I want to know whether it can be proved that if you do allow, one way or another, either early or late, or by an even system or an erratic system—if you do allow for machinery during its life its whole value, in the long run the rates of depreciation can make any difference whatever?—If you really allow the whole depreciation during the whole life, I agree with you, but I think the tendency of the low depreciation rate is to extend the life of the plant unduly, with a very bad result; you get a scrap-heap instead of a plant. There is a psychological result.

3423. The effect of low rates of depreciation is to create a psychological feeling?—Yes.

3424. It is not a provable actuarial loss to industry?—No, I would not like to say that.

3425. But the man feels that he is getting a lower rate of depreciation than the actual wear and tear, and, although he is not alive to the actuarial position, it influences his mind?—If you look at the funds that some of these big American companies have built up during the last 20 years—take the United States Steel Corporation, with a capital of 1,400,000,000 dollars. Before the War they built up something like 400,000,000 dollars out of surplus and put it back into the property, and I suppose their properties are among the finest properties in the world to-day.

3426. *Sir Arthur Balfour*: Is not the real psychological effect this: If a man has in his balance sheet a machine written down to a low figure he is much more likely to scrap it earlier?—That is right.

3427. Therefore the obsolescent effect afterwards does not come into it till too late?—That is right. People have not been encouraged in this country.

3428. *Sir Josiah Stamp*: The suggestion is that a higher rate should be allowed?—Yes.

3429. And, therefore, people will get the depreciation earlier in the life of the machine than they do at present, but it will not cost the Exchequer anything in the long run?—It will cost them more, in this way, that there will be a higher value of plant upon which depreciation will be calculated. Presumably that would bring in much better results, and that would be a benefit to the Government in a higher yield from taxes.

3430. It would be a benefit on the hypothesis that there is more profit?—Yes, it is a benefit to the revenue.

3431. I am on this question only. We are told that industry suffers because insufficient rates of depreciation are allowable for taxation. I think it is agreed now that it is psychologically so, but actuarially it is not so?—Possibly.

3432. Could this Committee safely report that the Exchequer might double its rates of depreciation and it will not cost any more in the long run?—It is very difficult to say. I should say that depreciation would cost more in the long run, but that there would be an increase of productive capacity in the plants, and the revenue which came in from taxation would more than offset the extra depreciation allowed.

3433. I want to get it quite clearly from you whether you think there is actually a larger allowance going to be made by higher rates of

depreciation in the long run?—How do you mean —a larger allowance?

3434. Whether the total annual sum being allowed by the Exchequer for wear and tear is going to be any larger in the long run because your rates are higher?—I think it must be.

3435. But why?—Because more money is put back into plant; the plant is kept up at a higher value. If you have a plant of £100,000 and you write off a diminishing balance of, say, 5 per cent. for a number of years, in 20 years it is down to about one-third and it is perfectly useless; you could not run that plant. My theory of depreciation is that you write off depreciation on a new plant and you get down perhaps to an average value of 75 or 80 per cent. on that, and if you maintain that, you can keep your plant going at its highest rate of efficiency. You cannot keep it up to 100 per cent. because it would not be economical. You cannot renew every single little bit of stuff directly it wears out, but you come to a point to which you must keep your value up; and I think the tendency in this country has been to allow the average value to run down a great deal more than it ought.

3436. To keep the plant working longer than it should?—Yes.

3437. It is in its dynamic effect upon the renewal of the plant and not in the way in which you get an allowance of a particular amount on the value of the plant?—Yes, but I thought you asked me if it was going to mean a higher charge. I think it would mean a higher charge, because it would be kept up at a higher value. Say that it goes down to 60 per cent.; you would put more money into it and it would go up again to 70 or 75 per cent.; in other words, you would have depreciation not only on the diminishing value of the original plant, but on the diminishing value of the plant put in to make good depreciation.

3438. The real cost, if the plant were to last the same amount of time, would be negligible, but under the system of allowing more, the plant, instead of being kept in existence 20 years, would be kept in existence 15 years and the revenue would get an advantage in the production from the improved plant?—Yes.

3439. *Sir Arthur Balfour*: Better equipment of the industry and a higher standard of production? —Yes. (*Sir John Mann*): The policy of the past tends to the postponing of replacement and renewals and modernisation and that policy is apt to infect men's minds. A more liberal policy would approximate to the American method of scrapping and therefore the time element would be important. It is quite true theoretically it would work out to the same in the long run if the plant were maintained during the same period, which is fallacious, I think. (*Sir Josiah Stamp*): I am not endeavouring to contest the evidence you are giving. I am only endeavouring to lay bare, if I can, the fundamental point that is so frequently misconceived, as I see it, that a high rate of depreciation on particular plant makes any difference at all.

3440. *Mr. Lees-Smith*: May I ask one more question on your statement, Mr. Pitt? You made a statement, I think, with regard to the need that industry had at the moment for capital? Is it your experience that industry at this moment is being starved of capital?—(*Mr. Pitt*): It is my experience. I have an experience extending over a very large number of balance sheets and it is my experience that that is so. It arises of course for a number of reasons. One that you know is the greatly increased cost of manufacture, and if it is an expanding business the very fact that there is a larger business to be done, and I find that the result is that they have had to resort very largely to the banks, who of course, should only finance on proper banking principles. It has resulted in very unsatisfactory trading and a want of enterprise in the men who are short of capital. I think it is one of the first necessities of commerce to-day that it should be put into such a position that it can accumulate capital by natural processes, that is to say, out of profits, in order to cope with the greatly increased cost of raw material and expanding business.

3441. The reason I ask the question is because we have had evidence in a contrary direction. It has been stated to us that as a matter of fact at this moment if there were a great deal more capital, industry could not profitably employ it?—It is a perfectly natural position. When you get a period of severe trade depression, such as at present, naturally you will find that in most industries money flows in from book debts and reducing stocks and unemployed capital results. But immediately you return to normal trade you get acute financial trouble. That must be so; but the fact remains that under normal trading at the present time industry, I am confident, is short of capital.

3442. Do you regard the present time as normal trading?—No, I refer to the present time as a time of acute depression, when capital is idle. Of course, there are many exceptions in the sheltered trades and so on, but, generally speaking, I regard it as not a normal period but a period of acute depression.

3443. Then I understand your remarks with regard to the shortage of capital do not refer to industry at all at present, but to industry as it may be in its future development?—I refer to such industry as is at the present time in a normal condition. Naturally the bank accounts of those industries which are abnormally depressed at the present time, are overflowing with money. That is perfectly natural; it must be so. But industries where there is a reasonable output and they are working under normal conditions, I find, are very short of capital, and I venture to state this: that immediately these very depressed industries get back a reasonable volume of trade, they will also be in distress. I think it is a fact that there never was an industry in this country but the basis and the whole source of its success must be the constant accumulation of capital within the business.

3444. If there are these industries which are normal and which could profitably employ capital, and if, at the same time, there is this great mass of capital lying unused, can you explain how it is that these industries are not able to obtain it by ordinary banking processes?—It is because when you go to your banker you are asking him to supply you not with a temporary loan but with a loan which is in the nature of a fixed loan; it is capital. The banker will only advance you money for temporary purposes, not for capital purposes. Those persons are short of capital constantly and the bankers will not advance under such conditions. He advises them to go to the public or to a legitimate source for increasing capital, and when they attempt to do so they find it is impossible by reason of the fact that their profits to-day are on a very low scale. (*Sir Arthur Dickinson*): I should like to bring out two points on that, if I may. In the first place, I think if a business is in low water as to its trade it ought not in normal times to have any bank loans; I mean, if trade is bad and assets have consequently been converted into cash, all bank loans ought to have been paid off. Bank loans should be required only when business is flourishing. I am speaking more from impressions than actual facts, and some of your banking members know more about it than I do, but I think you will find that in a great many industries which are sub-normal at the present time, bank loans are being carried still, and for this reason, that the working capital required even for the much smaller business they are doing is far larger than it was before the War, owing to the high costs and prices and rates of wages and so on. The high rates of interest that have to be paid for new capital now, running to 6, 6½, 7 or 7½ per cent., tend to throw people on to their bankers for temporary loans for capital expenditure which they ought to have financed from permanent capital advances. The very

fact that the rate of interest is so high shows that the capital is not there; if there was a surplus people would be willing to put out money at lower rates. People are carrying capital expenditure, which should be financed by permanent capital, on short loans.

3445. *Sir Arthur Balfour*: Is one of the reasons for the high rate of interest that industries do not earn enough at present to cover a large amount of debentures, preference shares and so on. They are not accumulating the surplus of working capital which they want and which ought to be found out of accumulations if you have to carry larger stocks and larger inflated values and all that. They have to pay a very large amount of their liquid assets in taxation?—Yes.

3446. *Sir Alan Anderson*: This tends to show that they have not succeeded in putting their prices up to get back the Income Tax?—The export trades certainly have not.

3447. But those trades of which you are talking?—That is so.

3448. And you are talking of the ones which are doing normal trade at present?—There are not many to-day.

3449. They are the sheltered trades?—Yes. I think the export trades are in the position that they cannot put their prices up; they cannot sell at their present prices.

3450. *Sir Josiah Stamp*: In your paragraph 8 you put out a general proposition which you say is right in theory, and then in paragraph 9 you give an exception to it, namely, what happened in a régime of rising prices. Is there any other exception to the general principle that you have laid down? In a time of normal trade without inflation can the home trader succeed in passing his Income Tax into prices? —If there is no competition he can, largely because people have lost their standards. If you are used to paying 1*s.* a lb. for butter, you would strongly object if your cheesemonger put it up to 1*s.* 4*d.*, but you have lost your standard, and if he puts it up to 2*s.*, you do not know where you are.

3451. We are now assuming normal conditions in the price level and freedom from inflation. Assuming that large sums are paid in taxation to the Government and the Government spend that money in the purchase of commodities abroad, what is your view as to what happens? Is the effect of putting on a high rate of Income Tax to diminish production considerably below its present figure? Supposing you represent the production by 1,000 units under the existing scheme of taxation, and then you put on a very high Income Tax, is the result to reduce the production from 1,000 to, say, 950?—I would say probably you would get the 1,000 and put on a higher price to recoup the Income Tax.

3452. How is that to be arrived at, having regard to the existing amount of currency? Would you create a further amount of currency to accommodate it?—If we were back on the gold basis we could not. You can now, as a matter of fact. I do not think we do now. I think the bankers look after it much too well to let us do so, fortunately.

3453. Is it possible for there to be a general rise of prices due to Income Tax without an increased currency?—No, I should say not, on the whole.

3454. Therefore, if you have a steady command over inflation at the time of heavy Income Tax, prices cannot rise taken as a whole?—I am not clear on that. I do not know that I would like to say. It is very difficult and very complicated. They might rise. You might find that the production of a smaller quantity would produce just as much profit and then you would put the price up.

3455. If you tell me that the high Income Tax reduces the number of units produced from 1,000 to 950 and the currency remains the same, then you have scope for increased price, but if you still produce 1,000 units and your currency remains the same you cannot get increased price.—I quite see the difficulty, but is not the real point this: that a man faced with high Income Tax sets to work to see how he can get some more profit, and he does it by any way he can do it, and I think he very largely succeeds in one way or another.

3456. He tries to get the same profit?—Or he tries to get more as a rule.

3457. I understand that at present he is in a favoured position of being able to get in somewhere where there is a soft spot in the mechanism, but I am asking you if the general effect can be that?—You mean for all industries at once?

3458. Can you frame any economic theory to do it? —I do not know that I can. It is very difficult. In paragraph 9 we have got the conditions under which it happened.

3459. Now let us take a case where the amount can be passed into profit; let us assume that it can be done. In your judgment what is the amount of Income Tax that is passed into prices? Is it 2*s.* in the £, or is it 10*s.* in the £, or what is it?—I could not say at all. I cannot get it any nearer than this. My general opinion on the whole question is that everybody tries to get the same profit as they had before, after they have paid Income Tax; there are numbers of ways in which they may do it; some succeed and some do not.

3460. I want to get it as far as possible as a question of degree. If you have in three leading businesses, we will say the actual controlling businesses in a particular trade, one of them paying an average rate of tax, say, of 4*s.* 6*d.*, another, a smaller business, paying 2*s.*, and another, a rich man, paying 10*s.*, and they are all of them wanting to get the same net income as they had before, and they are all struggling to pass their Income Tax into prices, how far do they succeed? Do they succeed as far as the lowest, and the rest have to whistle for the balance that they cannot get, or do they succeed so far as the highest so that the lowest is in a much better position than before?—I am inclined to think that they force prices up all along the line, and it makes higher wages equal to less real wages than they were before.

3461. It is a very difficult point, because, if we tried to make the point in our report that this higher rate is desirable, we have to think of reductions of the Super-tax as affecting the body politic; if we consider it is a low rate we have to consider pushing the tax up so as to exempt that class of person, and if it is the middle road, then we can make recommendations about the normal rate. It is no good alleging these things in theory unless one has the courage to act, and it is no good acting unless we have real ground to go upon.—I think the question you ask would require a great deal of statistical information for its answer, and I do not know anybody who is competent to do it except you.

3462. I have had that answer from that chair before, but I am just as helpless as you are on this point. But I do want to know, if there is any successful passing of Income Tax into price in the home trade at a time when there is no inflation, what it is that is passed. Is it the normal rate that the small man pays or the rate that the big man pays?—I am afraid I cannot help you; I have to give it up, I think.

3463. *Professor Hall*: You made reference to high taxation affecting the possibility of saving for the development of business, and you made reference to the effort to secure a conventional return upon capital. Is that conventional return in your opinion a fixed rate, or does it vary over a number of years? —(*Sir John Mann.*) There is not a more difficult question to answer than what is a conventional or reasonable rate. Everyone has more or less his own standard, and he struggles to reach that and exceed it, at all cost.

3464. The point I want you to deal with really is this. Does not taxation, if the proceeds are applied to debt reduction, tend to reduce the general rate of interest; and if it does tend to reduce the general rate of interest how does that affect your idea of a

conventional profit or return upon preference shares, say; that was mentioned?—That is another question altogether.

3465. The two are connected, in my view?—Would you just repeat your question?

3466. I want to find out from you what you consider are the relative advantages of high taxation to reduce the debt, and low taxation to enable capital to be accumulated for the purposes of business development. I want to get from you your opinion as to the relative advantage of the two policies?—My answer would be something like this. I concur with Mr. Pitt and Sir Arthur Dickinson that one of the great requirements is the accumulation of capital to replace the capital lost by the War, to provide for losses in business and to encourage new enterprise, and to finance the rising standard of living, and all that sort of thing, and it is more important to increase the productive capacity and so obtain a greater income which would yield a higher amount of tax than to raise taxes for a rapid reduction of debt.

3467. You think our needs for capital are of greater importance than the rapid reduction of the debt?—It is a question of degree.

3468. I want to get your opinion as to the degree?—You enter, of course, upon a question of statistics there. We have indicated later on in our memorandum some rough ideas of the basis on which that very difficult calculation has to be made, but anything that is thought by the taxpayer to be a too rapid reduction of debt operates in a psychological manner to depress him and make him labour under a sense of grievance, which interferes with his efficiency, and therefore interferes with the production of the country. If he thinks the debt is being too rapidly redeemed he resents it. You asked another question a little earlier, I think, which is perhaps the same one put in another way: What is the effect of reduction of taxation? My answer is that it would have, and I think it has already been proved to have, a certain exhilarating effect, a rebound and a reaction. People begin to think that the times are improving. Once that impression begins, it is inclined to grow and grow and lead to an improvement. That is a purely psychological factor; and if the burden of taxation is thought to be heavy it does depress, whether it is really heavy or not.

3469. I take it there are advantages to be gained from a reduction of taxation. One is the increase of capital and the other is the psychological influence which will tend to stimulate productivity?—Yes, and the two things are the same in so far as greater productivity tends to greater savings, that is to greater accumulation of capital.

3470. *Sir Arthur Balfour*: Do you think the present position is that taxation is so high that it is having a depressing effect?—I think it is. One's experience points to something like this. It is a constantly heard question nowadays in any negotiation: "What is the effect of taxation?" Before the War one never heard it at all. This very morning I had the question put to me: "If we do so-and-so how do we stand with Income Tax?" It has a paralysing effect on an extraordinary number of things, and the slightest reduction causes a rebound.

3471. *Sir Josiah Stamp*: Will you explain that psychological point? I rather question the "slightest." What, in your judgment, would be the minimum figure which would have a psychological effect on a private trader—6d.?—I would rather not be dragged into figures; it depends on the individual.

3472. What would be the minimum figure to have an important effect on the community?—A penny or so is negligible; 6d. becomes appreciable. I am rather thinking aloud.

3473. Is that so with regard to the private trader? What is the figure for limited companies which makes all the officials buck up and everybody work much harder and get very much more profit?—Of course, there again there is a distinction between a company and an individual, but nowadays, I think I am right in saying, that in all really well managed businesses the men in control have an interest in the results, and therefore what applies in the private case applies equally to most, if not all, the big corporations. There is a stimulus that they are labouring for themselves and for the service of their organisation and not for the mere corporate body. It was all very well during the War when we worked for nothing, but to-day is different.

3474. Take half-a-dozen large typical businesses, such as Lever's; would you say a reduction of 6d. in the £ would have an important effect on that class of business?—I think it would.

3475. *Mr. Lees-Smith*: Did you notice any striking rebound last year?—Yes. There was a general feeling that things would be a little easier. How far the effect persisted in spite of the extraordinary difficulties it is almost impossible to say.

3476. If you reduce Income Tax by 6d. it only has an effect for a time and the effect of the reduction is less as time passes?—That proves that it is partly psychological.

3477. *Mr. Lees-Smith*: You do not seem to get a large enough psychological result. *Sir Arthur Balfour*: It really lasted until about May?—(*Sir John Mann*): I would not like to put a date on it. *Sir Arthur Balfour*: It is an easy date if you look at the returns.

3478. *Sir Josiah Stamp*: You will not put it higher than that it has less effect in the case of a large limited company than in the case of a private business?—That is so.

3479. Translating that psychological effect, having regard to the magnitude of the production of the two classes of business, have you worked out what might be expected to be the increase in the production following a certain reduction of taxation?—It is quite impossible to put it in figures.

3480. Would you say that a 10 per cent. alteration in tax would mean 1 per cent. or 50 per cent.?—I am afraid I must ask you to excuse me from making the calculation. (*Sir Josiah Stamp*): I suggest to you it would be a very useful exercise. I have done it, and you get down to a surprisingly limited field over which this psychological influence, however pronounced, can act.

3481. *Professor Hall*: In those industries that are normal at the present time, and you have made reference to the fact that some industries are normal, would you say that the net return to capital is as high as it was before the War after tax has been paid, or less?—(*Mr. Pitt*): Much lower, and I would like to add this, that if I compare the effects of a reduction in interest with those of the expansion of trade which comes about by increased capital flowing into a business the former is a mere bagatelle. It is of the utmost importance that trade should be expanded by a continuous flow of fresh capital, and the reduction in the rate of interest would be a small matter in comparison with such an all-important position. The first essential is the continual feeding of the business with its very life blood, that is the capital, and the question of a reduction of the rate of interest is a comparatively small matter.

3482. Would you say that the net return on preference capital, or debenture capital, is less than in pre-war days?—It must be less of necessity. It is, of course, a fixed return. (*Sir John Mann*): You mean new issues?

3483. Yes.—(*Mr. Pitt*): The new issues have had to be higher, the public would not take them up unless they were at higher rates.

3484. Therefore the net return is probably higher than for similar capital in pre-war days?—Not necessarily. If there are profits to pay them, yes, but unfortunately you will often find that the profits do not exist.

3485. I was referring to those industries which you spoke of yourself as being normal and working full time?—Yes, but whilst normal so far as the extent

of their trade is concerned, yet the amount of their profit has been, in my experience, reduced.

3486. *Mr. Bowen*: I should like to ask Sir John Mann one question with regard to what he said was the conventional rate of dividend. Could he tell us, following up the psychological point which we have been discussing, what has been the effect on the mind of the shareholder as regards his desire for a conventional rate of dividend as compared with his desire to place money to reserve?—(*Sir John Mann*): I should think very often directors are moved by the desire to have a uniform or conventional return to their shareholders at the cost of reserve. In other words, the reserve is the surplus after meeting the conventional dividend.

3487. Why should the director have a desire to meet a conventional dividend rather than think of the larger policy of creating a reserve?—I am afraid they are very largely regulated by a desire to keep their shares standing at a fair price in the market, and the fluctuating amount of surplus which is put to reserve one year and another is nearly always fixed, having first considered this standard or conventional rate of interest.

3488. Having regard to the market price of their shares?—Well, that is an element they are not supposed to take into account, but inevitably they do. They say if we lower our dividend our shares go down.

3489. *Sir Arthur Balfour*: Or if you put less to reserve they go down?—Not so much. I am afraid the public look at the dividend and not at the reserve.

3490. *Mr. Bowen*: That would suggest that the shareholders clamour for higher dividends without regard to reserve?—I am afraid they do. (*Sir Arthur Dickinson*): I would not say they clamour for higher dividends. They clamour for dividends which are going to bring them in the same as they had before the war.

3491. I am just coming to that point. The suggestion was made that there should be a lower standard all round, and if shareholders insisted upon getting a dividend which would be proportionate to the amount they received, or equal to the amount they received before the War, that point cannot arise. *Sir Arthur Balfour*: They may insist, but do they ever get it?—(*Sir John Mann*): It varies in different companies. The tendency is to maintain the dividend at the expense of the reserve.

3492. *Mr. Hichens*: I want to know whether you would be in favour of exempting reserves from Income Tax or not?—(*Sir Arthur Dickinson*): Yes. We put that into our memorandum, originally, but just at that time a clause was brought forward on the Finance Bill and we thought it was not necessary. (*Mr. Pitt*): The clause was rejected.

3493. Would you be in favour of exempting them altogether until the money is distributed?—(*Sir John Mann*): Speaking personally, the suggestion was that one-half of the reserve should be free of tax which, while open to very practical difficulties, is in principle sound. It is a rough and ready compromise.

3494. Not the whole?—No. (*Sir Arthur Dickinson*): I think the nearer you can get to a tax on expenditure instead of a tax on income the more savings you will have.

3495. *Sir Josiah Stamp*: On the question of reserves I would like to ask whether you think any concession should apply to reserves of all kinds. For instance, supposing a company has a large amount of purchased securities at cost and it prefers to carry them at cost, and to make large reserves against any depreciation there may be on the other side: contrast that with the policy of a company that actually writes that investment down to market value. One has made a reserve equally with the other so far as the net effect is concerned. Would your remark apply to that reserve?—(*Sir Arthur Dickinson*): That is not a reserve at all. (*Mr. Pitt*): It would only apply to free reserves. An earmarked reserve is not a reserve at all.

3496. Therefore you would impose your view on the company that it was its duty to write down that particular investment to market value. You would turn it from a convention into something which was almost a statutory obligation?—Yes.

3497. That being so with regard to purchased securities, supposing you get securities which are not quotable strictly as such but which vary every year, one company would write them down at its estimate of their value, and the other company would say: "We will not write them down but we will provide a large reserve against them." How would you act in a case like that?—(*Sir Arthur Dickinson*): As an auditor, I should say that is not a free reserve.

3498. Who is to determine it?—The auditors would have to decide it in every balance sheet. (*Sir John Mann*): That is not the type of reserve which we have in our minds. The reserves we refer to are simply undivided profits carried to what one may call a general reserve without any earmarking for the depreciation of a particular investment—something which might have been distributed in profit but through prudence or otherwise is kept in reserve for emergencies.

3499. I suggest to you that the attempt to do this means that you have to put the whole science of making a balance sheet on an absolutely firm foundation, whereas it is only a conventional one at present?—Well, that would be all to the good.

3500. *Mr. Bell*: Does this relaxation of taxation on such an amount as they consider should be put to reserve also apply to private firms individually?—(*Sir Arthur Dickinson*): I think it ought to, to be fair; I think it ought to apply to all businesses.

3501. Do you not see a tremendous difficulty in that?—It would make them keep proper balance sheets; that is one good thing.

3502. *Sir Josiah Stamp*: I must say I take such a serious view of this evidence coming from the representative bodies of Accountants that I would like it developed. The practicability of this as against the modern conception of what a balance sheet is, is such a tremendous problem that unless these three bodies of Accountants can give us clear light and leading upon it, we are in a very difficult position in making recommendations on it. I have considered this thing myself for years every time it has come up in some Private Member's amendment to the Finance Bill, and it has been my duty to write notes on it for the Finance Minister of the day. I am aware of some of the figures, but nothing like the number you yourselves would be aware of if you work it out on practical cases, and I should like to have it made much more clear as to how it is going to work in practice?—I think the Finance Bill clause which was thrown out specified a reserve for the purpose of development. In other words, the company would be compelled to put a reserve aside and hold it for development and show it was spent on development or that it was still there.

3503. *Mr. Bell*: It is equally prudent to put a reserve aside for possible losses as it is for the reinstatement of machinery, for instance?—That is right, but if there are possible losses, as soon as they mature as losses a great many of them are allowed for Income Tax purpoes, and in so far as they are capital losses there is no tax on capital profits and no allowance for capital losses.

3504. Supposing you put aside considerable sums of money each year which should be free of Income Tax on the ground that they were reserves for possible losses in the future you would have a vast amount of taxable money withdrawn?—I agree, but the suggestion we started with was that it was moneys put aside for the purpose of development. Writing off bad debts is not development.

3505. *Sir Arthur Balfour*: Supposing it were moneys put aside for the purpose of development and afterwards the concern got into difficulty and had to use its reserves for something else?—It would come back into charge.

3506. *Sir Josiah Stamp*: Would they have to pay to the Revenue on those reserves at a time when by hypothesis they most wanted the money?—It would be the same thing as distributing it.

3507. It seems to me that what the concern would have to do would be to make a further reserve on that for the potential Income Tax?—Possibly, but those would be very exceptional cases. You cannot provide for every case.

3508. *Mr. Bell*: It seems to me difficult to say that a doctor or an architect or an Indian merchant has not got equally a right with a limited company to set aside a certain amount which is not to be taxable?—Unless you limit it to purposes for the development of the business.

3509. That is just what you cannot do, in my judgment, because what you describe is equally covered by a provision for bad debts or calamity or trouble?—That is not developing the business; that is providing against a loss. Developing a business means breaking out into new lines, and all that sort of thing.

3510. There may come a point at which the two things are indistinguishable?—Doubling your plant, for instance, is what I should call developing business, and the necessary working capital which it calls for.

3511. *Mr. Hichens*: In France there is a statutory reserve which is compulsory?—Yes, but it is very small; it is so much per cent. of the profits.

3512. *Mr. Bell*: The development of a business is not only expressed in terms of the machinery of a manufacturing company; it is also the capital of a trading company?—Yes; more working capital—that is right.

3513. You would allow a private partnership to lay aside a sum on the ground that it was necessary to keep that working capital, and not tax it?—I do not see why you should make a distinction between a private firm and a company in that respect provided they went through the same formula and kept the same balance sheets. After all, you might have a private individual running a steel works just as you have a company running a steel works. If one is allowed development then the other would be.

3514. Take the merchant; what is he to be allowed to set aside?—There are plenty of companies who are merchants. If they say: "We want £50,000 to set aside for development for increasing our business because we shall want a great deal more working capital," as long as they keep that as working capital and it is intact, it is there put aside for developing the business. They may be doing four times the amount of trade and doing it upon this fund.

3515. *Sir Arthur Balfour*: This is a highly important matter; do you not think we might have a memorandum upon it? *Chairman*: I was going to ask Sir Josiah Stamp if he could draft definite questions so that the matter can be put into a concrete form, and the witnesses might answer them either later on in the proceedings, or, if not, by letter. *Sir Arthur Balfour*: It can be answered by memorandum? —(*Sir John Mann*): I think we would welcome that; in fact, I had noted down to make the suggestion that Sir Josiah would formulate the particular points. We are rather taken at a disadvantage just now. We have not conferred, and, as our memorandum says, we are not speaking for the profession as a whole. We are more or less thinking aloud in rather a reckless fashion. It is a subject of extreme difficulty. What I did say a little while ago I qualified by adding that there are undoubted practical difficulties. *Chairman*: Very well, I think we may now pass to the next Section.

3516. *Professor Hall*: On Section III. Would you say that high taxation in any sensible degree stimulates saving since it leads people to be more careful than otherwise they would be?—(*Sir Arthur Dickinson*): Yes, it would in some cases, but my own personal opinion is that the effect is a great deal more the other way. Undoubtedly some people with less income to play with would spend less and say: "We want to save what we saved before." The young would probably do that more than the old?—(*Sir John Mann*): It restricts the power to save.

3517. *Mr. Hichens*: In paragraph 26, you say: "The great bulk of direct taxation falls upon those who have not only the largest margin available, but also the will for saving; as from them the necessary increase in capital mainly comes." It seems to imply that it is the richest classes, fewer though they be in numbers, who provide the greatest amount of capital?—(*Sir Arthur Dickinson*): I think it is best expressed by using some figures of Sir Josiah Stamp. (I think he states in one of his recent books which I have read with much pleasure that if you take the whole of the incomes above £250 a year and divide them among the rest of the population it would add 5s. a week to each family. There are no savings to come out of that.

3518. *Sir Alan Anderson*: You refer in paragraph 33 to companies changing the domicile of their head offices by re-registering abroad, and say that there is a tendency for new enterprises to be domiciled abroad, and for individuals to reside permanently abroad so as to escape taxation; is that common?—I have come across cases of it, and there would certainly be more if it were not for the fact that many foreign concerns have found a way now—a perfectly legitimate way, I believe—of lessening their profits in this country. It becomes a small matter, and they continue here for other advantages.

3519. Do you look upon Death Duties as a more noxious form of tax than the others which you couple with it in paragraph 29?—Personally, I do not. I think Death Duties are quite a good tax, but I do not want to be taken as expressing the views of anybody else.

3520. *Sir Arthur Balfour*: On paragraph 34 do you regard investments abroad as detrimental to the interests of this country?—No, certainly not.

3521. We have had witnesses who did.—It seems to me that investment abroad is to a great extent the basis of our foreign trade and results in our increasing exports and our necessary foreign supplies of food.

3522. *Sir Josiah Stamp*: In paragraph 29 you say: "The high rates of Income Tax, Super-tax, and, to some extent, Death Duty, tend to restrict investments in new enterprises which involve more than the average amount of risk as the net return for such risks is seriously reduced," and the burden of paragraph 32 is similar. It has been put to us that one of the effects of high taxation is to starve the investment of capital in what you might call the prudent enterprises and to induce investment in highly speculative things that promise a large return. The investor says: "Hang it all, I must have the same net figure. If I cannot get it from a 6 per cent. investment I must get it from an 8 per cent. investment." Instead of being content with home industries, the safe industries, he tends to launch into speculative ones and to be the victim of bucket shops and highly inflated prospectuses. That seems to run counter to paragraphs 29 and 32; will you give us your views on it?—I would like to put it in this way: how much of South African territory would have been developed by Rhodes and his friends if they had had over 40 per cent. of their profits taken in Income Tax, and another 50 per cent. of the results when they died? They would have said: "It is not good enough; we will put it into something much safer. We are not going to develop these new countries at big risks, the Government taking a very large slice of profits the whole time and making no compensation whatever if we lose the whole thing."

3523. You would deny as a fact that high taxation is tending to divert investments from the safer to the more speculative?—No. I think you have both effects. In the big things you have the effect that we put here. On the other side you have the effect on the people who invest in 5 per cent. War Loan; they will tend to invest in 7½ per cent. debentures which are not so safe.

3524. There is a cross-over in the two?—Yes.

3525. Are both forms of investments left where they were as regards the supply of capital then?—No. I do not think the people who changed from 5 to 7½ per cent. would ever go in for developing a great country like South Africa, and you would lose that altogether. The great bulk of our foreign trade has come from the development of India, Australia, South America and other countries due originally almost entirely to investments made by the richest people in the country.

3526. The effect of high taxation in your judgment is to concentrate savings more upon safe and well-known industries?—Yes, I think so.

3527. And make it easier for them to get their money?—Yes. I can give you a case in point in America; you are probably familiar with it. You know that owing to the high rate of taxation in the United States there has been an enormous increase in tax-free securities. It has become such a big thing that Congress is now thinking of taking steps to stop it.

3528. That is rather a different point?—No; they want to avoid taxation.

3529. It is differential advantage in taxation; I am not on that point at all. I am assuming that the taxation applies to both cases, and your evidence goes to show that the high rates of tax concentrate investment upon established and safe and secure well-known businesses; it makes it easier for them to raise money?—I should think it would in the long run.

3530. And that it starves the speculative and more progressive element?—I think it would in the long run.

3531. Is there any kind of statistical proof of this, because the evidence is getting so conflicting on the point?—I really do not know. I do not know whether you could analyse the investments of, say, the last four years and the four years before the War for these different kinds of enterprises. Could anybody say how much Rhodes and his friends put into South Africa, for instance?

3532. Could you take the total amount invested in all forms and divide it into two sections in both periods and then indicate any striking alteration in the percentage?—That is the only way I think you could do it.

3533. My dilemma is this, that even in one eminent witness's own proof we have both contentions—it is true that they are separated by two or three pages of argument. One is that the effect of high taxation is to encourage speculation, and the other that it discouraged the speculative and more doubtful things but focussed money on the safest and securest. When asked to reconcile them he said he supposed they were reconcilable, but he was not quite sure which was which?—Is it not one of those things which depends almost entirely on the psychology of different individuals?

3534. *Sir Josiah Stamp*: Very good. That is why I ask what is happening to industry on balance. *Mr. Bell*: Does it not depend on a simple matter, that a rich man would have still considerable income even if he reduces the amount which he gets in return; he seeks a safer investment? *Sir Josiah Stamp*: I am perfectly willing to admit that both tendencies exist, but it is put not as what the individual is doing; we were told that a certain branch of industry is suffering from high taxation because it cannot get funds; we want to know if that is the fact. What is happening to it on balance? *Mr. Lees-Smith*: Is there much investment by men who buy a security hoping that there will be a great increase in capital value and therefore they will get their profit eventually without any Income Tax at all?—(*Sir Arthur Dickinson*): There is always some. There is a greater tendency to do that now most emphatically; I come across that every day.

3535. That would increase investment in the speculative enterprises?—Yes, within limits.

3536. *Mr. Bramley*: Would it be possible for me to raise a question on paragraph 76 in Section XII; I have to leave soon, and I should like to raise this question before I go. *Chairman*: Very well. *Mr. Bramley*: The questions I would like to raise on that paragraph are in relation to these words: "To what extent Government action should regulate or leave unaffected Trade Union policy, which limits individual output, is not a matter within our compass; though that policy is of far-reaching consequence." I want to ask if you have any evidence to support the suggestion that there is a limitation of output due to Trade Union policy, and if you have any evidence that you can put before us showing the far-reaching consequences that you refer to?—The case of the bricklayers is the standard case about restriction of output. The number of bricks laid in this country as compared with the number laid in America is enormously different. I have heard of cases in the coal mines during control where there were circulars issued all over South Wales; I would not like to say it was done with the authority of the Trade Union. Those were circulars urging men to go down the mines for the full number of hours work, send up as little coal as possible, and force the mines into liquidation. I have seen those circulars myself.

3537. You agree that this is a question of fact and not of rumour. This is a very serious contention contained in this paragraph, and we shall have to challenge it. It is so serious to us that if such evidence does exist we should very much like to see it. On the question of the bricklayers, for instance, it is quite a common assumption that the bricklayers lay so many hundred bricks per day less than they could lay. I should like to see—I have not seen it yet—an authoritative record showing the number of bricks laid per day by the average bricklayer comparing either the present period and any past period, or comparing this country and any other. I have no evidence of that kind, and personally I should very much like to be in possession of it. But your answer is scarcely a satisfactory reply to the second question, which is this: Have you any evidence to show that there are far-reaching consequences as regards cost of production arising from Trade Union policy?—I believe at the beginning of the War there was an agreement made with the Trade Unions, by which a large number of Trade Union rules and regulations were abolished for the period of the War for the purpose of increasing output, with the pledge that when the War ended those restrictions would be removed and the people put back into the same condition. I am only speaking from information, and I would not like to say that this is authoritative in that sense, but my information is that to a very large extent those restrictions were put back again after the War. Restrictions of that sort must reduce output. Reduction of output means increased costs and affects our ability to compete with foreign countries, particularly America and Germany.

3538. Of course, we are not debating this; if we were I could correct your statement. The Restoration of the Trade Union Rights Bill, which subsequently became an Act, clearly indicates that the Trade Union rules that were suspended were rules not regulating output at all, but regulating the kind of workmen that should be employed on certain jobs. It was a question of demarcation rather than a question of output; however we will let that pass. I take it for granted that you have no evidence to show the far-reaching consequences?—May I just explain that. We have not evidence of that sort. One has the opinion that one forms generally of all these things and the knowledge one has of the way these Trade Union regulations have worked according to popular information—you may call it that if you like—but I do not think you ought to rely on us in any way for what you call authoritative information. We have merely indicated what in our minds is one of the really dangerous things in this country at the present time. I personally, and I think my colleagues too, all firmly believe that that is the state of affairs. There are reasons for it. I do not want to say that there are no reasons. In generations past employers were very largely responsible, I have no doubt, by

fixing piece rates, and as soon as the production went up reducing the piece rates. That does not alter the serious effect on the country of the limited output per person as compared with other countries, which must prevent us from competing with them, and certainly prevents us from having a higher standard of living.

3539. Then I understand that you cannot put your finger on any Trade Union document or prove the application of any Trade Union policy which has the effect of limiting output; you cannot do it?—Only to the extent I have told you.

3540. Only to the extent of expressing this opinion?—I should have to consult a lot of people whom you could with great advantage call before this Committee.

3541. You did not do it before this paragraph was drafted?—Only in the general way that I have stated. I can give you one other instance. At one colliery company that I know there was a strike which went on for months and months, because the General Manager wanted to change the method of work for a method which was economically far better and produced better output and was better for everybody. The Trade Union people opposed it and would not have it.

3542. I am getting now at the question whether any following of Trade Union policy has had the effect you suggest in this paragraph. Would you agree that one of the results of the development of Trade Union influence on industry has been to increase the standard of subsistence of the worker by relation to wages?—I think so, most certainly.

3543. Would you agree that that is an advantage to the community?—Not unless it is accompanied by increased output; it is a disadvantage otherwise.

3544. Would you agree that the effect of increasing the standard of comfort has been to increase the efficiency of the worker?—It has not in the coal industry. The output per person in the coal industry now is considerably less than it was before the Seven Hour Act was passed.

3545. The output per man?—Yes.

3546. That is a question of figures, of course?—I know the figures in that case, so I can speak there at first hand. I have studied the figures very carefully, and as I was financial adviser to the Coal Controller, I know what they were.

3547. Would you agree that, just as to starve an industry has a detrimental effect, so to starve an individual also impairs his efficiency?—Yes.

3548. Therefore if any policy tends to increase the standard of comfort of the worker that policy does increase the chances of increased efficiency and output?—It ought to, but I am not sure that it always does.

3549. Of course we are theorising. You are not sure that it does not?—I have heard it stated often and often in the coal industry that directly you put wages up you get a reduced output. The workers want a certain standard of living; they do not want any more. I have heard that said in South Wales and other districts over and over again by coal owners. I would not like to say that what coal owners say is necessarily always right, but it is said so much, and with such support from figures, that one is bound to believe it.

3550. But you have no facts to justify this paragraph?—Those are the facts which justify it in my opinion. I do not want to quibble over the word "facts." You may say those are not facts, but those are my reasons for believing it.

3551. *Mr. Bowen*: I would like to suggest that the statements here are so sweeping that before we can adopt them in any form we ought to have some real evidence. The witness has been talking about South Wales. I lived there the best part of my life and among the miners too. Whatever he has been told, I suggest to him that he has not been told everything?—May I tell you one other thing about South Wales. I understand the South Wales miners—I do not say without reason, but for a reason which they considered good—absolutely declined to have double-shift working. If they had double-shift working the whole of the plant would be used to double the capacity, and the cost of coal would be reduced. In the ancillary enterprise in the Cardiff Docks they were asked to work two shifts for loading; they tried it for a little while and then threw it up. I do not want to say there is no reason for their objections. Their reason is that they say their safety is at stake and they are not prepared to leave the safety of their lives at the mercy of some other man in some other shift whom they cannot control; but there are plenty of ways of getting over that kind of thing. They work double shifts almost invariably in America.

3552. Do you not think when you enter upon controversial questions like that that it is proper to bring up all the facts of the case. You have certain allegations in this paragraph based upon certain hearsay evidence?—A great deal of what I am saying about coal is not hearsay.

3553. The statements are so sweeping and so serious that I personally cannot accept them until I have some satisfactory evidence.—That is quite right, I agree.

3554. You spoke about a circular in South Wales. You are speaking here about Trade Union policy. We are not responsible for the acts of any individual of extreme views among the workers any more than we are responsible for the actions of people in higher places.—I do not know who was responsible for that circular, of course.

3555. You said there was a circular in South Wales, and you seem to have based the paragraph on that circular?—No, I did not base it on that; you asked for an explanation, and I thought of it.

3556. That means, therefore, that your paragraph is not based upon Trade Union policy?—If that circular was not a Trade Union document, I agree to that extent.

3557. Was that circular a circular of the Miners' Federation?—No, I do not think it was. It was circulating all over South Wales, but the Miners' Federation never took the trouble to disclaim it or protest against it.

3558. Well, I do not know about that. It cannot be a Trade Union circular, and therefore that cannot suggest Trade Union policy.—May I say that lately I have seen with great pleasure that a number of the Trade Union leaders have come out plainly with the statement that no higher standard of living can be obtained without a great increase of output per person employed in the country. That does not mean necessarily that individual workmen have to do more work, but that everybody has to work together to get that result.

3559. You spoke of South Wales and reflected on the Trade Unions and people connected with them, but you say nothing—and I do not know what information you have upon this—of the hours which the miners spend underground without proper accommodation being provided for output. Do you know that it is a well-established fact in South Wales, or was not very long ago, that men were standing idle and could not dispose of their coal because there was not sufficient organisation at the top of the pit?—I know that during the War there was a certain shortage of tubs and other things, and the Controller devoted his energies to remedying it in every possible way. My information is that that shortage of tubs and machinery and plant has been very largely made good. Mind you, I do not say that a great deal more could not be done; I think it could.

3560. But you have not got that qualification in this paragraph; that is my difficulty?—No. Of course, that paragraph is merely our impression gathered from what one sees and reads everywhere, with the result that, I think, if you asked 99 people out of 100 you would get the same answer.

3561. *Mr. Lees-Smith*: On a slightly different point, is it the case that there is no such thing as a combination of employers that restricts output?—I think there is a good deal of blame on both sides. I am not holding a brief for the employers.

3562. Can you point out in what part of your evidence you refer to the combination of employers?—I do not know that we have.

3563. That is what surprises us. We understand that what you have special knowledge about is the employers' side?—I do not know of any combination of employers that has restricted output except rubber, where they tried to do it and failed; but that is abroad.

3564. I thought you said you did know?—No. I say there may be, but I do not, personally, know of any in this country. It is dead against employers' interests as a rule to combine to curtail supply in the big staple industries. It would be ruination to try and combine to restrict output in that way. The great aim and object of all the employers in all the big industries is to get the greatest output possible.

3565. What I have in mind is the evidence before the Profiteering Committees during the War.—There was a lot of that sort of thing, but I hope we have lost it now.

3566. I should have thought that you would have given us your evidence from the point of view of employers rather than from the point of view of Trade Unions, of which you have not special knowledge?—I do not know that we have any special knowledge, except what we come across and find and see. I do not happen to have come across any detrimental combinations of employers in my experience in the big industries.

3567. *Mr. Bramley*: I should like to get the conclusion from this discussion on this paragraph very clear and very definite. I take it that you have no facts showing the respective output per man due to Trade Union policy as compared with the period when Trade Union policy had no effect; you have no records or proofs?—I do not know to what extent Trade Union policy has or has not had effect. I have got all the coal output figures right away back from the beginning of the War up-to-date.

3568. But you subscribed to this paragraph?—More or less, yes.

3569. With the exception of mining you have no figures?—No, I have not, personally.

3570. In regard to mining, I suppose you agree the deeper you get in the coal mine of necessity the more difficult it is to get coal?—Yes.

3571. And you can only expect a diminished output per man employed?—Yes. That is why the output here, when it was at its best, was about 1 cwt. per man and in America it was about 3 cwts. per man, because theirs are shallower mines.

3572. It is not due to Trade Union policy?—No. The reduction from 1 to 2 cwts. before the War to ¾ to ·8 cwt. I should suggest is probably due to the Seven Hour Act.

3573. Do you suggest that the Committee, in fact, should not take much notice of this paragraph?—No. We merely put it in as a suggestion of an important thing to be inquired into that we are not an authority on.

3574. You are not qualified to say?—We say we are not qualified.

3575. I want to have in the minutes of evidence the admission that the witnesses are not qualified to say what they do say in this paragraph; that is correct, is it not?—Yes. All that we say in this paragraph is that it is not within our compass to say whether Trade Union policy should be altered or should not be altered, but Trade Union policy, whatever it is, one way or the other, has a great effect on production; we do not say which way it has that effect.

3576. Again, I want to be perfectly clear. I understand you agree that you are not qualified to say what is said in this paragraph?—Oh, yes, we are quite qualified to say what we said in that paragraph if you look at what we have actually said.

3577. The facts, of course?—What we have said is this: We have merely suggested to the Committee what we regard as a very important matter to be inquired into, but we are not qualified to speak about it. The effect of Trade Union policy, whatever it is, is of very great importance; we do not say which way it is.

3578. *Sir Josiah Stamp*: Arising out of the question by Mr. Lees-Smith, there is a point upon which I think you should be regarded as experts. There are in existence, are there not, or there have been in existence in various trades, associations of people in the same trade in which there are understandings of various degrees of binding character in relation to price and other matters?—Yes.

3579. And in nearly all those cases chartered and incorporated accountants are acting in some capacity, secretarial, auditorial or otherwise?—Yes.

3580. Would it be the experience of your profession that as a whole those associations deal with other questions than price and deal also with output?—I have not had any personal association with any of them, but I think Sir John Mann has; perhaps he would answer that. (*Sir John Mann*): The point is whether trade associations deal with problems other than price.

3581. Whether it would be right to say that the objects of the trade associations include control of output on the part of the members?—I do not profess to have any special experience, but broadly speaking when the question of output does come up, it is more a matter of allocating it geographically, or with regard to conditions of plant—not to restrict the total volume of output but to re-allocate it and run it where it may be most efficiently and properly produced.

3582. Would it be true to say that in so far as those associations do touch output they merely deal with allocation amongst different firms?—That is my belief.

3583. And the characteristic provision would be, where they do deal with the amount of output, that anything in excess of a particular amount should involve a contribution to a common pool?—There are various types, and that is one.

3584. Would it be correct to say that none of them restrict the total output of the whole trade?—I am not aware of any.

3585. Have you ever met the case where the effect of the association rules or practice is to limit the total national production in that industry?—I cannot recall anything at all.

3586. *Professor Hall*: Does not the fixing of price tend to restrict the quantity? *Sir Joseph Stamp*: I am coming on to that?—(*Sir Arthur Dickinson*): The effect of these pools is that they keep alive concerns which in the course of competition would otherwise go under, and thereby they tend to increase the output.

3587. You are the only people who would have this information, because individual firms belonging to the associations do not know as much as those who act for them in this capacity?—No.

3588. Have you ever had any case at all in which the net effect has been a restriction of the total output?—(*Mr. Pitt*): I can speak in regard to one very large combine, and the negotiations of this association with the trade unions always have been in the direction of endeavouring to get a larger output, while the negotiations from the men have been in the opposite direction. The Masters' Association has endeavoured to increase the output necessarily. The industry, I may as well say at once, is an industry in an extremely difficult situation where large losses to-day are being made. There the one endeavour of the Masters' Association has been to try and make the industry pay by getting an increase in output. I have never seen any attempt in the opposite direction. it seems to me it would be absolutely contrary to their policy and would be detrimental to the trade as a whole.

3589. No one of you three gentlemen has come across the case of a price fixing association or an association of manufacturers whose rules or practice definitely limit output?—No, I never have. (*Sir Arthur Dickinson*): I have heard of cases, mostly in America certainly, where restriction of output has been tried and it has generally resulted in the break-up of the association.

3590. Now coming to the consequence of what they do, namely, the fixing of prices for a time and the pooling of output and the settling of quotas for different firms—either pooling of profits or the pooling of so much for quantities exceeding their allotted proportions—has it been your experience that the method of price-fixing under these arrangements has been to limit the total output? Take the case, first of all, where the price is being fixed above what might otherwise result from competition; is the net effect of that in your judgment to limit output?—(*Mr. Pitt*): I have seen attempts in that direction, but they have always been utter failures, because the members of the association would never keep together. I have never seen it successful in practice.

3591. What would be the effect of arranging a price which is above what might otherwise be a competitive price? First of all, what would be the effect on the producer? He would at that price probably be able to produce more, would he not, taken as a body than he could at the lower price?—Yes.

3592. But, on the other hand, the consumer could not take as much as he would at a lower price if there is any reasonable elasticity of demand?—The consumer would immediately seek competition from abroad, and it usually has the effect that such a combination is a failure, or a section of the persons who enter into such a combination will not keep to it. I have not seen it successful.

3593. You cannot answer the theoretical question whether fixing a price higher than the competitive price gives a net output larger or smaller than would otherwise result?—I should say, distinctly larger, simply because the lower price is a price at which they cannot make profitable trading, and that is the whole object of the thing. These combines are at the present time trading at heavy losses, and if they can arrange so as to get an increased price, then also they can do an increased turnover.

3594. Have you known any cases where the price-fixing arrangement has been designed to fix a price lower than the competitive price?—No, I never have.

3595. You have known the case where it is higher?—I have known attempts to fix a price higher, but I never have known an attempt to get lower prices. (*Sir Arthur Dickinson*): The Steel Corporation of America have done that.

3596. If know of that case?—(*Mr. Pitt*): It is not within my knowledge. These arrangements within my experience arise from the desperate competition which exists to-day, particularly foreign competition, and it is simply a struggle to keep their heads above water. It is so in industry. We have to compete with black labour. Take cakes coming to this country; they are made in Egypt by black labour at very low rates of wages. They come into our country without any form of taxation at all. They do not pay Income Tax, Super-tax, or any form of taxation. They come in duty free and they come all round our mills. We have to pay standard trades union rates of wages. The result is that we got consistent losses. When the mills all over the country found this sort of thing, they made from time to time attempts to get a combination between them of prices in order to get higher prices to cover the expense, but I must say those attempts up to the present have been a failure, and that industry mostly by reason of the competition of coloured labour is at the present time in a most serious position. That can be proved by reference to any of the balance sheets.

3597. But you cannot give us a firm answer to the general question as to whether price-fixing associations, as the result of fixing prices, affect output either way—increase it or diminish it?—(*Sir John Mann*): There are cases within my knowledge where a higher competitive price might be obtained than prevails, but the policy of the employers is to content themselves with a reasonable profit in the knowledge that the demand would be stimulated; their definite policy is to accept a lower price than might be extracted from the consumer, with the object, taking the long view, of increasing aggregate demand. There are cases of that kind.

3598. I am anxious to get any evidence that can be got from you, who are really in the best position of anybody to give it, bearing on this problem of the employers' side of, we will say if you like, interfering with the natural course of competition?—(*Mr. Pitt*): I think employers have endeavoured to interfere with the natural course of competition from abroad—the unnatural competition of coloured labour as against English labour; the unnatural competition of coloured labour which pays no taxation at all and comes into competition with Great Britain, absolutely ruining this particular industry that I have referred to, and I believe there are other cases.

3599. But there are cases, are there not, where there have been price-fixing arrangements into which foreign competition has not entered, but where there has been very keen internal competition?—I am sorry to say that I am not in a position to speak of those combinations to which you refer. On this particular industry I can speak with absolute certainty, because within my knowledge and within my practice the masters really have combined, and it has been to meet that which I regard as unnatural competition. But the competition to which you refer or the fixing of prices to which you refer is not within my knowledge.

3600. *Sir Alan Anderson*: In paragraph 74 the witnesses speak about trade union policy limiting individual output. Is that any part of our business at all, because, if it is, it seems to me we ought scarcely to leave it at the point reached so far? There must be a good many people who have views about that, and if there is any wish to crystallise the sort of common opinion that there are Trade Union acts of policy which limit output, it might be interesting to hear it, but I do not know that it is part of our business. There is the question of payment by results, for instance. *Chairman*: It would have an indirect effect undoubtedly. *Sir Alan Anderson*: I do not want this opinion to go as if it were undefended or incapable of being defended. It is a very interesting point, but I do not know that it is a point for us. With regard to Section VII, I understand that you have not met with any very serious effects from the Death Duties as they exist now; you have not noticed them doing any great harm to trade?—(*Sir Arthur Dickinson*): Speaking only personally, I think it is quite a good tax, and I always have thought so. (*Sir John Mann*): May I be permitted to mention that in Scotland there is a strong feeling that particular emphasis should be laid upon the peculiar detrimental effect of Death Duties and other taxation upon agricultural land. Instead of going into some of the details with which I have been supplied, I suggest that the Committee might see its way to invite some evidence from the Scottish Land and Property Association of Edinburgh, consisting mainly of land owners, who I believe have very strong views, particularly as to the incidence of taxation upon land and the detrimental effect upon what is one of our largest industries.

3601. *Sir Alan Anderson*: But in ordinary trading concerns that you deal with you have not met with any very serious effects?—No, that is so.

3602. *Chairman*: We have had the Central Land Owners' Association before us with a written statement; perhaps we might ask the Scottish Association to give us a memorandum?—If you care to ask whether they have anything to supplement it, it might be sufficient. The body of which I have the name is the Scottish Land and Property Association of Edinburgh, the membership of which is composed of landed proprietors.

3603. We could ask them for a memorandum?—I have discharged my duty if I say that; it saves me submitting anything that I should not be able to speak to in detail.

3604. *Mr. Lees-Smith*: I did not realise that you took such a favourable view of Death Duties as compared with other taxes. Your opinion on this

would be valuable. We have had some very important witnesses who have argued that Death Duties are really more disadvantageous than Income Tax, because they come to a larger extent out of savings than Income Tax. Would you as accountants tell us whether that is your experience or not?—(*Sir Arthur Dickinson*): I would not have thought there was very much difference. After all, Death Duties only transfer property from one person to another; that is what it comes to.

3605. *Chairman*: Do your colleagues agree with what you have said?—(*Mr. Pitt*): I should like to say that I think Death Duties, if very high, defeat their own ends. I mean to say that we have cases which are quite injurious. There is the case of a man—I should not mention names perhaps—who was reputed to be a millionaire caterer. His estate was valued and paid duty upon a sum which was regarded as a bagatelle. He made comments in his will that he had already looked after his children, for whom he had the very highest regard, and so on. It seems to me that the present rate of Death Duties simply means this, that men during their lives, if they wish to protect their children, simply make away with their estates, notwithstanding the example of King Lear, and therefore it does seem to me that by an exaggerated system of Death Duties you are not getting the highest amount of revenue. It is similar to taxing such a thing as cigars. We had enormous taxation upon cigars, and you got a reduced revenue. My own feeling is this, that the result of these very heavy Death Duties, although I am not against them in principle—I think they are perhaps the least objectionable of all duties—is that you will defeat your own ends in making them too high, and particularly is that the case where you have men going abroad and making huge fortunes. I had a case within my knowledge about three weeks ago. A man wanted to come back to England with an income of about £30,000 a year, and he came to consult me. He said: "What will this mean in taxation?" I told him the amount of taxation in Income Tax (he was a man of 60 years of age) and then I told him that of course there would be very heavy Death Duties when he died. Well, he fled the country. He lived for a certain number of months at the Savoy Hotel, and immediately his time was up he fled to France. That is one illustration of many others, and all I can say on Death Duties is that although in principle I am in sympathy with them within reasonable bounds, yet if you put them too high you are simply, instead of increasing your revenue, getting a greatly reduced revenue.

(*In the absence of Lord Colwyn, Sir Charles Addis took the Chair.*)

3606. *Mr. Lees-Smith*: That is not exactly the point I wanted to get your views upon. In the case you mention of course if Death Duties are evaded they are not paid, and therefore these ill-effects do not arise?—No.

3607. But there are so many cases in which they are paid. The argument that has been made before us is, that in the case of Income Tax a certain proportion at any rate comes out of economy; it does not come out of savings; but in the case of Death Duties practically the whole comes out of savings, and the estate is reduced, and particularly in large businesses a great section of the capital of the business is suddenly taken away at a death. There is only a comparatively small amount of insurance against Death Duties, and therefore it is far more disadvantageous than Income Tax?—My experience of that is this: most of our great trading institutions now are in the form of limited liability companies, and they are of course not affected by Death Duties. With regard to private firms, they are comparatively small and provision is usually made in one form or another to meet Death Duties; that is my personal experience. (*Sir Arthur Dickinson*): Probably you know better than I do that Italy has abolished Death Duties altogether on the ground that they were preventing the accumulation of savings in Italy, and I was told by an Italian friend of mine—it is only hearsay—that the effect of that had been an enormous increase in the last four or five months of savings in the Savings Bank. He was most enthusiastic about it, and as he is not a rich man it would not affect him very much.

3608. *Mr. Bell*: Is it not within the knowledge of any of you that a big call upon one of the partners of a firm for large Death Duties really does great harm to the firm in its business and its ability to trade to the same extent as formerly? (*Sir John Mann*): I have a case on that point in my mind. The tendency to form large businesses into companies is so very prevalent that the cases are very few where an actual business might be crippled. Private estates are undoubtedly depleted, and after all the Death Duties come out of either past savings of the individual who has perhaps insured his life to meet the liability or the heirs may have to borrow money on the estate to pay the duties. They in their turn presumably will save money to pay for the redemption of that amount, so that in one form or another they do come out of savings, but they are less burdensome, I suggest, on industry than Income Tax, because they are not foreseen to the same extent.

3609. *Professor Hall*: Do you suggest in paragraph 58 that sums applied in repaying debt represent capital that is lost to industry? Is it not rather a transfer from the one who pays the tax to the State and from the State to the one who has held the War debt? Is it lost entirely to industry?—(*Sir Arthur Dickinson*): Well, it may be. You cannot tell what happens. It disturbs the channels of trade; it has been in a certain channel and it is suddenly forced into another one. You do not know what the former debt holder is going to do. It presumably flows back into industry in some shape or another, but it causes a lot of disturbance in the meanwhile.

3610. But that is not quite the same as depriving industry of capital?—No.

3611. Your statement says that it may deprive industry of necessary capital?—Yes, it may.

3612. I want to know how far you think industry is deprived of capital by this transfer?—As far as foreign debt is concerned the money goes out of the country. With regard to the internal debt, I think it largely depends on the use people make of the money when they get their War Loan paid off.

3613. You do not think there is any substantial deprivation of capital for industry as a whole?—No. So long as the amount of money required to repay debt can be raised without disturbing industry materially, there is no harm in it.

3614. I am not thinking of the question of disturbance; I am considering the question of the loss of capital. Is there any loss of capital?—No. If you had a very extreme repayment of debt you would be merely transferring a lot of capital that is now owned by individuals to the State.

3615. I think your statement in this paragraph may be rather misleading. You say that a quick repayment may deprive industry of necessary capital. It may deprive some industries of capital that they can use profitably, but does it inevitably deprive industry as a whole of capital?—If you put abnormally high taxes on for the purpose of repaying debt you take away from every industry in the country, in the first instance, a large sum of money. When you have done that you repay debt with it, but meantime you may not be able to get the money from those industries. They cannot pay cash so they have to turn capital over to the State. You may get into a position in which the State owns half the industries of the country, if you make the tax big enough.

3616. But is not that money when applied in debt repayment transferred again to industry through the medium of the banks and other ways?—It stays in industry, but the disturbance is the real trouble.

3617. And not the transfer?—Yes, the disturbance and the possibility of transferring the industries to the State. (*Mr. Pitt*): I would like to say a word

on debt repayment. I think it is entirely a question of degree. So long as debt repayment is within the savings of the nation, you are not taking capital. Immediately you exceed that figure you are depriving industry of its lifeblood. It is simply a question of degree. I dare say Sir Josiah could give us the exact figure of the savings of the nation year by year. All the time you limit repayments of War Loan within that figure you are not reducing capital, but immediately you exceed that, of course, you are reducing capital. As we have stated very plainly here, out of the surplus income of the nation year by year you must provide for the national expenditure, and then you must provide an adequate sum for increased capital for industry to trade upon; and then after that you must provide for paying off debt. Provided those three figures are within the national savings you do not reduce the trading capital of the country, but immediately you exceed that you take the lifeblood from trade and it would cause disaster.

3618. Do you think the amount that we are taking now is a dangerous amount?—I consider so, yes. I believe at the present time that it is a dangerous amount. We are on the danger line to-day, because I believe that this enormous taxation in all directions which is taking place is a real danger. I have been passing a good many balance sheets lately, and I think you will see that the result of the trading of the last 12 months bears out my statement. I believe you are right on the danger zone at the present time.

3619. *Sir Josiah Stamp*: Do you mean by danger, that by repayment of debt we are depleting the national savings?—Yes. You are depleting the national savings unduly. In my view just in the same way as a private individual in his own business should constantly increase his capital, so the nation as a whole should increase its capital, and by this heavy taxation you are not allowing the nation to increase its capital, its lifeblood, for trading purposes. The amount now, I believe, is right on the danger line.

3620. Will you tell us if we taxed to-day to repay £100,000,000 of debt in a year where the money gets to?—If that comes out of the national savings it does not decrease the capital of the country.

3621. Supposing it is saved out of profits: suppose instead of using it to buy things people are taxed and pay it over and War Loan is repaid with it, what happens to the money in the hands of the people who have that repayment of War Loan?—That question I am afraid is rather difficult to answer. I should have first of all to tell you what I believe is the Government balance sheet, and then the national balance sheet, and show you the operations upon the national balance sheet before I could really visualise to you my answer.

3622. You say we are on the danger line to-day in the amount of debt we are repaying. Supposing that we take as much as £100,000,000 by taxation from industry and repay debt with it, what happens to it in the form of national savings? Do the people, whose debt is repaid, go and spend it as though it were income, or do they try and re-invest it?—It is simply a cancelment on both sides of the national balance sheet. You have in the national balance sheet the liability of the War Loan, and on the other side it is held by other persons. The repayment of the debt simply involves a cancelling cross-entry; that is the effect on the national balance sheet.

3623. This evidence is so much in conflict with evidence that we have had that I must ask the other witnesses if they agree; if £100,000,000 is taken by taxation and applied to repay War Loan, are not the national savings *ipso facto* increased by £100,000,000?—Repayment of War Loan simply means a cancelment on both sides of the national balance sheet; that is quite clear.

3624. *Sir Alan Anderson*: It seems to me that what the witness said was a little different. I think he was speaking of the total burden of taxation. *Sir Josiah Stamp*: I thought you meant that we were on the danger line as regards the amount of taxation we were raising for repayment of debt; that it was decreasing or depleting the savings of the country?—(*Mr. Pitt*): What I meant simply was that if you take the total taxation to-day, Death Duties, and every other form of taxation, I believe that they have reached their limits, and anything in the nature of an increase would bring us right into a grave danger and would deprive trade of capital and so be a great disaster to the country.

3625. I would like to know whether the other witnesses agree that heavy taxation for the purpose of repayment of debt does deprive the country of capital?—(*Sir Arthur Dickinson*): Personally, I do not think it does. I think it disturbs the flow and it entirely upsets everything, but I should limit it to that. (*Sir John Mann*): There is a serious dislocation; that is probably common ground; but otherwise it seems to be a transfer of the ownership of an asset.

3626. *Professor Hall*: I understood the view to be that so long as the tax did not exceed the surplus of income we were quite safe, but if the capital of business was trenched on for the purpose of paying the tax then it was dangerous to industry?—(*Mr. Pitt*): That is not quite sufficient, but very nearly. What I said was that you have every year a definite surplus, the savings of the nation. Out of that you have to pay the ordinary expenses of government; you have to put increased capital on one side for the development of trade; and you have to pay off a certain amount of National Debt. Provided those three figures do not exceed the total savings, then you are not outside the danger line; I think that is clear. I do not think I am in conflict with Sir Arthur there.

3627. *Sir Josiah Stamp*: Supposing they do exhaust the savings, what does it come out of?—Then it simply means the transfer of capital.

3628. *Professor Hall*: What becomes of that amount which is applied in debt redemption; does not that come back into the industry for the purpose of capital expansion? It is not dissipated, is it?—It is simply this, that the nation has an income, and it must not exceed that income.

3629. But supposing you receive back £10,000 in debt redemption, you seek another investment; does not that find its way back into industry although it may have been paid originally in taxes by some other person engaged in industry?—If you were to take your national balance-sheet and assume that your liabilities were on the one side £100 and your War Loan held by individuals £100, if you tax to the extent of that £100 and cancel your War Loan you would find that the £100 had been cancelled on both sides, and the machinery of credit, the £100 which was in the hands of the individual, he could no longer use in his business.

3630. Quite, so far as that £100 is concerned for use as credit?—Quite so; it has gone for business purposes.

3631. So far as the real capital of the country is concerned there is no alteration?—So far as the real capital of the country is concerned, provided, as I stated, that you do not exceed the national savings, it is simply a cancelment on both sides of the account.

3632. *Sir Josiah Stamp*: We have had in in evidence from other witnesses that heavy taxes for the purpose of debt repayment are equivalent to compulsory saving on the part of the ordinary individual and increase the amount of national savings beyond what they would otherwise be.—(*Sir Arthur Dickinson*): Not necessarily, I think, because a concern may not have enough to pay the taxes that are required from it and has to borrow for that purpose from its bank and carry on in that way.

3633. The witnesses have addressed themselves to its general effect. They admit that the concern that gave up the money may not be the concern to whom the money will flow back ultimately, but they have alleged that heavy taxation for the repayment of debt increases national capital?—High taxation for the

repayment of debt is not as bad as high taxation for other purposes.

3634. You do not agree that the tendency of high taxation for debt repayment purposes is to increase the national capital?—(*Mr. Pitt*): It all depends where it comes from. If it comes from the surplus of the nation, then there will be no depletion of capital, but if it comes outside that range then there is.

3635. In so far as it comes out of capital it is merely replacing capital by another entry of capital; in so far as it comes out of consumption, it is increasing capital?—Not so far as War Loan is concerned. It is simply a cancelment on both sides of the account, and you take away from the individual his machinery of credit that he uses for his business. (*Sir John Mann*): Does it not depend on the source from which the money arises—whether it comes out of the alteration of the standard of living or restricted consumption on the one hand, or savings on the other.

3636. Certainly it has no greater effect whether it is merely a transfer of capital or whether it is an increase, but can it in any circumstances be a decrease?—It seems to me that it cannot be a decrease, because the assets remain in the country. It alters the ownership justly or unjustly. It leaves the great accumulation of capital, irrespective of who is the owner of it.

3637. *Professor Hall*: Would you say, if a man had to pay £100 in taxation, that he is likely to save more than if he had only £50 to pay in taxation?—The more taxation he has to pay, naturally the power to save is reduced. The incentive to save may be increased in some individuals, and in other individuals it may have the reverse effect. It is entirely a psychological effect varying with the individual. The power is distinctly reduced; the incentive varies in the different cases; I am not prepared to say on balance how it acts. (*Mr. Pitt*): I think if you refer to paragraph 57 you will get a complete answer. We state here definitely: "It follows that the annual repayments of National Debt should at no time exceed the amount of the annual savings of the nation which remain after providing for interest upon debt, for the necessary expenses of government, and, above all, for a sufficient annual increase in the capital of the nation."

3638. *Sir Josiah Stamp*: My questions have been directed to find out what that sentence means rather than being answered by it?—(*Sir Arthur Dickinson*): It simply means that, if in taxation you exceed the annual savings of the country, you are transferring capital to the Government; it does not destroy it.

3639. But compulsory taxation for repayment of debt rather induces saving, and you are merely answering the question by asking another one. The more you tax for repayment of debt the greater the national savings are; that is the answer?—They are not necessarily.

3640. That is the position put to us?—(*Mr. Pitt*): The only way in which you can repay debt is out of savings; that is my view. You are limited to that extent. Once you get beyond that then you are entrenching upon the capital of the nation, but you can, and you can rightly, repay a debt out of the savings of the nation.

3641. And you say the savings of the nation are not affected; they are a constant thing?—No, they alter from year to year.

3642. When I say constant what I mean is you would not admit that the repayment of debt increased the amount of savings?—No. The repayment of debt is simply a writing-off on both sides of the national balance sheet. (*Sir Arthur Dickinson*): Take an extreme case. You say: "We will repay £8,000,000,000 of National Debt this year." You cannot increase the savings of the nation to the extent of £8,000,000,000. You are going to transfer those masses of capital to the Government.

3643. All that means is that there is a margin between production and consumption, and by heavy taxation you can make that margin larger, but if you go beyond that you then start entrenching on capital and change its ownership. We know that; that is obviously a question of degree. The point we are on is this: Does heavy taxation actually make the margin between consumption and production larger than it would otherwise have been, and therefore make the amount of saved capital larger than it would otherwise have been?—In other words, the higher the taxes the greater the savings.

3644. Yes. That has been put to us by eminent witnesses?—That I do not believe in.

3645. *Sir Alan Anderson*: The higher the taxes for debt redemption?—I do not think that makes any difference. People do not consider what they are paying the tax for. They know they have to pay 4s. 6d. in the £, and they pay it. (*Mr. Pitt*): I think the income of the nation is a limited quantity. It is a certain definite quantity which can be estimated. You cannot exceed that quantity, and out of that quantity you can repay debt, but you cannot go beyond it.

3646. We are not on the point of increasing the gross figure but on the point of diminishing the consumed figure. Supposing the produce is put at £1,000 and the normal consumption at £900, you have a saving of £100. Supposing the State says: "We will take another £50 in taxation," and it succeeds in reducing the consumption to £850, and the £50 that it takes goes in the repayment of debt, have not you then increased the savings of the country from £100 to £150?—If you can. (*Sir Arthur Dickinson*): But I should not accept your premise. Would you necessarily decrease it by £50? Why should it?

3647. I have said if you can succeed by taxation in reducing the consumption of the people?—That is a big "if."

3648. That is what heavy taxation did?—I suppose one effect of paying off debt would be deflation to a certain extent which would mean reduced prices. It would also mean reduced incomes, and after a very short period of adjustment you would be in the same position as you were in before. (*Mr. Pitt*): I do not believe this question can really be argued to a finality unless you put down, as I stated at the commencement, what is the national balance sheet, and when you have down on paper what the national balance sheet consists of then you can ask these questions and we can show the effect. The national balance sheet, as I understand it, is composed of an amalgamation of the Government balance sheet, of the municipal balance sheets throughout the country, the joint stock companies' balance sheets, and the individual balance sheets. When you have got the whole thing amalgamated then you will find on both sides of the calculation War Loan on the one side and War Loan on the other, and then you can see the cancelment out.

3649. I agree that might be a very useful exercise to trace the effect of it, but I suggest the point is this: Is the difference between high and low taxation on the whole spent by the consumer or saved by him?—I believe it is spent.

3650. If it is spent by him then surely what you take away from him over and above low taxation must increase the savings of the country?—I do not believe that taxation does in fact make a man save more than he otherwise would. In fact, he has a great struggle to save the customary amount, but if you increase the taxation upon the individual you simply make his savings less.

3651. *Sir Alan Anderson*: Supposing you reduce the taxation, would the individual spend a bit more?—No, the prudent man would save more.

3652. I thought you said the effect was that he spent the difference?—(*Sir Arthur Dickinson*): The aggregation of individuals would both spend more and save more.

3653. *Professor Hall*: We had put before us in our discussions on the equity of taxation upon people who saved and people who did not save the case of two barristers, one of whom saved and the other of whom was reckless and spent all his income. Apparently

he spent all his income, whatever he had. If he were taxed, would not that be compulsory saving? Would not you be compelling that man to contribute to the national capital by compelling him to restrict his consumption?—He might spend some of his capital instead.

3654. *Mr. Bell*: He might borrow?—Yes. A man does not necessarily make his income meet his expenditure. When a man reaches 60 or 70 he has got perhaps 20, 15 or 10 years' expectation of life. He will say: "These very high taxes are coming in while I am old. I am not going to curtail my expenditure; I am going to reduce my capital. I am going to live comfortably for the rest of my life."

3655. *Professor Hall*: Supposing he has no capital, he will be compelled to pay his Income Tax?—Yes.

3656. And therefore compelled to restrict his consumption?—Yes, presumably.

3657. I want to know whether on balance you think that taxation of that sort does increase saving?—I think it is impossible to say absolutely. (*Sir John Mann*): I agree, because it varies with the individuals; it depends on their different circumstances, their state of health, and half-a-dozen other things. I do not think we could here venture to suggest what the effect would be.

3658. Do you think that high taxation tends to stimulate business men to seek economies in the administration of their business?—(*Sir Arthur Dickinson*): No, I do not think so very much, for this reason, that if their profits are less their taxes are less. If they make their profits more they have to pay a quarter of it away in taxation. Take the Excess Profits Duty; the inducement certainly was to extravagance, because a man said: "The Government paid 80 per cent. of it." To a lesser extent it is the same thing with the tax at 4s. 6d. Where it ceases to act in that way I do not know. If it was 1s. probably nobody would pay any attention to it. There again you have imprudent people and prudent people. The prudent man would say: "If I have to pay more taxes I have to make more profits to meet it." The other man might say: "I will take that out of savings and spend the same as I spent before."

3659. *Sir Charles Addis*: I think we must leave the question of the effect of taxation upon savings in a neutral way as it stands at present?—(*Sir John Mann*): Might I suggest that the paragraphs on the question of repayment might be read with 53 and 54 because the capacity of the country has been reduced not only by the loss of capital but by the loss of brains and energy through the destruction of man power during the War.

3660. In paragraph 51 you say: "A prudent Government will set for itself a minimum standard of debt reduction in good times and bad." Can you make any suggestion as to what in your opinion would be a minimum figure?—(*Sir Arthur Dickinson*): I have always had the impression that the £50,000,000 a year that the Government set aside is a very reasonable figure, and that should be increased by any surplus revenue. At present if there is any surplus revenue it is mopped up in more expenditure and not put to debt reduction the next year.

3661. Would you consider then that we ought to budget for a surplus expressly?—No, I did not mean that we should budget for a surplus. What I meant was you budget for a certain year and budget for an equality, and it happens to turn out that there is a big surplus. That naturally goes to debt reduction, but that forms the basis for the budget the next year, and the tendency as a rule is to mop up a great deal of that surplus in the next year in further expenditure instead of reducing taxation. I think you will get more to spend in a year or two by reducing taxation and encouraging industry—by broadening the basis of taxation which is what we want. A few years of that will produce a greater amount of taxation levied at a lower rate than we are getting now from the high rate. It means postponing for a year or two a lot of these rather sensational improvements that we are going in for.

3662. Generally your opinion would be in favour of confining debt reduction to a fixed figure?—Yes, that is what is meant by that. Any surplus on the year would go in as well, of course. (*Sir John Mann*): If I understand correctly the suggestion is that there should be a regular Sinking Fund or debt redemption fund which might be increased according to the state of the Budget ascertained at the end of the year; that is to say, the surplus would go into a fixed steady debt redemption scheme.

3663. Yes; that is what I understand by it. You are in favour of a fixed annual Sinking Fund?—And not fluctuating with the state of trade. That is reflected possibly in the Budget.

3664. And also that there should be no budgeting to produce a surplus, but greater advantage should be taken of a surplus if a surplus should arise?—Yes.

3665. *Professor Hall*: Would you increase that £50,000,000 as the interest charge falls?—(*Sir Arthur Dickinson*): I would rather use it to reduce taxation and so promote increased production, and by so broadening the basis of taxation you will get a larger amount available for debt redemption than you would with the present high taxes.

3666. I am asking you whether you think this £50,000,000 should be increased if conditions become more favourable?—Yes. If the conditions permit at the same time of reduced taxation down to a more reasonable limit.

3667. *Sir Alan Anderson*: I understand you are satisfied with the present debt redemption arrangements, but you think the other taxation is dangerously high, and you think bringing it down is the first necessity for putting trade right?—Yes. (*Sir John Mann*): May I just add we must not be held as speaking for the profession with regard to the figure of £50,000,000 which Sir Arthur has mentioned; we have not considered it.

3668. *Sir Charles Addis*: It is Sir Arthur's personal opinion. May I ask if the other witnesses agree?—(*Sir John Mann*): I would rather not be held committed to that.

3669. And you would rather not be committed, Mr. Pitt?—(*Mr. Pitt*): No.

3670. There is a question I wanted to ask on paragraph 52: "But allowances must be made for accumulation of capital (*a*) to provide for growth of population; (*b*) to replace capital lost in the War; (*c*) to provide for new undertakings; and (*d*) to permit improvements in the standard of living." Have you been able to consider what provisions should be made in amount for those purposes in general terms?—(*Sir Arthur Dickinson*): No, I do not think we have considered that at all; it would seem to be more a political question.

3671. With regard to the same section, you refer in paragraph 53 to the fact that the earning capacity of the country has been materially reduced. How far has there been a counter movement to that in improved organisation and the greater mechanical efficiency which has arisen as one of the effects of the War?—My own personal opinion is that there has not been anything like as much as there ought to have been, or as there has been in France or Switzerland. (*Sir John Mann*): There is a compensating effect, but it is impossible to get at it. The earning power of the country is its large asset; it is one of the assets which has been cut out altogether—I mean the skilled men that have disappeared.

3672. *Professor Hall*: Is it as serious as it is sometimes considered?—I regard it as very serious. As a rule the best men went out, and in many cases did not come back again. Compared with the pre-war position there has been a great gap, not only in the capital assets, but in the earning power through the muscle and brain and skill of the country.

3673. It is suggested, for example, that despite the amount of unemployment there are as many men at work now as there were before the War?—I think that is so; that is the increase in population which would have gone on in any case.

3674. *Sir Charles Addis*: At the same time, there has been a lower standard of living—I am referring to paragraph 18.—Compared with before the War.

3675. Well, that is rather debateable. The post-war conditions must necessarily result in a lower standard of living as a whole?—That is the restricted power of spending.

3676. You do not want to qualify that statement as it appears here?—No. (*Sir Arthur Dickinson*): I should say there is certainly a lower standard of living taken as a whole.

3677. You comment on the fact that provision has to be made for the increased population and the continuing increase in the standard of living. In paragraph 49 you say: "The need for capital continues to increase with the increase of population and the rise in the standard of living." Your opinion is that there has been no rise in the country but a fall in the standard of living?—That is for the future. The rise in the standard of living is what everybody is working for, and if you are to have a rise in the future you must have more capital to finance it.

3678. *Professor Hall*: I wonder if the witnesses could give us any indication of what they think is a reasonable proportion of the savings of the country that should be allocated for development?—No. It would rather be "Think of a number." It is very difficult to specify a particular figure.

3679. A good deal of capital would be invested abroad and not necessarily invested in a manner helpful to this country?—Yes. Personally I should say capital invested abroad was very helpful to this country. It brings trade and business and helps us to increase our markets without which we cannot live.

3680. But not in many cases?—Everybody invests money foolishly at times.

3681. Are you inclined to suggest any restriction of any such capital investment?—No.

3682. What troubles me is to find out the margin which you think should be applied out of our savings for the purposes of debt redemption, and I want to find out what you think should be the proportion of national savings that industry should take.—It would be very useful, but it is almost impossible for anybody but a skilled statistician. (*Mr. Pitt*): I do not think we could possibly increase it. It seems impossible to increase the existing figures having regard to the fact that trade is in want of capital for development purposes, so it does not seem to me possible to increase your existing figures without serious detriment to trade.

3683. I am not suggesting that we should increase. I really want to find out the standard by which we can judge whether we have more available for this purpose or not. I agree with you that capital is required for the purpose of development to meet the needs of the increasing population, but how much? What is to be the standard? What is to be the rate of interest or the standard that must guide us in deciding the available margin for debt repayment? We may be paying too much for debt repayment?—(*Sir John Mann*): We do suggest at the end of paragraph 58 that probably the Committee has the material upon which that calculation must be based, but I am afraid it is not before us in any way. We might suggest probably after a great deal of consultation amongst ourselves a formula, but personally I should be very unwilling to hazard a guess upon it. It is not perhaps an exact proportion of the savings, but the larger the savings the greater the proportion should be, and otherwise if the savings are a very small figure a very small proportion, because you come down to a point where you cannot apply a rule-of-three sum.

3684. I think we all agree with the general proposition, but it is rather to get something more definite?—(*Sir Arthur Dickinson*): I suggest you will find a good deal about it in Sir Josiah Stamp's book or books, the basis of the past, the annual savings each year, the additional capital for each year before the War, the basis of national income before the War, taxation before the War, and what happened to the balance; all that can be got out with the present figures, the much higher level of prices and so on; and I should have thought he could arrive, and probably has arrived, at some figure.

3685. You suggest we should go back to the pre-War standard?—No, not necessarily. You would have to take the present figures and compare them and see how it worked out.

3686. *Sir Charles Addis*: Section X deals with taxation as affected by the nature of Government expenditure; have you anything you wish to add to that?—No. (*Sir John Mann*): May I say, to my mind it is one of the most essential factors. The application by the Government of the proceeds of taxation has this psychological effect: if the taxpayer feels that the money is not being applied to the best advantage he is under a sense of grievance, and the tax becomes more of a burden and more of a trial than otherwise it would be. Of course if it should come to be believed that the Government is taking what is considered to be capital and applying it to purposes which should be met wholly out of income, we approach the condition of the spendthrift who is eating up capital, and that has again a psychological effect. That is beginning to worry people's minds. That policy of heavy taxation might prove to be a transfer of capital, and applying it through various Government undertakings in a way in which only income should be applied. That is a particular proposition I should like to make clear.

3687. You do not suggest that we have reached that point now, I understand?—No, but that is a point that really does exist, and any further increase would undoubtedly be open to that challenge.

3688. *Sir Alan Anderson*: Any further increase of taxation for what are known as social services, for instance?—Some of these increase the capital of the country. I should say some education or housing expenses are on capital account, but if capital is applied to consumption purposes, unemployment and others, which should be treated as income charges, it is a different story. In one case you do not disturb the capital and in the other case you eat it up.

Sir Charles Addis: Then if there are no further questions, may I, on behalf of Lord Colwyn and my colleagues, say how very much we are indebted to you for coming here to-day and for the very valuable evidence that you have given us.

(*The Witnesses withdrew.*)

(*Adjourned to to-morrow morning at* 10.30.)

ELEVENTH DAY.

Wednesday, 1st October, 1924.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman.*
SIR CHARLES ADDIS, K.C.M.G.
SIR ALAN G. ANDERSON, K.B.E.
SIR ARTHUR BALFOUR, K.B.E.
MR. HENRY BELL.
MR. J. W. BOWEN.
MR. FRED BRAMLEY.
PROFESSOR FRED HALL.
MR. W. L. HICHENS.
MR. H. B. LEES-SMITH.
SIR WILLIAM McLINTOCK, K.B.E., C.V.O.
SIR JOSIAH STAMP, G.B.E.
MRS. BARBARA WOOTTON.

MR. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

Professor A. L. BOWLEY, Sc.D., called and examined.

EVIDENCE-IN-CHIEF handed in by Professor BOWLEY.

A.—NOTE ON THE CHANGE IN THE NUMBERS OF THE WORKING-CLASS POPULATION IN THE NEXT DECADE.

1. The following estimates relate to the numbers of males, whether working-class or not, in Great Britain. There are no sufficient data in respect of Ireland.

2. The hypothesis used is that the death-rates, age by age, found in the years 1910-12, still apply. There is, in fact, very little room for variation in the low death-rates in the age-groups concerned.

3. The lowest age-group (15 to 20 years) in 1941 depends on the number of births in 1921 to 1926. It is assumed that the annual average of the births in 1921 to 1923 will equal the annual average 1921 to 1926.

4. The death-rates are applied to the population as enumerated in the census of 1921.

Population of Great Britain if there were no emigration.

Ages.	Males (thousands).			Females (thousands).		
	1921.	1931.	1941.	1921.	1931.	1941.
15 to 20 ...	1,967	1,959	1,868	2,014	1,943	1,836
20 to 45 ...	7,391	8,282	8,822	8,643	9,182	9,138
45 to 55 ...	2,394	2,510	2,494	2,560	2,933	3,086
55 to 65 ...	1,555	1,953	2,044	1,719	2,192	2,509
Total 15 to 65	13,307	14,704	15,228	14,936	16,250	16,569
65 and over ...	1,103	1,386	1,737	1,480	1,790	2,247

5. These numbers are being reduced by emigration. An alternative estimate has been made (*see* "Is Unemployment Inevitable?" pp. 359 to 365) on the hypothesis that the loss by migration and deaths combined is throughout the period at the same rate, age by age and for each sex, as in the decade 1901-11. In fact, emigration since 1921 has been at more than half the rate found in that decade. We may then make a rough estimate by averaging the results of the two hypotheses:—

(1) As above—no emigration and death-rates as in 1910-12.

(2) Emigration and death-rates as in 1901-11.

Population of Great Britain, allowing for moderate emigration.

Ages.	Males (thousands).			Females. (thousands).		
	1921.	1931.	1941.	1921.	1931.	1941.
15 to 20 ...	1,967	1,931	1,843	2,014	1,926	1,840
20 to 45 ...	7,391	8,030	8,365	8,643	9,062	8,976
45 to 55 ...	2,394	2,467	2,420	2,560	2,875	2,946
55 to 65 ...	1,555	1,903	1,959	1,719	2,123	2,385
Total 15 to 65	13,307	14,331	14,587	14,936	15,986	16,147
65 and over ...	1,103	1,385	1,704	1,480	1,860	2,228

6. The present increase of the population (870,000 births in Great Britain in 1923 against 508,000 deaths) will be checked, if the number of births does not increase, as the existing members of the population reach the ages of high death-rates. The average age of the population is rising, and the proportion above 65 years is rising rapidly. It is evident that if the number of births were stationary and the death-rates unchanged, the population would tend to a stationary maximum. The number of births has in fact fallen considerably since 1903 and each decade the effect of this fall is shown in a higher age-group.

B.—THE COURSE OF REAL WAGES SINCE THE WAR AND COMPARISON WITH THE PRE-WAR LEVEL.

7. The Ministry of Labour Gazette has published from time to time estimates of the changes of average wages for a great number of industries in Great Britain, which give as definite and accurate statements as are possible. The calculations are on the assumption that all workpeople attached to industries are fully employed for the normal week without overtime.

8. The well-known cost of living index gives the best estimate available (except, perhaps, in years of special inflation or of restricted prices or consumption) for converting money wages to real wages for the general average. For separate occupations and districts, however, this index no doubt would require modification.

General Index Numbers.

—	Weekly Full-time money wages for adults.	Cost of Living.	Real Wages.
1914 July ...	100	100	100
1920 December...	270 to 280	265	104
1921 December...	210 to 220	192	112
1922 December...	170 to 175	178	97
1923 December...	165 to 170	177	95
1924 August ...	170 to 175*	171	100

* Estimate, not given in the Gazette.

9. Actual earnings of those employed are reduced by short-time.

10. The wages in and after 1920 are payable for a working-week reduced by about 10 per cent., and real wages per hour are proportionately increased.

11. Since average weekly real wages are very nearly equal now and in 1914, it follows that in occupations where the increase of money wages is greater than the average (as in the case of railway workers, unskilled labourers in towns, and others), real weekly wages are greater (and real hourly wages considerably greater) than in 1914. In occupations where the money wage has increased less than the average (as in the case of engineering artisans), real weekly wages have fallen, and in some extreme cases real hourly wages have fallen.

Change in the Division of the Product of Industry.

12. The pressure on the part of workmen to obtain at least the same real wages as before the War for a shortened week, which on the average has been successful for those employed, must have resulted in a larger share of the product of industry (including transport) as a whole accruing to wages, unless the efficiency of production has increased so as to compensate for the reduction of hours. A source from which this increment has been drawn is incomes depending on fixed rates of interest or fixed rents. There is no general evidence on the question whether the proportion received in profits or salaries has permanently changed, though there is little doubt that the share of profits in the current period of depression has been diminished, whereas in 1919 it had been increased. If in the revival of trade the mass of the population can be employed at the pre-war rates of real wages earned in the shortened week, it is probable that wages will then account for a larger proportion of the product than in 1914. It does not appear probable that capital or skill of management will be obtained for a smaller absolute return than before, but it is possible that the pressure for high wages will cause greater efficiency in machinery and management and so result in an increment of the product that will go to labour, and further that higher wages will result in better work and provide the fund from which they can be paid.

C.—Should the amount of the Debt repaid vary from one year to another?

13. Let us assume that periods of expansion and contraction of industrial activity follow one another with a certain regularity, and that it is possible to ascertain each year in what phase of this industrial cycle the country stands.

14. In the phase of expansion the market value of £100 War Loan is relatively low, in the phase of contraction it is relatively high. In expansion capital is needed in industry, in contraction it is less needed. It is therefore to the national advantage to redeem debt more rapidly in times of industrial expansion.

15. The receipts from taxation, however, do not show a marked increase in the actual years of expansion, but, owing to the system of averaging years' profits for Income Tax and to other causes, their movements lag behind those of the industrial cycle, and the total receipts do not vary greatly. On the whole, it is probable that the sum available from taxation for debt redemption is nearly independent of the phase of the cycle, and part of the small variation is merged in realised surpluses which go automatically to additional redemption.

16. On the other hand, there is a need for expenditure to diminish unemployment in years of depression.

17. *It is suggested that a policy of debt redemption can be closely linked with a policy for the diminution of unemployment.*

18. Suppose that it is decided to set aside £100,000,000 annually to be used *either* for debt redemption *or* for public works, so that in eight years £710,000,000 was allotted to redemption and £90,000,000 to works.

19. The works in question are those on which public money would be spent in any case—such as buildings, docks, roads, and loans to local authorities for construction—and the programme would be limited to those which can be accelerated or postponed one, two or three years without serious inconvenience. It is almost certain that as much as £11,000,000 annually could be administered in this way. Further it is estimated* that a sum of this magnitude would go far to equalise employment one year with another in that large group of labour (mainly but not wholly unskilled) which is employed in public works and works of construction. The sum would be expended in part directly by Government Departments, in part by loans to public authorities. Its administration would need a permanent and effective committee having considerable power and authority.

20. In the year of greatest trade expansion the whole £100,000,000 would be devoted to debt redemption; in the year of greatest depression about £55,000,000 to redemption and £45,000,000 to works. The sums expended on works would be directly or indirectly remunerative, and would provide national assets (either in national possessions or in debts from local or public authorities).

21. The policy suggested is not one of additional expenditure or of making work for the unemployed, but only a systematic transference in time of expenditure normally incurred. In the years 1922-4 the method has in fact been followed, for during these years some public works have been carried out which had been postponed from the War period, and others have been advanced and will diminish the need for such undertakings when the labour market is again active. Before the War, however, expenditure on public works was not infrequently greater in times of activity than in times of depression of trade.

3689. *Chairman*: I propose, with your approval, that Professor Bowley should go straight through his Paper and amplify any points that he may desire unless there is some particular point of which explanation is required, or some point of order. Then we can begin the examination on my right.—The material given under my Heading A. was in answer to a request forwarded to me by the Secretary, and is a resumé of statistics already published in the "Economic Journal" and elsewhere. I wish you to note that the figures apply to Great Britain only, and the first table depends quite definitely on two hypotheses: one is, that the death rates in the ages concerned will not change substantially before 1941, and that, I think, is

* See "The Regularisation of Industry" (Christian Order of Industry Series—5), pp. 37–38 for estimates, and pp. 34–41 for discussion of the whole plan. Also see "Is Unemployment Inevitable?" (Macmillan) pp. 366–377.

reasonable, because the death rates between the ages 15 and 65 are low, and there is very little room for diminishing them. Secondly, it depends on the known distribution by age in 1921 in the census. It depends to a very small extent on the birth rate. The figures relate to persons over 15. For 1941 a person of that age must have been born in 1926 or before, and we already know the births up to, at any rate, the end of last year. These figures then depend to a very limited extent indeed on what may happen to births. I think then that the first table is an estimate which must be very closely accurate, on the assumption that there is no migration in or out of Great Britain. I have separated that table in paragraph 4 from the table in paragraph 5 because it is as far as we can go on quite definite evidence.

In paragraph 5 I come to the question of emigration. We know the emigration up to the end of last June, but we, of course, cannot foretell the emigration from now to 1941, and therefore the modification from the first table to the second must rest on a pure assumption about the amount of emigration. The assumption made for working out the table is that emigration is at half the rate of 1901 to 1911; in fact, emigration since the 1921 Census during the last three years has been, as far as I can judge, in relation to the figures of this table, much more, nearly five-sixths of the rate of the decade 1901-11, but I confess that the emigration statistics are so difficult that I should be sorry to give a quite definite figure there.

The second table, as I say, assumes, as before, the death rates that were known in 1910-12, the population of 1921, and an emigration of half the rate of the ten years shortly before the War. One gets as a result—and this is the answer to the question forwarded to me—that the number of males of working age in Great Britain, taken as the ages 15 to 65, which was 13,307,000 in 1921, increases by 1,000,000 in the next ten years, and only by 250,000 in the ten years following. The slackening off of that increase is entirely attributable to the fall in the number of births from the year 1903 up to the present time.

Under the second Heading B., I have tried to make an answer to the very difficult question as to the movement of real wages and the change in the division of the product of industry. For the movement of real wages, in paragraph 8, I give figures which are well known, figures from the "Labour Gazette," showing the average full-time week's wage for adults as a percentage of 1914, putting with that the cost of living index number, and by division obtaining the course of the real wages. I cannot suggest any improvement on the cost of living index number for this purpose in the years 1922, 1923, and 1924, but I think there is a margin for quite considerable error in 1920 and 1921. The result is that real wages for those people at work are substantially the same as ten years ago payable for a week shorter by about one-tenth part by reason of the reduction of hours.

3690. *Sir Josiah Stamp*: It is a higher wage per hour?—A higher wage per hour, and the same wage per week. This average has all the faults of an average, and, of course, everyone knows that some bodies of workers are getting a smaller real wage per week and others a larger real wage. Since the information is not complete it is quite open to anybody to argue that the figure 100 should be 2, 3, 4 or 5 points up or down if one had further information.

In paragraph 12 I tried to trace out the change in the division of the product resulting from this higher wage per hour. If one makes the hypothesis that the output per hour has not changed, then it would follow that more goes to wages and less to the other participants in the product. If one made the hypothesis that the output had increased just to compensate the reduction in hours, then I see no reason why the division of the product should have changed, except so far as part of it goes in fixed interest debentures, and so forth, which have not increased *pari passu* with the value of money. I would sooner not express an opinion as to how far efficiency has increased to meet the reduction in hours; I have no special information that I should wish to put before the Committee.

Under Heading C. is an attempted answer to one of the main questions circulated as to whether redemption of debt should be at the same rate every year, or whether it should vary according to any rule or according to circumstances. The suggestion I put forward is connected with the proposal that has been before the public for more than 20 years, the suiting of public expenditure to the trade cycle; it is to link that proposal with a debt redemption policy. If I may take these paragraphs not exactly in order and explain very briefly indeed the proposal—I have details which I can communicate if you wish—it is that there should be a policy of expenditure on public works, by which expenditure should be increased as trade became bad and diminished to a minimum when trade was good; that this should be regulated by a definite programme so far as the programme could be foreseen; that it should be administered by a committee or organisation which stood outside party politics, because, in order that it should have any value at all, the programme would have to be a long-time policy. Supposing certain sums to be set aside for regularising employment, and supposing further, a regular sum, which I suggest for argument to be £100,000,000, should be set aside every year for the double purpose of debt redemption and regularisation, then debt redemption would increase when employment was good and decrease when employment was bad, the £100,000,000 being divided for those two objects in the proportion which I have indicated. The method I point out has the double advantage of providing sums for this purpose of regularisation and also of redeeming debt in larger proportions at the time when trade is good, and therefore the value of £100 of the debt is probably less, so that the larger sum would be set aside for debt redemption at a time when it could be more cheaply redeemed.

That is the gist of the argument under heading C. I have figures which show how it would work out in various ways, which I shall be happy to communicate in answer to questions.

3691. *Mrs. Wootton*: Your figures in Section A. are not influenced to any large extent by the birth rate; is not that so?—That is so.

3692. That is because you have confined your estimates to a period of 20 years?—Yes.

3693. Have you formed any opinion by taking a longer period than 20 years as to whether we are working towards a stationary population of industrial ages, and, if so, about when that will be reached?—I have worked out the detail on the assumption that the number of births will continue as at present in the June number of the "Economic Journal." That would lead to a population that was very nearly stationary after 1951, and quite stationary, I think, by the end of this century.

3694. Is that a population of industrial ages, or the total population?—That is the total population, but the details are given by age groups. To answer your question more definitely, I see no reason to think that the number of births is likely to increase in the near future.

3695. So that the probability is that by 1961 we would be reaching a stationary population?—Yes. The figures given here for 1941 will not increase seriously. I am thinking of the question of emigration, of course.

3696. Passing then to Section B., there is one small point on the table in paragraph 8. You have in the column for money wages, two figures, and in the column for real wages, one figure. Is that last figure arrived at by taking some mean between the first two?—Yes. Evidently it has the same margin as in the first column; perhaps it should have been printed so.

3697. But it is a mean figure?—Yes. I regarded the final column showing real wages as so rough that perhaps it was not worth while to try and elaborate it.

3698. All your evidence relates to real wages, that is the weekly full-time wages. Have you formed any estimate, first of all, as to the absolute amount in terms of goods going to labour? You discuss the proportions; have you formed any estimate of the absolute amount going in the aggregate to labour as compared with 10 years ago?—I should think it is almost, as near as one can say, the same as in 1914, because the increase in population would counterbalance the increase of unemployment.

3699. You mean the actual amount per head?—No, the aggregate amount. If the real wages per head employed are the same, then the increase in population roughly balances the increase of unemployment.

3700. In that case, the population being slightly larger, the aggregate amount per head will be slightly less?—If you include the unemployed.

3701. Yes; I am taking the whole industrial population.—But then, of course, one has the difficult question of the insurance payment, and I have not thought out exactly what effect that has.

3702. In your estimate you are not allowing for that?—No; these are persons really employed.

3703. It is purely earned income?—Yes.

3704. You think that of earned real income the absolute amount would be about the same?—About the same as in 1914.

3705. And therefore the probability is, if you take into account the insurance benefit, and so on, that the amount is a little larger?—Yes, so far as insurance payment is not drawn from current wages.

3706. That in the aggregate would not make a very large difference, would it, spread over the whole industrial population?—I should think only 2 per cent., or something of that sort. I am not quite certain of the proportion paid out of current wages and out of other sources.

3707. I think the proportion out of wages is about 25 per cent.?—And then, of course, before the War there was also a proportion taken in the same way, but a smaller proportion.

3708. You do not give any statistics as to the accumulation of capital. Have you any views on a matter which has been put before this Committee by many witnesses, that is, the rate at which we are accumulating savings?—No; I refrained from trying to answer that question in what I prepared, because I think that the information is so very slight indeed. I think the question should be rather addressed to bankers than to others, because they have more opportunity of knowing.

3709. You think it is difficult for anybody even to arrive at an estimate whether we are, first of all, saving as much as we were before the War, and secondly, saving enough to maintain the standard of living?—I think one can say we are not saving so much and that we are not saving enough. I think one could go as far as that without committing oneself to any definite estimate because, if, as I think, a larger proportion is diverted to wages, a smaller proportion is probably saved

3710. When you say we are not saving enough, you mean enough to maintain our pre-war standard?—And increase it as a growing industry should increase.

3711. Would you give an opinion simply on the question of maintaining it?—I do not think I can give that. That gets much too near a definite estimate, I think; I should be sorry to give an opinion. I have not been able to get any real information.

3712. The conclusion of the argument in paragraph 14 of your evidence is that it is to the national advantage to redeem the debt more rapidly in times of industrial expansion; that follows on a sentence saying that capital is required in industry during periods of expansion. We have had a good deal of rather conflicting evidence put before us, some of which put the point of view that debt repayment withdraws capital from industry. I take it from your statement that that is not your view?—No, it would not be my view.

3713. It is your view that debt repayment increases the amount of capital available for industry?—I do not know that it increases it, but when capital is desired for industry I suppose that people are willing to sell War Stock in order to have liquid funds.

3714. Every debt holder who is repaid seeks a new investment?—Yes. He is not bound to sell; he sells because he wants money; and in times of expanding industry more liquid capital is wanted. That was the argument in my mind; I do not know whether it is the final argument.

3715. You do not, therefore, feel that there is force in the view that debt repayment tends to make capital scarce for industry; that is a view that has been put before us?—That is not my view, but I do not regard myself as an expert on that particular thing. I defer to any argued expression of the opposite, but *a priori* I should have thought that it is the case that it provides liquid capital as it is wanted.

3716. One further question on paragraph 18. You mention there a figure of £100,000,000 to be allotted to debt redemption or accelerating public works. Is that purely by way of illustration or does it represent about the figure that you would think suitable?—It is almost purely by way of illustration, but the figure of £90,000,000 to works is a definite figure How much would be paid off in debt at the same time I do not know, but to make the regularisation scheme effective one wants for it a sum commensurate with £90,000,000 in eight years.

3717. That is a definite figure?—Yes.

3718. Not a definite minimum figure, but an exact figure?—I think to make the policy of regularisation at all effective it must be on an adequate scale.

3719. So that it is a minimum figure?—Yes.

3720. It might be increased if you had exceptionally bad trade?—Well, the details are worked out in a lecture, of which I sent two copies to the Secretary.

3721. Yes; that has been circulated to us.—There it assumes a certain flow and ebb of trade with a certain employment. If that was increased more money might be needed, but I have allowed a fairly liberal movement for unemployment.

3722. Is it your view that the permanent committee you suggest should have authority to decide the proportions that go to debt redemption and the proportions that go to public works?—No. My view was that it should be entrusted with this sum of £90,000,000, which would be spent in the eight years and should draw on that as was needed, and so it would decide the residue to be redeemed but not the total.

3723. The committee is really confined to the public works side of your scheme?—That would be my idea. Of course, naturally it would have to work intimately with the National Debt authorities, but its actual administration would be of a sum of this nature. If it found it too much or too little, I presume it would apply for a change.

3724. Supposing we had a figure of, say, £100,000,000 a year, which is allocated for this double purpose, you have not visualised any automatic way of dividing it out according to the state of trade between the two purposes?—I think I have to this extent: the committee would be watching the indices of employment and trade, and, looking ahead, would say that out of the £90,000,000 in the eight years, it needed £20,000,000 in the next year, £25,000,000 the year after, or £30,000,000 the year after, communicate its estimate to the National Debt Commissioners, and hope that they would provide the money.

3725. Your principle really is to give the public works the priority?—Yes.

3726. You think that is a more important thing rather than maintaining regularity in debt repayment?—I think so. I think there is probably a convenience in budgeting in having a constant total for the two purposes, but it does not very much matter how much variation is given to the payment of debt

from one year to another; I am quite subject, however, to other people's opinion.

3727. Your present view is that the provision of the money for accelerating public works is really the first charge, and the committee ought to have as much or as little as they need, while the debt would really bear the fluctuations rather than the public works?—Yes. I agree at any rate with the last sentence that the debt should bear the fluctuations; I do not know whether they should have as much as they please.

3728. *Mr. Lees-Smith*: I want to ask one or two rather detailed questions on your evidence. First of all, I will ask you to look at the report of the Oversea Settlement Committee for 1923. You state in paragraph 5 of your evidence that emigration since 1921 has been at more than half the rate of emigration in the decade 1901 to 1911. This report of the Oversea Settlement Committee has a table on the last page giving these figures: Outward balance of migration, 1901 to 1911, annual average 76,000; 1921 to 1923, outward balance of migration, 98,000. According to these figures the outward balance of migration, so far from being decreased, has increased by over 20 per cent.?—Is there a more definite head? Migration of whom—British subjects, men?

3729. Yes, on the last page?—The 1901 to 1911 figures on the final page of this pamphlet are, I think, obtained by taking births and deaths for 1901 to 1911 and computing the amount that has to be accounted for by migration. The 76,000 per annum I recognise as giving very nearly the result of that. I do not know how this 98,000 in 1921 to 1923 is obtained. The figures I am alluding to myself are the figures of net emigration from Great Britain of persons of British nationality, males. That is a different thing from the net passenger movement, and comparing like with like of any of the categories published in the emigration figures, I find the figures of the last three years, 1921 to 1924, less than the corresponding figures per annum of the decade 1901 to 1911; but I can find lots of totals in the emigration figures, and they are not easily agreed.

3730. I wonder whether it would be possible for you to send us a short note on that?—Yes, I will note this, and I will write what I think is the case.*

3731. *Professor Hall*: May I ask if you have taken into account immigration as well as births?—Yes, my figures are net.

3732. *Mr. Lees-Smith*: In your table in paragraph 5 I see the proportion of males over the age of 45 would be very much higher in 1991 than in 1921. The report published by the Ministry of Labour of an investigation into the personal circumstances of 10,000 claimants to unemployment benefit states that physique falls off steadily from the age of 45 onwards amongst claimants of benefit. Do you anticipate that as a result we are going to have a very large increase of unemployment, say, 10 years hence, in consequence of the general lowering of physique, or owing to the raising of the age standard?—I think the falling off from 45 to 55 in that report is quite moderate, and it is in the more advancing age, at about 55, that the figures become serious. That would increase a little bit the incidence of unemployment, but apart from that it would suggest that the working population would be physically inferior and the whole body from 15 to 65 and over more liable to unemployment or of less productive power.

3733. Your figures in paragraph 8 state that real wages are broadly the same now as in 1914. Do you think that there has been any alteration in the method of life of the workers and in their habits of consumption, which, with the same real wages, would lead to an increase in the standard of life?—I do not know that there is any evidence of a general change, but since the greater increase has been obtained by the worse paid workers there has been a definite improvement in the standard of life, and no doubt a change in actual custom among unskilled labourers, I should think.

3734. The point I was thinking of was the direction of their expenditure. For the same real wages, with an alteration in the method of expenditure, you may get a higher standard of life?—I do not know that there is any evidence.

3735. Particularly by the diminution of liquor consumption. Are there statistics which give us any indication in that direction?—There are statistics of consumption of dutiable and some other articles mainly imported such as tea, and I think it could be worked out; I have not studied them.

3736. *Sir Arthur Balfour*: We have had a paper giving that. (*Sir Josiah Stamp*): The test budgets taken out by the Ministry of Labour.—(*Professor Bowley*): One's common observation would be that people are spending their money very much as before, but that unskilled workers, having more to spend, are getting a better living.

3737. That would be over a period of 20 years, because the original budgets were in 1904?—Yes. One has to look very closely at the budgets to find any change at all, and the changes are not conspicuous and perhaps not quite certain. Of course, there has been the introduction of margarine that is palatable and useful, and that no doubt is used more, and I presume there has been a reduction in the consumption of sugar with the increase in price, but that I have not verified; I do not know of any significant change.

3738. *Mr. Lees-Smith*: In your scheme of having a definite sum set aside each year to be divided between works and debt repayment, have you considered whether as an alternative you might have two sums? One of the difficulties I foresee is that if you have this definite sum set aside to be spent on works or debt repayment (I am speaking now rather from the point of view of what actually happens in the House of Commons), then the possibility is that in some year when you have this large sum waiting and no particular urgency for works, there will be excellent reasons for applying it to something else which will seem just as urgent as works are at other times. Are you fairly clear in your own mind that you can guard against the politicians?—I am quite certain that I cannot, but if the committee is made sufficiently independent there is some possibility of it. Of course, any of these funds is liable to be raided for any purpose.

3739. That is exactly the point. There never yet has been a Sinking Fund which has not been raided, and if you establish a Sinking Fund for the purpose that it shall be raided in some years, can you devise any reliable machinery which will prevent it from being raided in other years, say, in case of war or on some other occasion?—In case of war of course it would be raided. In setting up the commissioners powers could be allotted to them, and the sums of money for which they were entitled to go to the Treasury would be stated, not definitely, but the circumstances under which they should come to the Treasury; and it might be arranged that any sum which they did not draw would go automatically to the National Debt; then, I take it, it would need an Act of Parliament to raid it for any other purpose.

3740. I notice here you have a figure of £11,000,000 a year. You think £11,000,000 a year could be expended usefully on public works?—More than £11,000,000 has been spent on public works at any time in the century except during the war. The Road Board itself takes quite a proportion of that.

3741. There was an apparently comparable figure given in an article by Mr. Keynes in "The Nation," suggesting that the Chancellor of the Exchequer should devote the Sinking Fund, not to redeeming the old debt, but to replacing unproductive debt by productive debt. The Treasury should not shrink from promoting expenditure up to, say, £100,000,000 a year on the construction of capital works at home. How do you regard that figure?—Well, I am only asking £11,000,000, so my figure is a very modest and

* *See* note at end of oral evidence.

possible one. But the £100,000,000 would not be a regularising sum; only a very small part would be regularising. If there was a scheme for investing national capital in motor roads, or whatever it might be, then it could very well work in with this, but I am not expressing actual approval of the idea.

3742. *Sir William McLintock*: This £90,000,000 which you take as your minimum figure would be expended over a period of eight years, basing it on the expenditure which in the past has taken place for public works?—I do not base it on the past expenditure but on the amount of unemployment which can be remedied—the past experience of unemployment among men who can be used for constructive works. My estimate is that one could level one year with another in all this class of men by the allotment of this £90,000,000 in eight years, and I point out that much more than £90,000,000 has been expended in fact in eight years in previous times, only it has not been spent on the system.

3743. Take the amount that is set aside annually for the redemption of debt; it is round about £50,000,000, is it not?—I think it is.

3744. Would you not suggest scaling down your total figure so as to bring it in relation to the amount that is at present actually used for debt redemption? —Well, I put the £100,000,000 so as to be, at any rate, big enough. My own view is that a rather larger sum should be devoted to redemption of debt, but I am not pressing that forward. If £50,000,000 per annum is to be spent in redemption of debt, then you would want £300,000,000 less in those eight years, and the total amount allotted would be diminished, or, put otherwise, instead of redeeming £50,000,000 in debt every year you would set aside £62,000,000, for debt redemption and works, and that would leave the £50,000,000 per annum on an average for debt and £90,000,000 in eight years for works.

3745. *Sir Josiah Stamp*: May I take it that there is no actual work in this table that is not already in the "Economic Journal" and "Is Unemployment Inevitable"?—No, none.

3746. In "Is Unemployment Inevitable" there are some very valuable general summarising comments in the first portion of the book. The appendices contained in that work have your name to them, but could we take it that you identify yourself generally with the comments that are made in the first part of the book on those results?—Yes. I have read the whole in type and I approve and I agree to them.

3747. So that that is a very valuable set of general expressions of opinion about these figures?—Yes.

3748. We have had this question of the future working population up before us in this connection: some rather alarmist figures in relation to what is required in the way of accretion of national capital have been given. With regard to the figures of future working population which you have given us, in order that we may know clearly where we are, could you tell us anything about the figures which have held the field until this recent work of yours? I think they started in the "Manchester Guardian." Would you tell us whether you agree with them, or whether you distinguish them from yours, or in what respect they differ, in order that we may clear them out of our minds if they should be cleared, or that we may know that they can be reconciled?—The article in the "Manchester Guardian" was by Dr. Brownlee. He proceeded on the same basis as here, namely, pre-war experience applied to what he believed to be the post-war population. At the time he wrote he had not the 1921 census of ages and had to make certain estimates, but those estimates did not seriously vitiate his argument at all.

3749. In your view we can ignore all the alarmist things that have been said that have their source in that particular way?—Yes, absolutely. They are due to a misunderstanding of Dr. Brownlee's table.

3750. Do you know of any other authoritative or effective statements that have held the field up till now that we ought also to dispose of?—I think they are statements of this sort, that the number of deaths is so many, and the number of births is so many, and therefore population is increasing with alarming rapidity, but if you put those to an actuarial calculation and consider what part of the population is increasing, you get to my figures. It is a mistaken actuarial calculation.

3751. Assuming that we can clear our minds of those figures and start from here, I should like to look at the table in paragraph 5 from this point of view of unit capital. In it there is a rise in the age-groups 15 to 65 from 13·3 millions to 14·3 millions in the 10 years; that is made up of four groups, of which the heaviest is ages 20 to 45?—Yes.

3752. Have you got any reason to suppose that the amount of capital to be associated with each new worker in order to maintain unit production per head varies at all with the age group? To explain my meaning a little further, you said a little while ago that, with the new distribution, you might have a less productive power; you might have feebler or less effective work of machines. Does it mean that you want more capital if you have less human productive power to keep up your net product per person of the total association of capital and labour?—You must distinguish between efficiency of management and capital. It is more difficult to get the full output from a man who is not quite effective, but better management may do as well as more capital for that purpose, and re-arrangement is not necessarily expensive. I think it would be dangerous to argue that there would be a serious increase in the demand for capital, because of the not very great change in the age distribution.

3753. You know of no reason why we should look at the age groups; we can look at the total pretty safely in considering the upkeep of the national unit production?—I should think it is as near an approximation as you are likely to get, but you might consult an employer upon that question.

3754. There might be a difference as between two totals if, in the one case, the increase were entirely of young fellows and young girls, and, in the other case, entirely in the old people. It might be found that the association of capital with those people, following out this argument that has been put to us, would be different in the two cases?—Yes.

3755. But it is less likely to be important if it occurs at the mean age, as it would appear to be from the table at about 35?—I do not think it is likely to be very important in any case except possibly as between the sexes, because, after all there is not much to choose between a workman of 25 and a workman of 50 if he is in good health. You have got, I suggest, in the older age enough men of responsibility to manage the machinery. If there is a dearth of experienced people then I think the question might become acute, but that is not what you have got.

3756. One other question on the distribution problem. Some of our industries are more dependent on female labour than others, and female labour of a particular age. Is there anything in this change in the distribution in the next 20 to 25 years which makes you think that there may be a difficulty in some industries carrying on relatively to others? For instance, take the cotton industry and the employment of female labour?—Yes, I think so. I think the industry of domestic service is going to be extraordinarily difficult to carry on, and I should think the textile trades may find a difficulty in getting enough girls to train, and that the age distribution in those trades will rise. That applies also, of course, to young boys in the cotton trade, and all the way through I see a shortage of boys and girls for training which may become acute very soon.

3757. Before I leave this question of the amount of capital required to keep up unit production, there is one more point, and I am only labouring it for the reason that we have a lot of generalities and vague evidence given us as to the amount of capital that ought to be saved and put by every year. We do not get down to any concrete test except this one

that has been put up to us, that there must be at least sufficient saved to maintain the unit production to keep up the average real wage or real wealth of the country. Can you point us to any given statistical test of the amount of capital per head in our industries as such, particularly the increase in the last 20 years rather than the absolute amount?—No. I think there is no evidence except the Census of Production of 1907, but I can get it a little indirectly like this; if one takes whatever is the current estimate of saving before the War, which from recollection I should give at £300,000,000 per annum——

3758. Home and foreign?—The total saving per annum.

3759. Both invested at home and abroad?—Yes—then, subtracting the amount invested abroad, one would have an idea of the amount invested at home between 1901 and 1913, we will say. That accommodated the then increasing population with, I suppose, on the whole adequate machinery, and it seems to me that we want a sum of the same amount as in 1913 for the same purpose and increasing slowly with the slow increase in the effective population.

3760. I take it you deduct the non-industrial capital like dwelling-houses?—Well, yes. You have to find more capital for dwelling-houses just as for everything else.

3761. But if we are testing the capital required for the output of industry you could not get a larger output of industry because the workers had larger houses?—I agree that it might be well to keep that separate.

3762. There is no other way of getting it then?—I do not know of any other way until we get the new Census of Production.

3763. *Chairman*: Is that £300,000,000 up to 1914? *Sir Josiah Stamp*: I take Professor Bowley's figure. I think it is between £350,000,000 and £400,000,000 for the years immediately before the War, both home and abroad?—(*Professor Bowley*): I will certainly take Sir Josiah Stamp's estimate. I am giving the figures from recollection, and he has probably looked at them.

3764. I think £350,000,000 to £400,000,000 is a figure we have used of which about £200,000,000 was at home?—Then one might, of course, say that one has some estimate of the amount of capital now being invested abroad, and we have to add to that the necessary amount for home, which, on that basis, would be something like £200,000,000 including housing.

3765. Supposing with the statistical data existing we could get at some figure and by compilation of the population we could arrive at a figure of increasing capital per annum which would keep up unit production, would that, in your judgment, be any guide as a test, or have any relevance to the question of debt redemption?—I do not think it would have an immediate effect on it, because debt redemption seems to be in the nature of a transference more than anything else; it does not supply new capital ultimately.

3766. It has been put to us that if you tax heavily for repayment of debt you may be increasing the capital of the nation more than it would otherwise increase if you let people spend freely. You might compel people to save the amount that was necessary for this purpose. Supposing you were to repay in a given year £150,000,000 of debt, and all that £150,000,000 finds its way back on repayment into productive work, you then, by taxation, compel the largest thrift?—It depends on how an average man arranges his expenditure and saving.

3767. Exactly?—I suggest if you invite persons with incomes of £50,000 a year and upwards and study their mentality that would be the way you would get the most information.

3768. Do you go so far as to say that this particular criterion of what is a right amount for the nation to save, or a right amount to apply to debt repayment annually is invalid?—As you state it, I should think it is; I should think it has a certain relevance, but not so direct a relevance.

3769. We are steering round for anything that is firm enough to hold our weights; we are being given all sorts of theories, but nobody has given us any absolute test except this one. If this is no good we want to find others?—I am afraid I cannot help you there; it is not really in my range.

3770. May I take your interesting final proposals? Would it help you from the point of your scheme for unemployment, if you were indirectly to apply to your scheme the amount devoted to debt reduction, by redeeming debt and effecting a conversion of war debt on favourable terms into public works loans and other productive debts. I do not know whether I make my meaning clear. You have contemplated a certain amount being divided into two by a division fluctuating year by year according to requirements, and the first charge against that amount is what is required for public works expenditure. Now that is an outright expenditure from tax revenue and it builds up no National Debt. The balance is applied to National Debt redemption. Supposing that while you apply it to debt redemption you alter the character of the debt from deadweight debt into new constructive public works debt, a very considerable proportion of the money repaid might be deflected or diverted away from where it otherwise might go—foreign investments—into that very kind of public works that you want?—Yes, I agree. I had in mind that some expenditure on public works would be remunerative.

3771. It does not conflict at any rate with your system?—No.

3772. *Sir Arthur Balfour*: We have had witnesses who have told us that the adult working population is less than pre-war. We have had other figures put in which would lead us to suppose that the adult working population is greater owing to the stoppage of emigration and war deaths not being as great as the emigration. Can you just clear that up for us and tell us what is really the position?—We have, of course, the census of 1921. The number of males in Great Britain recorded in 1921 was 20,421,000, and the number recorded in 1911 was 19,763,000.

3773. What proportion of that is due to the fact which I have just stated, the stoppage of emigration less the war losses of adults? It has been said that there is an increase of 700,000 male adults?—The figures I have given show an increase of 670,000. There are three things, the natural increase of population, the loss owing to the War, and the gain or negative loss owing to the check on emigration during the five years. The three things result in this 670,000 increase, which is half what would have occurred if we had had the same surplus as in the previous decade.

3774. Is it true to say that owing to the stoppage of emigration and to the War the numbers of our unemployed are increased?—I do not think I should agree it causally like that. I attribute unemployment very much to the absence of training and the unsettlement of young men in the War.

3775. That is loss of production?—A loss of adaptability for work.

3776. On the question of cycles of trade, is it your idea that a cycle of trade from the top of one expansion to the top of the next expansion was between seven and eight years pre-war?—No. I think it varied enormously. I took eight years because I had to take one number rather than another.

3777. I think eight years is pretty near the mark?—There have certainly been cycles of about eight years.

3778. On the other hand, have not the War conditions and the total alteration of the normal situation, and so on, altered that cycle very considerably and will it not take a long time to settle down again?—I think very likely it has altered the period of it.

3779. That, of course, may have a very large effect on any of the schemes which you are proposing?—I do not think it will have a very large effect.

3780. There will have to be latitude in the scheme to meet the possibility?—The Commissioners would have to watch these indications, and it would be a more difficult thing to decide on what is happening now than it would have been 15 years ago, but I do not think that it would be impossible, and I do not know that the vibration has a different amplitude over a period.

3781. Is it your view that the present high taxation does not enable us to save sufficient to maintain our industrial efficiency?—I do not think that is my view. I have not formed a very definite judgment.

3782. Do you think the high taxation is diminishing the savings that are going into industry to keep plant efficient?—If high taxation is for the payment of interest on debt, the effect, I should think, would not be very great. If high taxation were for non-productive expenditure or if it were for example, for the interest on the American Debt, then it does diminish the amount saved. It seems to me to depend on the character of the expenditure.

3783. It is important to reduce our external debt more quickly than our internal debt?—Other things being equal, yes. External debt service is a definite abstraction from saving.

3784. I gather you would not hope to be able to balance unemployment by your scheme of postponed public work or controlled allocation of public work? —The scheme, which is the President of the Board of Trade's scheme to some extent, in my view can only apply to a rather limited range of labour. It cannot apply to textile workers or to skilled specialists of any kind whatever. If one was going to regularise all unemployment it would involve moving them.

3785. It would mean moving workers from one district to another?—Yes. Changing districts I do not think really is impossible, but it would mean changing occupations.

3786. Would you hope really to balance unemployment some time, but not to eliminate it?—In these very big regions of employment of general labour I should hope to reduce the fluctuation of moving from one to ten per cent. to something like a moving from four to six per cent., with possibly a reduction altogether.

3787. *Sir Alan Anderson*: Just a question about the future numbers of our people. Do you estimate at all what the state of trade in the country is; does that affect it? Does bad trade cause a low birth rate? —I do not think it is the major consideration, but I think a low birth rate is definitely connected with want of houses. That is partly the reason why it is difficult to make any forecast.

3788. Is it connected with the improved standard of life? As people get up a little bit in the social scale they are more prudent and they do not have so many children. Is that so?—I think that is so. I believe an examination of pre-war figures shows that there is a definite connection between the birth rate and trade, but it is not at all a major consideration.

3789. Anyway, you have not taken that into account in saying that you thought it would get stationary in the middle of this century?—No. The assumption of a stationary number of births would depend on a balance of a number of factors. There would be an increased number if there were more houses and an increased number if there was less emigration, and quite possibly a diminished number if the population became better off; but that, of course, is disputed. On the whole, I think there will be a tendency for the present conditions to continue for quite a long while, that the number of births is not likely to change very much in the near future.

3790. Is the birth rate declining at an accelerating speed?—The decline has been quite rapid recently.

3791. But that is peculiar, you think. Then, of course, the number of population is tremendously affected by infant mortality, is it not?—Yes, the number subsequent to 1941, and of course the total in any case of the working population in subsequent years; and infant mortality has diminished somewhat since the birth rate used for my table and may diminish somewhat more.

3792. It has got to diminish a great deal before it would bring it to the level?—If you bring the worst district up to the best of course it would diminish it very much indeed.

3793. You are saying that we should get to a steady point. I think in Australia the natural increase is considerably higher than it is here, in spite of the very low birth rate, or in spite of a lower birth rate. Do you happen to know of that?—I have not looked at the figures. Of course it is possible that if infant mortality diminished the number of births would also diminish.

3794. I was just wondering whether you have taken it into account in this estimate that we should reach a stable point. As the social conditions improve, I believe it is found that the birth rate declines, but the death rate of infants declines more rapidly, so you get a quicker natural increase?—Yes, that is quite possible, and of course there is great hesitation in saying this; I do not say there is going to be a stationary population; I only say if the number of births is the same there will be, and we are considering how it could be influenced if it were not the same. But up to 1941 that question hardly arises.

3795. Paragraph 7 states that the calculations are on the assumption that all workpeople attached to industry are fully employed for a normal week. I suppose in a time of bad trade like this they are not?—Not all employed, and not all for the full week.

3796. That would tend to make these figures rather more optimistic than the facts warrant, would it not?—The figures are quite definitely what happens when a person is in full work. I agree that in fact a very large number are not in full work.

3797. And therefore they are receiving less?—Yes. That is assuming they were in full work in July, 1914. Of course want of work is no new thing.

3798. You said earlier that you think our national savings now are smaller than pre-war and less than was needed to maintain and improve our standard of living; at least, that is what I thought you said. I was not quite sure whether you repeated that in answer to what Sir Arthur Balfour asked just now —Mrs. Wootton originally asked me for an estimate of the amount of capital, and I then refused to commit myself. I think I have only gone so far as to say that I think there is less capital available than there was before the War, and that the amount before the War was not more than was needed.

3799. It would follow from that, that we are not at present saving quite enough to keep the machine running?—I think that is quite probable.

3800. And Sir Arthur Balfour's question, I think, was intended to lead up to that point. I think what he asked was: Was the taxation so high now that we could not put by enough to keep the machine running?—Yes, but I think I should put along with that, a larger proportion is going to payment of wages of unskilled labour, and that on that part the saving is relatively small. It is not merely the amount of taxation, but it is the change in the distribution of income.

3801. In regard to your stabilising scheme, I suppose you would agree that we must have our foreign trade; we must be able to sell in the world's market in order to keep the country going?—Yes.

3802. And therefore anything which prevented us from meeting the market, decreasing our costs, might in the long run be a very cruel remedy for us?—Yes.

3803. I suppose that is one of the reasons why you would not try to stabilise fully?—To stabilise employment fully?

3804. I suppose the obvious way of meeting the market is that people take less for their energies, wages go down, and everything you do to stabilise

tends to check the fall of wages at a time of bad trade, does it not?—Yes, I think so.

3805. If the fall of wages was really essential in order to get our trade in the world's market it would be like telling the tide not to come up; we should only get into a worse position than if we had faced the facts and got down on to a competitive basis, would we not?—I am not sure that this regularisation would have much effect on the rate of wages, especially in post-war conditions. On the whole, I think people are more willing than they were before to be unemployed rather than to sacrifice wages. I do not see that the retention, if it was a retention, of the wages of labourers employed in construction and building would have anything more than a very remote effect on the wages of cotton operatives, for example, or skilled engineers, who are the kind of people whom one looks to for the world market. I think to some extent we have two different groups.

3806. You do not think they would react on each other through the cost of living?—I think there would be a reaction but I do not think we can quite trace what it would be, nor would it be very big. I recognise the theoretic importance of that; I am not quite certain of the degree.

3807. I thought it was more the psychological importance of it. It is very difficult to get an immense population to realise that they have to tighten their belts and have less money for their services?—There is no necessity, in the working of the scheme, that the wages paid in bad times should be the same as the wages paid in good times.

3808. It would be very difficult to do anything else, would it not?—Perhaps the more effective the scheme, the more difficult it would be, but then one must not give up the hope of stabilising employment.

3809. I am suggesting that it might be a very damaging thing to do if you succeeded. If you do not fully succeed I am prepared to agree with you? —I do not think any of these efforts will meet with such great success as to be dangerous. Perhaps the danger you suggest would show itself in time to be avoided.

3810. *Mr. Bramley*: Regarding the table in paragraph 8, is it based on the Ministry of Labour Gazette returns showing wage increases?—Yes, from the article given annually summarising all the information in the possession of the Ministry, except so far as the last figure is concerned.

3811. As a rule what number of wage earners do the returns on which this table is based cover?—A very large proportion.

3812. About 7,000,000, I think, is it not?—I should have thought quite that number of males only because there are returns of wage movements in nearly every industry and these, I presume, are weighted and put together in the Ministry of Labour so as to give a figure which covers all trades in which one could state any definite change at all. I can only suggest that the actual article in the Labour Gazette early in 1923 will give you substantially the number.

3813. My recollection is that there were for each year between seven million and 7½ million. Could you tell us what is the total of wage earners in the country?—I am afraid not off-hand; I am afraid of giving a wrong figure from recollection. I think it is some ten million adult males together with women and children.

3814. I think we can get it in this way. Do you agree that there are approximately twelve million workers covered by the Insurance Acts?—Yes, 11½ millions.

3815. There are important occupations not included in the Insurance Acts, agriculture, for instance? —Yes.

3816. Public services?—Yes.

3817. Distributive trades?—There are 1,300,000 in distributive trades included, and of course there are some persons who are not manual labourers included in the 11½ millions.

3818. We have a substantial number of wage earners not included in the Insurance Acts?—Yes, especially agricultural labour and domestic service.

3819. So that we could reasonably estimate on those figures in view of the fact that we should have at least 800,000 employed on agriculture, the number of wage earners would be at least from 14 to 15 millions?—Are you speaking of Great Britain?

3820. I am speaking of Great Britain?—Yes.

3821. So that the official figures dealing with the wage changes cover approximately one half the wage-earning population?—That, of course, depends on these seven millions being the actual figures, and I myself should have thought it was very much greater than that. I do not remember any definite number being given in the "Labour Gazette." There have been a number of wage changes given, of course.

3822. There are some questions of fact involved here that we shall have to look up; but you will agree, I suppose, on the information you have at your disposal that the number of wage earners covered by these official figures is substantially below the total number of wage earners employed?— No, I do not agree with that, except in the case of domestic servants, of whom there is no information in that summary. It seems to me that all the principal industries are brought into their proper relation before that summary is given. I know of no important industry that is not included there.

3823. Would you agree that the occupations not included in the returns—for instance, you have mentioned domestic service—would be the occupations in which it would be less likely that they do participate in readjustments?—I should have said in the case of domestic service the real wages are definitely higher now than ten years ago, whereas the average I give is the same, and I do not know of any other important industry excluded.

3824. It is your opinion then that if all the wages readjustments were recorded your statement regarding real wages would be undisturbed to any great extent?—I do not think it would be disturbed in the way you suggest, and certainly I do not know in what direction it would be disturbed. One understands it is the round hundred, as I have said; there may very well be some few points out on either side.

3825. In paragraph 12 you say: "The pressure on the part of workmen to obtain at least the same real wages as before the War for a shortened week, which on the average has been successful for those employed, must have resulted in a larger share of the product of industry (including transport) as a whole accruing to wages unless the efficiency of production has increased so as to compensate for the reduction of hours. A source from which this increment has been drawn is incomes depending on fixed rates of interest or fixed rents." I take it the important qualification there is "unless the efficiency of production has increased."—Yes, I put that in deliberately so as not to express an opinion where I had not sufficient information.

3826. You have no information showing any difference in the output per unit employed in relation to the actual time?—No.

3827. So we should have to examine this qualification?—There may quite possibly be people who have definite information as to the output of labour, employers and others: but the evidence I have seen has been so imperfect as not to lead to a generalisation.

3828. Would it be reasonable to assume that with the improvements of machinery effected during the War in a great many industries the output per unit employed would be increased?—In the case of engineering industries I think that would be reasonable. In the case of the cotton industry I gather that it would not be reasonable. The evidence seems to be in the cotton industry that the output

has remained about the same per hour. That is one of the few things where I have seen evidence. May I just say that I think some generalisations have been made based on the experience of engineering which in fact are not true for textile and clothing trades and, say, for agriculture.

3829. So that where there has been an increase in output capacity it is limited to one or two industries. That is your opinion?—The very big industry of engineering I should judge has probably a greater output per hour than before the War.

3830. *Professor Hall*: Regarding the validity of these population figures, how do you think the slowing in the increase of population would affect the population? Do you think it would have any important effect at all?—I think it would have quite an important effect. I presume that emigration is rapid now owing to the difficulty of getting work and of getting houses, and is definitely associated with the growth of population. The force propelling people to go from this country would be definitely diminished. Whether the force attracting them to others would change is another matter.

3831. I want to know how far you have taken into account the probability of emigration being affected in arriving at your figures here for 1931 and 1941. Would you expect that these figures would be an under-statement, a correct statement or an over-statement of the adult population of those years?—Up to 1931 I should judge that the rate of emigration I have allowed is as likely a rate as any; some diminution over the years 1922 and 1923; after 1931 the difference in increase is not so big whether one allows for emigration or not, I think. As you get towards the stationary population I think emigration has less and less effect. But so far as emigration is checked by the absence of growth and a diminution of unemployment, so far the population will be slightly greater than is indicated here, but I do not think up to 1941 there could be any very great difference owing to that. But one cannot forecast emigration just off-hand in that sort of way.

3832. So that, if anything, the increase in 1941 would be rather greater than is shown in this table?—Rather greater than in the table in paragraph 5, but still less than the table in paragraph 4.

3833. On this question of capital per head of worker, on which many of our witnesses have laid great stress, would you agree that over a long period there is an increase in the amount of capital employed per worker?—In pre-war times, do you mean?

3834. Over a long period, either pre-war or post-war. Do you think there is a tendency for the amount of capital to be increased?—Under pre-war conditions, yes; under post-war conditions it is doubtful whether the capital has been available for an increase, but owing to the great development of plant during the War it is quite likely that the capital per head in 1919 was greater than the capital per head in 1914.

3835. Presuming we get back to something like pre-war conditions, would you expect the amount of capital per head employed in industry to be greater as the years go on?—Yes, if the capital is available.

3836. Machinery replacing hand processes and so forth?—Yes.

3837. You would expect that, and therefore in looking to the future we should have to look to the necessity of having more capital per head rather than less?—Yes, if we were to keep abreast of possible developments.

3838. Would you agree that changes in the nature of our national industries would affect that answer?—Changes of what character?

3839. Supposing that certain industries declined and others took their place, do you think that would tend to affect the position?—Yes, undoubtedly. If the industry of distilling vanished it would make a difference, because there the capital per head is greater than anywhere else.

3840. Have you any ideas on the question of the relative numbers of people engaged in distribution as compared with production?—I have no figures in my mind and I have not studied the 1921 census yet from that point of view.

3841. From some figures I have seen I should be inclined to suggest that the number of people engaged in distribution tends to increase. I should like to know how far you think that affects this question of capital required per head. For example, a great many more people are waited upon than formerly. There seem to be more people engaged in the actual processes of distribution of commodities than formerly. I wonder if you think that tendency, if continued, would have any effect on this question of capital required?—In the case of railways the capital per head is quite considerable, and in the case of distribution by car the capital per head, if you include the roads, is quite considerable. In the case of hotel waiting and that kind of thing, and simple porterage, it is small.

3842. Would you think that the general tendency would be to affect very seriously the answer that you have given?—No, I do not think so. I do not see any reason to think that a larger relative number will be engaged in personal service in the future than is now engaged, and if they are in distribution involving railways or roads, there is a lot of capital behind it. Might I supplement that answer? In some cases there would be more capital employed if work is put out of the house into a factory instead of being done by the woman at home. Of course there you get additional capital.

3843. That is a change in productive methods?—Yes, from domestic to factory methods; some part of the service is, of course, of that nature.

3844. On this question of real wages, do you think the existence of the Rent Restriction Acts has had any important effect upon it?—Very important. I should suppose not so much on real wages as on money wages.

3845. If the Acts were removed, would there be a serious decrease in real wages, do you think?—I think that depends very much on the methods by which they were removed. I can conceive that the Acts could have been, or could still be, removed in such a way as to keep real wages steady, money wages rising and the cost of living index rising, of course, as the rent index came in.

3846. Could you suggest exactly how that might be carried out?—I think it is rather too large a question for me to discuss here.

3847. In paragraph 12 you say: "If in the revival of trade the mass of the population can be employed at the pre-war rates of real wages earned in the shortened week, it is probable that wages will then account for a larger proportion of the product than in 1914." Do you think it is possible for the wage-earners to secure permanently an increased proportion of the national income?—I think that is very doubtful indeed. As I suggest, the increase in recent years has been due to the restriction of rents and to fixed interests, and if that restriction continues it will diminish the necessary supply of capital.

3848. So you do not expect that in the future the wage-earners will be able to bear increased taxation as comfortably as other sections of the community? Would you say that is a reasonable conclusion to draw from your statement?—I think it tends to revert to the pre-war proportion between the wage share of the product and the other share; that it has a little changed in favour of the wage-earner at present and therefore is likely to revert.

3849. Is the pre-war proportion, if recovered, likely to be a permanent proportion?—It seems to have endured for several decades before the War and to be similar in other countries, and assuming the continuance of the capitalist system and of the various forces which made for that before the War, then it does seem to be of a fairly permanent character. Change any of these forces and one cannot say what happens, of course.

3850. You have made a special study of this question, have you not?—I have studied, as far as

materials are available, this proportion, and the conclusion is its stationariness and its similarity in different countries.

3851. Then you would say that the power of Trade Unions to affect this proportion is very limited?—To affect it permanently—yes.

3852. *Mr. Lees-Smith*: May I supplement that? Is the power of taxation to affect it equally limited? Take the case of taxation levied for the purpose of Widows' Pensions or Old Age Pensions; is your view that that would react and that finally the wage-earners would lose in some other direction?—I think, finally, yes.

3853. Then they would finally lose in some other direction?—Yes, I think it is probable that the proportion paid by the employers for insurance is ultimately coming out of wages, not out of the employers' pockets, if that is a similar thing.

3854. I am talking of taxation. Do you think the Old Age Pension is finally really coming out of the wage-earners' pockets?—No, I beg your pardon, I do not think that is so. Old Age Pensions and Widows' Pensions would not necessarily, I think, in so far as they are things that the wage-earner has not provided for himself otherwise. That seems to me to come out of the *rentiers'* income.

3855. *Professor Hall*: To that extent, then, if the worker is relieved of saving for old age because a pension is provided by the State, he could get a larger share of the national income?—I am not sure. I was rather assuming, in my answer to Mr. Lees-Smith, that the workman was not saving for old age, but so far as he has been saving, I think it is possible he may still have to provide as much towards his own pension. It involves a very different theory on the incidence of taxation and I do not want to be dogmatic about it.

3856. You seem to have suggested that the proportion is pretty definitely settled in this country over a long period and in other countries in comparison with this country; would you therefore suggest that it is futile on the part of the worker to attempt to increase his proportion—that he would get it naturally without any effort and that there is no possibility of his increasing the proportion that he gets?—No, I would not like to suggest that. The proportion, as I said just now, results from the balance of certain forces which apparently remain of the same relative intensity over a long time. Alter any of these forces and you alter the balance. I can quite suppose that there are forces which would alter the balance, though I am not certain that I can name one at the moment. I should think that one might say that an increased efficiency of production might turn the balance in favour of the workman, and a decreased efficiency, against him.

3857. You would not suggest that a relief in indirect taxation would increase his share? Would he get as much benefit from a reduction in Income Tax as from a reduction in Tea Duty or Sugar Duty?—I think in the long run it would come to very much the same thing, but in the short run if he is relieved from indirect taxation and the Income Tax is increased, I presume that the worker would get a larger share immediately and then after there would be a tendency to restore the former balance.

3858. So that if we took £5,000,000 less from indirect taxation and secured that £5,000,000 from Income Tax, temporarily you think the worker would benefit, but permanently there would be no alteration?—Yes, I think so, but you understand it is a highly theoretical question as to what would be the effect. I can only give you my impression.

3859. It is a rather important question for us to consider, if we are discussing the incidence of taxation and its effect upon the community?—I am inclined to agree with the theory that it tends to bring back things to the same proportion, though I know it is not indisputable.

3860. You have mentioned in your written statement the figure of £100,000,000 for debt redemption and public works, but you have rather qualified that in your examination. Have you any definite ideas regarding the amount which it is desirable and possible for us to apply to debt reduction?—No, I have nothing that I think is worth giving to the Committee. I have not considered that subject.

3861. *Mr. Bramley*: With the Chairman's permission, I would just like to clear up this question about the figures in paragraph 8. I do not know whether you have the annual summary there?—I have the article to which I was referring. The date is April, 1923.

3862. Does it give you there the total number of wage-earners affected?—No.

3863. The total is built up, of course, from month to month during the year. For instance, in 1923 the total result is a net reduction of £3,600,000 in the weekly wages of 7,500,000. That goes on from month to month increasing until you get to the November return, 1923, and then you get a reference to the summary as follows: In the corresponding 11 months of 1922 there was a net reduction of £4,200,000 in the weekly wages of over 7,500,000 workpeople. The only point I am urging there is the number of wage-earners affected, not the amount of reduction or the increase, but the number of wage-earners affected by this official return, and I think you will find that from year to year it is approximately 7,000,000 or 7,500,000, the point being that they are the same industries from year to year. That leaves you with about 7,000,000 wage-earners unaccounted for in these official returns. That is my point?—The figures quoted are for those persons who had wage changes, but they do not include any persons who did not have any wage changes during the year or during the period under review. I do not think one can assume that every operative has one change in the year. If one is combining the various statements about wage changes, as in the article I have before me, in the "Ministry of Labour Gazette" of April, 1923, page 121, one would go not to the number of persons whose wages were changed, but to the number of persons in the industry; and the industries covered are very numerous, and, I should judge, applied to very much more than half of the wage-earners. On page 122 it says: "Many changes, not of a general character, do not come to the notice of the Department, and in some industries the particulars available may fall short of indicating the full amount of the increase, and, on the other hand, in some unorganised industries the increases may not have been so great." Therefore, it contemplates some industries being outside, but not, I think, anything near half, as is suggested, and it also shows that so far as can be judged, if they were all included, it would leave the increase very much as it is. That would be my judgment from the article.

3864. *Mrs. Wootton*: That annual general review includes agriculture, does it not?—Yes. It does not include domestic service, as far as I can see.

3865. *Mr. Bell*: In answering an earlier question, you spoke about the amount in paragraph 18, £100,000,000, being conditioned rather as to the amount required for works than the amount required for debt redemption. I think that was the question which was put. But the proportions you give here for these eight years are something like £90,000,000 per annum in respect of debt redemption, and £12,000,000 set aside for works?—Yes.

3866. It does not seem to be conditioned there, at all events to any practical figure, that the amount of redemption will depend upon the amount of works. That is to say, you might have, presumably, £12,000,000 or £13,000,000 or £14,000,000 one year, but the point is that the great proportion of the total sum set aside and, I suppose, derived from taxation, would go to debt redemption. You contemplated that in the example you gave?—Yes, I contemplated that the majority would go to debt redemption. In the actual figure I gave I put a big round figure so as to make sure that I was not cutting into the present £50,000,000. But my argument does not

depend in the least upon that being £100,000,000 rather than £60,000,000 or £80,000,000.

3867. I am talking now of the proportions between the figures?—If the total is put down, then the proportion to the works is obviously greater.

3868. But they do not come anywhere near. My point for the moment is that you do contemplate setting aside a very much greater sum, whether it is £100,000,000 or £60,000,000 or £50,000,000 for the purpose of debt redemption as against works?—Yes.

3869. I just wanted to get that clear?—I was not suggesting that the amount of debt redemption should be reduced.

3870. Would you say a minimum of £50,000,000, or something of that kind?—Yes, and I deliberately took the figure big enough here.

3871. We have had evidence here, or, at all events, the expression of opinion by a witness, as to the effect on work and thrift, of the payment of unemployment relief. One has seen in newspapers comments on various cases in the magistrates' courts as to money being drawn when there was really no right to have it, and so on. Have you any opinion as to the effect upon work and thrift of the unemployment relief payments?—Except in what I presume are very rare cases of benefit being paid when a man could get work, and taking the general case that the payment is for a man who is definitely out of work, I can only presume that the greater regularity of income is encouraging to thrift; and that I should judge to be much the most important case.

3872. *Mr. Hichens*: I think you said, did you not, that the workers' share of the product of industry had recently somewhat improved? Did I understand that aright?—I have got that guiding "unless," in my paragraph 12, which depends on the extent to which there has been an increased output.

3873. If it has improved, at whose expense would you think it has improved?—My view is that apart from the ups and downs of good and bad years, the only source of the increase to the working class has been the *rentier* who has been dependent on fixed rents or fixed interests; I see no other source from which it can have come, and that seems to me a sufficient source.

3874. How far would it be affected if saving became more general and capital became cheap? Would that mean that the share the worker could earn might be greater?—That depends on the elasticity of the demand for capital, I think. If capital were cheaper, more would be used per worker and then it is a question of a balance, how the proportion would go.

3875. I rather mean this. I understood your view was that capital must have a certain reward or else it would not be forthcoming?—Yes.

3876. If it is exacting and demands a high reward, there will be less left for others, that is to say, if the supply is falling and the demand is great?—I think it depends on the elasticity. There will be a change in two factors and I do not at present see what would be the resultant. With less capital at a higher rate, I do not know how it would work.

3877. You would not be prepared to say that greater saving would probably, on the whole, be a substantial benefit to the worker inasmuch as he would be likely to improve his share of the product of industry? You would not think that was a safe proposition to put forward?—I do not know that it would improve his share, but I think it would improve his aggregate amount.

3878. *Chairman*: You gave some very interesting information to the Income Tax Commission regarding the pre-war condition of the working classes. How do present conditions compare with pre-war conditions?—Of course employment is much worse. For those fully employed at present I think this table in paragraph 8 suggests the average; and one has the comment on it that unskilled workers, in many cases, have gone up further than this average, and skilled workers in many cases have gone down or have not gone so far up. I think the general movement must have been in regard to those not unemployed, that if they are unskilled they are doing better and have improved their standard of living, and if they are skilled they are doing worse. I think one can probably observe confirmation of the fact that the employed unskilled on the whole are better off. For myself, I have not noticed, though I have no doubt one can get evidence, that the skilled who are employed are worse off. I do not know that it meets the eye so much, because they still can carry on in a tolerable way.

3879. Mr. Hall asked you a question about the comparative effects of relief from direct or indirect taxation. Which is ultimately better for the nation, the reduction of Income Tax or the reduction of taxation on necessaries of life, such as sugar and tea?—That depends on your view of the advantage of equalisation of incomes. If it is an advantage to transfer from the rich to the poor, and if it can be done without injuring the supply of capital, then I presume the transference would be to the good; but if you attach importance to the present inequality of incomes, the answer is different.

Chairman: We are much indebted to you, Professor Bowley.

(The Witness withdrew.)

(Adjourned for a short time.)

The following note was subsequently received from Professor Bowley on the Migration Statistics given on page 32 of the Report of the Oversea Settlement Committee (Cmd. 2107 of 1924).

1. The figures in question are:—

Outward Balance of Migration, Great Britain.

1901-11 annual average	...	...	76,000
1921-22 ,, ,,	...	...	98,000

2. The 76,000 is obtained by starting with the recorded population at the 1901 Census, adding births and subtracting deaths for 10 years, and comparing the result with the recorded population in 1911. The deficit resulting is approximately 760,000, which is accountable to migration, if the population, birth and death records are correct. The net migration includes excess of travellers from Europe over travellers to Europe, and any net movement between Great Britain and Ireland, as well as the better-known figures of migration to or from non-European countries.

3. On the other hand, the 98,000 is a rough estimate mainly based on the records of passenger movement to and from Great Britain to all other countries combined.

4. These are the figures necessary in the study of the aggregate resident (or rather present) population, without distinction between aliens and British subjects or between visitors and residents.

5. Emigration has, however, generally a narrower significance than has passenger movement, and the statistics generally used relate to migration between the United Kingdom, or Great Britain, and non-European countries. The unadjusted United Kingdom statistics exclude South Ireland since April 1st, 1923.

6. Net outward movement of passengers to *Non-European* Countries from the United Kingdom.

	Total (thousands)	British Subjects. (thousands)
1900	123	71
1	138	72
2	216	102
3	249	147
4	212	127
5	254	139
6	328	195
7	341	235
8	43	91
9	213	140
10	320	234
1	272	262
2	316	268
3	329	242
1919	8	27*
20	153	172*
1	150	119
2	119	100
3†	253	190
4† (six months)	19	17

* In those years there was a net inflow of aliens.
† Excluding South Ireland after April 1st 1923.

7. It is recognised that the statistics prior to the War were of no great precision, and that no fine arguments can be based on them. If they were correct they would show that during the ten years 1901 to 1911 the whole outward flow to non-European countries from the United Kingdom was about 2,400,000, the inward flow from Europe about 1,300,000, and the net loss of population about 1,100,000; that is *annually* 76,000 from Great Britain and 34,000 from Ireland. These statistics are only approximate.

8. If we take only migrants of British nationality, meaning by emigrants persons who intend to remain abroad, and by immigrants those who intend to remain in the United Kingdom at least a year, we have more detailed statistics, of which the following are an example:—

9. Migrants of British nationality between the United Kingdom and non-European countries:—

	Outwards. (thousands).	Inwards. (thousands).	Total. (thousands).	Excess outwards. Males over 12 years (thousands).
1913	389	86	303	135
1921	199	71	128	50
1922	174	67	107	51
*1923	256	58	199	113†
*1924 (6 months).	74	32	42	23

* Excluding South Ireland since April 1st 1923.
† If South Ireland is included in 1923 this number becomes 118. *See* Board of Trade Journal, August 28th 1924, page 230.

10. A general conclusion is that though the net loss by migration in 1921-3, as shown in paragraph 1, is at a higher rate than in 1901 to 1911, this is due to a diminished inflow from Europe which counterbalances a diminished outflow to non-European countries.

The following table, deduced from the inaccurate statistics already cited, supports this conclusion:—

Annual passenger movement (approximate).

Average.	United Kingdom to all countries. Outward.	Europe to United Kingdom. Inward.	United Kingdom to non-European countries. Outward.
April 1901–April 1911.	110,000	130,000	240,000
June 1921–June 1923.	111,000*	26,000*	137,000*

* In the last line an adjustment should be made for South Ireland, which is excluded since April 1st 1923.

In the first column Great Britain accounts annually for 76,000 in the first period and, if we accept the figures in paragraph 1, for 98,000 in the second.

11. It seems impracticable to use the pre-war figures as any guide to the weight of those since 1921, which must stand on their own merits. In considering the near future the most recent statistics should be studied as well as those quoted above.

Mr. J. M. Keynes, C.B., called and examined.

Evidence-in-chief handed in by Mr. Keynes.

1. Income Tax is especially deterrent to saving in so far as it falls on funds which naturally accumulate at compound interest and where no question of personal expenditure can enter in, *e.g.*, the funds of insurance companies and the reserves retained by joint stock companies to provide further capital against an increase of their business. The latter in particular is increasingly the way by which industry secures additional funds. Since Income Tax is a tax on income as it accrues, whether in the hands of a corporation or of an individual, whereas Super-tax is a personal tax falling upon individuals alone, a redistribution of the burden of taxation, by lowering the standard rate of Income Tax, bringing the Super-tax limit lower, and increasing the Super-tax rate, would be the most convenient way of exempting some forms of savings from taxation if it is thought to be in the interests of the community to do that. An Expenditure Tax, though perhaps theoretically sound, is practically impossible. But our British distinction between Income Tax and Super-tax might be so handled as to achieve to some extent the same object.

2. The criterion as to the amount of debt to be held in a short-dated form should, I think, be given by the appetite of the investment market for that type of security. The Government can borrow most cheaply by offering various types of bonds in such proportions as each is required by the investment market and the money market. A large sum, probably a very large sum, can be borrowed more cheaply in the form of short-term debt periodically renewed, than in the form of long-term debt. It would be a sound policy to maintain the short-dated debt permanently at a high figure if that high figure could be kept afloat at a rate of interest lower (on the average) than the rate on long-term debt.

In the case of short-term debt the capital value is guaranteed and the interest is fluctuating; in the case of long-term debt the income is fixed but the capital value is fluctuating. Abstractly there is nothing to be said in favour of the one rather than of the other. The idea that there is something unsafe in maintaining the short-term debt permanently at a high figure is based for the most part on false analogy. I may add that it would probably assist the steadiness of credit if the volume of the short-term debt were to be somewhat reduced in good times and somewhat increased in bad times.

3. Since it is sound policy always to have a certain margin in budgeting, it is right that a certain amount of debt should, if possible, be repaid every year. But it is not advisable to attempt blindly to repay large sums merely on the ground that the debt is something to be got rid of. This idea again is based on false analogy. Repayment of debt out of taxation is partly at the expense of current expenditure and partly at the expense of other forms of saving. The higher the taxation becomes the larger is the proportion which is at the expense of saving. But even that part which is at the expense of expenditure is not necessarily in the public interest. If we confine our attention to that part which is at the expense of saving, the effect of the repayment of debt is to drive the savings into a particular channel instead of letting them find their own outlet. When holders of debt are repaid they will probably prefer to re-invest the money in bonds of the gilt-edged type. If, on the other hand, the savings are left in the pockets of the taxpayer there is no such presumption, and they may find their outlet either in industry or in any other way. In present conditions, therefore, a rapid repayment of debt affords an artificial stimulus to savings to flow into the channel of gilt-edged investments. At a time when there is a very heavy demand for this particular type of investment this may be sound policy. For example, if the Local Loans Authorities, or Borough and County Authorities, are involved in heavy expenditure for housing or public works, which they can only cover by borrowing in the gilt-edged market, then a simultaneous repayment of National Debt by the Treasury may be just the right thing to do. But it is not necessarily right in all circumstances. If the supply of new gilt-edged securities is limited, thus indicating that the demand for capital by borrowers of that type is not extensive, then repayment of National Debt on a large scale may be very harmful. This sort of consideration should weigh more than the mere idea that blind repayment of debt must be good for its own sake. To take money from industry and from individuals by taxation and give it back to the gilt-edged section of the Stock Exchange, regardless of whether there is a ready outlet for it there, is injudicious.

4. In an address which I delivered recently, and copies of which have, I understand, been circulated to members of the Committee, I gave reasons for thinking that the present Trustee Acts should be considerably modified. Some of the considerations which I urged may not be particularly germane to the inquiry of this Committee. But in so far as they are concerned with the renewal of the abnormally large amount of debt which falls due between now and 1929, the desirability of the Treasury exercising a more effective control over rival trustee issues, than it has at present, is worth emphasising. Both in the interests of the investors themselves and of the community as a whole and of the Treasury, I think it would be better to allow no securities in the future to enjoy the benefit of the Trustee Acts except home securities of certain specified types.

My anxieties under this heading are connected with those under paragraph **3.** If our own National Debt is repaid on a large scale, and if the bulk of the new issues of trustee securities consist of Colonial obligations, the effect of these two things together, namely repayment of debt and the Trustee Acts, is to afford an artificial stimulation to foreign investment which may be exceedingly contrary to the public interest. Repayment of debt takes forcibly resources from the community at large and compels their utilisation in securities of the trustee type; and it may then happen that the bulk of the net additions to the list of trustee securities are overseas investments.

5. I have mentioned above that the Government will borrow most cheaply by supplying such types of bonds as the different sections of the investing public find suitable to their requirements. I suggest that there is one further type of bond not yet in issue which might prove popular with particular individuals and so enable the State to raise funds a little more cheaply. I suggest that there should be issued bonds of which the capital and the interest would be paid not in a fixed amount of sterling, but in such amount of sterling as has a fixed commodity value as indicated by an index number. I think that an official index number should be established for such purposes on the lines of the optional tabular standard recommended long ago by Dr. Marshall, and that it should be open to anyone, including particularly the Treasury, to offer loans, the payment of the interest on which and the repayment of the capital of which would be governed by movements of the index number. I can say from knowledge that there are many investors, who, wishing to take no risks would naturally confine themselves to trustee stocks, yet feel a natural anxiety in being compelled to invest their whole resources in terms of legal tender money, the relation of which to real value has been shown by experience to be variable. Throughout almost the whole of Europe investors of the trustee type have been deprived in the past ten years of the greater part of the value of their property. Even here in England all such investors have suffered a very large real loss. We may hope that great instability in the value of the currency may not be one of the things which the future has in store for us. But it is natural that some people should be anxious about it. Unless, therefore, the Treasury hopes to make a profit through the depreciation of legal tender, it would lose nothing, and might gain something in terms of interest, by issuing such bonds as I have indicated.

3880. *Chairman*: Will you first of all amplify the points in your paper?—I should like, if I may, in dealing with the first heading of my evidence, to put the matter a little differently from the way in which I have put it in my written summary. In England historically the Income Tax has been, not a personal tax, but a tax on income as it accrued, in whatsoever hands it was. That is a point which is not always well understood, but it has been a very vital feature of our Income Tax system. We have gradually been compelled to depart from that system as the rates of Income Tax have increased, and it has become increasingly a personal tax. The personal side of it is represented most completely in the Super-tax. I believe that this distinction between the tax on income as it accrues and the personal tax might be developed so as to take taxation to a certain extent off what we can presume to be savings, and throw it a little more heavily on to that part of income which we cannot presume with equal likelihood to be savings. I would suggest that if it is desirable to move in that direction we might reorganise our system of Income Tax, and, instead of having two taxes called Income Tax and Super-tax, have two taxes called "standard tax" and "personal tax"; that the standard tax should be like the old Income Tax and fall upon all income as it accrued, subject, as the old Income Tax was, to certain total exemptions at the bottom of the scale; and that the personal tax should absorb the fluctuating part of Income Tax

and Super-tax and should be avowedly a tax on individuals in proportion to their capacity to bear it. That would have the effect that corporations who are not spenders, except in so far as they pay dividends, would pay only at the standard rate on that part of their income which they put aside and did not distribute. The most obvious cases are insurance companies, where the money accumulates at compound interest, and industrial companies, which retain for further development of their business a certain part of their profits. In both those cases there is strong presumption that the income in question is saved and is not spent. If the standard rate of tax was to be lowered and the loss of receipts in that way was to be made good by regraduating the Super-tax and bringing it down to incomes of a much lower limit than £2,000, you would be exempting a certain part of income which goes to savings. I think it is difficult to know how much is now saved in that way and how much in other ways, but I am sure that important sums are now saved by corporations rather than by individuals, that is the tendency nowadays, and it is one which it may be worth while to encourage and of which our tax system ought to take account. In the old days, when Income Tax was at moderate rates and no steep graduation was necessary, there was much to be said for the old system. In the early days of Super-tax, when the machinery of Super-tax was in its infancy, it would probably have been very difficult to have worked a personal tax of the kind that I suggest. But in the present conditions it merely means an extension of our existing Super-tax machinery under a different name, and with Super-tax down as low as £2,000 and with further graduation below that point, a large part of our taxation is in effect personal tax, even that part which is collected ostensibly at the standard rate of Income Tax. We should get clearer and perhaps have greater simplicity in the end if we were to recognise that change, and it would have the advantage that money which accrued in the hands of corporations which could not be spenders, would be exempted.

3881. *Mr. Bell*: By corporations do you mean limited companies only?—No, I include, for example, insurance companies, whether they are limited liability companies or not. But generally speaking, I should make exactly the same distinction as is now made by Super-tax; that is to say, my personal tax would fall upon the classes of persons who, if they had large enough income, would now be liable to Super-tax.

3882. I was wondering whether the actual standard tax would fall equally upon a partnership?—What is the present position as regards Super-tax?

3883. Would the same facility for saving be granted to a private partnership as to a limited company, for instance?—There are certain marginal cases at present which are dealt with under Super-tax lines as carefully as the officials can. I am not very well acquainted with just where they draw the line.

3884. *Sir Alan Anderson*: Private partnerships or the individual partners have to pay Super-tax on the reserves held by the partnership. *Sir Josiah Stamp*: And instead of extending the principle of limited companies to partnerships, you would extend the principle of partnerships to limited companies, and say that, in so far as you have limited companies which approximate in their true character to a partnership, they shall be deemed to be partnerships; but because there has been very grave abuse of the distinction between limited company and partnership in the past in regard to Super-tax, therefore recent legislation has assimilated all limited companies with a few shareholders, to partnerships.—(*Witness.*) Perhaps I could answer Mr. Bell's question by taking up the point just made by Sir Josiah Stamp. Hitherto the distinction between Super-tax and standard tax has been the amount of a man's income, and therefore the arrangements to which he refers were quite distinctly of the nature of evasion. But suppose that the criterion which we have in our mind was whether the money was locked away in a form in which it could not be spent on current expenditure, then we should not object so much to individuals or partners who were in fact behaving in that way imitating the formal company, because they would have met our criterion.

3885. *Mr. Bell*: That is the only point I wanted to elicit—that they would have just as much advantage by putting to reserve as a limited company would.—I do not like to answer that quite definitely, because it is a technical Inland Revenue point. I should like to do that in so far as it is compatible with preventing evasion of taxation. In all those cases you must not go beyond a point, because it can be abused by those who seek to evade, and that is an Inland Revenue matter on which I am not an expert.

3886. All I wanted to ask was whether they should be treated as a limited company in every way in which it can be done fairly and rightly?—I should aim at that, but I should have thought that any Inland Revenue authority would say that you would have to be stiffer with private partnerships just as you are now.

3887. Would that be just?—As just as the present system.

3888. I should have thought not. If you were going to put a premium upon saving and the holding of reserves it should be done equally with a private partnership as with a company?—It is not done at the present time. I did not raise that point, because I propose no change.

3889. I mean standard tax, not Super-tax?—I am making exactly the same point.

3890. *Sir William McLintock*: There is a distinction between a limited company and a private company formed before 1914 and after?—Yes.

3891. After 1914 certain private limited companies were treated as partnerships?—Yes.

3892. This suggestion of yours would mean that all the pre-1914 companies would get off with a lower rate of tax and the amount placed to reserve would not be questioned, whereas in the case of the after-1914 companies, to-day the Inland Revenue go very exhaustively into all the circumstances of the case?—Yes, but I suggest that these questions are not really relevant to what I am trying to say.

3893. *Sir Josiah Stamp*: I think we are drifting rather too much into the technical difficulties of carrying out general principles. I would like to ask you whether something in the nature of a division between the normal tax and the Super-tax as they have it in the United States would be possible?—I am inclined to have a somewhat higher standard tax than they have, at any rate at first. I think it would be too great a change in the existing system to put the standard tax as low as in America. I should suggest 3s. in the £ as the figure.

3894. That is to say, you would lower the present Super-tax down to the class of those who in effect pay at the rate of 3s.?—Yes.

3895. It was started at £5,000, dropped to £3,000, and then dropped to £2,000; with every drop in the level a large number of people come in, and there is an inevitable loss, through evasion, every time?—I think that is the main objection to my proposal. Every tampering with the level of the standard tax leaves more room for evasion.

3896. The Chairman will remember that the point where Super-tax was brought down to a lower level was seriously considered by the Income Tax Commission?—But I think that now the situation is so different from what it was even a very few years ago, we have gone so far in this direction, that if there were other advantages to be gained I would risk this objection; but it is a great objection.

3897. *Sir Charles Addis*: With regard to the effect of Income Tax on companies' savings, is it your view that it acts by tempting companies to

distribute a larger amount in dividends than they put to reserve?—No, I think it acts by diminishing the amount that they have available for reserve.

3898. But not in the direction of encouraging increased distribution?—It may a little, but I do not think much.

3899. Do you think in practice it has had the effect of reducing the amount of reserves?—Yes, I think so.

3900. We have had evidence given here by Mr. Layton that so far as he could judge, the reserves of the companies that he examined all kept pace with the increase in prices. Do you think that was correct?—I should have been surprised that you could get any sound statistical argument on that point, owing to the great changes by amalgamation and otherwise that have taken place in the character of companies in the past 10 years; but in any case it does not follow that the proportion put to reserve before the War was the ideally correct proportion.

3901. Is there any real distinction in the position of a shareholder who receives a sum in dividends which might have been put to reserve, and himself invests it in some other industrial security?—I do not quite follow the question.

3902. Supposing that a company, instead of putting to reserve, pays the amount in dividend and that the shareholder who receives that dividend invests it in some other industrial security?—It does not follow that he will. If he does, it does not make very much difference; but I am inclined to think that the new money for industry is being found more and more out of the reserves of existing companies. The tendency, in the case of a really progressive industry, is for those who manage that industry to pay the shareholders something to satisfy them and to retain as much as they possibly can in the business for the further expansion of that business. I think that is one of the most healthy ways in which additional capital for business is obtained, and I think that this suggestion of mine would leave more in the hands of the managers of the business, which they could retain in the business without disappointing their shareholders. They could in fact use it as an argument with the shareholders that it brings them within this lower rate of tax if they retain it in the business.

3903. If you take two classes of shareholders: if you take Class A, who receives the amount in dividend, and Class B, where the amount is retained by a company and placed to reserve, the distinction is really between borrowed money and compulsory saving. In the case of A, he may save or he may not?—I think the argument is purely psychological. You might say that if you could earn 2s. and give your shareholder 1s., your 20s. shares will then be worth 21s., whereas if you gave him 2s., they would be worth 20s. Therefore your shareholder, by selling 5 per cent. of his holding, could be exactly as he was previously; he would have obtained his 2s. But in practice people do not act in that way. If the money is retained in the business, it is much less liable to be spent by the shareholder releasing a portion of his holding than if it is paid to him as dividend; because he looks on the one as capital and he looks on the other as income. There is also a further point. The expenses of raising new capital are heavy, and one of the great advantages of increasing capital by retaining money in the business is that it is a very cheap way by which companies can increase their funds. If they have to issue new shares or borrow in the market, in modern conditions they have to give away a dangerously high sum in order to make a successful flotation. If they retain money in this way it costs them nothing; they have a perpetual regular flow instead of an occasional large but expensive issue.

3904. The point I wanted to make was this, if I may make it clear. In the case of two shareholders, A and B, the one receives the dividend and the other has it invested for him. Would there be no inequity in taxing the one and exempting the other according to your proposal?—I do not think that any system of taxation is perfectly fair. I do not think that you would increase the existing unfairness. It exists in every case of the Super-tax payer at present.

3905. It seems to me that it would have the effect of encouraging a certain kind of saving, namely, compulsory saving, as against voluntary saving. I do not press that point, but there is a difficulty, I think?—It seems to me that you are imputing to a new system of taxation an inequity that exists at present.

3906. *Sir Josiah Stamp*: On that point raised by Sir Charles Addis, there is rather an assumption that Super-tax is being lost at the present time on the amount retained by the company. But those sums are due not merely to people with incomes chargeable at a higher rate than the normal rate, but are also due to people chargeable at a lower rate and on the average probably there is not much loss, because there is no repayment to anybody on the money that is invested for them by the company. The shareholder may be hit by having the tax paid at 4s. 6d. in the £ on something for which he is only liable to 2s. 3d., and if you take the whole amount there is no statistical evidence to show that the real rate on the whole lot is higher than the normal rate. The thing is unfair in both directions. On this statistical point about reserves, supposing that the company makes £10,000 profit and looks at its balance sheet and sees that all its assets are intact, and says: "We will pay £5,000 in dividend and put £5,000 to reserve," and that goes into the business, that is the kind of thing that ought to be encouraged?—That is my suggestion.

3907. Now supposing the company looks at its assets and says: "We have got some holdings in Dunlop that have depreciated in value; we must write that asset down," and they deplete their profit and loss account by £5,000, they show £5,000 profit and they pay that away in dividends, apparently they make no reserve, but do they not in effect do exactly the same as the first company?—Yes, I think so.

3908. Then one way of doing it is to put it into reserve when it is obviously reserve, but we none of us know how large sums out of profits have been saved in the writing down of assets?—No.

3909. Which makes it almost impossible to judge how much of current profits have been kept intact without distribution. It would seem to show that it is a favourable time, would it not, for an increase in capital when everything slumps in value. By the modern ideas of a balance sheet you compel everybody to put money on one side?—There is a striking instance of that in the case of banks.

3910. *Professor Hall*: That would apply, of course, to depreciation of plant as well. *Sir Josiah Stamp*: That is a more regular thing, but this seems to show that industry is being particularly hit in the saving of capital at a time when capital values are being depreciated?—(*Mr. Keynes*): Of course it does not always happen that companies do write down assets as much as they should.

3911. *Sir William McLintock*: There are two methods. One company writes down a specific asset and reduces its value, probably they have only written it down to market value and then they hide it up in a big total; another company actually shows the reserve on the other side, and the result is exactly the same for the two companies?—Yes.

3912. Would you consider there is an essential difference between the one which shows it as a true reserve and the one which writes it down to its market value as a legitimate business expense?—I think the existence of those two methods renders all estimates of amount nearly valueless on this matter.

3913. I agree. They will have to reform their methods of stating balance sheets for statistical purposes. *Sir Josiah Stamp*: What I want to know is whether you would allow the writing down of capital assets to be charged as a business expense?—(*Mr. Keynes*): I think there is a great difficulty about it, because there is also the question of writing up. If you are to allow companies to write down depreciation of assets as a business expense then you must compel them to write up, and that would involve valuations on the part of the Inland Revenue, which would probably be impracticable. I have always regarded the unwillingness of the Inland Revenue to allow writing down as a balancing item against the impracticability of compelling companies to write items up.

3914. *Sir Alan Anderson*: You can practically choose now for a great many things, can you not, whether you will bring in the rise and fall, or whether you will not?—Also it seems to me that if you have writings up and down in accordance with fluctuations in the value of money and include these in income account, you would reach an impossible situation.

3915. *Sir Josiah Stamp*: I was going to ask you how you would avoid the appalling mess that Washington has got into the last three or four years?—I do not quite understand the relevance to what I was proposing, because I was not suggesting any change in this particular respect.

3916. We were on the question of the method of handling reserves in the different kinds of companies. I was wondering if you were going to have differential treatment at all?—Your point relates to the definition of profit. My suggestion does not really touch that.

3917. You would allow profit to be defined as now?—Yes.

3918. And you would get over all difficulties about exempting reserves or giving preferential treatment, by charging companies at a low rate of tax?—Yes.

3919. *Mr. Bell*: What would be the additional tax to the widow who lives in Ryde or the physician who lives in Harley Street? How is it to be made up?—It does not affect his position, because he is at present liable to Super-tax.

3920. I take it that the net result of this proposal would be that companies would be relieved of a good deal of taxation as long as they kept certain reserves intact. How will the revenue make that up?—It would be made up in various ways, partly by a general regraduation which will bring the Super-tax limit down and partly by some increase in the personal tax all along the line. But the Harley Street practitioner would not be injured by that any more than any other individual of equal income.

3921. But individuals would have to find the amounts of which industrial concerns are given the benefit?—Yes, wherever you relieve a particular sort of income from taxation you must make it up on some other sort of income, certainly.

3922. Do you not fear that that might be a preferential treatment of one sort of people?—It depends how much public opinion was influenced by the desirability of exempting what are certainly savings. I think it may be that the encouragement to savings is rather a fetish sometimes; I do not think it ought to be pushed to its extreme point. But I am assuming that in existing conditions we want to do a little to help savings.

3923. All sorts of savings equally?—All those that we can encourage without opening doors to evasion, and I think that confines rather narrowly the types that you can assist.

3924. Would that really be possible in regard to individuals, do you think?—No, I do not think it would.

3925. Then it would in effect be letting savings of a certain class off taxation and not letting off another class of savings?—I am inclined, perhaps wrongly, to brush on one side all these minor questions of equity between individuals, because I think that line of argument leads always to abusing a new tax as against an old tax. Every tax that has ever been devised is packed full of these small inequities.

3926. The inequity seems to me to be a pretty big one?—If these are emphasised it suggests that the new taxes, because they have them, have them more than the old taxes. If we were to go through the old taxes we should find just as many anomalous cases.

3927. *Sir Alan Anderson*: I suppose there is an inherent objection to every new tax. You do not want to change the method of taxation?—There is always an objection to a new system of taxation. One never wants to alter our system of taxation for no reason at all.

3928. *Sir Josiah Stamp*: There is no enormous difference in the question of equity between one individual and another and the social value of savings. In your judgment, the social value of savings might be allowed to prevail?—Yes, but I sympathise with Mr. Bell's point of view. I think there is a danger of going too far in the other direction.

3929. *Mr. Bramley*: What would be the effect on the banks? Would your proposal tend to reduce the total amount of savings in the hands of banks, and increase the total amount of savings in the hands of companies?—I do not think so. Do you mean that it would increase the amount of the deposit accounts in banks? The alternative to the money being retained by the companies is that the investor would either spend it or invest it in some other way. Of the other ways in which they can invest it, putting it on deposit at their banks is only one of many.

3930. The temptation would be to leave more money in the hands of the companies, would it not?—Not so much the temptation as the compulsion.

3931. That would, of course, reduce the amount of bank deposits, would it not?—It would reduce the amount of money available for investment in other ways, and it is only in so far as interest-bearing deposits at the bank are a form of investment that they would be affected. It would not affect the amount on current account, and I should not think it would much affect the amount held on deposit; but it might.

3932. *Mrs. Wootton*: I understand you do not intend to alter seriously the present graduation of Income Tax?—No. I think that, if you were to merge Super-tax and the fluctuating part of Income Tax, as I suggest, there are certain adjustments that one would inevitably think it wise to make; there are certain small adjustments which at present arise inevitably out of there being two taxes, which you would take the opportunity of correcting.

3933. Your proposal is to relieve savings much more than to make any change in general taxation?—Yes.

3934. *Mr. Bowen*: Would your proposal mean less revenue?—It would mean less revenue from a particular source, which would have to be made up from other sources.

3935. Have you in mind what those sources would be?—My idea was that the total receipts from Income Tax and Super-tax would not be diminished unless there were other reasons for diminishing them; that it would be a redistribution between Income Tax and Super-tax payers rather than a relief of those classes; but if there was money which was available to relieve some class or other, personally I think the Income Tax payers are those who ought to receive it. I think that of the present taxes the Income Tax and Super-tax are the most excessive.

3936. *Sir William McLintock*: Assume that a lower rate of tax is applied to limited companies; they have a bigger sum available then for either distribution or reserve?—Yes.

3937. If you assume that they pay a larger dividend by reason of the lower Income Tax, that larger dividend will in turn be subject to the higher rate of Super-tax that you suggest?—Yes.

3938. One may very well off-set the other?—I assume that the companies would to a certain extent increase their nominal rate of dividend.

3939. *Sir Josiah Stamp*: You do not think that they would retain in their business the whole of the difference?—No, I do not.

3940. A great many of them already retain all they want and they would have no use for this money, and they would pay it out as a larger gross dividend?—Yes, and in so far as they paid it out as a larger gross dividend, no revenue would be lost.

3941. *Sir William McLintock*: And the revenue would gain on the higher Super-tax?—Yes.

3942. That would be the tendency, would it not?—I think the tendency would be that a certain amount extra would be retained in the business.

3943. A portion of it?—A portion of it. All this discussion has been based upon joint stock companies. But the case of insurance companies is very important, because the amount of the additional savings of the country that accrues in the hands of insurance companies per annum is something prodigious, and that part automatically accumulates at compound interest and it is an increasingly large source of savings. If they accumulated at a higher net rate of interest than they do now it would make a very material difference to the amount of savings. I attach more importance to that so far as the magnitude of the additional savings is concerned than I do to the other point.

3944. Would it increase the bonuses paid by insurance companies?—It would increase them, certainly, if you mean the ordinary type of bonus which is a deferred bonus; it means that the insured person at the maturity of the policy receives a larger sum. If money is accumulating in the hands of the insurance company at a higher rate of interest there is a larger fund to be returned to the policy holder at the end of the period, and that is simply another way of saying that the bonuses are higher.

3945. In that case no tax would ever be paid on those bonuses?—I do not say no tax; they would pay standard tax.

3946. Except the standard tax. A limited company might distribute surplus profits at some future date?—Yes.

3947. *Sir Alan Anderson*: Does not an insurance company pay Income Tax?—It pays Income Tax, certainly; that is the point of my answer; it would continue to pay standard tax.

3948. When one takes out a policy one escapes the Income Tax on the premium?—Up to a certain point. The company pays Income Tax all the time.

3949. When you answered about the doctor or the lawyer, the man who is making a personal income, I think you said that he was a hard case, did you not?—I said that he is a hard case now.

3950. He is no worse off than a private firm now. You say they would be hard cases, too?—They are a hard case, too. It is simply that anybody who is liable to Super-tax, and who saves out of his income, is in a worse position than a company which saves correspondingly. My proposal slightly aggravates that inequity. But any scheme for helping savings that does not help all savings equally is inequitable in that way. That is an instance of my objection to Mr. Bell's suggestions in some of his questions which are along these lines: No way of helping savings would help all savings to an exactly equal extent; therefore an element of unfairness is involved; therefore you must never help savings. This result is the danger of that way of arguing.

3951. *Mr. Bell*: Still, of course, it is the wish of all of us to be equally fair to all classes if we can. It is not a bad thing in itself to be rather careful?—No, certainly not; I agree with that; but I think that the perfectly fair person has to retire from all forms of action.

3952. *Chairman*: Will you proceed with the next point in your evidence?—There is the question as to what part of our debt we should be prepared to keep permanently in a short-dated form. I think popular opinion on that is often incorrect, because it is founded on a false analogy with the case of a private individual or of a company. It is clearly advantageous for a company to have its debentures of a long date, so that there may not be any risk of their falling due at a time when the company is embarrassed, or less easily able to raise money. I think the extension of that to the State is a false analogy. I see nothing unsafe in the fact that the amount of short-dated debt falling due for renewal year by year is one figure rather than another figure. My criterion would be determined by the amount of debt which could be kept floating one year with another in a short-dated form at a lower average rate of interest than if it were in long-dated form. I believe that the amount that could be kept floating on that criterion is very large, simply for the reason that there are a large number of holders of funds, particularly banks, to whom it is so advantageous to have debt which is regularly maturing that they are prepared to accept a lower rate of interest on it than on debt which does not mature in that way. In a long-dated debt the lender knows what interest he will receive annually for a long time ahead; he does not know for certain what the market value of his loan will be; in the short-dated debt he knows what the market value will be year by year in the near future; he does not know for certain exactly what rate of interest he will receive. From the point of view of the State it seems to me indifferent in which form they borrow, but there is a certain class of lenders to whom one kind is very much preferable and there is another class to whom the other kind is very much preferable, and I think the division between the two forms of debt ought to be determined by the proportionate appetites of those two classes of investors.

3953. *Mr. Bell*: In the result, I take it, you agree that there has been an enormous saving to the State by the cheaper form of borrowing on short-term security?—Very great indeed.

3954. *Sir Josiah Stamp*: Would you agree that the appetite will vary according as the times are good or bad?—Yes.

3955. Would you settle it by the period of minimum appetite?—There is a certain difficulty there. It is in the interests of the trading community that the short-dated debt of the Government should be somewhat reduced in good times and somewhat increased in bad times. But those dates may not coincide with the dates at which it is most profitable for the Government to convert its debt from one form into the other. You may, I think, have a dilemma sometimes between which objective to follow. If you can fund your debt more satisfactorily in good times, that is the moment to fund rather than in bad times.

3956. Therefore you would not object to the step taken in reducing the huge Floating Debt that was frequently coming on the market in 1920 to more manageable dimensions?—No.

3957. It was a source of great danger at the time, and was in constant competition with the gluttonous demands for money in the industrial market?—I think it was healthy, because it tended to direct new savings into the commercial market rather than into the investment market. It is a characteristic of good times that the new savings of the community ought to be put at the service of trade rather than flow into investments. If the Government at that time is floating long-dated loans to the investor and using the proceeds to repay the market its short-dated loans it does just what is wanted; it brings the new savings of the community into the service of commerce. On the other hand, in bad times, when the demands of commerce are reduced, the opposite is true; but I believe that the fluctuations which would be practicable in the volume of the floating debt as between good times and bad, would not be a very large percentage of the whole.

3958. Not more than 10 per cent. probably—No, not more than 10 per cent.

3959. *Mr. Bell*: I am quite clear that there is a fallacy in the argument that a short-term debt is bad, but it seems to have been laid down almost as

a financial principle that you must get rid of a short-dated debt of this kind. You are entirely opposed to that?—Yes, entirely opposed to it; indeed, I think if it were carried very far it would put our banking system into an extremely difficult situation. It would be driving bankers into a form of security which is not the most suitable for them.

3960. *Sir Charles Addis*: Can you make any suggestion as to the amount of Floating Debt that might be considered permanent?—Is it possible to arrive at an estimate?—It is rather difficult to give a figure, because one does not quite know at what point to draw the line, whether 1929 War Bonds are short-dated debt, whether 1932 Treasury Bonds are.

3961. Might I take Treasury Bills as an instance of Floating Debt?—I should certainly merge with Treasury Bills all the National War Bonds which are of quite short-date—up to 1927/1928. I do not see anything very wrong in the present amount.

3962. You do not think there is any danger with the amount at the present level?—No.

3963. That is to say, if a demand were made for money, the Government could always command the situation by raising the interest on short-dated loans?—That is so, but supposing trade was to revive very definitely, I think it would be a sound policy if the Government tried to fund some of it and then was prepared to allow some to be reconverted into short-period debt later on. I do not think they should aim at a much lower figure than the present figure as an average.

3964. *Mr. Bell*: Might not the existence of the Floating Debt hamper the Government in any conversion scheme by making it more difficult to raise the cash if the conversion terms offered were not accepted?—I think that assumes that we are always wanting to have conversion schemes, that the ultimate object of the Treasury is to convert everything. I do not think it would make very much difference. Supposing you had a certain part of the public naturally attracted by long-dated debt and a certain part of the public naturally attracted by short-dated debt, you do not get any rapid change between those two classes of investors, and therefore the market for the long-dated debt would be much the same at one time as at another. In fact by having mopped up all the really short-dated lenders into your short-dated debt, you have a more steady supply of lenders for your long-period debt.

3965. *Sir Charles Addis*: If the rate of interest on the short-dated debt eventually became the same as on the long-dated debt, would there not be competition?—If that happened, I should say it was a sign that the short-dated debt was getting excessive.

3966. You would consider whether it was a good opportunity to fund. You would take the two circumstances together?—I think it is inevitable that you should. When the Government has been erring a little in one direction, it would probably be difficult to correct it, because it is just that difficulty which has probably led to the situation which is making the trouble.

3967. In your view the management of this amount of Floating Debt, which I take it on your suggestion would have to be increased and diminished in accordance with the fluctuations in the competition of trade for funds, would involve a certain amount of control?—It would involve a certain amount of intelligence.

3968. You are not apprehensive as to the degree of intelligence that would be available for controlling credit in that way, are you?—I think it is quite impossible to write down certain rules in a book and then have the Treasury run by clerks from that time onwards by reference to the book.

3969. *Professor Hall*: I think you mentioned that you would convert from short-dated loans to funded loans in times of good trade?—That is a secondary point. I should do that if it was not too expensive.

3970. Would not that be rather an unfavourable time for funding?—It would; that is the difficulty. The reason for that is that during trade booms, owing to the nature of our credit system, the price of long-dated securities is unduly affected.

3971. *Sir Alan Anderson*: Does it not come to this, that you would go on with the short-dated securities you have got now, unless you found you would save money by converting?—Yes, that is what it comes to.

3972. *Sir Charles Addis*: In times of commercial expansion do you regard the existence of the Floating Debt as tending to raise the rate of interest for business purposes?—No, I do not think it does that, but the existence of a Floating Debt affords an opportunity for diverting savings into the direction of business in the way in which I have indicated. It gives to the Treasury an opportunity, by funding its debt, of getting savings from the public and putting those savings at the disposition of commerce, and if it is practicable to do that, it is a good thing to do; but if it cannot be done, then it cannot.

3973. *Chairman*: Will you go on to your next point now?—My next point is the one to which I really attach most importance. It relates to times of repayment. I think some debt should be repaid every year in the interests of sound budgeting and sound finance generally. It is a sound principle to have some margin, and the policy of having a Sinking Fund of a certain amount is a way of insuring that. But when you consider repayments of debt on a larger scale than is required by such considerations, I think again there is a danger of applying the false analogy of an individual who is in debt, who would naturally wish to clear off his obligations at the first possible moment. The effect of paying off debt is to take money from the body of taxpayers and to place it at the disposal primarily of a particular form of investment. If a holder of Government debt is paid off he will probably want to reinvest in something of the same kind. Thus I should say that the main effect of debt repayment at a rapid rate is to divert the surplus resources of the community into the gilt-edged stock market. Sometimes this may be a very right thing to do. If the demand for capital which is offered in that particular form is brisk, then that is a good opportunity to pay off debt. But the policy of paying off debt regardless of the outlet is, I think, a very doubtful one. I think that probably mistakes were made on those lines in the 'nineties, though I do not know the history of that period well enough to be sure. I am clear that if at the present time upwards of one hundred million pounds of debt is repaid annually, that may take a larger part of the surplus of the community and put it at the disposal of the gilt-edged market, than is desirable. But I should look to the criterion of the demand for the outlet for savings in investments of the trustee type rather than to any other criterion in deciding how fast I should repay debt, once I had got a sufficient balance on the right side to satisfy the requirements of ordinary good finance.

3974. *Sir Josiah Stamp*: As a corollary to that point we have had the amount of diversion that excessive debt repayment introduces put to us in this form. You draw your taxes from businesses which are progressive but relatively obscure, and you deplete what they would otherwise have had for their development. You direct money by debt repayment, as you say, to the gilt-edged market, which is not big enough or extensive enough to absorb the sums so directed, and they seek the next best thing, which are debentures, and good industrial shares in very large undertakings. Therefore an excessive debt repayment has the effect of encouraging the financing of the largest and best known concerns and discouraging private enterprise?—I think that is true, but I should put even more strongly the point that it has the effect of encouraging Colonial investments as against all types of English industrials.

3975. And even against English debentures?—Even against English debentures; because Colonial securities are considered by the public as nearer to the true gilt-edged type than even English industrials are.

3976. *Mr. Bramley*: The continuation of the interest liability is a question of distribution, not of total wealth of the community?—Provided that interest is being met by taxation on the right class of the community, I do not think that ought to be a determining consideration. It is out of one pocket into another; whereas the other considerations that I have been mentioning have regard to the growth of the aggregate wealth of the community.

3977. *Mrs. Wootton*: What prevents this diversion from correcting itself? What prevents the tendency to invest in gilt-edged securities to straighten it out again?—The fact that there is very imperfect fluidity in the investment market. It is not true that capital seeks the channels of most lucrative investment by itself. It does nothing of the kind. The business of investment is most unsuccessfully carried on, because it is largely conducted by persons, namely, the individual investors, who know nothing whatever about it. It is lack of knowledge.

3978. *Sir Josiah Stamp*: It is conservatism, too?—It is conservatism, obedience to convention, and lack of knowledge. That is inevitable, and those characteristics exist in the greatest degree in the gilt-edged type of investor. He goes into that class of security precisely because he, rightly, does not like to trust his own judgment. Therefore, you are putting the resources of the community, if you repay debt too fast, into the hands of the class of persons who have least courage and least skill in the utilisation of resources.

3979. *Mrs. Wootton*: There is not a sufficient margin also in the gilt-edged market?—The gilt-edged market is so enormously large as compared with the industrial market that there is not a sufficient margin. I am convinced that the disparity in the size of the gilt-edged market and the other markets is much greater than is commonly appreciated.

3980. Is that lack of fluidity constant, or does it increase and decrease?—I think it varies. At times when the general investing public have suffered misfortunes so that they have no courage, the lack of fluidity is much greater than when they have been having a rather fortunate time and are speculatively inclined.

3981. *Mr. Hichens*: It has been put to us in evidence that if, by means, for instance, of a Capital Levy, we could pay off the whole of the debt and thus relieve the State of some £300,000,000 a year in the way of interest, that £300,000,000 would be available for other public purposes, such as education and so forth. Would you regard that as a fallacy or as a fact?—The only valid distinction between a Captal Levy and taxes of the class of the Income Tax, is that one falls more upon those who hold wealth and the other more on those who earn incomes. That is to say, one is on the existing holders of wealth, the other is on the potential future holders of wealth.

3982. That is to say, it might re-distribute the burden, it would not affect the magnitude of it?—It would re-distribute the burden in the interests of persons who are now earning their wealth, as against persons who have earned their wealth in past times.

3983. *Mrs. Wootton*: It might be better, might it not, for the State to extend it in certain directions, rather than in others, from a purely psychological consideration?—I think that would be very small, compared with the point that I have mentioned. The evil seems to arise when, in order to make the Budget balance, the rate of Income Tax upon current effort gets so high as to discourage that effort. I think the evil of discouraging that effort may be greater than the evil of disappointing the expectations of persons who earned their wealth in the past.

3984. *Sir Alan Anderson*: In fact it is better to go on collecting money from Income Tax, so long as you are not pushing it too far?—Yes.

3985. *Mrs. Wootton*: There is a sort of convention that you ought not to spend out of the National Exchequer more than a certain sum, partly for psychological reasons. If you are relieved of the obligation of spending the amount of the debt interest, it might be possible to divert it to the other objects?—I doubt if that convention would last long if it was divorced from the real burden of taxation. I should not attach much importance to that argument in founding a permanent system of taxation for the country, because those conventions have a very short life. The position now is totally different from what it was a very few years ago.

3986. *Mr. Hichens*: Another point of view that was put to us was that the question of debt repayment is not really a very serious matter, that the general public are used to a debt of £6,000,000,000 odd, and that, as it falls due, it will be a matter of no difficulty to replace it; therefore there is no urgency in redeeming the debt?—My view is that there is no urgency to redeem the debt unless the State has other important objects for which it wants the money; that is to say, if it is a question of replacing unproductive debt by productive debt, that may be a very strong reason for reducing the unproductive debt, but if there is no argument of that kind, reducing debt for its own sake I think is an undesirable policy, because it is not really increasing the wealth of the community, it is forcing the surplus of the community into a particular channel, which may not be the channel into which it ought to flow.

3987. *Sir Alan Anderson*: You mean the argument in favour of the reduction of debt is primarily to retain the credit of the State so that it can borrow more if it wants to?—That is an argument which is used.

3988. That is what you think, is it not: you would not do it, except for the credit of the State?—I would not call it the credit of the State. I would say that if the State has a demand for the money, if the State is itself in the gilt-edged market as a borrower, directly or indirectly, for productive purposes, then in order to make that productive borrowing easier there is a good deal to be said for paying off the debt. But if there is no natural outlet for the sums released by repayment of debt, then it is a mistake to repay debt.

3989. *Sir Charles Addis*: Supposing the demand for gilt-edged securities, both at home and abroad, was relatively small, the effect would be to drive money into industry, would it not?—The investor would be tempted probably into the second-rate bond, than which there is no worse investment.

3990. Might there not be also a favourable result in the reaction on rates of interest from the reduction of debt?—It is a roundabout way of producing your result, to take money from industry in the hope that some of it may, by another channel find its way back there.

3991. *Mr. Bramley*: May I just ask for information on this sentence in paragraph 3 of your paper: "For example, if the Local Loans Authorities or Borough or County Authorities, are involved in heavy expenditure for housing or public works, which they can only cover by borrowing in the gilt-edged market, then a simultaneous repayment of National Debt by the Treasury may be just the right thing to do." Does that mean that if you could encourage local expenditure proportionately to the repayment of the debt, that would be an advantage?—Perhaps I can illustrate it in this way. I think about two years ago (I am not sure of my exact dates) various local authorities, county and municipal boroughs, and those authorities who borrow through the Local Loans Fund, had big schemes on hand which required large issues by them. At that same date we were in fact repaying Government debt at a very rapid rate. One of those things offset the other. I think it was quite a healthy thing. Money which had been repaid by the Government found an outlet in these loans of local authorities. At the present time, when local

authorities have operations on foot on a much smaller scale, the amounts they are borrowing are relatively trifling. An equal repayment of debt therefore at the present time would be less advisable than it was in the circumstances of two years ago.

3992. *Sir Charles Addis*: You say: "If the supply of new gilt-edged securities is limited, thus indicating that the demand for capital by borrowers of that type is not extensive, then repayment of National Debt on a large scale may be very harmful." Would you expand that?—Because it forces the surplus resources of the community into a channel where they are not particularly wanted.

3993. *Mr. Hichens*: We have been told that there is a psychological effect, that if there is a large Government debt and the Government bondholders are people who are rather apt to look askance at it, money is being wasted by paying interest on the debt, whereas on the other hand if this debt were paid off and the capital were disseminated to industry, the same objection would not quite hold?—I think that state of mind exists to a certain extent. I think it is a relic of mid-19th century sound financial maxims which have extremely little application to the present day. But owing to the fact that the present application is so slight, conventional feelings of that sort gradually disappear. It is unsound to base the policy of the future on the decaying conventions of the past.

3994. *Mr. Bramley*: I would like to be perfectly clear as to whether the evils arising from repayment of debt arise purely from the process of repayment or whether they are attached to some method of obtaining the means of repayment. Supposing the United States of America were to be inspired with a desire (this is merely supposition, of course) to improve the credit of this country and they came along and said: "We will make you a present of £2,000,000,000 sterling to help you out of debt," and we accepted it and repaid our debt to that extent, would that be a disadvantage to this country?—I think that the advantage of receiving a present of £2,000,000,000 would far outweigh the inconveniences of the financial problem of tidying things up with the proceeds.

3995. But still, the evils arising from the process of repayment would remain the same, would they not?—I do not think that the evils of repaying £100,000,000 are £100,000,000.

3996. *Sir Alan Anderson*: The evil is that the investors may waste some money?—Yes, the evil is not that you would lose all that £100,000,000, but that the £100,000,000 might not be used quite as well as it might be under other arrangements.

3997. If the American gave us £2,000,000,000, we should have to do something with it?—It depends on what was offering, but here is a great benefit of £2,000,000,000, and however inadvisedly it was used, you would hardly waste all of it.

3998. *Mr. Hichens*: At any rate, if the American chose to take some money out of his pocket and put it into yours, you would not mind if a little dropped on the way, whereas you might not think it worth while to change your own money from one pocket to another and lose some of it?—Precisely.

3999. *Mr. Bell*: There is considerable unanimity, I think, in regard to the amount of £50,000,000 for the new Sinking Fund. All sorts of people say they think that £50,000,000 a year is a reasonable amount to pay off. Is that so, in your judgment?—I should say something round about that figure.

4000. *Chairman*: Will you pass to your next point?—My next point is closely connected with what we have been discussing. It arises out of the character of the present Trustee Acts. Until 1889 only Consols were available for trustees. During the 'nineties, great trouble began to arise because the amount of funds available for trustee investment was always increasing, whereas the volume of Consols was falling. To meet this certain alterations were made by the Colonial Stock Act of 1900 which greatly extended the range of trustee investments. At that time, the amount of Colonial loans was not very great, and it is only comparatively recently that these loans have become very great. Now the Colonies are prepared to borrow practically as much as we are prepared to lend them. The consequence is that if money is available in the gilt-edged market, and there is no new home investment to take off those surplus funds, they almost automatically find their way to the Colonies. Thus the diversion of money into the gilt-edged market now creates an unduly strong presumption in favour of its leaving the country. The Colonies have socialised a number of services which we have not socialised. Thus the money required for such services in the Colonies is easier to borrow than money required for similar services in this country; and in many ways, which I have elaborated in a paper which I think some members of the Committee have seen, the extension of the Trustee Acts so as to cover nearly all Colonial Government securities, when at the same time the volume of home trustee securities is being reduced, creates a dangerous bias in favour of excessive foreign investment. The conditions which led to the extension of the Trustee Act no longer exist. It would not be wise or practicable to make any change as regards existing trustee securities, but I think that so far as future additions to the list are concerned, the rules ought to be tightened up very much. In a paper that I read lately I suggested that the Treasury should have a certain power of license. That proposal has been much criticised, and I think there is force in the criticism. I should like to avoid that. I would therefore either abolish the Trustee Acts altogether, for which there is a great deal to be said, or if they are retained, I would allow as new trustee securities only home securities of specified types. Those types would include all securities guaranteed by the British Government; they would include the existing home securities such as prior charges on railways and county and municipal loans, and I should extend the list so as to include a number of public utility services of the type of the Port of London, and so on. I attach considerable importance to this point, though of course if the volume of debt reduction is reduced, it is not so important as it would be otherwise. In any case there is not much prospect of the volume of Home Government debt increasing, whereas the volume of investment which seeks an outlet in the gilt-edged market is always increasing. I think it is dangerous, therefore, that the surplus should tend to be drawn off into foreign investment, without more inquiry as to the relative advantage of the different channels of investment than is made at present.

4001. *Sir Charles Addis*: Do you advocate any control of the market in order to effect that object, apart from the repeal or the amendment of the Trustee Acts?—I am personally not so much afraid of allowing discretion to a central authority as some people are. That is why I originally suggested that the Treasury should have a certain power of license. I think it is very difficult to define beforehand just what types of securities you will wish to include in the trustee list, and I believe that the Treasury could be trusted to use its discretion wisely. There are many people who believe that all officials and all bankers are devoid of intelligence and that no discretion should ever be allowed to them.

4002. Would the amendment of the Trustee Act itself, in your judgment, produce any considerable effect? Would it not merely amount to this, that the Colonies, who are eager borrowers, would borrow very much the same amount at a slightly higher rate?—I think that the rate would rapidly become somewhat deterrent to them. It would very much encourage them to float as much as they could at home. There are several Colonies now where they are rather near the line. Canada is a little across the line. It is now cheaper for Canada to borrow at home than to borrow here; but there is always the danger in a new country where the rates are

relatively high, that if you give them the benefit of our trustee rates, which are lower than theirs, you encourage them to borrow outside the country instead of at home. Besides, there is the United States market, which is likely to be attractive to them; and there again an extra half per cent. in the London rate for Colonial loans would increase the chance of the Americans being able to meet the requirements of our Colonies at a competitive figure.

4003. *Mr. Bowen*: Have you considered the effect of your proposals upon Colonial markets and the effect it would have upon inter-Colonial trade or trade between ourselves and the Colonies?—I do not think it would have any great influence.

4004. If the Colonies require money—and we are told that they do—do you think this would act as a deterrent to their obtaining money and directly or indirectly affect their prospects of trade with the home country?—That raises the whole question of the use of our own resources. We have certain surplus available for foreign investment which is best invested in that way. My criticism is not against all foreign investment as such, but a legislative contrivance which gives an undue advantage to it.

4005. But we are up against public policy in some respects. If we are to encourage the Colonies, do you not think it would have a very injurious effect upon Colonial trade, if you were to say to our investors: "You must not invest in Colonial investments"?—We should not say that.

4006. But it would amount to that. It would very substantially restrict their operations, anyhow, and people who had money and who could invest only in gilt-edged securities, would be debarred from the Colonial market altogether by your proposals. The Colonial market would be open, therefore, only to the other people who had money to invest?—There are some people who think it primarily important to develop the Colonies; there are others who think it primarily important to develop good conditions at home. It is a question of the balance between those two ideas. I believe that we ought to pay more attention than we have paid lately to the conditions at home, and that there is an outlet for the use of capital at home, the return on which, in terms of public welfare, would be quite as great as the return we get from loans to the Colonies.

4007. I should be inclined to agree with you on that, but at the same time in making this distinction you make such a sweeping suggestion here that it would help my view if you would suggest any margin or line of demarcation. How far would it prevent trustees from investing in Colonial stock?—The present law is that there are certain stocks to which trustees are limited if they are not specially empowered, but there are a great many investors in the gilt-edged market who are not limited in that way. Many trustees themselves are not limited in that way. It happens that there are now a number of Colonial loans which, for technical reasons, because they stand above par and are redeemable within a certain number of years, are not available as trustee investments, and they consequently carry a higher rate of interest. It would not follow from my proposal that no investment would be made in the Colonies. It merely means that a special artificial stimulus to investment there would be removed.

4008. You think that if debt were repaid in any substantial sum above, say, £50,000,000 a year, all that would be directed into the gilt-edged market again. Could you tell us why you have come to that conclusion?—Not all of it, but if a man holds gilt-edged securities there is a presumption that that is the type of security which suits him. Therefore, if you repay him, there is a presumption that he will reinvest the proceeds in a similar type of security.

4009. But we have been told so often that there are people who invested in War Loan because of the national difficulty at the time, not exactly because it was a gilt-edged security. Could it be assumed that, if debt were repaid in larger measure than £50,000,000 a year, at least a great portion of the sum so repaid would find its way back into industry?—I should have thought that the proportion of holders of gilt-edged securities who held them for those reasons was now small. That was a strong reason for taking up the loans when issued, but it is rather a muddle-headed reason for going on holding them now. It does no injury to the State if a man sells War Loan. It did give assistance to the State when he subscribed to it.

4010. *Sir Alan Anderson*: With regard to the Treasury having a voice in saying what should be trustee securities and what should not, it does not reflect at all upon one's confidence in the brains of the Treasury, but at first it would put them in an impossible position with regard to the Colonies, would it not?—I think the method would be that the Treasury would decide that over a given period of time a certain amount of loan was to be allocated to Colonial borrowers, and they would then call a conference of the various Colonial borrowers and arrange the division amongst them. In the case of the Australian Commonwealth, which is much the most important, it would probably take the form of the Commonwealth itself deciding how the amount was to be distributed between the Commonwealth and the various States. I think it would be much simpler to work if all except home investments were cut out, but I think it is going too far to say that the other arrangement is unworkable.

4011. *Chairman*: Suppose the Australian Government gets £4,000,000 loan from us, how is that £4,000,000 paid? Do they get it in the form of money or goods?—They get it in the form of goods in the end.

4012. That bears on the point of whether there is an advantage in lending money for the sake of the home trade?—I do not think there is ever any advantage in getting rid of goods just for the sake of getting rid of them. An equal home investment would cause just as great a demand for labour.

4013. Would there be the demand?—I am assuming that that is so. If there was no eligible home borrower on a sufficient scale then my objection to Colonial loans would drop; but my argument is that there are outlets at home which, owing to the character of our organisation, at present do not get their fair chance as compared with Colonial loans.

4014. *Sir Alan Anderson*: You say that because of this inequity of the Trustee Act we are unfairly handicapped in favour of the Colonies?—Yes, we are handicapping ourselves.

4015. *Chairman*: What is your next point?—My next point is one which may not interest the Committee at all. I am continuing the same line of argument that I was on before—that the cheapest way of carrying the National Debt is to create the type of bond that the investor wants. I gave that as the criterion between short-dated, long-dated and intermediate-dated debt, because there are some people who want their interest fixed and some people who want their capital value fixed. But there is also another class of person, namely, persons who want to be free from risks arising out of variations in the value of money. I do not know how large that market is, but I know that such people do exist, and I think that the State could float a certain volume of bonds economically by catering for that particular class. My proposal would be that the Board of Trade or some suitable body should prepare an index number in accordance with the variations of which the interest and the capital of the loan would be paid. No one would be compelled to subscribe to such a loan except persons who fancied that arrangement. But particularly those, who are connected with corporations which have a very long life, have a natural anxiety on matters of this kind. I might perhaps speak for myself as Bursar of a Cambridge college. The colleges in the past have held the greater part of their property in the form of land. They have also held property, partly manorial dues, which have been fixed in terms of

money. In the course of time all their property which was fixed in terms of money has ceased to be of significant value. They have been entirely dependent for their continued prosperity on the fact that their fortunes were not wholly committed to legal tender. Recently for obvious reasons there has been a strong tendency to sell their land and to invest in gilt-edged securities. They are therefore getting into the position, which is dangerous, of having their fortunes in legal tender instead of in real property. I think it is correct to say that in past history every long-lived institution which has had its property in legal tender instead of in real values has been ultimately ruined, because in the long run the value of any legal tender always falls towards zero, if you are considering considerable periods of time. There are other investing bodies, particularly those who are engaged in building up pension funds, who are interested in their fund having a given purchasing power at the end of a considerable period of years. Any pension fund in any part of the Continent of Europe which was invested in gilt-edged securities before the War, has now lost by far the greater part of its value. It has been the case in this country that all funds invested in this way prior to the War have lost a large part of their value. We may hope that that kind of misfortune will not occur in this country in future, but if you are considering a long period nobody can feel sure that it will not. Therefore there are certain investors who would be prepared to take a slightly lower rate of interest in order to insure themselves against that type of misfortune. I think it would be proper for the State to cater for that class, and I think it would also be advantageous to have an official index number of this sort, which could be taken advantage of by other borrowers than the State if they thought fit. The proposal I am making is nearly the same as one which was made by the late Professor Marshall when he gave evidence before the Commission on Depression of Trade in 1886, and again before the Gold and Silver Commission of 1888. I believe the advantages which were claimed for it then are even greater now.

4016. *Sir Charles Addis*: Would there not be a difficulty in regard to dealings in those bonds?—That would depend on their popularity.

4017. You would have to make your estimate of what the changes would be in the years ahead?—You could assume that they would have a certain value on the hypothesis that prices would remain the same. As regards the future, you would have to make no more calculations than you have to make at present. Anyone who invests in gilt-edged securities as against ordinary shares, has to make the calculation of whether he thinks over a period of time prices are going to rise or fall.

4018. You do not think there is much difficulty in regard to dealing with these?—It would be a little less easy to bury your head in the sand.

4019. *Sir Alan Anderson*: And the interest would be settled each year?—Yes.

4020. *Mrs. Wootton*: Do you think there is any prospect of converting any of the existing debt to a bond of that kind?—I think there would be. I think many people would dislike them intensely. The element of variability of money income would not appeal to certain classes; there would be a complication about it; it would be more difficult to understand. On the other hand, I think there are types of investors who would like them very much, and it would depend on the number of such persons when you came to test the market.

4021. *Mr. Bowen*: What would be the basis of your index figures?—I do not think it would make very much difference which of the standard types of index number was selected, but I should aim at something rather like the cost of living index number, than the wholesale index number; I should prefer a special index number for the purpose.

4022. *Sir Charles Addis*: You contemplate the issue of bonds for a considerable period of years?—Yes.

4023. *Mrs. Wootton*: May I put a question on another point? In an article which was written by you some time ago, you made a suggestion that instead of devoting Sinking Fund moneys to repay debt, the Treasury should lay out a sum, possibly £100,000,000 a year, on obtaining productive assets. Would you explain that, and could you at the same time give us your views on the proposal that was put up, that a similar sum should be earmarked for debt reduction or the acceleration of public works?—It is a big question: if you can spare me a few minutes, I could develop it. My view is that in modern conditions there has been an insufficient supply of capital at moderate rates for public utility enterprises, which would absorb large sums of money. Owing to the control of profits and rates, and so forth, which is now popular, an investment in a public utility enterprise is very unlikely to yield the investor any unusual gains; he will never be allowed to obtain more than a certain rate of interest. On the other hand, he is not secured against loss. The result is that the inducement to the investment of money in large public utility enterprises is very much less than it was, for example, during the period of the railway boom, when our railways were built. In those days it was realised that it was a speculation, in a sense, but it was hoped that if railways proved a good thing, the investor would make a great deal of money. Supposing that steam locomotion was discovered to-day, the investor would know that, owing to the control of rates and so forth, he would never be allowed to make anything substantial; and, on the other hand, he might lose his money. I am, therefore, very doubtful whether, in present conditions, the railway system of England could be built by unaided private enterprise. I believe that considerations of this sort stand in the way at this moment of the development of our ports, of our transport system, and of our power system, and that the policy of leaving these to unaided private enterprise is a thing which is no longer practicable. As to the forms in which the State can help, I think there ought to be great variety. In the quotation to which Mrs. Wootton referred, I do not mean to suggest that the Treasury should put this amount of money in directly, but that it should facilitate the investment of some such sum in various ways.

4024. Guarantees?—Guarantees; and I think that a number of experiments might be made as to the best channel for doing this.

4025. *Chairman*: The Treasury give guarantees now?—We are drifting in that direction; it is already being done. I should like to do it more consciously and on a larger scale. I believe that the public utility enterprise is a thing which as an object of private investment we have killed already by our control of profits, and so forth, and we are liable to suffer because we are now in an interregnum period in which in half of our ideas we have a sort of semi-socialism and in another half of our ideas we still depend upon unaided private enterprise. Public utility enterprise is the sort of thing which particularly suffers in a situation of that kind. This is closely connected with this drift of money abroad to the Colonies. In the Colonies they have gone faster; they are not in that interregnum; the State assists all sorts of things which are not assisted here. I think that is dangerous, and I think that the situation wants looking into. I cannot think that there is so small a need for investment in public utility enterprise as is actually going on.

Chairman: Thank you very much.

(The Witness withdrew.)

(Adjourned to 4th November next.)

TWELFTH DAY.

Tuesday, 4th November, 1924.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman*
SIR CHARLES ADDIS, K.C.M.G.
SIR ALAN G. ANDERSON, K.B.E.
SIR ARTHUR BALFOUR, K.B.E.
MR. J. W. BOWEN.
PROFESSOR FRED HALL.
MR. W. L. HICHENS.
MR. H. B. LEES-SMITH, M.P.
SIR WILLIAM McLINTOCK, K.B.E., C.V.O.
SIR JOSIAH STAMP, G.B.E.
MRS. BARBARA WOOTTON.
MR. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

Sir JAMES MARTIN, F.S.A.A., representing the Association of British Chambers of Commerce, called and examined.

EVIDENCE-IN-CHIEF handed in by Sir JAMES MARTIN.

Sir JAMES MARTIN will state:

Witness attends on behalf of the Association of British Chambers of Commerce, which comprises in its membership over 100 Chambers in Great Britain and the North of Ireland, the individual membership of which is over 40,000 persons and firms engaged in all branches of industry, commerce and the professions immediately concerned therewith.

The Association took steps to secure the views of the Chambers upon the questions submitted by the Committee.

The questions put and the views of the Chambers thereon have received the consideration of the Finance and Taxation Committee of the Association and the opinions set out hereafter are the result of this consideration as finally approved by the Executive Council of the Association on the 1st October.

While the statements herewith submitted are the considered opinions of the Association, witness desires at the outset to explain that any opinion in explanation which he may give to the Committee will be his own individual opinion and will not bind either the Chambers forming the Association or his colleagues of the Executive Council which acts for the Association.

Question 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?

1. At the time of issue Government stock necessarily has a disturbing effect on the capital market, but once such issues have been assimilated into the financial life of the country, the debt holdings are largely used as a security for loans and in this way tend to increase the available supply of credit. Thus, a not unduly high National Debt, if maintained on a sound basis with reasonable provisions for a Sinking Fund, does not permanently affect adversely to any large extent the supply of credit or trade capital.

2. The great increase in the last decade in the amount of Government borrowings and the large figure at which the National Debt now stands has, however, affected the supply of credit and the supply of permanent capital for trade and industry in two ways. (1) The capital available for industry has been reduced to the extent of the difference between the amount borrowed by the Government and the credit created thereon, and (2) It has increased the rate of interest at which capital can be obtained.

3. The effect of the National Debt on the supply of permanent capital for trade and industry can be measured by the difference between the rate of interest at which the Government could borrow prior to 1914 and now.

4. The very high taxation necessitated to pay interest upon the debt withdraws liquid assets from business, and in this way limits the credit facilities in industry.

5. Distinction must be drawn between the effect of Funded Debt and Floating Debt. The effect of the Funded Debt so far as it is held at home or internally is as previously mentioned, but the Funded Debt held abroad raises the cost of imports and depresses the exchanges.

6. With regard to the Floating Debt there are certain advantages and also certain disadvantages in connection with it. It provides an outlet during short periods for a large amount of capital not immediately required for the purposes of trade and industry. As the charge on the Floating Debt is considerably less than the interest charge upon the Funded Debt, being some 2½ to 3½ per cent. on the £800,000,000 now outstanding, so long as there are ample funds available at low rates of interest, resort to Floating Debt is an advantage to national finance

7. A great proportion of the total of the Floating Debt is held by joint stock banks in the country and other large financial trading institutions.

8. Apart from the question of interest advantages on Floating Debt, to fund the whole, or a large part of the amount would mean that a considerable portion of the money would come from bank deposits and would probably lead to the restriction of the supply of credit and through such procedure ultimately upset the bankers' proportion of liquid assets to liabilities. There is a danger, however, in a large Floating Debt that should trade revive and the temporary investments in Floating Debt be called in for trade purposes, rates might be pushed up, money made dear and credit restricted. Although this might, to some extent, be set off by the attraction to this country of foreign capital, it is in the interests of the stabilisation of credit that there should be a prudent and gradual diminution of the Floating Debt by the processes of liquidation and funding.

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

9. The rate of interest paid by the Government on the funded National Debt undoubtedly rules the rates paid by other borrowers and fixes the basis of the terms on which capital can be raised.

10. The national credit, owing to the increase in the National Debt in relation to the national wealth, has fallen from a 3½ to 4½ per cent. basis. Traders have to pay this additional rate as a minimum on new permanent capital raised, and rates payable on the money market must, to a large extent, be governed by the rate of interest paid by the Government on their loans.

11. The recent large borrowings by the Government, and, up to a certain date, the continuous increase in favour of the investor on which successive borrowings were made, compelled many industrial concerns to issue debentures and preference shares at much higher rates of interest or fixed dividend respectively than previously had either been necessary or customary.

12. The improvement of national credit as shown by the funding by the Government of their securities at lower rates of interest as in the case of the recent conversion of £150,000,000 of 5 per cent. War Loan into a security yielding a lower rate of interest has permitted of industrial undertakings which made issues at high rates, but for short dates, to replace the capital at lower interest.

Question 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?

13. Repayment of Funded Debt should be gradual and steady, on a consistent and regular scale, as this would tend to stabilise the price and prevent fluctuations. A steady reduction of the National Debt is more satisfactory than a fluctuating scheme, which it would be, if not impossible, at any rate difficult to arrange equitably.

14. The Sinking Fund operations should be persistent in character. The amount to be provided out of taxation for the Sinking Fund should be fixed at an amount which the country can provide in good and bad times. This should be accompanied, however, by cautious budget estimates, and large budget surpluses should be avoided, but when a surplus does arise it would be well that it should be used for debt redemption, as it affords means whereby good years provide more than the minimum amount fixed.

15. In recent years, however, the surplus on the budget estimates has been abnormally high. If this continues there will be a demand from many members of the trading community that the surplus moneys in any year over and above the prescribed regular Sinking Fund should not, as provided by the Sinking Fund Act, 1875, be wholly applied as an additional contribution to the reduction of the debt, but should be dealt with in the light of the financial position so that some portion of such surplus might be utilised for the relief of taxation in the following year.

16. The view of some Chambers of Commerce is that in this way the taxpayer will obtain a partial refund of the amount of Income Tax paid in excess the previous year owing to the rate being higher than was necessary.

Question 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?

17. It is the general view of commercial men that the effect of such high taxation as the present deprives them of a good deal of the surplus which they would otherwise be able to use for the development of their businesses and that the heavy withdrawal from business of otherwise available cash for Income Tax and Super-tax is limiting the power of the community to extend enterprise either at home or abroad

18. The reduction of the sums available for the purpose of extension is especially noticeable in those businesses which are at present making profits below the normal, and which, owing to the existence of the three years' average, are paying annually large sums for Income Tax.

19. In considering the effect of the high taxation in relation to the reinvestment of profits or the investment of savings, it has to be borne in mind that by reason of increased present prices as compared with those in pre-war times, increased capital is required to-day to carry on the same amount of business as in pre-war times.

20. In addition, with an increasing population, and the ever increasing needs of the community, the capital required for the development of new industrial methods has to be supplied.

21. Ability to compete in foreign markets generally depends upon full employment of the business plant and undertaking, which in turn depends upon free supplies of, and increase in capital.

22. High taxation has adverse psychological and economic effects, as it represses individual effort and retards enterprise on a large scale, both of which are detrimental to trade. Many people will not run risks for a possible reward which will be greatly diminished by a high tax. The high taxation not only lessens the funds available for investment in trade in this country, but it also lessens the amount available for foreign loans which bring trade to the country.

23. With a view of increasing the supply of capital, it has been suggested that on the amounts of profit carried to reserve, traders should pay a lower rate of taxation than on profit used as income or distributed amongst shareholders.

Taxation could be reduced in several ways:

(*a*) By economy in Government expenditure.
(*b*) By continuance of the process of funding debt on a lower interest basis provided national credit can be still further improved.
(*c*) By expansion of trade whereby the burden is made less difficult to carry. Increase of assessment arising therefrom would permit substantial reduction in the rate of the tax.
(*d*) By a settlement of allied indebtedness on a fair basis.

Question 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?

24. Taxation limits the available resources of a trader proportionately to its extent. It also limits his efforts to extend his business and in the case of an exporter weakens his power of competing in the world markets.

25. Taxation, in the opinion of some, adds to the cost of business through increased charges for salaries, and diminishes the fund available for depreciation and wasting assets which business men have to provide for in excess of Inland Revenue allowances.

26. In the view of others Income Tax does not technically enter into cost, but it affects prices, and this handicaps the exporter when it forces the selling price of the manufactured article, allowing for a reasonable profit, to a higher level than that of similar foreign goods.

27. The measure of the handicap of taxation on foreign goods can be indicated by a comparison of the amount of taxation in this country per head, which exceeds that of any other country in the world.

28. By its effect on prices through the limitations of purchasing power the demand for supplies is limited. Apart from absolute necessities, the public will rather do without other goods than purchase them at a price beyond what they consider should be the maximum.

29. Where merchants or manufacturers are not in competition with foreign markets they may endeavour to pass the burden of taxation on to the consumer, but when there is competition from abroad a certain proportion, and possibly the whole, of the tax falls on the merchant or manufacturer, as the price is then determined by the cost to the competitor abroad.

30. In view of its additions to the cost of intermediate products, of transport and other charges incidental to cost of production and distribution, high taxation is cumulative in its effects.

31. One of the most detrimental effects of high taxation in relation to foreign trade is the fact that the entry into such trade means taking a risk in order to secure a possible profit. This is considered so much less worth the while when it is recognised that whilst any loss on an enterprise falls on the trader, a large portion of the profit, if it accrues, is taken by the State.

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

32. This question is somewhat ambiguous, as, in the main, industry is not a permanent holder of War debt, and consequently the question of the income received therefrom, being a compensation for excessive taxation, does not appear to arise.

33. Where industry is a holder of the War debt the receipt by industry cannot be set against the tax paid, as investment in the debt involves investment of capital not employed in the business.

34. The receipts of industry invested in the National Debt are earning the current value of money and apparently it is not equitable to seek to set the earnings of the receipts of industry invested in National Debt against tax paid by industry for its services, for industry receives comparatively small direct benefit as holder of the debt in comparison to the burden it has to bear in taxation as the result of the debt.

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

35. The tax of course tends to decrease the amount available for reserves, but has no effect on the reserves after they are made, although the natural tendency of a high rate of Income Tax levied on undistributed reserves is to check their increase.

36. It has been suggested that within reason, and as a matter of logic and sound finance, Income Tax should not be levied on such reserves as are capitalised for revenue production and consequently are productive of further taxation on profits earned.

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

37. Taxation being a burden on income lessens the purchasing power of the individual, and in cases of heavy taxation may tend to deteriorate the standard of living.

38. Existing taxes reduce the public capacity to invest, but in so far as taxes received are expended by the Government in the redemption of the internal Funded Debt, the total purchasing power of the country is not affected, whereas if used in redemption of the external Funded Debt, it reduces the total purchasing power.

39. The decrease in purchasing power consequent upon taxation means reduced demand for commodities, and reduced demand for commodities involves higher cost of production. Whether taxation leads the recipient of income to either spend less or save less depends upon the mental vision of the individual.

40. There are indications that some people who might save a little are deterred from doing so by the thought that the income from their savings would be so depleted by taxation as to make saving hardly worth while.

41. The loss on purchasing power owing to taxation is cumulative and far-reaching.

42. Most goods before they go into consumption pass through many hands. The finished article of one manufacturer is often the raw material of another and each set of hands through which the article passes, in allowing for the margin of profit, also considers the diminution of that profit by taxation. Thus the price of the article is raised by the necessity of providing a margin for taxation, although theoretically it should not enter into cost.

43. In the opinion of some, high taxation is the recurring link that does more than anything else to enlarge the vicious circle of high prices and decreased purchasing power, resulting in bad trade and lack of employment. Whilst the trader can, to some extent, pass the tax on, those who are suffering most acutely as the result of existing taxes are probably those with fixed incomes who have no means open to them of easing the burden imposed by the State. To the extent to which high Income Tax reduces savings the capital available for investment is diminished.

Question 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?

44. Heavy Income Tax operates as a deterrent to investment by the foreigner in this country except in those cases when, owing to anxiety with regard to the credit and currency of his own country, he is determined to put his capital outside it. The Government itself has recognised this by making some of its issues, when in foreign hands, free of British taxation, and there are provisions for relief to foreigners in matters of Income Tax.

45. It was in virtue of these arrangements that a large amount of foreign money was invested in the 5 per cent. War Loan and certain other loans which are paid free of tax to the foreigner. The Income Tax, however, does not deter the foreigner from investing in this country if he can obtain as good or a better return or better security than he can obtain abroad.

46. There are large sums made abroad by, and paid abroad to, merchants handling goods between one foreign country and another, or by rendering services to those countries for which they are paid.

47. Premiums are received by some insurance companies in connection with insurance business abroad, and there is considerable money paid to British shipping companies abroad for trade and other services which do not enter into this country.

48. One effect of high taxation here is to lead to these sums being invested abroad if good investments are obtainable which yield better results than would be obtainable here. Because their income from such investments is liable to British Income Tax, such tax should have no effect in inducing British residents to invest outside the country, for the Inland Revenue authorities endeavour to tax foreign incomes of British taxpayers even when they are spent abroad and not remitted to this country.

49. High taxation has some tendency to drive out of the country those who would otherwise be British residents, or to lead them to take such steps with respect to domicile as place them outside the jurisdiction. This may also imply a withdrawal of capital.

50. High taxation has resulted in some foreign and colonial companies hitherto administered from London transferring their domicile to the country in which they operate. It is a fair assumption that if taxation causes companies already established in London to remove from it, that, for similar reasons, many foreign companies are deterred from starting business in this country.

Question 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?

51. A trader does not, as a rule, look at his gross profits, but at his net profits or disposable income after Income Tax has been deducted. Although theoretically Income Tax is levied on profits, when a

trader endeavours to ascertain his costs with a view of fixing prices, he often takes into account, at least indirectly, the amount of Income Tax he will have to pay and, if the market conditions permit, fixes his prices at such a level as would yield to him the minimum net income he desires to obtain or actually needs.

52. As previously mentioned theoretically Income Tax does not enter into cost of production, but it does affect prices.

53. As regards the exporter, if the effect is to increase his prices and make them higher than world prices, he will be hampered in competition with foreign markets.

Question 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?

54. This question involves matters of individual psychology. Some men will work harder when the Income Tax is increased in order to have the same net income, and they may save a larger portion of that income although they know the interest on the savings will be taxed.

55. Other men do not think it worth while to increase their earnings when the State takes so large a proportion of any increase.

56. Generally high rates of tax discourage thrift, and this is typified by the remarks one often hears given expression to by otherwise thrifty people, "What is the use of saving when the Government takes so large a proportion?"

57. In the view of some traders the existing rates of tax tend to extravagance, as in the consideration of expenditure the portion of it that will decrease the amount becoming due to the Government as naturally taken into account. In some few cases the high rate of taxation may encourage evasion by the inclusion in trade expenses of some expenditure which is on the border-line between personal and business expenditure.

58. The existing taxes have a specially deterrent effect on the small and energetic trader as limiting his savings and restricting his enterprise.

59. Of the recipients of the large incomes from industry in this country, some take the view that as any increase in their profits will be mulcted in taxation, sometimes to the extent of 50 per cent., it is not worth while to take the trouble and the risk of extending their business in this country, whether for home or export trade.

60. In the opinion of traders generally it should be the first object of the Government to remove or diminish the deterrent effect of high taxes by reducing them.

Question 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?

61. Death Duties are in substance a form of capital levy, and unless utilised directly in reduction of capital indebtedness, they involve the application of capital to meet expenditure that should be borne out of income.

62. Put into effect once in the lifetime, or to speak more accurately, on the death of each possessor of capital, subject, however, to modification as regards rapid successions, they constitute a diversion of capital from an individual's estate to the State.

63. By some traders an analogy is drawn between the action of the State in using capital for Income Tax purposes and that of a public company owning a number of freehold shops; such a company would not be allowed to sell some of these freeholds and distribute the profits as dividend, but would, to the extent required, have to apply the proceeds to replace the assets.

64. Death Duties ought to be used for the reduction of debt and not for current expenditure. To the extent to which the internal National Debt is redeemed out of the proceeds of Death Duties they cannot be described as destroying capital.

65. Death Duties cannot be said to come out of national income, except in so far as provision by insurance or by saving during his lifetime over and above the savings he would otherwise have made in order to meet the Death Duties payable out of his estate on his death, is made by the possessor of the capital.

66. It is considered by some that, to a certain extent, Death Duties represent a postponed Income Tax. In any event Death Duties dissipate and divert capital from business channels often at a critical moment in the life of a concern, and make serious inroads in the credit of those affected.

67. It has been suggested by some traders that if the Death Duties are continued their evil incidence would be mitigated by some modification being made for the payment of Death Duties on personalty by instalments as is done in the case of realty.

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

68. Stamp Duties on the sale of securities through the Stock Exchange, are not only detrimental to business, but are considered unfair as compared with Stamp Duties levied on the transfer of other property.

69. Speaking generally, the Chambers take the view that the increases of Stamp Duties which have occurred in recent years are excessive and a hindrance to business. It is considered also that the duty of 1 per cent. on the nominal capital in connection with the registration of companies has the effect of restricting the number of new companies, and/or of diminishing the amount of capital for which registration should be sought.

70. In turning a private concern into a limited company, the amount of the capital is a matter of serious consideration, and it is not uncommon for private companies to be formed with inadequate capital, and to rely on loan money for the additions they require.

71. Although in certain businesses the charge in connection with bill stamps is considered as a serious detriment, there is a general consensus of opinion that the Stamp Duty on cheques, even if it is not abolished, should be reduced. The increase in the amount of the currency in circulation has brought with it an increase in the number of cheques drawn, but this number would, it is considered, have been greater if there were no Stamp Duty. The duty discourages the use of cheques and tends to increase the quantity of loose money in circulation.

72. The reduction of the amount of loose money in circulation would reduce the need and use of Treasury notes. Both Stamp Duties on cheques and receipts should be reduced to pre-war rates and against the loss of revenue through reduced rates by reason of the lessened charges there should be the set-off of increased revenue accruing from the increased use of the facilities.

73. In his letter to the "Times" on September 3rd, urging the reduction of the cheque duty, Sir Drummond Fraser estimates the loose money in circulation to be not less than £100,000,000 and the receipts from the duty to be less now than in 1920-21.

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

74. In view of the abolition of the Corporation Profits Tax no answer to this question is put forward.

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

75. Speaking generally, not only at times such as the present but in periods of normal trade, taxes on commodities increase the price to the consumer.

76. As regards commodities not produced in this country, the tax or duty is borne by the consumer to the full extent. As to commodities wholly produced in this country and with which there is no effective competition, it is also borne by the consumer to the full extent. With commodities subject to foreign competition, in a period of depression, the home producer in order to maintain his output may consider it worth while to fix his price at less than the cost of the imported article plus tax, thus in effect bearing part of the tax out of his profit, provided the foreigner for the same reason is not exporting his goods at less price than he is selling them at in his own country.

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

77. Generally speaking, Customs and Excise duties increase the prices of commodities. The increase is not only their amount, but an addition is made to the price in order to recoup the dealer as by way of interest for the further capital employed.

78. In the case of necessities of life, Customs and Excise duties raise the cost of living, and consequently of labour engaged in both home and external trade. In the case of raw materials for home consumption, they raise the cost and consequently reduce consumption, and equally so for export, unless the materials are dealt with in bond.

79. The Customs and Excise duties do not, however, have the same effect in the case of external trade as in the case of home trade, as a drawback would be allowed on goods exported. Some expense, however, is caused by the merchants being obliged to pay the duties when not in bond, and the cost of storing when in bond.

CONCLUSION.

80. In considering the incidence of existing taxation and its effect on trade, industry, employment and national credit, the Chambers of Commerce are mindful of the necessity for the maintenance of British credit. This imposes on the Government and the nation a scrupulous regard for the fulfilment of all the obligations of the State, together with the exercise of the utmost care in not adding to those obligations additional burdens for any objects, however praiseworthy, which the country cannot afford under existing conditions.

81. In the levying of taxation no discrimination should be possible as between individuals except in regard to their ability to pay, so that all classes of His Majesty's subjects may be assured that no taxation will be levied for the purpose of penalising individuals, but only for the purpose of meeting the legitimate obligations of the country incurred under Parliamentary authority. High taxation is a burden difficult to carry, but any feeling of insecurity engendered by proposals for appropriating the just rewards of initiative and enterprise must lead to an increase of suffering and unemployment by preventing the recovery of British trade and industry from the wounds inflicted by the World War.

4026. *Chairman*: Sir James, one of the Committee's earliest invitations to give evidence was addressed to the Association of British Chambers of Commerce. At the time of its issue we were basing our inquiry on a list of questions relating to existing taxes. We are still doing this, although we hope soon to give special attention to the Capital Levy question. Some witnesses have already touched on this, and the Trade Union Congress, as was shown in our press notice, made it a central feature of their evidence, for the reason that they regarded it as the only proper way of attacking the debt. Up to the present, however, we have not issued any questions relating to the Capital Levy, though we hope to do so in the near future. If you like to make any general statement on the subject to-day we shall be very glad, but I should like to say that a fuller opportunity will be given by the issue to the Association of a special questionnaire when it is ready?—With regard to that, I have had no opportunity whatever of ascertaining the opinions of the respective Chambers of Commerce, as, in the questions which were issued to the Chambers of Commerce, there was no mention of the subject of a Capital Levy. In fact I do not think that we were asked to suggest anything in the way of alternative taxation. Therefore I am not in a position to express the views of the Chambers of Commerce upon that. All I could possibly do would be to express some view of my own.

4027. Will you take your paper, and amplify any points you wish, then we can examine you on each question?—These are reasoned statements gathered from a great number of replies that we have received. We have reasoned them out so fully that I do not know that I can add very much to what appears in the paper. In paragraph 6 I see the interest charged upon the Floating Debt is put down as 2½ to 3¼ per cent. That perhaps requires a little revision as to the rate, as I think the average is about 2½ to 3½ per cent. What I should like to urge is this. In regard to dealing with the Floating Debt, it does seem to the Chambers that this is a matter which requires very careful and gradual handling for the reasons which are recited here, and that, without unduly disturbing the market, the Government should take any opportunities that arise for funding as large a proportion of the debt as they possibly can on favourable terms. But, on the other hand, I think we are all agreed in saying that any operations of that sort must be conducted with very great care.

4028. You do not think the present time, perhaps, is satisfactory for that?—No; but there is one operation which has been carried through, and which, under the circumstances, must, I think, be regarded as satisfactory, that is, the conversion of £150,000,000 5 per cent. War Loan.

4029. *Sir Josiah Stamp*: Probably the explanation of this is quite simple, but I am a little puzzled by the latter part of paragraph 2. That paragraph suggests that the capital available for industry has been reduced to the extent of the difference between the amount borrowed by the Government and the credit created thereon. Is the idea that if there had been no war an amount equivalent to Government borrowings would or could have been saved for industry?—I should think that is very probable.

4030. Is it not putting it rather too high to imagine that the immense efforts that were made to produce capital and to economise during the War would in any case have taken place? Would it not have meant a jump in the amount of national savings from 1913 onwards to something like twice or treble its amount?—I have not got the figures. Your question implies that the saving was in effect a compulsory saving and not a voluntary one.

4031. It was a saving under the stress of immense moral pressure, and it is almost inconceivable that the ordinary affairs of industry would have called forth the same amount of effort. The idea that industry has been starved through the War would

no doubt be true, but that the same amount of capital would have been available, that we should have had £8,000,000,000 put into industry in three or four years, seems to me an extraordinary proposition?—I think the statement here is quite clear: "The capital available for industry has been reduced to the extent of the difference between the amount borrowed by the Government and the credit created thereon." That relates back to the question. One must take it in the context. It is not a question that is shot at me without any context. It is an argument in regard to the effect of the National Debt.

4032. The debt has affected the supply of credit and capital in the past, but surely it does not affect it to the extent indicated by the answer? That is what is worrying me.—A very great deal of the amount which was collected by the Government has disappeared altogether; it is capital which has been destroyed.

4033. This answer says that if there had been no war and no such destruction of capital, an equivalent amount of capital, which is now National Debt, would have been put into industry?—Pardon me; does it say that?

4034. That is what I want to see. I want to see what it means if it does not mean that?—(*Sir Alan Anderson*): Ought the statement not really to have this assumption put before it: Assuming that the money which has been borrowed by the Government would have been available for industry, then it would have this effect.—(*Sir Josiah Stamp*): That is a mere statement of an equation. Then in paragraph (2) you say that the debt has increased the rate of interest at which capital can be obtained. I could understand it if it said "could be obtained at the time at which Government borrowing was going on," but does that paragraph mean that the debt is affecting the rate of interest at which capital can be obtained for the future?—(*Sir James Martin*): I should say so, because before the War the Government obtained capital at a very much lower rate. The Government still does pay a higher rate, and if the Government pays a higher rate it affects the rate at which traders can raise capital. The credit of the trader is not better than the credit of the Government.

4035. Would you not think there was something in the view that the rate of interest depends not only upon the stock of capital existing, but also upon the rate at which capital will come in out of new savings in response to the demand for it—the supply and demand of new savings?—Certainly; the rate at which capital is obtained must depend to some extent upon the supply of new capital; but the rate has been forced up by Government borrowings, and at present sufficient has not happened to bring it down to the extent that traders would desire.

4036. Recognising that all existing borrowings and the rate of interest thereon are thrown into equilibrium with the present market rate by changes in their capital values?—Recognising all the facts of the situation, whatever they may be, I would say that traders cannot borrow on the same favourable terms as they could before the War, and that Government borrowing has very much affected the rate at which they can borrow.

4037. At which they could borrow?—At which they could and at which they can.

4038. Is that going on—that is the point—how long will that effect last?—That effect will last until matters right themselves by the accumulation of savings, and, we hope, by the reduction of debt out of the savings.

4039. *Sir Arthur Balfour*: In paragraph 4 you say: "The very high taxation necessitated to pay interest upon the debt withdraws liquid assets from business, and in this way limits credit facilities in industry." That does not only affect credit; it affects also the expansion of business. You mean that it reduces the amount that firms could put to reserve, do you not?—It withdraws liquid assets from business to pay taxes, and certainly prevents the accumulation of reserves.

4040. And therefore damages the efficiency of the business?—Certainly.

4041. *Mr. Hichens*: In the previous paragraph, No. 3, you say: "The effect of the National Debt on the supply of permanent capital for trade and industry can be measured by the difference between the rate of interest at which the Government could borrow prior to 1914 and now." What, roughly, would be the difference in the rate of interest?—It is about 1 per cent., if you average it. I think I state that later on—that it has altered the position from a 3½ to a 4½ per cent. basis.

4042. Then do you mean to say that the measure of the effect of the National Debt in regard to industry is 1 per cent., because that is what I seem to gather from this?—Do you mean the whole measure of it?

4043. I am taking your phrase in paragraph 3. You say that the measure is the difference in interest, which is 1 per cent. You would contend that the effect of the National Debt has been just to increase the rate of interest 1 per cent. and nothing more?—No, I do not say that, and I think if you take my answers as a whole you will find that I try to reason it out.

4044. What does paragraph 3 mean? It does not convey anything to my mind, I confess. I could imagine, for instance, that if a certain amount of debt was paid off in the next few years the rate of interest might go down and be the same as it was pre-War, but I, for one, should not be prepared to believe that because that had happened therefore the effect of the debt was *nil*?—I do not say the effect of the National Debt. I say: "The effect of the National Debt on the supply of permanent capital for trade and industry can be measured by the difference between the rate of interest at which the Government could borrow prior to 1914 and now." The answer is quite limited.

4045. The only thing, I should say, is that I very much doubt if it can be measured in that way. Supposing you could get the rate of interest down in a few years' time by means of a sinking fund, and so forth, I doubt that the effect of the debt would have disappeared altogether?—But I do not say so. I limit my answer to the effect on the supply of capital for trade; that is the only point I am dealing with in that paragraph.

4046. *Sir Arthur Balfour*: And there is also the effect of high taxation resulting from the debt?—These questions put to me strike at the whole root of the difficulties of this questionnaire. Certain questions have been issued, and have had to be circulated. I am bound to say that they are not quite the sort of questions that business men are used to, and we have done the best we can to confine ourselves within the terms of the questions put, and that accounts for the difficulties in some of these answers. In fact, I think you will find some repetitions, and possibly you may find some inconsistencies, but I have done my best in collecting masses of answers. It has been a great trouble to prepare the proof of evidence because of the large number of people we have had to consult.

4047. *Mr. Hichens*: You understand what one wants to get at is what is in your mind, and it is not quite clear to me. Trade has to pay 1 per cent. more for its money now than it did before the War?—Yes.

4048. Is that your experience?—I think that is about it, on an average now. It has been as high as 7 per cent.

4049. Does not that depend very largely on the general demand for money all over the world?—As I replied to Sir Josiah Stamp, the question of supply and demand must enter in.

4050. Supposing Germany was a very insistent borrower and could put forward highly attractive propositions, and supposing many other countries wanted money, is it not possible that the rate of

interest might go up, quite regardless of what happened to our National Debt? That is only one factor in the problem; that is what I am getting at, and you cannot measure by that alone?—I quite agree that if there is a great demand for capital for industry here it must affect the rate. But after all, this is only in the nature of a generality; I could not bring it down to closer terms.

4051. The point really is this: that this is a factor, not the only factor, and not necessarily the most important one?—It is a factor, but not the only factor.

4052. *Sir Charles Addis*: I am not quite clear as to the distinction drawn in paragraph 1, between capital and credit. Granted that debt holdings are largely used as security for loans, is it your view that the existence of the debt necessarily increases the supply of credit—quite apart from capital?—I think the effect of my answer is that the National Debt does not necessarily diminish the supply of credit. Then the subsequent paragraph, I think, rather explains the reason for that answer.

4053. It does not, for example, affect the ratio of bank cash to deposits?—Of necessity it would not, but it might do so.

4054. That is my difficulty in your answer. I do not quite see how that would follow; and if that did not follow, it appears difficult to establish that there would be an increase of credit due to the existence of the debt.—I think I have just answered that. I said I did not think there was an increase, but I did not consider that a National Debt, managed as ours is, would necessarily diminish credit.

4055. There is one other point arising out of that. In your opinion how far do you consider that the existence of the debt, by enabling borrowers who do not possess any other security to obtain credit on their debt holding, affects the direction of credit? Supposing that there are a certain number of borrowers who, in order to obtain credit, must pledge their holdings in War debt as they have no other security to offer, to some extent that would affect the direction of credit, that is to say, it would affect it in the direction of those borrowers who had only that security and no other?—I do not understand the meaning of the word "direction."

4056. I mean this. There are certain competing industries?—May I put it in this way: that everybody who has War stock can go to a banker and get an advance on it; the amount of advance depends upon how much cover the banker wants.

4057. Credit then would tend to flow to those who held War stock?—Certainly. Anybody who has War stock or any other Government security can take it to his banker and raise money on it.

4058. *Sir Arthur Balfour*: I presume if they had not had that War stock they would have had the money equivalent or some other security which they could have pledged. (*Sir Josiah Stamp*): By the hypothesis there would have been as much saving as if there had been no War loan. They would have had other securities. (*Sir Charles Addis*): If you except the effect of inflation, but the point is, I think, that inflation created securities to an amount which would not otherwise have been in existence, and to that extent did affect the direction of credit?—(*Sir James Martin*): Yes, I think that is so.

4059. Then in the last sentence of paragraph 5 you say: "The Funded Debt held abroad raises the cost of imports and depresses the exchanges." Is this a double effect? Is the effect to increase the cost of imports and to depress the exchanges, or do you mean that by depressing the exchanges it increases the cost of imports?—I think that is a more correct way of putting it.

4060. *Professor Hall*: I would like to ask you something about the constitution of the various Chambers for whom you are speaking. How far do the Chambers include, say, manufacturers? I really want to find out whether these are the views of merchants or of manufacturers?—They are the views of both. The Chambers of Commerce in the manufacturing districts to a very large extent consist of manufacturers; but in, say, London, Liverpool and Manchester the merchant interest would have a big representation.

4061. And the membership includes persons engaged in export as well as home trade?—Quite, and professional men, too.

4062. So we may say that this evidence represents really the combined views of both the merchant and the manufacturing classes?—That is so.

4063. *Mr. Bowen*: What professions are chiefly represented in the Chambers of Commerce?—I should think possibly my own profession, the accountants, would have the largest representation in Chambers of Commerce. There are also solicitors and engineers.

4064. *Sir Alan Anderson*: We have already on the first question had some talk about paragraph 10. I should like to ask whether this rise in the interest that we have to pay is peculiar to British national credit? Is it not common throughout the world?—I should say it is, but the circumstances are common, too.

4065. Except the National Debt. You are relating this rise in the rate of interest to the increase in the National Debt, and I am suggesting to you that similar variation in the cost of money has taken place elsewhere?—It is a question how far the World War has affected other nations which were engaged in it, and possibly the circumstances of other nations (except that they do not pay their debts, like we do) would be very similar to ours.

4066. Here is an increase in the cost of money of one-third. Everything has gone up in the same way, has it not—all commodities and labour, and everything have risen. Surely all over the world you find that money has tended to rise, too, has it not?—Of course, it is quite true to say there are other factors, but to my mind this is the principal one. I should certainly not exclude the consideration of other factors.

4067. *Sir Charles Addis*: You say that the rate of interest paid by the Government fixes the basis of the terms on which capital can be raised. Is it not rather the case that it is the market rate of money which determines the rate which Government stocks yield and which the Government must pay for new money?—That is so; but the Government coming into the market for large loans must affect the rate at which the market will advance.

4068. *Sir Josiah Stamp*: In the past, you would not say in the future?—I do not agree altogether. The bigger the amount which is wanted from the market, the more the market will charge for it.

4069. Is there not a little confusion here in the term "funded"? Take the ordinary definition of funded debt—I am distinguishing now the unfunded debt, but not the Floating Debt. It is quite true that if £100 is borrowed by anyone and 5 per cent. interest is being paid on it, and that £100 is repayable in five or six years' time, it cannot move very far away from the £100 with any change in the rate of interest. But if you have a Funded Debt which has no fixed period for repayment, it goes up and down surely with the market rate of interest, and so far from the rate of interest paid by the Government ruling the rate in the market, the rate ruling in the market affects the price of the particular stock on which the Government are paying a certain rate?—I agree, but what I say is this: that the Government having come into the market and borrowed enormous sums in that way affected the rate.

4070. *Sir Arthur Balfour*: Surely the big effect on the rate has been through taxation leaving a lower return?—I agree, and that aspect of the matter is dealt with later on. I am trying to apply my mind to the question which has just been put to me.

4071. *Sir Charles Addis*: The question of the actual Funded Debt is the point I want to put. In paragraph 9 you say the rate of interest paid by the Government on the Funded National Debt fixes the terms. The point that I want to get at is how does it affect the terms *now*, if it has ever done so? Is

it not the terms of the market which affect the yield of the Government stock?—My contention is that the private borrower cannot borrow on better terms than the Government can, and the Government by their huge borrowing have put up the rate, and at present they have not been able to make arrangements by which it could be brought down again, at any rate to any appreciable extent.

4072. *Sir Josiah Stamp*: To take Sir Charles Addis' question a little further: Supposing the market supply of capital and the demand for it is such that the rate of interest on gilt-edged stocks sinks to 2½ per cent., we should expect to see Consols go to pretty near double their present price. Now in what way would the rate of interest paid by the Government—2½ per cent. for Consols—affect the rate at which an industrial concern could borrow? It seems to me that it is putting the thing the other way round?—I quite agree that the smaller fluctuations are regulated in the way that is stated, but my contention is that the huge Government borrowings have forced the rate up.

4073. In the past?—Very well, I will take it that way, in the past, and you are still feeling the effect of the past. Until fresh arrangements develop you cannot get rid of the effect of the past. It overshadows the market.

4074. *Professor Hall*: Would you say that the rate at which conversion can be effected would depend upon the supply of capital in the market at the time of the conversion?—Not altogether, because the loan is there, fresh money will not be wanted. It is a question of converting. When the market is suitable the Government can convert. They can say: "You must take a lower rate of interest or we will pay you off."

4075. Does not that really admit the point that Sir Charles Addis has been trying to make, that the rate at which the Government can effect a conversion depends upon the market rate of interest?—Some members of the Committee are trying to pin me down to one exact statement and I do not want to be pinned down in that way. It is affected by a variety of circumstances, all of which must be judged together.

4076. *Sir Josiah Stamp*: I think the substance of what you have given us in Questions 1 and 2 is that past borrowing has run the rate of interest up to a high figure, and, although the ordinary principles of supply and demand apply to industrial capital, they may be very considerably affected for some years until we get away from that high rate?—I think you have put it more lucidly than I could.

4077. *Sir Charles Addis*: In regard to paragraph 14, have you any suggestions as to how the amount which the country can provide in good and bad times for the Sinking Fund is to be arrived at?—I do not think I can make any suggestions. The Chancellor of the Exchequer, with the advice of his permanent officials, can fix the Sinking Fund at an amount which should be adhered to. I think our trouble with regard to the Sinking Fund in the past is that some Chancellors have found themselves in difficulties, and they have looked at the Sinking Fund as a means by which they can get themselves out of those difficulties.

4078. *Mr. Hichens*: I think you suggest in answer to Question No. 12 that the Death Duties should be to some extent a measure?—Yes, I deal with that later on.

4079. Perhaps that would be the answer to Sir Charles Addis' question, in your view?—I have stated later on that the Death Duties should be regarded as capital and not spent as income. I want just to get back to this Sinking Fund. If I have found unanimity in anything amongst the Chambers of Commerce, it is on this question of Sinking Fund. They do not urge that the Sinking Fund should be put too high, because they know very well that they have to bear it, but what they do feel is that the Sinking Fund must be dealt with by the Chancellor of the Exchequer, on the advice of his permanent officials.

4080. *Sir Arthur Balfour*: Should there be, as at present, a fixed Sinking Fund of £50,000,000 as a minimum?—Personally I think the existing arrangement with regard to the Sinking Fund is a very reasonable arrangement. Speaking from memory, I believe it was £40,000,000, then £45,000,000, and then it goes up to £50,000,000. I think that is an arrangement which has met with a good deal of acceptance throughout the country.

4081. Do you not think it is much safer to have a fixed amount rather than leave the whole thing open?—I entirely agree. What I am dead against, and I think all the Chambers of Commerce are dead against, is the Chancellor having to find sums of money for certain purposes, and then, finding the revenue of the country is not elastic enough, making up his deficiency at the expense of this Sinking Fund. That is absolutely unsound finance.

4082. You think it is better to leave any further repayment of debt from surplus revenue to the advisers of the Chancellor of the Exchequer?—I agree. Of course, I am always very happy when there is a surplus which will go to add to it, but as I say later on in my paper, if there is an abnormal surplus, people have the feeling at the end of the year that they have been "had a bit" and that they have been taxed higher than they should have been, and it creates an unsatisfactory feeling. But I do not want an idea to go forth in regard to my views that I wish in any way to blame the officials who advise the Chancellor of the Exchequer; because they have had a very difficult position to fill, and I really think we should be very grateful to them for all that they have done.

4083. Supposing that in these conditions you had a surplus equivalent to a shilling in the £ Income Tax, which do you think would be the best thing to do at the moment—to use that to pay off debt or to use it to reduce Income Tax?—Provided you give me my £50,000,000, I have not the least doubt whatever I should reduce taxation. I have not the shadow of a doubt about that.

4084. You think it would widen the basis of taxation?—Certainly, I do.

4085. *Sir Josiah Stamp*: Is that quite the dilemma that the Chancellor is in? When he realises a surplus of £50,000,000, that is something that he has got from that year only. If it is clear that he is going to have that same figure every year, obviously reduce taxation; but the point that is put to us is, what should he do with the £50,000,000 surplus realised on the year?—It is the destination of the surplus which is actually realised that is in question. I say in paragraph 14 that it should be used as an additional contribution to the reduction of debt. I think I must keep to that. At the same time, of course, I do argue that there should not be these big surpluses.

4086. *Sir Alan Anderson*: In fact, you approve of the present Sinking Fund, but you hope that budgeting will be a little closer?—That is it.

4087. *Sir Josiah Stamp*: I have not yet cleared up my difficulty on paragraph 15, which says: "Some portion of such surplus might be utilised for the relief of taxation in the following year." I cannot understand how you can take the surplus of one year and relieve taxation in the following year with that surplus? *Sir Alan Anderson*: You also say, if this surplus continues?—(*Sir James Martin*): I am trying to put to the Committee the thought which went through the minds of our members who sent me this answer. We had some very strong letters about these surpluses, and what I say here conveys their views: "In recent years, however, the surplus on the Budget estimates has been abnormally high. If this continues there will be a demand from many members of the trading community that the surplus moneys in any year over and above the prescribed regular Sinking Fund should not, as provided by the Sinking Fund Act, 1875, be wholly applied as an additional contribution to the reduction of the debt, but should be dealt with

in the light of the financial position, so that some portion of such surplus might be utilised for the relief of taxation in the following year." It seems to me it is hypothetical. If large surpluses do not continue and the Budget balances, the question will not arise.

4088. *Sir Josiah Stamp*: Shall we put it this way? Supposing you had a surplus of £50,000,000 in a given year and that is equal to a shilling in the £ Income Tax, you say: "Now we do not want to put that, as under the old methods, to the reduction of debt; we will apply it to the reduction of taxation next year." Now next year you could reduce the Income Tax from 4s. 6d. to 3s. 6d., but the following year, having used up the surplus in that way, you would have to restore the Income Tax to 4s. 6d. again. That is one way. Or you could take the £50,000,000 and purchase a reduction of Income Tax in perpetuity with it of, say, ½d., if you like. That is, after all, the problem that we have to face: what is meant by reducing the future taxation by £50,000,000?—I suppose what they mean is this, that if you have a surplus of £50,000,000, do not use it for the reduction of debt—under certain conditions; I am not going away from the answer I previously gave—but carry it forward like a company does.

4089. That either means reducing to a very slight extent all future taxation or reducing to a large extent the taxation of one year?—I cannot see any great objection. Why should the Chancellor be absolutely obliged to square every payment with every receipt?

4090. What I want to know is, what do you mean by reduction of taxation? Do you mean that you should reduce the taxation of the following year by the amount of the surplus?—I do not think any Chancellor ever does deal with more than one year at a time, and if at the end of the year he finds his hopes are falsified he puts the taxes on again. If these surpluses are abnormal, they should not be used for the reduction of debt; that is what it really amounts to. In other words, these people say: "We are Income Tax payers and you have got out of us more than you ought to have got out of us; therefore charge us less.

4091. *Mr. Bowen*: What is an abnormal surplus?—We had an abnormal surplus I think the year before last, £100,000,000. We ought never to have a surplus on a Budget like that.

4092. *Sir Josiah Stamp*: I want to understand this proposal that is made for the reduction of taxation. Would you on that occasion have reduced the rate of Income Tax by 2s. in the £ in the following year, and then in succeeding years put it back again?—I could answer that better if I were Chancellor of the Exchequer. I will not commit myself to the exact figure on every one of these things.

4093. I want the principle. I am still asking whether the principle is a fluctuating scheme of taxation varying with surpluses?—What you want me to do is to go into details. I have given you my answer, and I want to ask you to accept it. You have asked me what I would do. I say I would carry it forward if the surplus was an abnormal one. The Chancellor of the Exchequer, when he starts his year, would have something in hand.

4094. You would leave it for other people to say whether it should be applied for that one year in reduction of taxation or for all years in reduction of taxation?—I cannot see how you can provide for all years in reduction of taxation. I do not remember any Chancellor ever providing for more than one year.

4095. You could?—I do not say you could not, but in fact it is not done in this country.

4096. No, we always apply the surplus for the year?—The only point in difference between us is this. If you get an abnormal surplus—I am not speaking of a small one—what shall be done with it? Shall it be applied for the reduction of debt or shall it be utilised for the reduction of taxation? You say you cannot deal with this for the reduction of taxation in the ordinary way. Then I answer, carry it forward to the next year.

4097. I do not say you cannot. I only want to know what this really is intended to mean, whether it is intended to apply a realised surplus literally to the reduction of taxes in the next year or to make it a permanent relief of taxes. The way you would make it a permanent relief of taxes would be to apply it to reduce the Sinking Fund so as to have less to pay in future. How can you carry it over as a matter of financial machinery? At present the excess of revenue over expenditure is automatically applied to the reduction of debt, therefore it is impossible to do what the papers are always clamouring for, extricate it and use it in the following year's Budget. Should this be held, as it were, in a cash box?—If my idea be accepted, I should come to you for advice how to deal with it.

4098. *Sir Alan Anderson*: I take it that this paragraph 15 was intended to be read as it was written. As it is written, it does not say that this is the considered view of the Chambers of Commerce, but it is a sort of warning, I take it?—I agree.

4099. If there are continuing surpluses of large size on the Budget, the commercial men will say that this is something more than normal, and we might reduce taxation. It will not be a question of taking it off one year and putting it on again; because it is going on; it is a continuing high surplus. So they would say, if this rather lax budgeting continues, we must do something with the surplus to reduce taxation rather than to wipe off debt. That is how I read it?—I agree.

4100. *Sir William McLintock*: If the Government invested the surplus in some security other than their own, you would then proceed to realise that in the next year in order to supplement the revenue?—No, I do not say that at all. I rather feel I am taking up the time of the Committee in going over the same ground again. Sir Alan Anderson has just explained to the Committee what was in my mind, and in the minds of the people who asked me to put that down. You have to deal with the average taxpayer. If you charge him 4s. 6d. in the £ Income Tax and at the end of the year he sees there is a surplus of from £50,000,000 to £100,000,000, he says: "I have been had. The Government have taken more out of my pocket than they should have done, and they ought to make some arrangement whereby I get recouped in the following year." I recognise all the difficulties; and Sir Josiah Stamp pressed me; and you know my answer. I said I should go to him to get me out of them. Naturally, I do not expect the Government, as money comes in, to keep it in a cash-box or let it lie idle. They utilise it as advised from day to day, very properly. But the question is one of very considerable importance, because you have to carry the assent of the taxpayer with you in levying taxation, and the only way you can carry the assent of the taxpayer with you is not to tax him more than is necessary. I think that all of us must be agreed when we see these big Budget surpluses that the taxpayer has had taken out of him more than is necessary. Then people who are struggling in trade and in industry, say: "Why take it out of my business if it is not wanted? We will pay the interest on the debt and a proper amount for Sinking Fund, but we do not want to pay any more." If you ask me to work out the machinery, I say you must go to the Chancellor of the Exchequer and his advisers; I cannot do it.

4101. *Mr. Bowen*: Would it not be good business, if by some accident the Chancellor had an abnormal surplus, that such surplus or a portion of it should go to the reduction of debt?—That is what is done with it at the present time. I quite agree that if the surplus is not abnormal the Budget surpluses should go to the reduction of debt, but I am really arguing against these two big surpluses which we have had. They took nearly £150,000,000 in two years, and that

has created a grievance—the grievance of over-taxation; and when people are hard put to it to find money, they naturally say that the Government should not have taken it out of their pockets.

4102. *Mr. Bowen*: But we are the Government, are we not? If it is coming out of our pockets and it is utilised for other purposes connected with national welfare, either in reduction of debt or in some other purpose, we all, theoretically at any rate, benefit?—We benefit by the reduction of the National Debt. But, of course, that is limited. If you are to take out of trade and industry more than trade and industry can afford to pay, you are damaging the chances of trade and industry earning profits which the Government can tax.

4103. I have an eye to the answers you have put to other questions, and I do not think that is quite consistent with what you say later on?—Can I carry this much further? Have I not already explained to the Committee that this answer is hypothetical. We have tried to convey our thoughts to this Committee.

4104. *Sir Josiah Stamp*: May I sum up the effect on my mind now of the discussion as it stands. It really is this: that whenever the Government has been faced with a large surplus, and that has been an indication that future revenue would be equally good, they have in fact reduced taxes?—Yes.

4105. But a succession of large surpluses shows that they have not budgeted well enough, and they ought to have been more courageous and reduced still further?—Yes, that is quite right.

4106. *Mr. Bowen*: In paragraph 22 the statement is made that high taxation has adverse psychological effects, and so on, and is detrimental to trade. I can understand quite clearly that must have its effect all round, but would it not be a permanent effect if the Sinking Fund was to be retained at only £50,000,000?—I rather felt I was arguing the other way. Your question would seem to imply that £50,000,000 should be the minimum of a Sinking Fund, which could be increased—that is, the debt should be paid off more rapidly.

4107. That is not my personal view at the moment. What we are trying to discover is the general trend of thought as to what is a safe figure for the reduction of debt. If £50,000,000 is to be the minimum and if your members argue that there should be anything more or higher taxation——?—No, I have not said that. What I did say was that the Chancellor of the Exchequer should take the opinion of those impartial people who are competent to advise him and who do advise him, and he should fix the Sinking Fund. I do not say that it should be fixed for all time according to the laws of the Medes and Persians.

4108. But this Committee is going to advise the Chancellor, and we are trying to get from business people as much information as we can as to what their view is?—My argument is that, having got the Sinking Fund fixed, it should not be raised, but that it should be maintained.

4109. I do not object to that in the slightest degree, but here you say that high taxation has a depressing effect upon trade, and I think that is generally agreed?—It has a depressing effect because in some cases—I am speaking from actual knowledge—trade has had a difficulty in finding the money to pay its taxes, and in some others a trader said: "Why should I worry and bother myself to earn money, when so big a proportion goes to the Government?" That person's mind is affected in that way and he slacks off, which is to the detriment of the country.

4110. If we are all agreed that high taxation is bad, and if we are still further agreed that efforts should be made to reduce our National Debt, what is the best means of doing it?—By a steady Sinking Fund and by co-operation in trade and commerce so as to bring about better conditions in this country and get a bigger output. That is the only way we can save ourselves—by everybody giving to the State the best he can give.

4111. Is the bigger output necessarily the best means of paying off our debt?—Personally I do not see any other way.

4112. Take the tea planter, for example?—Tea planters are not resident in this country.

4113. No, but it does not follow that people in this country are not interested. Restriction of output after all said and done is something which affects all the people?—I am dealing here with what I know; I cannot deal with tea planters. I see tea planters' accounts, but I know nothing about tea planting; but I do know something about English factories, and I know that many factories are not working their proper output. The consequence is that their overhead charges are out of all proportion to the amount of work they are turning out. What does that result in? It results in high prices and less consumption.

4114. But you do represent the Chambers of Commerce who are in direct contact with all these people, and I thought you might be able to help us with some suggestions in that way?—If you will go on with your questions, I will answer them to the best of my ability.

4115. What I am trying to get to is this: there is a general objection to high taxation and a general admission that the National Debt must be reduced; it must not be more than above a certain figure; do you agree that £50,000,000 is sufficient or insufficient?—To my mind £50,000,000 is quite sufficient under existing conditions.

4116. It will take us 140 years to pay off the Debt?—It does not follow.

4117. It is a simple sum in arithmetic?—I dare say the simple sum would be so but other factors enter in. We are dealing with a National Debt. When you speak to me like that you are dealing with the National Debt as if we owed this money and had not got a halfpenny of assets in the world. I give certain ways by which the debt could be dealt with, and also I want the Government to look after the assets of the nation.

4118. Forgive me; I was not thinking of that at all?—But then that is the answer to your sum. It will take so many years to pay off the National Debt if we owed all that money and had not got a ha'porth of assets, yes; but we have.

4119. Of course, if we could realise our assets it would be a different thing?—Or if we could get interest on them, or if we could get some disposition on the part of people who owe us money to pay.

4120. Now we are getting down to somewhere else. Is your suggestion that we ought to advise the Chancellor to see to it that we get some of the debts repaid by other countries?—Yes; that is one of my suggestions in this proof.

4121. We are told so often by the representatives of trade that high taxation depresses trade. What I want to find out is how can we get away from that? I think you did say that we ought to be paying our debts, and we compliment ourselves on paying our debts; if we have to pay our debts how can we avoid high taxation?—Well, there are other ways. The nations ought to do as individuals do. The old saying is, "Cut your coat according to your cloth." We shall not pay our debts if we go launching out into all sorts of new schemes when we have not got the money to pay for them.

4122. Is that what you mean by "economy in Government expenditure"?—Yes, to some extent.

4123. Could you tell us what you mean in that phrase precisely; I see it so often—"economy in Government expenditure." I should like to have some clearer information as to what you mean by it?—By not entering into any scheme where the finance has not been clearly worked out beforehand, and by not incurring liabilities which we cannot afford.

4124. *Mrs. Wootton*: But is not the present position rather that, if you are to meet Mr. Bowen's difficulty, you have to economise on the existing expenditure apart from incurring new liabilities, otherwise you only have your £50,000,000 which is going to take a long time to repay the debt. Have

you formed any idea on what existing expenditure we should economise?—Well, I have not gone into it in detail during the last two years. I admit that there is a very great deal of expenditure at the present time, interest on War Debt, pensions, and so on, which we cannot cut down, but at the same time schemes are put forward which do not commend themselves to business men. I am using the words "business men" without any relation to party politics which are outside our calculations in discussing these matters. We want to see the finances of the country conducted more on the lines that the finances of businesses are conducted upon, and that obligations are not incurred unless funds are available or within sight for paying for them.

4125. *Sir Arthur Balfour*: What you really mean is that under to-day's trading conditions £50,000,000 is a reasonable sum to fix because taxation is at a certain level, but if later on trade conditions improve there is no reason why that view should not be reconsidered?—Not a bit.

4126. But for the moment you would handicap trade more by increasing it?—£50,000,000 is quite enough to-day, and if that is the opinion of the Chancellor of the Exchequer, whoever he may be, then the £50,000,000 must be obtained, and I would not vary it; but, on the other hand, in dealing with the National Debt I do say this, that you must go a little bit further than always looking to the British taxpayer to find both the interest and the Sinking Fund on it. What I want the Government to do is to have a look at the national balance-sheet and consider what the liabilities of the country are and what the assets of the country are, and, if I may put it so, not ask me to bear the burden which belongs to a Frenchman or an Italian; that is one of my points.

4127. *Mr. Bowen*: You have used the word "assets" a few times; what do you mean by "assets"?—The debts that are owing to us.

4128. You do not mean anything here in this country?—I do not mean the fixed assets in the shape of land and buildings. There are the debts owing to us, and there are the Suez Canal shares, and things of that sort; that is what I call assets. Of course, the buildings, and so on, which belong to the Government are only revenue producing in the way that they possibly save money for the nation if they are well bought and well built; but they are not realisable assets having regard to the requirements of the nation.

4129. At the risk of being called political, I am very interested to know how traders regard questions of social reform which are a liability on the nation in the desire and intention to improve the health of the people?—Will you take my own answer because I have not put this to those I represent?

4130. Certainly?—I consider myself that the health and the well-being of the people are a national asset, not one that you can write down in a balance sheet, and I do not want in anything I say or do to retard in any way reasonable reforms which are for the welfare of the people of this country; in fact, I think it is to the advantage of the country that they should never be lost sight of.

4131. I am not trying to debate, or anything of the sort?—Certainly not; but I submit that business men are not people without souls.

4132. Oh, I know better than that, of course. What I am really trying to get at is a clear exposition of the meaning of the phrase: "By economy in Government expenditure"; we see it so often, and it is not always defined. The suggestion here is that the Government must cut down some social service or other?—No, it is not, surely. Supposing I said to a client of mine: "You must be economical in your expenditure," what does that mean?—that he must not spend any money without the utmost consideration to every farthing he spends. That is what it means, and that is what we have to say to our Government, and what we do say to our Government.

4133. *Sir Arthur Balfour*: It may even go further than that. You may have some social advantage which you wish to give the people; you may say: "Well, we cannot afford to do it this year or next year, but in three or four years, if conditions are different, we might do it there." It is, as you say, a question of examining everything before you commit yourself to it?—I quite agree; I would examine everything most carefully; but where it is a question of health or sanitation, or anything of that sort, of course the money must be spent. But you are taking me a great deal further than my proof has gone, which is, of course, confined within the terms of reference to the Committee, because a lot of the reforms which I think are in your mind and which have entered into my mind now through the lead you have given me must be paid for out of the rates, and then we are coming on to another branch of the subject which is very big and very involved.

4134. I think you have run away from me there; I did not mean all that?—Of course, questions of social reform are paid for largely and borne by the rates, as well as out of taxes.

4135. By "economy in Government expenditure" I take it you mean just economy in administration?—No, I am not going to confine myself to that. I say that the Cabinet as a whole which governs this country must consider the means of the country and the burden of taxation imposed on the people, and if schemes are suggested to them to increase those burdens they must ruthlessly reject them or cut them down.

4136. Or postpone them?—Yes.

4137. *Sir Josiah Stamp*: When you say in paragraph 23, "taxation could be reduced," is it not a case of eliminating, as Mrs. Wootton says, some existing services?—You have there to take (*a*) plus (*b*) plus (*c*) plus (*d*); you have to put them all together. The only one that is at all indefinite is the one that Mr. Bowen has referred me to: (*a*) "By economy in Government expenditure," but I have tried to explain what I mean by that. The others are more precise.

4138. An economy in Government expenditure in declining to deal with future projects that are not self-supporting, or not financially sound, we understand, but we do not see how you can reduce taxation in that way; you can refrain from increasing?—Certainly.

4139. *Sir Arthur Balfour*: Do you not surely mean that if there had been more consideration for economy in the past we would not have had to raise taxation?—That is so.

4140. *Sir Josiah Stamp*: Well, it is not too late to remedy it by cutting the improper thing out, but what is the improper thing that ought to be cut out?—Oh, no; I shall be called to order by the Chairman. *Sir Alan Anderson*: It is not only outside his proof, but outside our terms of reference, surely. *Chairman*: I am afraid there are a number of things that are outside our reference which are still very interesting.

4141. *Sir Josiah Stamp*: I have just one or two points on Question 4. I take it that the result of paragraph 18 is that you and those you represent reaffirm the desire expressed several years ago for an alteration of the three years' average basis for Income Tax to the basis of the previous year?—Well, you must not take that as a specific answer. I will say this, that when the Government introduced the Revenue Bill some time ago the Chambers of Commerce were prepared to assent to it, but doubtless you remember there was a great agitation got up against it, and we were rather submerged over it.

4142. Were the Chambers of Commerce influenced at all by the great profit the individual taxpayer would have made in that year?—I do not suppose they were altogether unmindful of the fact, but my answer to this is, we have said to the Chancellor of the Exchequer that we would not be indisposed to change over from a three years' average to the profits of the preceding year provided it could be done at a time

when it could be fairly carried out both in the interests of the State and of the taxpayer.

4143. I will not pursue that.—It was dealt with in the Report of the Royal Commission on the Income Tax, I believe.

4144. Yes, but it is interesting to know if it is the opinion of commerce generally that that is an up-to-date opinion?—No. It is merely a statement of fact. There is no opinion expressed in paragraph 18. We say only that owing to the existence of the three years' average we are paying annually large sums for Income Tax on profits which we are not now earning.

4145. The inference is that if you had not got that system you would have larger sums available for extension?—The inference is if we had not got that system we should not be paying these big sums for taxation at the present moment, and I do not think you can carry it any further than that.

4146. That you would have larger sums for extension; that is the inference of the paragraph?—That is the conclusion you draw from it.

4147. It seems to me to be the logical deduction from it.—Well, I let you have it.

4148. What I want to know is, can we carry it to this point, that they would like to have that system altered at some future time?—No; you must not do it on this proof, because I have not put that question to the Chambers of Commerce in connection with this matter, and if you want an answer to that I must go to each Chamber of Commerce and say: "Are you prepared to assent to the abolition of the three years' average?" If I did not do that there would be trouble.

4149. You spoke about the bad psychological effect on the taxpayer of having a Sinking Fund and then running away from it, or altering it, or raiding it?—Yes, business people do not like playing fast and loose with these sorts of things. I am sure no average trader who is going to create a reserve fund would play fast and loose with it.

4150. Have we got any illustrations of late years of raiding the Sinking Fund?—Well, not since the War.

4151. I mean of recent years at all; in modern times?—Yes, I can remember it being done. I believe Mr. Asquith did it once; I am not quite sure. It is very difficult for me to say, but I should think it has not been done since 1912.

4152. It is not a factor which is bothering the commercial community at the present time in our general national economy?—No, but I can quite imagine some Chancellor of the Exchequer being pressed with a proposed reform which his party wanted and his not being able to find the money out of ordinary taxation, saying: "Well, now, I am going to be met with a deficiency; I shall have to take it out of the Sinking Fund." This, I should think—I do not want to put it too high—would be a breach of trust under existing conditions.

4153. You speak of the repayment of debt by Allies as one of the methods which we should follow to relieve the present situation?—Yes. I should like them either to repay the debt or to give us some thing on account of interest.

4154. It is rather important that we should take it as an expression of the majority of those you represent that they do not fear at all the effects of that on trade?—Now you are leading me into something else, and quite rightly, but it wants very carefully considering how that is going to be done. There are more ways of dealing with it than one, as you know. It is most necessary to my mind for this country that we should say to our Allies: "Well, as a matter of business, we must enter into a general scheme of debt settlement." The terms of that scheme I am sure will be drawn up by Government advisers in such a way as not to affect detrimentally trade as a whole, but at the same time bring relief to the nation as a whole.

4155. Then the real feeling on the part of the commercial community is that this ought to be done provided it can be done without upsetting their trade, or in spite of it upsetting trade, shall I say?—I would say it should be done; it must be done; but the method of doing it must be very carefully studied. It is only the method. There is no ambiguity about my answer that it should be done.

4156. No; I am not suggesting it. I only wanted to know what their feeling is. I am just on this alternative; do the commercial community say that this thing ought to be done if it can be done without damaging commerce and trade, or do they say: "This thing ought to be done in spite of the fact that it will damage commerce and trade"?—We say neither. We say: "This thing must be done"; that is number one. Then number two we say: "The method of doing it must receive the most careful consideration by the Government so as not to injure trade."

4157. *Sir Josiah Stamp*: Thank you; that is the answer I wanted to get at. *Sir Arthur Balfour*: Or the least possible damage to trade?—(*Sir James Martin*): Or the least possible damage to trade, but my own feeling is: Why should you make me pay Income Tax in order to save a Frenchman or an Italian? I cannot see it. I do not see any justice in it. I want him to pay his proportion of the tax and let me pay mine.

4158. *Sir Josiah Stamp*: Why I am pressing this question is that we are getting constant oscillation of opinion as between a desire to be repaid and the dislike of the process of being repaid, and I want to know which predominates?—Well, I am sure there are members on this Committee who will be able to advise the Government on those points.

4159. On paragraph 23 you say that it has been suggested that on the amounts of profit carried to reserve, traders should pay a lower rate of taxation; could you tell us whether that suggestion was made by a majority of the people you represent, or is it only raised here and there? We want to know the force or power of it?—There is a strong feeling on the part of the traders.

4160. Could I put a figure to it—would half your traders have put this suggestion forward?—Well, I want just to explain it to you. I think there is a strong feeling in the Chambers of Commerce that this should be done, but so far I am afraid that I myself am rather a stumbling block. I have asked them to tell me how it is going to be done.

4161. I was coming to that in my next question. You tell us that the accountancy profession is well represented amongst your people?—Yes.

4162. Could you tell us what proportion of the Accountants' representatives would have put this forward?—Might I, instead of answering that for the accountants generally, answer it for myself; would you allow me to do that?

4163. Both. I value your own answer, but I would still more——?—Well, I have not put it to them, but I will be perfectly frank with the Committee: I told the Chancellor of the Exchequer myself that I had every sympathy with it, but I did not quite see how it could be done. That was my answer to Mr. Snowden only this year.

4164. It has not been put specifically to your accountancy members?—No, not as a body.

4165. *Sir William McLintock*: Would you suggest extending it to other than traders? Do you mean traders in commodities like goods?—By "traders" I would mean all traders. I should say the definition of "trader" would be the same as in the Finance Act with regard to Excess Profits Duty.

4166. *Sir Josiah Stamp*: Excluding the professions?—Excluding the professions, yes.

4167. *Sir William McLintock*: You would not extend it to bankers, for example?—I have already told the Chancellor of the Exchequer that I do not quite see my way to argue it. I have tried to think this out in every possible way, and my great objection to it is this: Who is to decide what proportion of profits should be retained in the business?

4168. And having decided the amount the purpose to which the reserve is put?—Yes, but first of all who is to decide it? Is the trader himself

to decide it, or is the Inland Revenue to decide it, or is the trader's accountant to decide it? I do not know. That is the difficulty I have felt, but at the same time you have to recollect that some of these things that emanate from trade you must have regard to as a cry of pain which is going up.

4169. It would be very risky to leave the decision to the trader himself?—Yes.

4170. Just one point on paragraph 18: Is that point a very real one? You are assuming that there have been high profits earned in the past, and you strike a period of depression in which you earn very little profit, and the operation of the average gives you a high Income Tax payment in a particular year; is not that the point that is suggested here?—That statement arises owing to the conditions of to-day. I do not want myself to argue against the three years' average.

4171. I am not discussing the merits of the three years' average, but the point is this: If a trader earns a large sum of money in a particular year, he does not pay the tax on that for probably three years, and therefore he has that tax on the profit left in his possession for a period of time?—Yes, that may be so.

4172. And the prudent trader to-day who has a good year in these days of high tax sets aside the amount?—He may not be able to. I have a case in my mind at the present moment where a firm which has been earning profits owes the Government for Income Tax, Excess Profits Duty, and Corporation Profits Tax. It is perfectly true that they have earned profits, but they have never realised them, and never been able to pay.

4173. *Sir Josiah Stamp*: They are locked up?—The profits are locked up.

4174. *Mr. Hichens*: They have paid no dividend for all these years?—They did pay dividends up to a point. Now they have come to this position: they first of all gave up their ordinary dividend; then they gave up their preference dividend; and to-day they are not even paying their directors. The profits of a business are not always the realised profits of a business; that is the trouble.

4175. *Chairman*: Is there anything on Question No. 5?—There is just a point under this head, on paragraph 25: "Taxation, in the opinion of some, adds to the cost of business through increased charges for salaries and diminishes the fund available for depreciation and wasting assets which business men have to provide for in excess of Inland Revenue allowances." It is perfectly clear that to-day in many cases, owing to the high rate of taxation, the salaried staff of one's business has to be paid at a very considerably higher rate in order to enable a man to have anything like the same amount of income that he had before. I think there is also a tendency, when you think that the State has got to bear a proportion of it, not to scrutinise expenditure perhaps as closely as it ought to be scrutinised. That was more clearly shown in the Excess Profits Duty than it is in connection with Income Tax. To my knowledge there are some businesses struggling with some very high charges which were incurred at the time when the State was receiving a very high proportion of the profits. In fact, they got extravagant, and now they have returned to more normal times they are not able to return to more normal expenditure. In that way high taxation has its bad effects.

4176. *Sir William McLintock*: Is it the opinion of the Chambers generally that they add to regular salaries a sum to enable the employees to pay Income Tax?—It is very largely done.

4177. And that salary enters into the cost of the goods and is recovered?—In that way in my opinion it has sent up costs.

4178. Therefore it does not diminish the fund available for depreciation?—Those two arguments are distinct, but put together. Taxation adds to the cost of business through increased charges for salaries, and it also diminishes the fund available for depreciation and wasting assets. They are two separate things; one is not dependent on the other.

4179. *Sir Josiah Stamp*: Would it be correct to say that salaries have risen in a higher ratio than profits?—It is rather difficult to make a general statement to that effect.

4180. That would seem to follow from this. It would seem that profits have got depleted owing to the necessity for making salaries up?—Yes. Well, what I really mean to infer is this: salaries have gone up and profits have gone up; profits have come down, but salaries have not.

4181. So that we ought to find, statistically, that salaries have gone up in a greater ratio at the present time than profits?—I think my answer is correct, that the salaries and profits went up together. The profits have come down, but the salaries, owing to the difficulty of cost of living, remain up.

4182. Would you add that the statistics of assessment under Schedule E on the employees of a trading company and the assessments under Schedule D on employments would have gone up in a higher ratio than ordinary trading profits have?—Well, those figures are available. I would rather not speculate on them.

4183. That would seem to follow from your answer, if it is at all general?—It would seem to follow.

4184. *Sir Arthur Balfour*: But, in fact, anything that raises cost of production, as this particular thing does, interferes with the selling of the goods, and may therefore increase overhead charges on turnover?—Yes.

4185. *Sir Josiah Stamp*: In paragraph 25. Could you tell us how much you think the fund available for depreciation and wasting assets is diminished? Is the amount that has to be provided in excess of the Inland Revenue allowance a big figure?—I have no statistics, but I know enough about business to say this, that when profits are diminishing the reserves which should be accumulated are not dealt with so liberally as they are in more prosperous times.

4186. Businesses have to provide or wish to provide in excess of the Inland Revenue allowances?—Yes.

4187. Is that excess a big thing or a small thing?—Very often it is pretty big.

4188. It is big in the aggregate?—I think so, yes. You pay Income Tax on it first, you know.

4189. Yes; I am not challenging it; I only want to know the size of it. My personal view is that there is nothing in it, but I want to know what the trading community think?—There is a lot in it.

4190. *Sir Alan Anderson*: It would vary in the different trades?—It would vary in the different trades, yes. I cannot lay down any general rules, but all prudent people make liberal reserves in good years.

4191. *Sir Josiah Stamp*: In order to provide this necessary excess above the Inland Revenue allowances?—Yes, you may put it so.

4192. Is that for obsolescence?—I state as a fact that it is in excess of the Inland Revenue allowance, but they do not bother about the Inland Revenue allowance in making their reserves. They make their reserves in accordance with the class of business they are carrying on and the life of the assets, and various other things enter into it.

4193. Your point is that in the long run a business finds that a certain amount is necessary, and they do not get this allowance from the Inland Revenue, and the ability to supply that balance is impaired by taxation?—Yes, but you must not regard the Inland Revenue allowance as a standard allowance.

4194. I am not doing so; I only want to know whether this fund that they have to provide in excess of the allowances is a very large one?—In many cases it is.

4195. Taking business as a whole?—Yes, it is.

4196. The Inland Revenue allowances, therefore, are not really in the long run adequate for business purposes?—Oh no.

4197. They fall short?—Yes.

4198. Having regard to the fact that you have to pay £22 10s. tax out of every £100 that you have, you are deprived to that extent of your ability to make good that fund?—Yes. You must give people some reward—something to live on—either by way of taking a certain percentage of the profits out or by way of dividend, and, of course, if the profits are diminishing it is the reserves that have to suffer very often.

4199. *Sir Arthur Balfour*: It is this type of reserve that you are talking about that has really built up British industry?—Yes. If you have not got reserves you may have important business come along and you are not able to take it without resorting to your banker. You are handicapped to start with. If you have the reserves you are in a far better condition to compete for business than the man who has not got them.

4200. So it is not only reserve for obsolescence?—No, not only reserve for obsolescence.

4201. *Sir Arthur Balfour*: Sir Josiah Stamp was rather tying it down to that. *Sir Josiah Stamp*: Yes; I was taking his answer literally. I did not want to take the witness beyond his answer, which is that business men have to provide an allowance for depreciation and wasting assets in excess of the Inland Revenue allowance?—(*Sir James Martin*): Yes, but Sir Arthur Balfour has extended the idea that was in my mind.

4202. *Sir Joseph Stamp*: I do not want to extend it. *Sir Arthur Balfour*: You meant to go further, did you not?—(*Sir James Martin*): I am afraid I must be bound by what has been put down there.

4203. *Sir Josiah Stamp*: I would rather stick to this, and I do want to know really particularly what the accountancy members that you represent say on this point?—I can tell you if you want to know the accountancy view: we get all the reserves we possibly can.

4204. To what extent are the Revenue allowances for depreciation inadequate from the long run point of view of business?—I should have to go into the schedule with you. I am afraid, with the material in front of me here, I cannot go into each allowance that we get from the Inland Revenue. Take the question of the preliminary expenses of a company where you get no allowance whatever from the Inland Revenue: supposing you have £20,000 or £30,000 preliminary expenses in a company in a balance-sheet, it is no good to anybody; it is a paper asset. You get rid of it, but the Inland Revenue allows you nothing.

4205. I am sorry; I was not thinking of that class of asset. Is that one of the assets you have in mind?—It is one of the class of assets.

4206. Do you include machinery and plant in this?—In certain circumstances machinery and plant are included. If you take me to machinery and plant, I think you must go over the whole range of trades.

4207. I want to know the general effect?—Some of the allowances are not adequate, but I should have to go over the whole range of trades, and I should keep you here for a long time.

4208. *Mr. Hichens*: There is no allowance for buildings at all?—No.

4209. And they depreciate?—I have known cases of buildings where the whole building has had to be scrapped because it is inadequate for modern machinery. The owners have had to build a new building in order to fit in modern machinery and have had to scrap the old building. That is the sort of thing you have to guard against, for which you get no allowance from the Inland Revenue.

4210. *Sir Josiah Stamp*: The answer is not so much what business men have to provide in excess of the Inland Revenue allowances, where allowances are made, but in excess of that field of allowance which is made by the Inland Revenue?—Again your expression is better than mine. I wish I had had your help in drawing the proof.

4211. All I mean is, if you had held the former view I would want to get the permission of the Committee to address some questions in writing designed to elicit how it can come about; but I will not pursue it, because you distinguish it. Now you have instanced buildings and preliminary expenses, I understand the answer thoroughly, but I thought at first it meant that over the field where the Inland Revenue allowances do extend they are inadequate. It does not mean that; it means that the Inland Revenue allowances do not extend over a sufficiently wide field?—Well, I would not have put it that way. I should have expected the Chairman to call me to order here.

4212. *Sir William McLintock*: If all these allowances and reserves were given, it would mean that there would be a very big diminution in the yield of the tax?—Of course, it would mean a big diminution in the yield of the tax, but these questions I ought to have answered before the Royal Commission on the Income Tax—not here.

4213. *Mr. Bowen*: In paragraph **43**, and also in paragraph **51**, you refer to the question of the trader passing on his tax. The phrase here is: "Whilst the trader can, to some extent, pass the tax on." Could you tell us to what extent the trader does pass on tax?—Income Tax does not enter into cost at all; it is no part of costing. In considering cost and profits it should not enter into it, but I have explained in paragraph **51**; if I might read that I think it answers your question. "A trader does not, as a rule, look at his gross profits, but at his net profits or disposable income after Income Tax has been deducted. Although theoretically Income Tax is levied on profits, when a trader endeavours to ascertain his costs with a view of fixing prices, he often takes into account, at least indirectly, the amount of Income Tax he will have to pay, and if the market conditions permit, fixes his prices at such a level as would yield to him the minimum net income he desires to obtain or actually needs."

4214. *Sir Josiah Stamp*: Does the word "trader" include a public limited company?—Oh, I think so, yes.

4215. *Mr. Bowen*: The trader complains of having to pay tax, but if he passes his tax on to the person who is buying his commodity, what is his grievance?—He does not actually pass it on, as I have explained in that answer. A man's income to a great extent must be judged by his expenditure. That sounds rather a curious way of putting it, but everybody who has got trade and business obligations must earn a certain income in order to meet them, and the effect upon a man's mind is this: "In order to give me the net income which is necessary to meet my obligations I must by some means or another increase my profits," and to that extent he is influenced to get a rather higher price, because he has got to pay a higher tax.

4216. So that the trader directly or indirectly does pass his tax on?—Indirectly he tries to. I think it is only human nature. He tries to get the highest amount the market permits for the commodity which he has got to sell.

4217. *Sir William McLintock*: The trader who is a limited company passes part of the tax on to the consumer, and then he takes another bit of it off his shareholder when he pays him his dividend?—I must say this: you do not pass the specific tax on; it is only the effect it has.

4218. *Sir Josiah Stamp*: Does a company like Lipton's consciously strive to get a higher price because the rate of Income Tax is higher, having regard to the fact that it has shareholders of every description of income liable to all sizes of tax?—It is a very difficult question to put to me. First of all, I do say this, that the average company or firm or individual in calculating cost does not take any tax into consideration; that is outside.

4219. But in fixing price——?—Of course, bringing the company in rather obscures the point I want to make; but the individual says: "I have need of a certain amount of income," and he tries to get that income. To that extent I think he must be affected in attempting to get a higher price.

4220. It applies to individual traders rather than companies?—I think it applies rather to individual traders.

4221. What proportion of the total products coming on the market would come *vid* limited companies and *vid* private traders respectively?—That I could not tell you.

4222. If the proportion for the private trader were 98 per cent. and that for the limited company were 2 per cent., then that would be a very important factor in the fixation of price, but if the limited company is by very much the more powerful element in the fixation of price, how would it work then?—I think, of course, the competition of these trading companies, of which you have just given an example, has a great effect in keeping down prices; that is a question of competition; but I am only trying to put before the Committee the bad effect which high taxation must have upon a man's mind who has got to get, as I said, a certain income and that income being necessary in many cases not for his own luxuries, but because he has certain obligations resting on his shoulders which he has got to discharge.

4223. *Mr. Bowen*: Would not that apply whether taxation was high or low?—Yes; quite true. He wants to get the income, but when the Income Tax and the Super-tax come in and take a big proportion of it, he must get more.

4224. *Professor Hall*: It makes him try for a higher income?—Yes; it makes him try for a higher income in order to get the same net result.

4225. *Sir Alan Anderson*: Does it not do rather more than that? I suppose he always tries for the highest income he can get, but surely what tends to happen is that the level on which competition takes place is raised. You have mentioned that the salaries of employees go up?—Yes.

4226. And that there are a certain number of competitors or potential competitors who are private firms who would feel this, and I suppose the capitalist who has to live and has to lend his money is seeking to get a bit more; does it not tend to raise the level of competition?—I think it does. I think high taxation has its effect in that way.

4227. *Mr. Bowen*: I quite agree, and I can see all that, but what I am trying to get to is this: the trader complains that he, personally, is affected by taxation, but if he passes on that tax to the purchasers of his goods he has no individual complaint. He suffers the general national inconvenience of taxation, but, personally, he does not pay his tax in the same way as a man with a fixed income will?—The man with the fixed income, I agree, has the greatest grievance; I think you will find we say that in our paper. The man with a fixed income cannot pass anything on; he has got to bear it. I think the effect, as I put it, is that the trader does strive to get over it. I think it would be hypocrisy to say anything else.

4228. *Sir Alan Anderson*: It is his business, in fact?—Yes For the reasons I have given, I do not say he is always successful, for you have also to remember that if he puts the price too high he reduces the consumption, and in that way he gets caught again.

4229. So that the trader's real grouse about it is that he certainly will pass it on if he can?—Yes.

4230. What he cares about is whether his customers will continue to buy his goods?—That is so. You cannot get over a certain price for your goods, because the market goes, and at last you come to people who cannot afford to buy.

4231. *Chairman*: Perhaps you will deal with Question 12 on Death Duties now, and this might also be a convenient point for you to give us your personal views about the Capital Levy?—It has always seemed to me that Death Duties are a tax on capital, and I do not think that the Chancellor of the Exchequer in his Budget should utilise them in the way they are utilised to-day for the purpose of meeting the current expenditure of the nation. Of course, I know in saying that it means an alteration in the whole system of budgeting, but I think it is a misfortune that these duties are not regarded as a levy on capital. To the minds of most people who do not think much about these things, there is no such thing in existence as a levy on capital, but I contend that the Death Duties constitute one. I understand that the question which confronts this Committee is: shall we go on as we are going, raising annually a certain amount of taxation and so much money for the Sinking Fund, or shall there be what is called a Capital Levy for the purpose of reducing the National Debt. I gave some evidence on this matter before the Select Committee of the House of Commons on the Increase of War Wealth. Of course, the question then was confined to a comparison of people's assets after the War and before the War; the Inquiry was consequently limited in scope. But I do not think myself, and I am giving you my own personal view, that a real Capital Levy can ever be regarded as a proper part of the system of taxation of this country, and one of the reasons why at the present day (perhaps I might limit it to the present day) it cannot be so regarded is this, that the introduction of a Capital Levy has been put before the people of this country as a means to effect a redistribution of wealth, and it has been held out that by means of a Capital Levy there will be taken away from the rich a certain amount of money which will be used for social and other schemes. I think that a very large number of the taxpayers of this country would not regard a Capital Levy as part of the machinery for raising taxes, but they would regard it as something punitive against people who possess so-called fortunes above £5,000. Then my principal objection to a Capital Levy as a business man, and speaking with all reserve in the presence of those who sit round this table, is that I cannot see how it can be paid. The State would have to take payment in different ways from what it does now. You could not possibly collect in money. The State would have to come down upon businesses and take part of their assets. They would never get payment in liquid cash. The result of that would be that we should have the State participating in a great variety of businesses and in many cases they would take shares and debentures over from individuals, and we should have a great State holding in trade. It is only bringing about by means of a Capital Levy an alteration in the system under which we live, and from the taxation standpoint it should be accomplished by other means altogether if it is to be accomplished at all. I think it would be a very grave misfortune if the State were able to interfere with the carrying on of businesses of all kinds. We have a very clear warning of what the position is likely to be from the way the Excess Profits Duty has worked out. I have not got the figures in front of me, but to-day there is a very large sum of money due to the State for Excess Profits Duty. In the last Budget a certain figure was budgeted for. Not a halfpenny was received. What the excess of payments over receipts was I do not know; I have never seen the figures; but I do know there was not a halfpenny received, although there were some hundreds of millions of pounds due to the State for Excess Profits Duty. I do not believe the State will ever receive that money, unless they take over assets of some kind or another. Fortunately, up to the present the Treasury and the Inland Revenue authorities have been very considerate, and while they do not release taxpayers and they do not intend to release them from their obligations, yet they have, so far as I know, done nothing to close up businesses and bring concerns to an end and create unemployment. I look upon a Capital Levy as a most impracticable way of attempting to deal with the National Debt. It would lead to a grave disturbance of trade and business, and in fact to my mind it would go further than that; it would be a real disaster for the country.

4232. *Mr. Bowen*: You say there are large sums of money due to the State for Excess Profits Duty; that would mean large sums of money due from people who are reputably well off?—Reputably well off, yes.

4233. And have their money locked up in business?—Locked up in assets which they cannot realise.

4234. To what extent do you think it would present any difficulty if the State were to take over shares in any business?—Well, they could only get shares of course, where the debtors would be under the Limited Liability Act; where they were private firms they could not get any share of the business.

4235. The State has large holdings in the Suez Canal, has it not?—Yes.

4236. Do you think there is any difficulty about the State holding those shares?—Not in that particular case. Of course one has to go right back to the time when Disraeli bought those shares and examine the circumstances under which they were taken over, but there is a very grave difficulty in the State interfering in private businesses. The Suez Canal is more than a national undertaking; it is an international undertaking. It is not like a private business.

4237. *Sir William McLintock*: Sir James raises one new point on question 13, and that is the question of the high Stamp Duty on forming a limited company?—Yes.

4238. I suppose your point there is that the cumulative effect of these taxes on trade and of the Stamp Duties generally is to impose a heavy burden?—Well, I think that is so. The great difficulty in attacking all these things is in our knowledge that a certain amount of money has to be found to meet national obligations. But I felt it necessary to draw attention to that, because I think companies are being registered with insufficient capital in order to avoid payment of the higher duty.

4239. *Chairman*: Is there anything on question 16?—May I just say one word in regard to the conclusion. The Chambers of Commerce do not feel that we should get out of our difficulties by any attempt on the part of the State to get out of its obligations. We do feel that if we enter into obligations we have got to carry them out in the most scrupulous manner.

4240. I have seen suggestions put forward from time to time that lower rate of interest should be paid on the existing debt?—If the Chancellor of the Exchequer can accomplish it as he did recently, and he will have plenty of opportunities because he has got bonds falling due in every year, he can either ask the holders to take a less rate of interest or he can pay them off, but anything in the nature of confiscation we are, of course, wholly opposed to.

4241. *Chairman*: We propose to deal with the question of the Capital Levy in detail a little later on, and if you would like to be heard again on a considered statement, we would be very glad if you would help us?—I should like to put it to the Chambers that this question is coming up and to know what they would wish to be said on their behalf.

Chairman: We are very much obliged to you for the evidence you have given.

(*The Witness withdrew.*)

THIRTEENTH DAY.

Tuesday, 2nd December, 1924.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman.*
SIR ALAN G. ANDERSON, K.B.E.
SIR ARTHUR BALFOUR, K.B.E.
MR. HENRY BELL.
MR. J. W. BOWEN.
PROFESSOR FRED HALL.
MR. W. L. HICHENS.
MR. H. B. LEES-SMITH, M.P.
SIR JOSIAH STAMP, G.B.E.
MRS. BARBARA WOOTTON.

MR G. R. HAMILTON, *Secretary.*
MR G. ISMAY, *Assistant Secretary.*

Alderman F. HAYWARD, Mr. W. R. BLAIR, Mr. T. GOODWIN and Mr. A. V. ALEXANDER, M.P., representing the Joint Parliamentary Committee of the Co-operative Congress, called and examined.

EVIDENCE-IN-CHIEF handed in on behalf of the JOINT PARLIAMENTARY COMMITTEE OF THE CO-OPERATIVE CONGRESS.

1. This evidence is submitted by Alderman F. Hayward, Managing Secretary of the Burslem and District Industrial Co-operative Society; Vice-Chairman of the Joint Parliamentary Committee of the Co-operative Congress; and Chairman of the Central Board of the Co-operative Union; Mr. W. R. Blair, Director of the Co-operative Wholesale Society, Limited; and Mr. T. Goodwin, Manager of the Banking Department of the Co-operative Wholesale Society, on behalf of the Joint Parliamentary Committee of the Co-operative Congress, which Congress is the annual meeting of the members of the Co-operative Union.

2. The Co-operative Union is a federation of industrial and provident societies—retail and wholesale, distributive and productive. At the end of 1923 there were 1,293 societies in membership and these societies had, in all, over 4¼ million individual members, representing, with their families, between one-third and one-half of the population of the United Kingdom. The share capital of these societies amounted to £83,000,000 (of which individuals possessed £75,000,000), and their trade for 1923 amounted to £250,000,000.

3. In response to the questions prepared by the Committee on the National Debt and Taxation the following replies are submitted:—

Questions 1 *and* 2.—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? Does the existence of the debt, or movements in the debt affect the *terms* upon which capital can be raised for trade and industry?

4. The National Debt has, in part, been built up on the basis of inflated prices, and its growth has been an important contributory cause of inflation.

Except in respect to a small proportion of the total there are no tangible assets to be set against the amount of the debt. Its effect on credit is that it has already set a higher standard of interest, and if the Government had further occasion to borrow, more difficulty in getting the necessary funds would be experienced, and, in all probability, a still higher rate of interest would have to be paid. This would stiffen the terms on which trade and industry could obtain credit. There is, therefore, an argument for repaying the debt as rapidly as possible.

5. The existence of the debt, however, appears to have artificially augmented the volume of credit available for trade through the increased purchasing power which was created by the Government's gigantic expenditure during the period of the War. There does not appear to be any shortage at the present moment of capital for permanent industrial or commercial investments. The oversubscription of new loans and share issues seems to be evidence of this fact. The following are a few of the recent issues that have been oversubscribed:—

German Loan	£12,000,000
Hungarian Loan	£7,000,000
Queensland Loan	£4,000,000
South African Loan	£8,000,000
Brisbane Tramway Trust	£1,500,000
Lautaro Nitrates	£1,500,000
Daily Sketch	£1,584,000
County of London Electric	£1,496,000
Southern Railway	£2,000,000
Crittall Manufacturing	£140,000
Peter Walker and Robert Cain ...	£1,000,000
Gray, Dunn & Co.	£100,000
United Dairies—	
6% Pref. Shares	250,000
Ordinary Shares	150,000
Bank Line	£1,800,000
City of Bradford	£1,000,000
Ayrshire Electric	£750,000
London Underground Railway ...	4% Stock @ 95½

6. Repayment of the longer-term debt would not, in our opinion, diminish the amount of capital, rather would it tend to increase it, if the debt were repaid by taxation provided out of savings, *i.e.*, if the taxation compelled individual economy.

7. An increase of the Floating Debt tends to have an inflationary effect and a reduction a deflationary effect. The Floating Debt differs from the permanent in not decreasing the purchasing power of the country as measured by bank deposits, which amounted to, approximately, £1,000,000,000 in 1913 and £2,000,000,000 in 1923. It also contains a more unstable element by reason of the fact that Treasury Bills, in case of a trade revival for instance, may not be taken as readily on maturity, thus forcing the Government to borrow at a higher rate of interest, and setting a higher standard of bank charges for financial accommodation required by trade and industry. Treasury Bills, however, form a very useful, convenient, and profitable medium whereby bankers and others can temporarily employ their liquid funds. They also enable the Government to borrow, as a rule, at an easy rate of interest and to adjust its requirements from week to week by increasing or decreasing the volume of bills running.

8. Notwithstanding these mutual facilities, the Floating Debt is a type of debt which should be reduced to minimum proportions, because of its special tendency towards inflation, the difficulty that its existence may create if large amounts of debt, such as War Bonds, fall due for repayment, and the psychological effect which it has upon the money market. We should say the Government should aim at the gradual establishment of something like the equivalent of the proportion borne by the Floating Debt to the total debt in pre-war days. We should say that the reduction of the Floating Debt would tend to increase the credit facilities by the bankers to trade.

9. The co-operative movement, though not isolated from the financial institutions of the country, is largely independent of them because of the nature of its financial organisation, which has been found hitherto to provide practically all the funds required, and on more favourable terms than is possible through ordinary channels. In this respect, therefore, the finances of the movement are not subject to the extreme oscillations which prevail in the financial world generally.

Question 3.—Should provision be made for repayment every year of the 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?

10. The co-operative movement, which we represent, has declared itself at its annual Congress as favourable to the imposition of a War Debt Redemption Levy upon individual wealth, this levy being, in the opinion of the Congress, the most effective means of reducing the National Debt. This subject, however, is not included in the list of questions submitted to us, and we refrain from discussing it, but we are prepared to submit a statement of our case if required and appear before the Committee in support of it.

11. Dealing more particularly with the questions asked, in the absence of a War Debt Redemption Levy, or supplementary thereto, we would offer the following observations:—

12. Repayment of debt by means of sums raised by taxation need not directly reduce the productive capacity of the community, as the amount of debt repaid will be available for investing elsewhere; and one of the effects of debt redemption will be a tendency to a reduction in the general rate of interest which will benefit both the organiser of industry and the general community. Interest rates are higher than in pre-war days. In 1914, with Consols round about 75, the return was 3½ per cent. The return upon Government investments to-day is over 4½ per cent. It would, therefore, appear desirable to facilitate by all practicable means the redemption of debt. Whilst periods of good trade offer possibilities for temporarily increasing the rate of repayment, yet the practical difficulties of anticipating such periods and devising a suitable method resting upon an equitable basis seem so great that we consider the application of Budget surpluses in the year they are realised to be the most convenient method of increasing the annual provision made possible by a period of good trade.

13. Having regard to the burden of taxation at present borne by industry, an increase in the rate of taxation in order to increase the provision for debt redemption would be a heroic policy; but increased trade prosperity may make an increased provision possible without increasing the rate and the burden of taxation. It will be remembered that in the financial year 1923-24—a year of trade depression—nearly £100,000,000 was available for debt redemption, and in our opinion this amount could be again applied when trade recovers and it should be budgeted for. The annual contribution for sinking fund purposes should, in the meantime, be not less than the present £50,000,000, plus any Budget

surpluses. As the interest charge falls, the amount applied for sinking fund purposes should be increased. The carrying out of such a policy would, we believe, inspire confidence and would enable the State and traders to borrow on easier terms and would help to stimulate trade by the confidence that would be inspired.

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

14. See answer under (1). The Floating Debt should be reduced by repayment or conversion.

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

15. As there is a limit to the amount of taxation that can be raised without injuriously affecting trade, the greater the amount of taxation required for debt service the smaller must be the amount available for desirable objects which may be desired from time to time. We, therefore, are confirmed in our view that the debt should be paid off as quickly as possible. The repayment of the debt will tend to bring down the rate of interest and will, by reducing capital charges, make more easily possible the development of public works and social services.

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

16. Opinion as to the effect upon prices of large reductions in the debt is divided, but we are of opinion that reduction of debt will not have any harmful deflationary effects; and in any case other factors affecting prices are likely to have a more pronounced effect.

Question 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?

17. In answering this question we would refer the Committee to our answers to Questions 1 and 2, but we also desire to point out, however, that the motives operating in non-co-operative trade differ from those operating in co-operative trade. In the former the investor is seeking as large a return as possible upon his capital; and high taxes, by reducing the net return, may affect enterprise and effort as well as power to accumulate capital. In the co-operative movement the motive is different. Capital is employed to subserve the principal trading object of a co-operative society, which is to supply its members with the goods they need, and the interest paid on capital is limited to 5 per cent. or less. As almost all the members of societies have incomes below the amount which creates liability for Income Tax the rate of tax upon their share and loan interest does not directly affect their power to save. On the other hand, societies being liable for irrecoverable tax under Schedules A and B, the working expenses of these societies are increased by higher Income Tax, and this reduces the dividend returned to members and the power of societies to add to their reserves. In this respect a high rate of Income Tax does impair the accretion of permanent capital by co-operators. Since Income Tax under these schedules payable by the co-operative movement—estimated at £600,000 a year—increases working expenses and prices it does reduce purchasing power, which is a serious matter for the poorer members of the community. At the same time, it should be added that a reduction of indirect taxation increases purchasing power more than a reduction of direct taxation. Some figures showing the effect of reduced indirect taxes are given in answer to Question 14.

18. As mentioned in the answer to Questions 1 and 2, there does not appear to be a dearth of capital; in our opinion the supply is increasing, and its adequacy will depend upon the future demand for capital which it is difficult for us to estimate.

Question 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?

19. This question has been answered fairly fully in the answer to Question 7. No simple answer can be given to the general question respecting saving. Higher taxes may stimulate saving as well as deter saving and enterprise.

Question 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 profits proportionate to managing ability and to the risks of personal enterprise, and higher on the average than the rate of interest on Government debt?

20. As mentioned in answering Question 7, our members are not of a class much affected by Income Tax or Super-tax; but it is obvious that taxation withdraws revenue from particular businesses that might employ it more remuneratively as capital than the persons to whom the proceeds of the taxation are paid as interest or in repayment of War Loan, etc. At the same time, the tax falls also upon persons who are not primarily, or at all, interested in business, and the effect of taxation in their case may be to curtail wasteful expenditure and increase the amount of capital available for industry. Also, it may be pointed out that although taxes may withdraw money which could be employed for the expansion of businesses, the same money may be employed for social purposes which may confer greater benefits upon the community than the expansion of certain businesses.

Question 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?

21. We have nothing to add to previous answers.

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

22. In our opinion Income Tax under Schedules A and B does *tend* to enter into prices, being in this respect similar to local rates; but the latter more certainly enter into prices and are more burdensome because they have to be borne whether the individual has a taxable income or not. In respect to Income Tax under Schedules A and B, co-operative societies have a distinct grievance as the amounts paid under these schedules, recoverable by the ordinary trader, are not recoverable by co-operative societies, although practically all of their members have incomes below the taxable figure. There is always a tendency for a trader to pass on any taxes he may have to pay, and if all traders are similarly trying to pass on their taxes there will be an unconcerted, but general, effort to raise prices which will be limited in its success by the conditions of supply and demand. In theory, Income Tax does not enter into prices, and we consider that theory is substantially correct, but for the reasons given above a portion may be passed on in some cases. The co-operative movement has little experience in export trade, and we therefore do not express ourselves on the second part of this question except to say that in our opinion other causes, such as disturbed political conditions, poverty of our foreign customers, and special causes, such as shortage of supplies of raw cotton and defective organisation of industry, are more potent factors than Income Tax in depressing our export trade.

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

23. So far as the proceeds of Death Duties are usefully employed there may be transference of capital but not destruction; the productive power of the country is not reduced or destroyed in any way. The process of transference may cause special damage in particular cases, but the merits and demerits of a tax must be viewed as a whole; and we consider the merits of Death Duties far outweigh the disadvantages they create for individuals. We have no suggestions to make respecting amendment except that the adequacy of the time for payment might be considered in cases where estates pass in quick succession.

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

24. The present Stamp Duties are not, in our opinion, crippling trade. We should say from our banking experience that cheques would be more generally employed in making payments if the Stamp Duty were reduced or abolished.

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

25. Except in very special circumstances, where supply and demand are more potent than the duty in affecting the price, it is certain that a tax on commodities increases the price—often by more than the amount of the tax—and has to be borne by the consumer. The recent reduction of taxes on foodstuffs has resulted in lower prices for the consumer, and trade in the articles affected has been stimulated. Taking only tea and sugar, the following figures show how much the sales of these commodities have been affected by the reduction of prices due to lower taxes:—

(1) Wholesale Sales.

Weights of Sugar and Tea Sold by the Co-operative Wholesale Society, Limited, and the Scottish Co-operative Wholesale Society, Limited, before and after the Budget of 1924.

	Sales before the Budget.		Sales after the Budget.	Comparison of sales after 1924 Budget with sales before the Budget.			
				With (1) the corresponding period last year.		With (2) period immediately prior to the Budget.	
	(1) For the 14 weeks to 8th Sept., 1923.	(2) For the 14 weeks to 29th March, 1924.	i.e., for the 14 weeks to 6th Sept., 1924.	Increase.	Rate per cent.	Increase.	Rate per cent.
Sugar ...	Cwts. 1,066,819	Cwts. 1,045,430	Cwts. 1,323,461	Cwts. 256,642	24·0	Cwts. 278,031	26·5
Tea ...	lbs. 13,075,646	lbs. 12,283,061	lbs. 15,217,172	lbs. 2,141,526	16·3	lbs. 2,934,111	23·8

(2) Retail Sales.

26. We are not able to supply for all our societies complete information relating to the retail sales of tea and sugar before and after the alteration in the rates of duty; but we have received information from a number of large societies whose members, with their families, represent about 3,000,000 of the population. We find that the benefits of the reduction in taxation were immediately passed on to the consumers and that the trade in tea and sugar immediately expanded. The expansion was not uniform throughout the country, and an increase of 10 per cent. in the sales of tea and of 5 per cent. to 10 per cent. in the sales of sugar may be taken as typical; but the increases were greater in some societies.

27. The effect upon the general internal trade of the country of a reduction of such taxes, as taxes on tea and sugar, is to stimulate increased purchases not only of the goods, the prices of which are reduced when taxation is reduced, but of other commodities as well. Statistics supplied to us by our societies show that trade all round was affected by the reduction of tea and sugar duties. The increased trade in other commodities is a stimulus to increased output, reduced costs of production and prices, increased employment, and a higher standard of living and industrial efficiency. The reduction of the taxes on tea and sugar, by promoting increased consumption and importation of these commodities tends to increase the demand for British exports.

Question 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?

28. We believe the State should rely for its income mainly upon direct taxation on monopoly revenues and surplus incomes above the amount required to maintain a reasonable standard of life, the fundamental basis then being ability to pay; and we recommend the abolition of all indirect taxation upon foodstuffs, particularly the taxes upon tea and sugar, as an instalment of the necessary reform of taxation we have advocated. The proportion of the national revenue raised by indirect taxes should be reduced as soon as possible to this extent.

Question 16.—What effect 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?

29. The present system of taxation (with its graduated Income Tax, Super-tax, and Death Duties) must affect the distribution of wealth since it imposes unequal, but not necessarily inequitable, burdens upon different members of the community. To impose taxation upon members of the community whose standard of life is a low one is not only to cause suffering to these members of the community, but to lower their efficiency and thus injure industry and commerce. In fact, we are of the opinion that too great a burden is at present imposed—through indirect taxation—upon the poorer members of the community, and accompanying a reduction of indirect taxes upon foodstuffs we should welcome a tax upon increments of land values, and, where practicable, upon monopolies. Such alterations of taxation appear to us in the best interests of the country.

Question 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?

30. We would refer the Committee to our views on direct and indirect taxation as expressed in the

answer to Question 16, and also to our views regarding taxation upon increments of land values. In our opinion, taxation could, with advantage, be varied in the ways suggested by us.

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

31. It is fairly obvious that increased productivity would enable a given amount of debt burden to be borne with greater ease. A given rate of tax will then produce more income and be more easily borne. For this reason careful consideration should be given to all proposals—political as well as economic—for restoring the prosperity of trade and commerce. We are of opinion that reduction of indirect taxation in particular would help to stimulate trade and increase productivity. A reduction of local taxation, *i.e.*, rates, would also be particularly helpful. Indeed, in our opinion, in any consideration of national taxation, regard should be paid to local finance. We consider that the relations existing between national and local taxation should be reviewed. If possible, a more equitable system of raising local taxes should be devised, and the system of grants from the national revenue to local authorities, including the purposes for which the grants are paid or should be paid, ought to be thoroughly examined.

Question 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?

32. Statistics do not show that employment or unemployment varies with taxation. Countries with light taxation and those with heavy taxation are alike subject to the evils arising from unemployment which is the result of various causes. Permanent high taxation—other than taxes upon surplus incomes—shows itself in a lower level of real wages rather than unemployment. So far as changes in taxation affect unemployment the effect will depend upon the nature of the taxes. An abnormally high rate of Income Tax *may* check accumulation of capital and the development of old and new businesses; but indirect taxation upon imports undoubtedly reduces consumers' demand for goods and indirectly affects foreign trade since our smaller demand for foreign goods reduces the power of foreign countries to buy from us.

4242. *Chairman*: I think it would be a good plan, Mr. Alderman, if you would read your paper; it is not very long, and it will give an opportunity for members to note questions to be put to you.—(*Alderman Hayward*): If you please. (*Evidence-in-chief read.*) *Chairman*: I compliment you on the lucid way in which you have answered our questions. This is an excellent paper and very well put together.

4243. *Sir Alan Anderson*: In paragraph 4 you say that the effect of having to raise this National Debt was to reduce credit and put up the rate of interest. Then paragraph 5 says the existence of the debt has augmented the volume of credit available for trade and there does not appear to be any present shortage of permanent capital. Do those paragraphs not say opposite things?—(*Mr. Goodwin*): I do not think so. The National Debt, while it was growing, naturally caused competition for available funds, and interest had to be increased. As soon as borrowing ceased, there was some reaction, and the rate of interest has, since its highest point, been reduced. But the point I want to put forward here is that the existence of the debt has artificially augmented the volume of credit as shown by deposits in the banks. I think the two statements, whilst there may be some little difference, are not altogether antagonistic.

4244. I quite see your point that when the debt was first floated it naturally started competition for money and put up the rate of interest; but that has finished now and the debt exists. On your paragraph 5, I should have thought again it was quite obvious that we have got a large number of assets—they may be paper assets, but still they are based on the good credit of the State, are they not?—On the credit of the State.

4245. And they have augmented the volume of trade. Then you give instances to show that credit is not short to-day. I should have thought that paragraph 4 was just historical, about the time of change, and paragraph 5 is really the one which applies to the conditions of to-day?—Yes, very largely. My view is that the increase in rates of interest, owing to the continuous borrowings of the Government, reached a certain point, and the increase has been maintained because of the debt not having been repaid. The debt still remains after having raised the standard of interest from, say, 3½ to 4½ per cent. Consequently any fluctuation of rates of interest is now on the higher standard. That is the view we put forward.

4246. You say: "Repayment of the longer term debt would not, in our opinion, diminish the amount of capital." But surely taxation would, would it not, unless it is paid out of savings?—I think we might just expand that and say: "Repayment of the longer-term debt would not, in our opinion, diminish the amount of capital available for trade, rather would it tend to increase it, if the debt were repaid by taxation provided out of savings."

4247. Does not the truth of that rest on the phrase "by taxation provided out of savings"?—Yes, very largely.

4248. So that if taxation was provided otherwise than out of savings, the amount of capital available for trade would be diminished?—There would be some difference in the effect. It may be it would have some influence in regard to the diminishing of capital. We do not take that point to-day, as it may involve a discussion of the Capital Levy.

4249. I think that is the inference from your paragraph there. What you say is based upon the tax being met out of savings?—Yes.

4250. Then with regard to the Floating Debt. You dislike the Floating Debt very much?—Yes.

4251. Would you just explain in a little more detail what dangers you see in the Floating Debt?—I see the one, that people might not be prepared at a moment of crisis to renew the Floating Debt. That is possible?—That is one great danger.

4252. Is that the only one?—We have paid more particular attention to the Floating Debt in this respect, because I think the co-operative movement generally feels that this debt wants tackling. We do not want to leave the debt indefinitely and make no sacrifice whatever in order to get it down. We would like to see a substantial reduction made.

4253. That is *all* debt?—That is all debt. Now when we come to consider the class of debt, we say the Floating Debt is the one we think should be reduced first, because of its danger in the case of complications, political or foreign, and the possibility of further borrowings say, in the event of another war, and so on; we should have very little margin of credit for getting further capital. If we had a less Floating Debt the Government would be in a much sounder and stronger position to deal with emergencies than they are now. The Floating Debt has its danger not only in the way referred to but also because of what we think is its inflationary tendency and the fact that the Floating Debt is

mostly held by bankers and financiers as an investment for their surplus funds. In that respect it does not reduce the purchasing power of the country as measured by deposits; consequently it tends to keep up prices, where a fixed debt would have a different effect. Those are the main points which we have in mind, and with which we think the co-operative movement is quite in sympathy.

4254. The inflationary effect, and so on, is a very technical point. The other point, that it might be difficult for the Government to renew their Floating Debt at a critical moment, is a question of judgment of the money markets, is it not?—The Government might have to give a very high rate of interest.

4255. We have had people who have passed their lives in that market, telling us that they think it is quite safe to have a Floating Debt, and that it is a great saving of money not to convert into a fixed debt?—There is something in that. I think we ought to have a certain amount of Floating Debt, giving sufficient margin for fluctuations in the amount required by the Government. A permanent debt does not give this elasticity. But in a Floating Debt you have an automatic way of increasing the volume of the debt or reducing it as may be necessary. It is a very useful form of debt, and as a rule the Government get it cheaper. I quite agree with having a substantial Floating Debt, but nearly £800,000,000 seems to be a dangerous amount.

4256. You would like it to be reduced to about £250,000,000 apparently, the equivalent of the proportion of pre-war Floating Debt to the total pre-war debt?—That was 2½ per cent. 2½ per cent. on £7,000,000,000 is about £200,000,000.

4257. Have you any particular reason for suggesting that figure?—No, it is just a kind of business idea that one has.

4258. You think it worked all right before the War and it might work all right again?—Yes.

4259. In paragraph **8** you say: "We should say that the reduction of the Floating Debt would tend to increase the credit facilities granted by the bankers to trade." Does not that again depend upon how the Floating Debt is reduced?—When the Government repay Floating Debt banks have more cash to deal with in granting credits to trade.

4260. I am just trying to find out what you mean by reduction of the Floating Debt. You mean substituting fixed debt for Floating Debt, do you?—That method would probably answer, but my idea is to reduce the Floating Debt by the same means which the Government would take to reduce the total debt. They would apply themselves first to the reduction of the Floating Debt, and in doing that they would find more cash for the bankers to allow for trade.

4261. Is this again based upon taxation being met out of savings?—I do not think this quite applies to taxation when you are paying off debt from the Government surplus. Certainly it must come from taxation eventually.

4262. You said in an earlier paragraph that if the debt were paid by taxation provided out of savings, capital would not be reduced?—That still applies here.

4263. *Sir Alan Anderson*: In paragraph **12** you say: "One of the effects of debt redemption will be a tendency to a reduction in the general rate of interest which will benefit both the organiser of industry and the general community." That seems to me to clash with paragraph **5**, which states: "The existence of the debt, however, appears to have artificially augmented the volume of credit available for trade." If the existence of the debt increases the volume of credit, I do not see how wiping out the debt will also increase the volume of credit which seems to be the implication of bringing down the rate of interest?—There are other conditions; you bring down the rate of interest if you reduce the debt.

4264. It does seem to me there is a clash between two ideas, and it comes in other paragraphs. In paragraph **13** you say: "Having regard to the burden of taxation at present borne by industry, an increase in the rate of taxation in order to increase the provision for debt redemption would be a heroic policy." I suppose you mean by "heroic policy" that it would be a very severe burden on trade?—(*Alderman Hayward*): Yes. We should be asking the people to make sacrifices which we think they should not be asked to make, for stated reasons.

4265. A heroic policy is a picturesque way of saying that it is something you would not like to put on trade?—Yes, as a last resort.—(*Mr. Goodwin*): I would like to put it that perhaps the country itself would come forward and volunteer to make some sacrifice to pay.

4266. I do not know that that would help much. It is going to be a very serious burden on trade. It might be a foolish thing to do. I suppose the foolish thing—if it is foolish—is the increase in the rate of taxation; the purpose for which you use the taxation would not really affect the heroism of the act, would it?—(*Alderman Hayward*): I should think the result of the application of the taxation would materially affect what you call the justification for a heroic policy.

4267. If it is dangerous to increase the rate of taxation in order to redeem debt, it would surely be more dangerous to increase the rate of taxation for any other purpose, would it not; because redemption of debt after all is the safest investment we can have; it is lightening our burdens?—The question with regard to the use of the tax of course has to be considered, but in our judgment there are matters which are of urgent importance, social services, which ought not to be neglected.

4268. You would say that it might be rather too bold or almost foolish to increase the rate of taxation in order to redeem the debt, but it might be wise and prudent to increase the rate of taxation in order to promote certain social services?—Of course the whole question has to be taken as one. You cannot quite separate them in that clear-cut manner, but there are certain things in connection with social services which need extension, and if those cannot be provided except by an increase in taxation, then an increase in taxation has to be faced. I think we have to look at the taxable position of the country in relation to the obligations which the country is under in regard to its indebtedness, and to make provision for whatever sacrifice is necessary in order to liquidate that indebtedness, at the same time not overlooking social necessities.

4269. I do not quite understand. You say they are not quite clear-cut. One does not want to be misty about opinions, and here you give an opinion which seems to be quite plain-spoken, that the rate of taxation is just about as high as industry can bear. That, I gather, is the meaning of those three lines; and even for redeeming the debt you say it would be rather unwise to make taxation higher. That is your meaning there, is it not?—Yes.

4270. Then you said something about social services. I was trying to find out just what you mean, and I gather what you mean is that, although industry may not be able to bear extra taxation to redeem debt, it may be necessary to force it to bear extra taxation to promote certain social services?—Yes; the interests of the State demand that certain things must be tackled in order to avoid something worse.

4271. If the tackling of them breaks down industry, then the interests of the State would not be served?—If it follows that the whole community was going to smash because of an increase in taxation, of course, nobody would recommend that, but it would not be anybody's argument that that would be so.

4272. "Heroic" is a word that implies risk, does it not?—I should say you might transpose that and say a "bold" policy.

4273. I think what you mean by "heroic" is that it does involve considerable risk. That is its ordinary meaning. A hero takes considerable risks?—He is bold. (*Mr. Goodwin*): I think the Government would

not impose that taxation unless it was backed by the country. If it was backed by the country, and they decided to do it, you would say that is a heroic thing to do to meet your indebtedness in a bold way.

4274. You would say if the psychology was right, if everyone wanted to do it, it would not be impossible?—Yes. A Government could not do it against the general opinion of the whole country.

4275. You give us information about retail sales. Have you any evidence to show whether the poorest classes of wage-earners are consuming more or less than they were before the war in such articles as tea, sugar, tobacco, alcohol and so on? I will tell you how we come to this. We have had some evidence regarding the amount of indirect taxation borne by people with certain incomes. Sir Herbert Samuel read a paper on it before the Royal Statistical Society in 1919, and we have had more recent information given us. I thought perhaps you would be able to tell us about it?—(*Alderman Hayward*): We might be able to get some figures. We have figures with regard to tea showing that the consumption of tea compared with the population is increasing, but we have not got the same figures worked out for sugar.

4276. Can you say that a person with an income of, say, £100 a year is now consuming more tea than he was before the war?—(*Mr. Blair*): No, I do not think so. We have figures here which show that tea consumption, which was 6¼ lbs. in 1913, has risen to 8¾ lbs. per head in the last year. That is an increase of 33½ per cent. roughly. But of course there has been a lot more tea drinking since the war. Men are drinking more tea than they used to. (*Mr. Alexander*): I could submit actual figures of the consumption of sugar per head over a number of years. I have that information in the office if that would be any help.

4277. I think it would be interesting. Could you also say whether the poorer classes of your customers are buying more than they were as compared with the slightly better classes?—I think that is very difficult. What we could say is this, that we have sufficient information to show that about 90 per cent. of our members are under the taxable limit for Income Tax. You would then have to take out the consumption per head in that mass of people under the Income Tax level. We could not give any figure other than that.

4278. That would show the well-paid artisan as well as the low-paid person, would it not?—(*Alderman Hayward*): Yes. It is rather difficult unless you set out to make a sort of census of the supplies to different members.

4279. One piece of evidence that sticks in my mind is that the lowest-paid manual worker is getting more money, more real wage, than he was, and the better-paid man is getting less. I was wondering whether you have any evidence bearing on that?—Do you mean the better-paid artisan?

4280. The engineer and steel-worker, and so on.—Yes, he is worse off.

4281. *Professor Hall*: That could be obtained from the rates of wages of different classes of workers, probably.—(*Sir Alan Anderson*): I was thinking if we could get direct to the consumption of those people, then you would short-circuit all the ambiguities about money. If you find that a man is now consuming more tea and bacon and sugar than he was in 1913, it shows that his real standard is better. If you find that he is consuming less, then it shows his real standard is worse, and it does rule out the difficulty of deciding exactly how many pounds to-day are equal to so many pounds in 1913. So if you had got the consumption figures, it would be very interesting?—(*Alderman Hayward*): The only way in which that could be got, I think, would be by taking representative establishments, say one in a colliery district where the whole of the members are comprised of workers in the mine, and another where practically the whole of them are working in engineering works or steel works, and getting comparative figures in respect of the people trading at these shops pre-war and after the war.

4282. *Sir Alan Anderson*: In your answer to question 15, you speak about monopoly revenues and about the ability to pay. What are monopoly revenues, things like land values and that sort of thing?—(*Mr. Blair*): Land values, mining royalties, etc.

4283. You say: "The fundamental basis then being ability to pay." Do you contemplate taking 100 per cent. of the surplus of anyone, or do you see any point at which you must stop?—That is a matter, I think, in which a certain amount of reason must prevail. If your standard is £1,000 a year and a man has an income of £50,000, and you are going to take the whole of the £49,000, that seems to me unreasonable.

4284. And rather worse than that. That is ability to pay, is it not?—Yes; but with regard to the fundamental basis, you would have to have some sort of sliding scale of taxation, going up with the higher incomes; the bigger the surplus the bigger the proportion which would be payable to the State.

4285. But I submit to you that the fundamental basis really is ability to collect without upsetting industry and human life?—You suggest that we should say: "ability to collect" instead of "ability to pay."

4286. Yes; collect without disturbance?—If they can pay, it can be collected.

4287. No, just for the reason you have given—that the effect on the well-to-do people would be to stop them from engaging in enterprise, which would not suit anyone?—That depends on the proportion which they use for new enterprise and the proportion they use for luxury living.

4288. *Mr. Bowen*: Were you not thinking of the other end of the scale, where you have the poorer classes who are your members who find that if they are to maintain a reasonable standard of life at all they cannot pay Income Tax?—That is so.

4289. You would not impose a tax upon those people who had nothing to pay with?—At the present moment, of course, our poorest members have to pay a considerable amount in indirect taxation on the foodstuffs which they consume, and also on other lines, such as tobacco, beer and so on. But we are keener on the question of freedom of all food from taxation, than anything else, because we consider that is the basis on which the worker depends for his efficiency. If he is not well fed and if he cannot get his food cheaply, he is handicapped.

4290. *Chairman*: You do not want a reduction of taxation on drink, do you?—That is a matter we have not considered specifically. We have considered the question of foods, in the main. If you take it off the foods for a commencement, we would be well satisfied.

4291. *Sir Arthur Balfour*: May the Committee infer, from paragraph 8 of your paper, that co-operators as a whole are dead against inflation?—(*Mr. Goodwin*): Yes, I think you may take that as the inference.

4292. In paragraph 12 you say that the return on Government investments to-day is over 4½ per cent. Is it over 4½ per cent. after you deduct Income Tax and Super-tax?—No, that is the gross amount.

4293. So that after you have deducted Income Tax and Super-tax, or in some cases Income Tax only, the return is not greater than pre-war?—The net return is not very much greater.

4294. In the next paragraph you say that in 1923/24, a year of trade depression, there was £100,000,000 available for debt redemption. You are not overlooking the fact that that is based on a three years' average, are you?—Yes, that is so.

4295. That makes a considerable difference to it. Then on paragraph 20 I would like to go a little further on the question that Sir Alan Anderson asked

you. I take it that as co-operators, dealing principally with foodstuffs, you do appreciate the importance of keeping up our export trade; otherwise, of course, you could not get food at a reasonable price. Do you not think the burden we are already bearing for social services is as much as we can stand without interfering further with our export trade?—Probably that is so. What we are arguing is that if we were to tackle the debt problem and reduce charges, we should then get more money available for social purposes than what we have to-day.

4296. But the whole thing must be a balancing, must it not, between how much you would wish to spend internally on social services, and the effects of the taxation necessary to provide the money, I am taking that particular point where it interferes with export trade, because then immediately you increase the cost of food, and you have just said that cost of food is the most vital question?—(*Alderman Hayward*): We should agree, of course, that taxation would not be taken to the breaking point; but the whole question is where is that breaking point.

4297. Can you expect to get any loose money or money that can be used for social services, without putting up the taxes?—That is difficult to say, of course, unless there are internal economies on the present expenditure. The social services, in our judgment, are of such urgent importance that unless that breaking point has been reached and is demonstrably reached, the social services will not admit of long delay.

4298. It has been put to us by people of great experience, that a reduction of Income Tax to-day say of 1s. or of 1s. 6d in the £, would do more to re-start trade, particularly our export trade, than almost anything else that could be done?—We do not agree with that.

4299. You do not think if we re-start our export trade we would be able to get our food cheaper?—We believe you would do more for the community and more for trade by an equivalent reduction of indirect taxation.

4300. You cannot do anything for the community if you make food dear, can you?—By reducing the taxation on it you would make it cheaper.

4301. By reducing indirect taxation you would make it cheaper, but if you increase your export trade you would buy your food cheaper and you would have cheaper rates for carrying it, too?—(*Mr. Blair*): We fail to see how reducing Income Tax is going to increase the export trade.

4302. You do not realise, then, that the high Income Tax has diminished the resources of business and the possibility of improving the efficiency of business to a very large extent. If you pay money away in Income Tax, you cannot build up your business. You know what building up your business is—putting reserves into your business; you have had a great deal to do with that. If you cannot use your money for improving efficiency, because you are paying it away in taxes, you are not in the same position to do your export trade?—(*Mr. Goodwin*): I think our view is that the export trade will only increase very gradually, and it will not come properly until our foreign customers are able to buy. It is no good our making more than could be sold.

4303. Would our customers not be able to buy if prices were lower? You have just told us, if you sold more sugar and tea, the prices would go lower?—(*Mr. Blair*): In this country.

4304. If we are able to produce food a little cheaper, should we not perhaps stimulate our export trade?—It might do a little. In the main, it is the break up of the purchasing power abroad which is one of the chief causes of our decline in exports, and until those countries are resuscitated there will be a lack of demand for our goods.

4305. There is a price at which they can buy, and the nearer you can get to that price, the nearer you get to having the trade?—Yes, stimulating it.

4306. In 1924-25 the estimated revenue from Customs and Excise was £237,000,000, whereas Income Tax, Super-tax and Excess Profits Duty was put at £432,000,000. Do you not think direct taxation is already bearing a fairly heavy load there?—(*Alderman Hayward*): Yes, but the difference in the proportion between the direct and indirect to-day as compared with 1913-14 is not material. The alteration of taxation in this year, I think, only increased direct taxation by one point, or 1·3. The percentage of direct as against indirect is not substantially more than it was at the beginning of the War.

4307. It is about the same relation. In 1920-21 indirect taxation per head of the population was £7 2s. 5d. and that has now fallen in 1924-25 to £5 5s. 11d., so there has been a very substantial fall in indirect taxation and a less fall really in direct taxation?—But the percentages remain substantially the same.

4308. They may be about the same?—(*Mr. Alexander*): Is not nearly all that fall due to deflation of prices?

4309. I do not think so, but some of it may be. If so, of course, it makes it important that direct taxation should have a greater reduction than indirect taxation. But what I wanted to bring to your attention is this. You said, and quite rightly, that taxation should be backed by the country. But here you have got at the present time 20,000,000 voters; you have only got 4,700,000 people subject to Income Tax at all, of whom 2,200,000 have remissions, so that you have 2,500,000 taxpayers, and I think, if my memory is right, 85,000 Super-tax payers. If you are going to put a large portion of that £237,000,000 on to a few people in the country, what chance have you to do away with indirect taxation? Surely you have to spread it in some way so that the people who pay can know what they are voting for?—(*Alderman Hayward*): I think we should agree that everybody should be guaranteed the means of subsistence, and anything above that should be liable to taxation.

4310. In view of the fact of their responsibility to the State?—Yes; but in so far as indirect taxation is concerned, our view is based on the fact that it is levied without any regard to the ability of the individual to pay, and that people who have been almost on the point of starvation have been overtaxed to the detriment of their health and their children's health and of the future prosperity of the State.

4311. Do you not think the great difficulty in levying direct taxation and bringing it to a very low scale, would be the collection? Indirect taxation is a method of collection really, is it not?—The method of collection, of course, is a matter that belongs to the Treasury, and the principle being admitted, it is for the Treasury to make the arrangements.

4312. On the other hand, it is no use putting up a proposition to the Treasury, if we know in advance that it would be absolutely impossible to collect at all upon that basis?—If it is impossible to collect, it does not alter the position, so far as we are concerned at any rate, that until a person is able to live a decent life, he ought not to have to pay taxes, and his foodstuffs ought not to be taxed.

4313. You are not confining yourself to the point where you would have 20,000,000 voters and only 2,000,000 or 2,500,000 direct taxpayers?—The point of view with regard to that is that the 2,500,000 direct taxpayers are mostly getting a substantial income out of the work of the 20,000,000. The 20,000,000 must be employed in order to produce the incomes of those people who are paying direct taxes.

4314. On the other hand, it is just possible that the savings of the 2,500,000 are keeping the 20,000,000 employed, is it not? (*Mr. Bowen*): May I put it in this way? Can you tell us the relation of the distribution of the wealth of the country between the 2,500,000 direct taxpayers and the remainder, who

are indirect taxpayers?—(*Alderman Hayward*): Not without going into the point, but of course the whole problem is there. The 2,500,000 are the holders of the wealth of the country and are consequently Income Tax payers, while the 20,000,000 are not. I could give you the figures, but I have not got them with me.

4315. As to the method of collection, on the point made by Sir Arthur Balfour, do you agree the present method of collection of Income Tax is absolutely watertight?—It is anything but that.

4316. *Professor Hall*: I take it that your point is that the collection of indirect taxation from many people is uneconomic in the sense that it forces them down to a real income that does not maintain efficiency? If they had a higher real income resulting from the reduction of indirect taxes, they would be more efficient, and industry would benefit from that greater efficiency?—That is so; industry and the State generally would be better for a minimum standard of life being guaranteed.

4317. Then, above that minimum, you would say that every citizen should be liable to make a contribution to the maintenance of the State?—Yes.

4318. *Sir Arthur Balfour*: Can you give us some explanation of this? If you take the food imports of this country in 1913 as 100, do you realise that in 1923, bringing them back to the same value so as to get the proper comparison, they are 114; there must have been a bigger consumption of food?—What is the increase of population?

4319. The increase of population, I suppose, is about 600,000, or perhaps it is just under 1,000,000?—There has been an increase of 14 per cent. in our food imports.

4320. But the serious point about it is that our imports of raw materials have fallen from 100 to 79, so that our production is very heavily down?—(*Mr. Blair*): I was not aware of the figures.

4321. *Professor Hall*: Would you not have to take that importation of food in relation to the quantity of food raised at home?—That is so.

4322. *Sir Arthur Balfour*: I was trying to find out from the witnesses whether there had been such a reduction in food raised at home as would account for the very big difference. Is there less home-grown food being consumed to-day than in 1913?—I could not answer that; we have not gone into that side of it; we have simply dealt with the taxation. (*Mr. Alexander*): I could supply you with that information. There are some things in which we know the reduction.

4323. *Sir Arthur Balfour*: It comes right back to the fundamental question of paying for our food. *Professor Hall*: I believe you could supply the Committee with information regarding food purchases and prices over a series of years, both with regard to total purchases and perhaps with regard to particular articles. By taking selected societies as samples you might get out the average consumption per head of tea, sugar or butter, or something of that sort?—(*Alderman Hayward*): It could be done quite readily.

4324. *Mrs. Wootton*: In paragraph 12 you say you consider the application of Budget surpluses to be the most convenient method of increasing the provision for debt reduction during periods of good trade, but in the next paragraph you say that we should have a contribution for sinking fund purposes of not less than the present £50,000,000, and when trade recovers you suggest we should budget for £100,000,000. How far are those two statements consistent? I gather from the first that your idea is that we should have a definite minimum provision and leave the rest to Budget surpluses?—Yes.

4325. But lower down you say £50,000,000 is all right now, but when trade recovers we should definitely budget for £100,000,000 and not leave it to the Budget surplus?—The opinion expressed in the evidence was that the present minimum of £50,000,000 should be retained until trade revived, but, in our judgment, in view of the urgent necessity of reducing the indebtedness of the country, all surpluses accruing in the year should be applied to debt redemption. If and when trade revives the probability is that without increasing the ordinary taxes of the country the revenue would be greater, and instead of anticipating that larger revenue by a reduction of taxes, provision for debt redemption should be increased by such a sum as was estimated to be received in increased revenue.

4326. So that the statement that you think Budget surpluses are the best way of increasing provision in periods of good trade does not preclude you from also increasing provision by definitely budgeting for more?—That is so.

4327. It is not intended to rule that out?—Not at all. Assuming that the Chancellor estimated that he would get £30,000,000 additional revenue without altering the basis of taxation, he can provide £80,000,000 for the redemption of debt and still have a surplus, which would ultimately go the same way.

4328. In answer to Question 5 you say that the greater the amount of taxation required for debt service the smaller must be the amount available for desirable objects. The point of view has often been put to us that the amount the country can afford to spend on social services is limited not by taxation but by the whole income of the country—that there is a certain proportion of the whole income of the country which we can afford to lay out in social services—and from that the inference may be drawn that the volume of taxation required for the debt service, since it does not affect the national income, does not affect what we can pay for social services; what would be your view on that argument?—Social services in respect of, for instance, the development of electricity, development of afforestation, road development, housing development and matters of that kind would be increases in what one might call the social value of the community, and the results on industry and commerce and the general trade of the country would be entirely different from other expenditure from taxation.

4329. Those things are of the nature really of national investments?—Yes, that is so.

4330. Do you confine that to the kind of thing you have mentioned? What is your view of what are generally called social services?—You could extend the list—development of schools, development of widows' pensions, development of health services; there are quite a lot of social services which would come under the same category.

4331. You regard those things also as being of the nature of national investments?—That is so.

4332. And you think that the obstacle which prevents due investment in them at present is the amount of taxation required for the debt service?—Certainly; that has a very deterrent effect on the raising of money.

4333. That rather presupposes that there is a certain proportion of income which you can raise in taxation, and if you have to spend it on one thing you cannot spend it on another?—That is so.

4334. Even with a constant national income?—That is so.

4335. In paragraph 17 there is a matter upon which it would be very interesting to have your view. You discuss the possibilities of raising capital. Could you tell us what the experience of the co-operative movement has been in getting capital for your Societies? If my memory serves me rightly, at one time you had a very great abundance of capital?—The position in connection with our movement has been that up to almost the end of the War we experienced no difficulty at all, but owing to the competition for capital for State purposes towards the end of the War, and after, we had to raise our rates of interest over the figure at which they had hitherto been, and I think some Societies went up to 5½ per cent. and in one case

to 6 per cent. Since that time there has been no difficulty, and now we have plenty of available capital for any developments which we choose to undertake.

4336. You can get all you want now?—Yes, ample.

4337. *Mr. Hichens*: At 5 per cent.?—At a maximum of 5 per cent.

4338. *Professor Hall*: Is it not a fact that you have two Societies, each of which has more than £1,000,000 of share capital, which have never paid, even during the War, more than 3½ per cent.?—That is so; 3½ per cent. I think one is paying.

4339. *Chairman*: Have you got any money put outside at all?—Yes. Occasionally our surplus funds are invested in Corporation Stocks, and, of course, War Loan.

4340. *Sir Arthur Balfour*: You do not consider it wicked to hold War Loan?—(*Mr. Goodwin*): No. During the War I think we did our duty in regard to that, because the Co-operative Wholesale Society undertook to put in War Loan the whole of the surplus funds of the movement, and for that purpose the retail societies were advised to place with the Wholesale Society all capital not required in their local trading operations.

4341. *Mrs. Wootton*: Practically the whole of that capital you have got from what are generally described as working class people?—(*Alderman Hayward*): Yes. The maximum holding in a society is £200 in shares, and I think it is safe to say that in very few Societies have more than 20 per cent. of the members the total holding.

4342. In answer to Question 14 you said that except in very special circumstances a tax on a commodity increases it price—often by more than the amount of the tax?—Yes.

4343. Is the converse true; does the reduction of a tax on a commodity, except in very special circumstances, decrease its price?—(*Mr. Blair*): Yes.

4344. You think it is generally true?—Yes.

4345. Of course, one knows of a good many reductions of taxation which have not led to a reduction of price. Are you speaking solely from the point of view of the co-operative movement and your prices? —We know that does take place with regard to tea and sugar, but we know, of course, that the reduction in the tea duty has been nullified since by advances in market prices. That has had nothing to do with the question of the reduction of the tax; that is not the reason why tea has gone up; it is due to an increase in the world consumption of tea. As regards sugar, the consumption has increased enormously, and the price has fallen. The wholesale price of sugar to-day is roughly about a penny a pound less, apart from the tax, than it was before the tax was reduced.

4346. But the case of tea is one of very special circumstances which you have very definitely excepted?—Yes; it is due to an increase in the world consumption. Some other countries have come into the market for tea this year. Russia is in for a considerable amount, and India has commenced to consume. I am told that the Indian requirements this year will be about 80,000,000 lbs.

4347. *Mrs. Wootton*: What I was really thinking of was whether the special circumstances do not happen rather more often than perhaps your statement suggests. I was not only thinking of the latest Budget reductions. Have you ever examined the question by going back, say, half a century, and tracing the various reductions in food taxes and the movements of prices afterwards?—No, I must admit that I have not. I have taken the immediate circumstances here. We go back to the pre-war figures, and the figures of to-day; that is what we have got. We have not gone further back.

4348. I was wondering if your general experience over a long period does confirm the view that it is exceptional for a consumer not to get the benefit?— I am sorry I could not give you any more information. We do know this with regard to our statement, that a tax increases the price often more than the tax, because we have to allow for interest on the capital employed. If we have to pay duty and hold the stocks for long, we have to add interest for that. Of course, the bigger your capital turnover the more your profit on it.

4349. There is one other small point on the table in paragraph 25. You do not give there the prices and the dates of the periods to which your figures refer. May I take it that for the 14 weeks to the 6th September, 1924, with both commodities the price was reduced over the whole of that period by the full amount of tax reduction?—Yes. Although there has been a marked advance in tea, the Wholesale Society did not advance prices until the middle of October.

4350. *Sir Arthur Balfour*: On this question of social services, of course, we are all anxious to spend as much as we can on it, but I wanted to ask if you realise that in 1901 we spent on education £17,000,000, and on poor relief £11,500,000; that is £28,500,000 on those two things. In 1911 we spent £29,000,000 on education, £15,000,000 on poor relief, and £6,250,000 on old age pensions, a total of £50,000,000. In 1922 we spent £80,000,000 on education, £42,500,000 on poor relief, £19,500,000 on old age pensions, £26,000,000 on Health Insurance, and £62,000,000 on Unemployment Insurance; that is £230,000,000, and £80,000,000, of course, on War Pensions, but that is a separate thing. We have had to find £310,000,000 in 1922 for the same sort of services for which we found in 1911 £50,000,000, and in 1901 £28,000,000. Do you not think that is a tremendous burden on trade and may have something to do with unemployment?—(*Alderman Hayward*): I agree that civilisation has advanced since 1911, and anybody who attempted to carry on any department of work on the lines of 1901 would be rapidly laughed out of court.

4351. Do you not think we have made very substantial progress?—Yes.

4352. Do you not think we have made perhaps almost too rapid progress and put too big a burden on industry?—I do not. I think we have to go still further on the same lines.

4353. I admit that there is the War to consider, but still the general situation of our trade and of unemployment is much worse?—Unemployment is much worse, but that is not due to the development of social services.

4354. I am not quite certain that that burden of £310,000,000 on trade has not some connection with costs of production, and therefore with our inability to sell as many goods, and consequently to employ people?—I am not satisfied that any evidence has been shown to me which indicates that British trade is shut out of foreign countries by reason of taxation for social services.

4355. But you realise there is a very big difference in the burdens in the three years I have given you? —Yes, but I also agree there is a very great difference in the ability to pay in the three years.

4356. *Mrs. Wootton*: There has been a very considerable increase in the national income?—Yes.

4357. There might be some social services which could be regarded as perhaps not completely a burden on industry. The particular service of education, for instance, is contributing to the national income?—That is so. The figures quoted by Sir Arthur Balfour, I suppose, represent twice the national expenditure in 1901.

4358. *Sir Arthur Balfour*: I want you to understand that I am not against social services in the slightest degree, but I do want to bring to your attention that we must not overdo it if we expect to do our export trade, get our food cheap and employ our people?—Exactly.

4359. *Mr. Bell*: Looking at the end of paragraph 8, as bankers as well as traders, do you not think you put the cart before the horse in these words: "We should say that the reduction of the Floating Debt would tend to increase the credit facilities granted

by the bankers to trade." The fact is that the banks, as you know, put surplus money into Treasury Bills while they cannot use it?—(*Mr. Goodwin*): Yes, that is so.

4360. The moment they want to use it they sell those Treasury Bills?—Yes.

4361. So it is not the holding of the Treasury Bills that debars them from lending; it is only that they are waiting to lend it?—I think the argument would rather be this—that, being unable to put the money into Treasury Bills, they would be compelled to look for fresh means of employing their money, and they would, perhaps, more freely lend to trade.

4362. I hope they will never lend unwisely to trade, because they happen to have the money?—Quite so, but there is this inducement—if you cannot put your money out one way you will put it out in another, and if you cannot put it in Treasury Bills, trade will probably get rather more than it would have done otherwise.

4363. Our complaint is the other way—that we have not sufficient demand, and therefore the money is put into Treasury Bills. I do not want you to think that the holding of Treasury Bills is withdrawing facilities by the banks?—I quite appreciate your point.

4364. I want to draw your attention to a point in paragraph 20. We are not considering the Capital Levy to-day, and I do not want to go into this, but you say here: "It is obvious that taxation withdraws revenue from particular businesses that might employ it more remuneratively as capital than the persons to whom the proceeds of the taxation are paid as interest or in repayment of War Loan." If that is true of taxation it would be equally true of the levy, would it not?—I take it this means, that if you pay off the debt, capital is set free for investment in a productive capacity; in this way you may make more of it than the person who held the debt made of it in the receiving of his interest.

4365. No; that is not what it says. Taxation not only withdraws revenue from people who have no business, but from people who are engaged in business, and who have capital invested in War Loan?—(*Alderman Hayward*): As I view the position, we say that while it may be true that in particular cases taxation would withdraw revenue from particular businesses that might employ it more remuneratively than the persons who get it as the proceeds of interest or repayment of War Loan, yet this tax falls upon other people besides.

4366. But you say it is obvious that it is so; you do not say "While it may be so"?—We grant, of course, in some cases it may be so. We do not mean that it is of general application in every case.

4367. *Mr. Bowen*: Do you not mean that if capital is tied up either by being taken in Income Tax or by being invested in War Loan it could be used far better by being released from War Loan and employed more remuneratively in business?—It is obvious, of course, if the proceeds of tax, whether Income Tax or any other tax, are used for the redemption of debt, the person who receives that is at once open for re-investment.

4368. *Mr. Bell*: No, excuse me; you say "that might employ it more remuneratively as capital than the persons to whom the proceeds of the taxation are paid." *Professor Hall*: I take it you mean there that whilst that may be true, you must take the question of policy as a whole, and even though it does mean that there is a transfer from persons able to employ it more remuneratively to somebody else, still, viewing the tax as a whole, it is not of sufficient importance to cause you to alter your view regarding the tax?—(*Alderman Hayward*): That is the idea that I tried to express a minute ago.

4369. *Mr. Bell*: I want to follow up the questions that were put to you by Sir Alan Anderson and Sir Arthur Balfour in regard to the important point in paragraph 28, where you recommend that the State should rely for its income mainly upon direct taxation. You made it quite clear, did you not, that except in the case of the very poor you would not fail to offset that by, say, a lowering of the Income Tax standard?—I think the point of view is that foodstuffs should be liberated, because it is a tax upon the stomach and lowers the efficiency of the worker and the worker's family through underfeeding, particularly in the case of orphans, as I know from my own experience. So far as the duty of the citizen to the State is concerned, I take the point of view that, after having secured a reasonable standard of living, the citizen should make his contribution of income to the State, over and above providing for the standard of living.

4370. That would probably be done by lowering the exemption level of Income Tax?—Yes, if the exemption at present is above the standard required for decent living. (*Mr. Blair*): The only question is, it is difficult to collect. Where we had quarterly collection of Income Tax, when a number of the wage workers were paying Income Tax, very often it happened that they were unemployed or working short time when the tax came to be collected.

4371. That could be obviated by a deduction from wage?—If the wage holds good for 52 weeks in the year; but there is a difficulty, because of the casual nature of employment.

4372. *Mr. Bowen*: You represent 4,500,000 people, mainly of the working classes, and you therefore know a good deal about their lives and social conditions. Have you found that your members are, in the main, saving people?—(*Alderman Hayward*): Certainly. The co-operative movement depends absolutely on the thrifty instincts which you can get developed in the people. The business of a society is dependent on the pence and shillings of the worker, and excepting in cases of little windfalls in the shape of small legacies, and that sort of thing, there is nothing else to rely on.

4373. To what do you attribute that; is it a motive of co-operative service, or is it antagonism to general industry?—I am afraid I do not follow the point.

4374. Let me put it in a positive sense. They are interested in their business, because they have the motive of co-operation?—Yes.

4375. And they find they can do this even with taxation, when they have that motive behind them?—Yes. The position, as I see it, is that the individual sees that by joining with his fellows to do certain things he can improve his own social position and get an opportunity of advantage in culture and education, and so on, through co-operative organisations, which he cannot get by remaining outside. As a consequence of association his thrifty habits develop and the co-operative movement itself expands.

4376. You were leading up to the suggestion throughout your paper, I think, that taxation is burdensome now because of the existence of huge debts that we have, and that it was necessary that the country should pay some heed to what you describe as social services. The question has been already asked whether the burden of taxation is not now as much as we can bear to preserve industry generally from going under. The point I want to put to you is that you cannot contemplate that your idea of extension of social services would bring that about?—No. I am of the opinion that the development of social services will be to the advantage of the community, and that assuming an increase of taxation is necessary (which, of course, remains to be seen after an investigation of the whole question of taxation and the relationship of collection to expenditure), then that increase could be justified on the ground of the urgency of the need.

4377. You lead up to the efficiency of the worker?—Yes, exactly; the general well-being of the community.

4378. And in that measure get a bigger productive effect in industry?—Yes.

4379. If you do not get your social services even at the cost suggested by Sir Arthur Balfour is it your opinion that industry must suffer for lack of efficiency?—That is so; I think that is the position somewhat to-day.

4380. It is a question whether and how far all the industrial workers should bear a share of the taxation of the country. You say there is a limit to the amount of taxation that can be raised without injuriously affecting trade; have you any idea what that limit is?—I do not think I could put the limit in actual figures. It has got to be taken, of course, in relation to the general conditions obtaining from time to time. What might be a bearable burden one year might be unbearable another. I do not think you could dogmatise with regard to any particular standard.

4381. In paragraph 18 you say that there does not appear to be a dearth of capital, and in your opinion the supply is increasing. What is producing that increase?—The increase, of course, in my judgment is very largely savings, and the fact that there are increases is demonstrated by the list of issues which have been over subscribed. Since the date of the evidence we have Lewis's of Manchester offering £1,500,000 and it was over-subscribed 6 to 10 times; the Leicester Corporation offering £1,500,000, 3 times over-subscribed; the Southern Railway offering £2,000,000, 10 times over-subscribed; Spillers offering £1,000,000, 10 times over-subscribed; the Sudan Government Loan, 8 times over-subscribed. In the face of those figures it would seem that there is not only no dearth, but that there is plenty of capital for investment.

4382. Even during the hard times?—Even during these past years.

4383. I think the total savings of last year have been put at £300,000,000 to £400,000,000. That would be the effect of trade probably during 1922 and 1923, in 1922 particularly we had bad times?—Yes.

4384. There is a statement in paragraph 19 that higher taxes may stimulate saving as well as deter saving and enterprise. I should be glad if you could help me by amplifying that somewhat. How does higher taxation stimulate saving?—If you have persons getting a fixed income and the tax is raised, instead of that Income Tax demand cutting into the margin of saving, they effect economies on what one may call luxury expenditure and pay the tax with the savings thereby made.

4385. You think that high taxation exercises a certain disciplinary effect on the taxpayer?—I do not think there is any doubt about it.

4386. You would not for that particular purpose urge that, because you think it is necessary in the interests of the nation that people should be so disciplined, we should put up our taxation?—No, I would not suggest that.

4387. In paragraph 22 you make a point that I have seen in the evidence of other witnesses, and to my mind it is a very important point. You say here that there is always a tendency for a trader to pass on any taxes he may have to pay, and you also say: "In theory Income Tax does not enter into prices." Then you go on to say: "For the reasons given above a portion may be passed on in some cases." Am I correct in assuming that it is your belief that Income Tax payers pass on their direct Income Tax to indirect taxpayers?—What we tried to convey in this paragraph is that in theory we believe that Income Tax does not enter into prices, but running through the whole of the industrial world is the tendency to add to the costing, or to the rate of profit that is required, an amount to cover Income Tax, and particularly so when Income Tax is high.

4388. *Mrs. Wootton*: Something must be wrong with theory then?—What we say is that the tendency is for this to happen. Against that tendency there would operate, of course, the law of supply and demand and the competition of other people who were not passing on the tax, but who were out for larger trade and were prepared to keep their prices down in order to get the larger trade. But certainly the tendency in our judgment is to take these items into account wherever it is possible to do so and maintain the business in which they are engaged.

4389. *Sir Arthur Balfour*: Is not that the trouble of all taxation; everybody tries to pass it on to somebody else?—Exactly.

4390. Whether direct or indirect. Indirect is perhaps passed on in wages, and direct in some other way?—Yes.

4391. *Mr. Bowen*: The main point we have had is that there are a large number of direct taxpayers and a large number of indirect taxpayers; in a measure you would say that in practice the number of direct taxpayers would be considerably reduced by the tendency to transfer direct taxation? *Sir Arthur Balfour*: Is it not the cumulative effect of passing on taxes that is the whole trouble?—(*Alderman Hayward*): Yes. (*Mr. Alexander*): I think the substance of our evidence is that we say the theory is substantially correct, but that it is more difficult to pass on direct taxation than indirect. The human tendency will, of course, be there to pass on taxation.

4392. *Mr. Bowen*: I am not quarrelling with it; I am only wanting to elucidate the point?—Before the Income Tax Commission some of the witnesses definitely said they did pass it on, or try to pass it on. (*Mr. Blair*): It depends on the nature of the business. If you have anything like a monopoly, or some arrangement for fixing prices, you can arrange to pass it on.

4393. *Mr. Bowen*: In paragraph 28 you speak about the ability to pay. You say there: "The fundamental basis then being ability to pay." You want to maintain a reasonable standard of life and then you want to declare that the fundamental basis of taxation shall be ability to pay. Have you any figure in your mind below which we should not impose direct taxation if we were to abolish indirect taxation?—We have not considered that point. That is a matter which would really require to be fixed by an enquiry into the cost of living and maintaining a family. We have not attempted to enquire into our members' family budgets in any way. That is a matter that I think is a necessary duty of any Committee dealing with taxation, but we have not attempted to go into the details. A good deal will depend on the circumstances.

4394. *Chairman*: I think you will find that each man thinks that the basis of taxation should be just above his own income?—Well, that is human nature, but, after all said and done, we have to take a considered view.

4395. *Mr. Bowen*: You have not got what we could call a co-operative standard of life?—No.

4396. Anything based upon your own trading or your own experience?—(*Alderman Hayward*): No. Our members vary from the lowest paid people who are, as a matter of fact, dependent on public charity to the lower middle classes, and, of course, there would be all the gradations between what one might call extreme poverty and a moderate affluence.

4397. *Mr. Bell*: Do you debar anybody from joining the Co-operative Society; can anybody join?—Anybody, whatever their means, or want of means—anybody who can find a shilling. (*Mr. Blair*): And some of them less. With some of them we have no entrance fee at all; they join right away and pay up their shares by the accumulation of their surplus on the trade.

4398. *Chairman*: You are not a political organisation, but a social organisation?—Social: we are not party political.

4399. *Professor Hall*: I take it from your evidence and from the statements made that in your opinion, whilst taxation may have some effect upon industry, the chief things that are preventing a restoration of trade are the political conditions abroad and the lack of prosperity in the countries where our customers are principally situated?—(*Alderman Hayward*): That is our view, that the impoverishment of Continental countries and the political relationships existing between the various countries, and that sort of thing, are the main influences of our present declining trade.

4400. And that employment would be more assisted by a restoration of world prosperity than by any reduction of taxation in this country?—That is so.

4401. In regard to debt repayment and social services, did I rightly understand the evidence and the answers you gave to lead to this conclusion, that if debt were repaid you believe that interest rates would fall, and that capital charges borne by public authorities would be reduced; they would thus be enabled to develop social services of various kinds like education—sinking fund charges would not be high—and other services of a like character?—(*Mr. Goodwin*): I think that is the basis of our evidence.

4402. *Mr. Bell*: Is it clear that interest charges would be lowered?—The effect of the debt has been, in my view, to increase the standard of interest, and if you reduce it to normal proportions again I think the tendency would be to have a less rate than we have now.

4403. *Mr. Hichens*: If I might just intervene, as a matter of fact they have eliminated their debt altogether in Germany, have they not?—Yes.

4404. But the rate of interest has not fallen much?—That is the exchange.

4405. *Mr. Bell*: The withdrawal of that capital might not by any means necessarily bring down the rate of interest. (*Professor Hall*): But the German debt was not wiped out by repayment in the same way as the witnesses here are suggesting. (*Mr. Hichens*): Well, it vanished. (*Mr. Bell*): I am only querying the suggestion that there would necessarily be a drop in interest?—(*Alderman Hayward*): In one case it is equivalent to repudiation and the other to redemption. In the case of redemption you get the repaid debt available for reinvestment by the individual owning the debt after repayment, and the volume of funds for industry would, of course, apparently be increased. (*Mr. Blair*): Is not the high German interest due to a certain extent to the feeling of insecurity at the present time?

4406. *Mr. Hichens*: Shortage of credit; but is not that the point? It is not merely the quantity that you have got, large or small, which affects the question; it is the degree of your credit, good or bad?—But that is dependent on security.

4407. Very likely, yes. All that that means is that you can wipe your capital out and find yourself in a worse position than you were before?—If there is a feeling of insecurity.

4408. Quite so?—But if we get debt gradually written down and there is a feeling of security in the country, that is another matter. We do not want to undermine the feeling of security in the country. You may have thought some of our replies are rather tentative, but it is because we are not absolute on some of the points. We see that there are two sides to the question. I think if the feeling of security in the country is maintained and there is a reduction of debt there would be a fall in interest which would tend to approximate more to the pre-war level.

4409. *Professor Hall*: I was really leading up to the point as to your reasons for favouring a reduction of the debt. In the first place you favour it, according to what Mr. Goodwin says, because co-operators take the view that you would be in a stronger position for borrowing again if the debt had in the interval been substantially reduced?—(*Mr. Goodwin*): That is one reason.

4410. The second reason is that you think that the reduction of the debt would lower the rate of interest and cheapen the cost of social services?—Yes. I do not think you must look at the debt as an asset to the nation as some perhaps are inclined to do. I think the sooner we get it down on a more solid foundation the higher will be our credit in our general trade. In that process we do not want to kill trade; we want to redeem the debt in a reasonable way.

4411. *Mr. Bell*: It is the rate of acceleration?—Yes.

4412. *Professor Hall*: But on the one side you have the effect upon industry?—Yes.

4413. On the other side you feel that there is an increasing strength of credit, or reputation if you like, because we are paying off the debt fairly rapidly?—Yes.

4414. And that is a benefit to all the people in the country?—Yes, just as when a person is hampered by a debt he wants to pay it off as soon as he can. There is that feeling in the minds of co-operators.

4415. You come from a movement that does not believe in credit trading very much?—Yes; getting into debt is not encouraged by the co-operative movement.

4416. I take it that the movement you represent favours the reduction of indirect taxation because of its effect upon the standard of living?—Yes.

4417. And from the answers you have given you believe that to be of immense importance to industry. You look upon it as being the case that labour is as necessary as capital for the development of industry?—(*Alderman Hayward*): Yes.

4418. And that whilst accumulation of capital might be desirable for industrial development the efficiency of labour is equally important for the development of industry?—That is our point of view exactly—that the well-being of the individual and the efficiency of the individual is as important as the efficiency of the capital employed in it.

4419. Those two factors, the sufficiency of capital and the efficiency of labour, have both to be considered and the advantages of a policy considered in relation to the balance of advantage in the two respects?—Yes, that is so.

4420. *Mr. Hichens*: I think in answer to Mrs. Wootton you said that in some cases and to some extent a reduction of taxation on food commodities might be upset by an increase in price, and you gave the example of tea where that has happened?—(*Mr. Blair*): Yes.

4421. And it was suggested that that might have happened in a number of other cases?—Yes.

4422. But it does not necessarily always happen; I think that was the point of view you took there, did you not?—Yes.

4423. How far do you think that a reduction in taxation of food might be reflected in any wages adjustments which were made subsequently? Would it be pointed out that the taxation of tea and sugar had gone down and therefore that ought to influence the wage that was paid, do you think?—Of course, there was an immediate fall in the cost of living figures after the reduction in the Budget, and those figures were immediately reflected in some trades owing to the nature of the wage agreements, but as that has been neutralised by an increase in cost of flour and other commodities, including tea which is a smaller item, that has been wiped out, and the increases have gone on again. If we could maintain a permanent reduction by taking off this taxation I think that there would be some possibility of stabilising wages. As it is there is a tendency on the part of the Unions at the present time to ask for higher wages because the cost of living is going up again.

4424. I have seen it stated that in Germany, for example, wages have been reduced to some extent on account of the very low rents that they have to pay through the Restriction of Rent Act there?—Yes.

4425. You would think that was probably true, would you not?—Well, I do not think quite that. That is only a small portion. Actually the cost-of-living figures in Germany, apart from the Rent Acts, were much higher than pre-war—much higher than the wages were. The wage level, according to the figures I was supplied with some time ago of the German worker, is considerably lower than before the War in spite of the reduction in the rent.

4426. The point I want to get from you is this: it always seems to me that there is likely to be a tendency that the more there is provided by the

State in one way or another for the individual the less will his wage become; that is to say, that supposing he gets a free house from the State, free education, free doctors for his children, free food for his children, free food for himself, those things which we are inclined sometimes to look at as social benefits, the other side of the picture would be that those advantages would be reflected in the wage that he received; that would be more or less inevitable, would it not?—A good deal would depend on the state of organisation of labour, and whether there was a general feeling in the community that the standard of living ought to be advanced. I think the feeling now is that it should advance and remain advanced.

4427. I am not denying that; I am only trying to elicit from you whether you thought that there would be an almost inevitable tendency to take these things into account?—You have referred to free food; I thought you meant food free from taxes.

4428. I was taking an extreme case just to make my point?—(*Mr. Alexander*): I think it is contrary to 50 years' experience. Take the development of the social services; take the point of the School Board Act, from then onwards in all directions; one would not say that that had resulted in a lower level of real wages.

4429. Your opinion is that real wages to-day are definitely better than they were?—Than at that time when we first began, as we should put it, to become socially conscious.

4430. And there has been a definite improvement in wages in addition to the social work that has been done?—Yes.

4431. So your view at any rate would be that there would be no fear if one reduced indirect taxation that the tendency would be for such a reduction ultimately to re-act upon wages; you would not fear that?—(*Mr. Blair*): No. I think the social consciousness of the workers would tend to prevent that. You might get one or two particular industries where the cost of living might be very seriously reduced like the engineering trade and the miners, who are both below the pre-war standard at the present time based upon the cost of living figures, but that is, I think, mainly exceptional.

4432. Again, you suggest in your evidence that the money set free by the reduction in the taxes on food is better used than would be a similar sum set free by a reduction in Income Tax?—Yes. Our view there is that working-class consumption sets a greater amount of labour to work than the consumption of the well-to-do classes. Theirs is in a luxury direction, whereas the other is an increase in what we might term the domestic necessities, the every day requirements of life. We further find, for instance, one very striking fact, and that is, that the decrease in the price of sugar has resulted in an increase in the making of jam. Our pre-war sugar consumption in our factories was much greater than it is to-day owing to the lesser cost of sugar at that time and the consequently bigger consumption of jam. That has stimulated employment in the jam trade, and the same in the confectionery trade.

4433. Quite; it may be a good thing from that point of view; but it might be argued, I suppose, that the Income Tax payer would save his money and that would be available as capital which would stimulate trade, too. That might be a desirable thing, might it not?—Well, capital is not invested in trade unless there is a likelihood of a good return. I think the most serious feature we have had to face has been the big reduction in working class expenditure in the last few years. I have seen it estimated that there is a net reduction of working class wages of about £10,000,000 per week, which is £500,000,000 per annum, which in itself is almost as big as our total foreign trade. That expenditure has been lost to the industries of the country, and there has been so much worse trade internally, in my view, through that cause. The consequence is that there is so much less employment in industries which are catering for domestic supply, that is to say, for home consumption.

4434. Your point is that it is better spent in that way. I suggest that one alternative is that an Income Tax payer might conceivably spend his money just as wisely in the direction of saving money or encouraging trade abroad, and another alternative is that the money might be more profitably used in promoting education rather than buying tea; is not that a possible alternative?—Well, it might be devoted in that way. The whole experience of our movement and the basis of the theory on which we are built up is that it is better for 4,500,000 of our people to have a surplus of perhaps £3 or £4 a year returned to them to spend in domestic necessities, or possibly they may save it for the development of our industry——

4435. Rather than that you should educate them?—Rather than that it should be handed over to, say, 40 or 50 people who may own a business which in itself would be as great as the co-operative movement. It is much better for that to be spread over those millions of folk than to go into the hands of a few. It is quite true that the others may accumulate a lot of that as capital for reinvestment, but unless there is the effective demand for the goods which they might invest their money in, it will not be invested. People do not invest money in trade simply for the sake of investing it; they want to see some return for their money, do they not?

4436. They do. I do not know about your particular business, but in mine they do, certainly. What you really mean from your point of view is, is it not, increased wages?—Increased wages; increased spending power.

4437. Which would you prefer that a man had, an increased wage, or that he had increased spending power through his taxation being reduced; which would be sounder in the interest of the country and the community as a whole, that the man should be the master of his own wage and resources, or that he should be, so to speak, to some extent supported by the State?—I am speaking now personally: I am not a believer in State maintenance; I am a believer in self-help; and the more independent spirit you can create in the minds of the individuals I think the better. But you are putting to me an alternative question; it does not follow that they are alternatives.

4438. Well, it may be just as much as what you have put; that is what I am trying to get at; but it does not necessarily follow.—We have found that helping our members in this way we have not lowered their standard; we have bettered their standard. The more we have helped our members the more independent we have made them, and the more thrifty we have made them. The fact that we have given them something which they have not had before has not lowered their standard. I do not want to suggest that it has increased their acquisitiveness, but it has made them feel more independent and the necessity of a higher standard. (*Alderman Hayward*): With regard to the taxation of foodstuffs, you have to consider the considerable number of the population who are not in receipt of wages and are outside Trade Union influence to whom the tax is a most onerous burden, and from that point of view, of course, we are strongly of opinion that these food taxes should be abolished in the interests of the lower people whose efficiency, and, in many cases, health, is being affected by the imposition.

Chairman: We are very much obliged to you; we hope to see you again later on another subject.

(*The Witnesses withdrew.*)

FOURTEENTH DAY.

Wednesday, 3rd December, 1924.

PRESENT:

SIR ARTHUR BALFOUR, K.B.E. (*in the Chair*).
SIR ALAN G. ANDERSON, K.B.E.
MR. HENRY BELL.
MR. J. W. BOWEN.
PROFESSOR FRED HALL.
MR. W. L. HICHENS.
SIR JOSIAH STAMP, G.B.E.
MRS. BARBARA WOOTTON.

Mr. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

Mr. J. Beaumont Pease, called and examined.

Evidence-in-chief handed in by Mr. Beaumont Pease.

Question 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?

1. This question, which I take it refers to banking credit and not to credit in the sense of the estimation in which any person or institution is held, is split up into several sub-divisions, and I will try to answer them in order.

How does (*a*) the existence of the National Debt and (*b*) increases in the National Debt affect

(1) the supply of credit?

2. To the extent that the existing National Debt was, and further issues may be taken up by banks, or out of the proceeds of loans made by banks to their customers, the supply of banking credit is diminished. Banks can only provide credit to an extent limited by the ratio of cash to deposits which they deem it prudent to keep. If they are over invested their capacity to lend is diminished. If, on the other hand, the public out of their deposit balances are the subscribers to issues of National Debt, the supply of credit remains unaltered.

3. I shall be glad to show specimen bank balance sheets, which illustrate the different effects upon the balance sheet and the capacity therefore of the bank to grant credit in the two cases, firstly where the public subscribe to the National Debt issues, and, secondly, where those issues are subscribed to by banks.

(*c*) How do movements in the National Debt through repayment affect the supply of credit?

4. Seeing that repayment of the National Debt can only be effected through taxation, and under the terms of the question the effect of taxation is definitely ruled out, I am not clear how I should answer this question; but I am inclined to think that this is not the interpretation which is meant to be put upon it. My answer to it, therefore, is the reverse of that under (*a*), viz., if repayment of the National Debt is made to banks, or towards the repayment of loans by the banks to the investing public, the supply of credit will be increased. If it is repaid to the ordinary public, there will be no change.

(*d*) How do conversions affect the supply of credit?

5. Conversions from a shorter date to a date of a longer maturity would not affect the supply of credit, with the limited exception indicated under (*c*).

(*e*) Does any distinction exist between the effects of the Floating Debt and the longer term debt?

6. The only distinction that is apparent and which operates to a limited extent, is one which affects banks. If the resources of banks are held in the form of short term Treasury Bills, the bank is able to lend more readily than would be the case if they were locked up in less easily realisable long term investments.

(2) How do the National Debt and movements in the National Debt affect the supply of permanent capital for trade and industry, both in volume and direction?

7. In answering this question I am disregarding one important factor, viz., the use or uses to which the State puts the proceeds of its loans. Of course, if the State spend all the money they receive on permanent plant, real assets, &c., this expenditure remains part of the permanent capital of the country. If it is blown away into the air in the form of shells, as was done largely in the case of the War Loans, there is a destruction of capital. Apart from this question of the method of expenditure by the State, it is possible to argue theoretically, at any rate, that there is no change in the volume of capital available for trade and industry caused by repayment of debt, on the grounds that if repayment of debt is effected merely by taxing "A" to repay "B" the ultimate amount of capital remains unchanged. There may, however, be a great change in the direction of capital, and a large displacement of capital may have, and probably will have, serious effects. In practice, however, I think my answer must be at variance with the theoretical answer given above. In actual practice it does not appear to me to be possible to say all that has happened is to give to "B" what "A" had previously, and that all you have done is to tear up a piece of paper which "B" formerly possessed. It is undeniable, of course, that the amount of permanent plant, real assets, &c., in the country remains precisely the same as before, but for all practical purposes something has been taken away from "A" which undoubtedly, as far as he is concerned, makes his capital permanently smaller, whereas "B" remains as before, except that he now has his capital in the more liquid form of cash instead of in War Loan. Something has disappeared which to a practical banker possesses the attributes of capital. It is taxed as capital when a man dies; it can be exchanged into other forms of capital, or sold; and it can be lodged with a banker as security for loans with which to develop business. Furthermore, owing to the graduated scale of estate duties, if the estate of a rich man is heavily taxed, the amount of capital on which the State can continue to levy capital taxes is not only lessened by the

diminution of capital left in the hands of the original owner, or his successors, but it produces in the future less tax to the State, owing to the smaller rate at which that tax is levied.

Question 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?

8. The existence of the National Debt introduces an added element of competition amongst those seeking for capital. Also the outstanding amount of debt affects the terms upon which capital can be raised. Other things being equal, if the debt is large the terms are more onerous than they would be if it were smaller, or *vice versa*. These terms themselves affect the terms on which permanent capital for industry can be raised. If the National Debt returns 5 per cent., for instance, to the holder, anyone seeking investments would look for a higher return from a more risky industrial investment. The terms for *temporary* capital for industry by way of bank loans are influenced by the Bank of England rate of discount, and are not directly affected by the existence of the debt or movements in the debt. The reverse side of the picture is equally true, and the rate which an investor can get from industrials would undoubtedly, at the time of any new issue of National Debt, affect the terms upon which the latter could be raised.

Question 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?

9. The only wise course, in my opinion, is to make annual provision for the steady reduction of the debt. Sudden deflation would be a very bad thing for trade, because it can only be effected out of capital which is required for trade and purchasing power. But gradual deflation out of income, *i.e.*, annual taxation, is sound policy and indeed the only one in the long run, although it may temporarily bear hardly upon trade.

10. I think £50,000,000 a year is adequate as a minimum and all that we can afford at present. I hope, however, that in future it may be possible to budget with more approximation to accuracy than in the past, and if, without *increased* taxation, which we cannot bear at the present time, a surplus is shown, I think such surplus should continue to be added to the minimum Sinking Fund. But in certain circumstances it might be wiser to budget for reduced taxation rather than continue debt redemption on such a large scale. It is difficult to give a precise answer to this question.

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

11. From the point of view of the Treasury it is no doubt desirable to keep the Floating Debt within reasonable dimensions, as its liability to repayment at short notice constitutes an inconvenience or even a danger. I do not think there is any absolute necessity for the conversion of any part of the Floating Debt, more especially as this would add to the annual cost, to the extent of the higher interest payable on long term debt. I think it would be well to reduce it to some settled figure, say £500,000,000.

12. In the absence of the normal supply of commercial bills, which is the present situation, the banks find Treasury Bills an exceedingly useful substitute. Without them, their bill portfolio, which provides their second line of defence, would be comparatively empty.

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

13. The interest on the debt (roughly £350,000,000) no doubt absorbs a large part of the proceeds of taxation, and to that extent prevents these proceeds being applied for other purposes whether "desirable" or not. But, seeing that such interest can only be reduced by the repayment of debt which can only come, whether as capital or revenue, out of the pockets of the people—in other words that the burden is there and cannot by any means be got rid of, though it can be transferred from one set of pockets to another—such repayment would not render it any easier for the community as a whole to devote larger sums to such objects.

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

14. It is very difficult, if not impossible, to foresee what effect a large repayment of debt would have upon prices. On the one hand such repayment would reduce purchasing power and thereby reduce the demand for goods and services of all kinds, which would certainly be injurious to trade, and, on the other, by creating an artificial scarcity of capital, it might possibly increase the cost both of capital and credit and therefore tend to raise prices. The converse argument to that used in the answer to Question 1 (a) I think applies to this question. That is to say, if repayment of debt is made to banks, deflation occurs and the volume of deposits is decreased; if it is made to the public the volume of deposits remains the same. It is not easy, however, to say what effect this would have upon prices, the rapidity of turnover of the purchasing power of the public being as important a factor on the question of prices as its amount.

Question 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?

15. Taxes tend, of course, to reduce both capital and purchasing power in so far as they reduce the capacity to save, from which capital is mainly derived. The annual rate of saving used before the War to be estimated at about £400,000,000, but, though I have no statistics to guide me, it must be much less at present.

16. I should not say that at present, with trade so inactive, there is any actual shortage of capital, and I do not anticipate a shortage of permanent capital when trade revives. At present we are suffering from an excess of capital in the form of productive capacity in the way of plant, machinery, etc., beyond the effective demand. When trade revives there may be a shortage of *working* capital as distinct from permanent capital. This is very noticeable at present in Germany, for instance, where very heavy rates of interest are charged for working capital, but where the productive capacity of permanent plant, etc., is not fully developed.

Question 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?

17. Taxes must reduce the capacity to save and the anticipation of increased taxation, especially of a capital nature, certainly acts as a deterrent to saving. This is more the case with individuals than with companies, because in so far as profits are actually distributed the latter recoup themselves by deducting Income Tax from the dividends, so that Income Tax only affects them as regards undivided profits and reserves. If allocation of profits to reserves were freed from liability to Income Tax, the amount of profits put to reserve would be largely increased.

Question 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 profits proportionate to managing ability and to the risks of personal enterprise, and higher on the average than the rate of interest on Government debt?

18. As previously explained, both Income Tax and Super-tax must reduce the capacity of the individual to save money which becomes capital in his hands available for investment in trade, or otherwise, according to his occupation and inclination. A man engaged in business would naturally put a part, at least, of his savings into his business. Others might invest it in shares or securities of companies, or other securities outside his own business.

Question 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?

19. The provision for a high Income Tax out of profits certainly is a burden upon a business, as it diminishes the amount which can be put to reserve. The burden is especially heavy when, as it may happen under the three years' average system the payment of a large Income Tax falls to be made in a year when profits are low. I do not think under wise management that it affects the policy as to dividends and reserves.

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

20. Income Tax ought not directly and in theory to enter into the question of prices, as it is only levied on profits. But in practice Income Tax becomes a charge on a business like any other expense, and in so far as Income Tax on salaries is paid either directly or indirectly by the company, the profits are diminished. This effect, moreover, is accumulative in so far as the price of the raw material for one industry is affected by the Income Tax charge on another company which produces the raw material. Apart from this, it ought not, theoretically, to handicap our manufacturers in competition with others. But it is difficult to say it does not actually do so, as was certainly the case with the Excess Profits Duty, and in so far as it diminishes the prospect of obtaining a reasonable margin of profit over and above the cost of production, I think in practice it does militate against the chances of favourable competition with foreign manufacturers.

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

21. This question has been largely answered under 1 (2). In private businesses they often inflict special damage, and even if my view that in practice they involve a destruction of capital is not accepted, undoubtedly they cause a disturbance and transference of capital which is highly detrimental to the future of the business concerned. In partnerships and in the case of large estates, Death Duties are largely provided for by life insurance out of income. It has always seemed to me that it is a great hardship that such provision made out of income should itself be subject to Death Duties, and should, in many cases, actually increase the rate of such duties payable by the estate. I think it would greatly encourage the provision for such duties by insurance, which, economically, is a very sound thing to do, if the provision itself were exempted, subject to proper limitations and safeguards.

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

22. Yes: in the sense that all taxation is detrimental to trade. Foreign loans are subject to a 2 per cent. tax which operates against this country, as compared with our chief rival in this respect, America. Foreign loans, within proper limits, are of advantage to trade, as the proceeds have to be taken ultimately in the form of goods.

23. I cannot find, on the other hand, that the increased penny stamp on cheques has diminished the amount of cheques used, though it, of course, adds to the expenses of trade.

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

24. Nearly all taxes on commodities tend ultimately to fall on the consumer, unless the ratio of profit is high enough to enable the producer, as the result of competition, to bear them or a portion of them.

Question 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?

25. Yes, because with the present exemptions from direct taxation, averaging in the case of Income Tax, up to, say, £200 a year, only about 2,500,000 people are chargeable to that tax out of say, 42,000,000. If, therefore, indirect taxation is abolished, the remaining 39,500,000 will be paying no taxation at all, and it is entirely anomalous that those who pay no taxes should have entire control, through their votes, of Parliament and the Executive. What the ratio should be, should be reckoned according to ability to pay. If indirect taxation were entirely abolished, then Income Tax (graduated) should be made practically universal with a much lower exemption limit.

Question 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?

26. I do not think that redistribution of wealth ought to be, or can in fact be permanently brought about by taxation. That is not a proper fiscal object. Redistribution of wealth must be brought about by different means, by going to the source of things, rather than by dealing with them at a later stage, *e.g.*, by profit sharing. Taxation should be confined to purely fiscal objects and regulated fairly and equitably by ability to pay.

Question 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?

27. This question would require an essay in reply. Taxation of expenditure—as opposed to income—turnover taxes, luxury taxes, taxes on newspapers and other articles of common use, have all much to be said for them, but all involve great difficulties. There are many abuses in Income Tax, *e.g.*, the non-allowance of any sinking fund for

wasting assets, which ought to be rectified, but the question is can we now afford this?

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

28. It would reduce it by widening the field over which it is spread.

Question 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?

29. Any taxation, for the reasons already given, tends to reduce employment, but it is a question of degree. It reduces the capacity of employment by limiting the fund available for enterprise and trade, upon which employment ultimately depends. It has, as pointed out in the question, the double effect of reducing the capacity to produce, whilst at the same time reducing purchasing power.

30. The amount of our National Debt and the heavy burden of taxation in consequence, with its resultant effect upon unemployment and other similar evils, are all part of the cost of the War. This heavy cost can only ultimately be met by saving, and only when we have saved an equivalent amount to what we have expended can the position be the same as it was before the War. No financial device, as far as I can see, can really get round this plain fact.

ANNEX 1.

Hypothetical Bank's Balance Sheet in Original Form.

Liabilities.		*Assets.*	
Deposits	£100,000,000	Cash (equals 50 per cent. of liabilities)	£50,000,000
		Investments	£50,000,000
	£100,000,000		£100,000,000

1. *First Stage.*

Appearance of Balance Sheet after subscription of £25,000,000 by the Public.

Liabilities.		*Assets.*	
Deposits	£75,000,000	Cash (equals 33 per cent. of liabilities)	£25,000,000
		Investments	£50,000,000
	£75,000,000		£75,000,000

Second Stage.

Appearance of Balance Sheet after distribution by the State of the proceeds of Loan subscribed by Public.

Liabilities.		*Assets.*	
Deposits	£100,000,000	Cash (equals 50 per cent. of liabilities as in original B/S.)	£50,000,000
		Investments	£50,000,000
	£100,000,000		£100,000,000

2. *First Stage.*

Appearance of Balance Sheet after subscription of £25,000,000 by Banks.

Liabilities.		*Assets.*	
Deposits	£100,000,000	Cash (equals 25 per cent. of liabilities)	£25,000,000
		Investments	£75,000,000
	£100,000,000		£100,000,000

Second Stage.

Appearance of Balance Sheet after distribution of Loan subscribed by Banks.

Liabilities.		*Assets.*	
Deposits	£125,000,000	Cash (equals 40 per cent. of liabilities as against the original 50 per cent.)	£50,000,000
		Investments	£75,000,000
	£125,000,000		£125,000,000

4439. *Sir Arthur Balfour*: It is not necessary for you to read your evidence; we have all read it very carefully. Would you like to take it paragraph by paragraph and see if you would like to enlarge on it at all?—I have tried, rather especially in connection with questions of credit in which the banks are naturally chiefly engaged, to answer your questions from the point of view of the practical effect on the banks as I see it. That, I think, is illustrated in the answer to the first part of the first question. It appears to me, from the result I see on a bank balance sheet, that the answer to this question depends largely on whether the National Debt, in the first instance when it came into existence, was taken up by banks, or whether it was taken up by the public who have deposits with banks.

4440. You have illustrated that on the last page?—I have illustrated that with a hypothetical balance sheet which I hope makes my argument clear. You will see, in the first of the two sets of conditions which I contrast, where the subscriptions to National Loan are made by the public, that after the loan has been made and after the proceeds of that loan have been re-distributed by the State in wages, and so on, the percentage of cash which the banks hold in proportion to their liabilities to meet public deposits remains unaltered, and therefore their capacity for giving credit remains exactly as it was. But in the second set, where the loans have been taken up by the banks, the first effect when the subscription is made is that the cash held by the banks is reduced to 25 per cent. of the liabilities, and their investments have been increased to a similar extent by their participation in the War Loan, and, after the distribution of the loan throughout the country generally by the State, they have the same amount of cash, namely, £50,000,000 (on these hypothetical figures) as against an increased liability under deposits of £125,000,000; that is to say, their cash ratio has decreased from the original 50 per cent. to 40 per cent. of their liabilities, and they are in consequence of course lessened in their capacity to grant credit. That, of course, is a fact which came out very strongly during the War when these loans were in process of being issued.

4441. Would you like to say anything as to how the conversion of short date to longer date securities would affect the supply of credit?—On the face of it, my view is that it would not affect the supply of credit. If you take the simplest case of all, the case of the Government coming to the banks and saying, "We will give you, without any transfer of cash or anything else, in exchange for the Treasury Bills which you now hold an equivalent amount of Treasury Bonds," their position would be unaffected except to the limited extent which I have referred to in my answer; that is to say, banks might be inclined, and probably would be inclined to a small extent, to grant rather less credit when their funds are in a less liquid form in the shape of Bonds of comparatively long maturity as compared with Treasury Bills which are at three months.

4442. My colleagues will ask you questions at the end, but would you like to raise any other point on the question we are taking now?—In regard to that last point I think there are various conditions and suppositions which might alter that question a little; that is to say, if in a conversion scheme money is taken from the public to repay the Treasury Bills held by the banks, and the banks get cash instead of Treasury Bills, obviously their capacity to grant credit is increased. Of course, it is at variance with some opinions which I have heard, but I cannot see any fallacy in my answer.

4443. Now may we pass to the question: "How do the National Debt and movements in the National Debt affect the supply of permanent capital for trade and industry, both in volume and direction?"; would you like to enlarge on your answer at all there?—As you see from my answer, I am eliminating the question as to how the State used the money when it first got it, and I take it manent capital when the State got money from its citizens and spent it in making shells which were we all agree there was a real destruction of perblown off into the air. I confess I have had a lot of thought over this particular question. From what I have seen in the papers and from conversations which I have had with individuals I think there are three views taken about this. One person will say that the actual amount of capital available for trade and industry is increased by repayment of the National Debt, and I take it his argument is that capital is made fluid for the moment, as the holder of debt who receives cash in place of his certificate is immediately looking out for fresh loans. To that extent anybody who wants capital finds him with cash instead of an investment, and it is argued, I think falsely, that that really means that there is an increase of capital available for industry. Others take the view that if you are taxing A in order to repay B no change in the amount of capital has taken place.

4444. But a change in its direction, of course?—Certainly a change in its direction. In regard to that everybody is agreed that that is a dislocation, and there may be a great deal of harm done to industry because of that change of direction.

4445. If there was a very big reduction what would your view be then?—The harm would be still further increased, but my own answer to this question is that, as far as I can see it from a practical point of view, there is a destruction of capital.

4446. *Sir Josiah Stamp*: At the time of raising the original War Loan, or at the time of repayment?—I meant at the time of repayment. You can argue, of course, that when it is repaid it is really only like writing off a bad debt, and that that destruction of capital took place when the loan was originally spent.

4447. It does not alter the physical aspects of capital?—The actual plant and machinery, and so on, in the country, of course, must remain exactly the same as it was before, but I cannot see the real strength and truth of the argument that nothing has happened except that you have taken a certain amount from one person and repaid the War Loan held by another. If you treat the whole of the citizens as consisting of one individual, and the form of taxation took the course of his handing over certain scrip to the State—Victory Bonds, or something of that sort—I think obviously then the total capital must have been reduced, or at any rate, something has disappeared which has the attributes of capital, which can be taken to a banker and borrowed on for the purpose of development of business, and which is taxed as capital; that is my answer.

4448. *Sir Alan Anderson*: If you put it the other way round, that the State was issuing capital just at the time when its credit was good, would you say the capital was increased because the State had got out a million of paper?—For practical purposes I think, yes, because I think it takes the form of a piece of paper; there is something that you can negotiate on or use. You can say, I suppose, in theory, that all it represents is a certain taxable capacity of the citizens; it is the credit of the State. But, in practice, if a citizen were to come to a banker and say, "Because War Loan has been reduced and my War Loan has been paid off, I am better off to the extent that the State will tax me less in future, and that difference, when capitalised, represents the amount of the loan which the State has just paid off, and I therefore want you to make me an advance against that reduced taxable position that I am in," the banker, of course, would say he could not do anything of the kind. But he is in a much stronger position if he wants to raise capital for his own business, if he takes to the banker a piece of paper which can be used for the purposes of security and says: "Will you lend me money against this?"

4449. *Sir Josiah Stamp*: What the State has really done is to add to the number of negotiable instruments that are obvious; those are obvious additions to credit facilities; but, in doing so, it has lowered everybody's real credit by the amount of extra taxation which is going to be charged in future on their resources, and that is not obvious but invisible?—It would not even be that necessarily, would it? It might be that the taxes would have to remain in the future exactly as heavy as they were before.

4450. I am assuming that the charges would have to be heavier. I am taking Sir Alan Anderson's point that the State creates a loan in this form, and in your judgment that is added to the national capital because it is added to the number of capital negotiable instruments that are obvious; but there is a secret or less obvious subtraction from the national capital that has gone on; every individual credit is reduced by the greater burden of taxation it will have to bear in the future, and nobody takes any notice of that because it is too intangible; but it is there all the same. (*Mr. Bell*): It may not result in increase of taxation at all; it may result in the continuation of a tax that might have been dropped? —(*Witness*): I agree that the reverse of my argument, which would seem to imply that by increasing National Debt you are increasing capital, sounds fallacious.

4451. *Sir Josiah Stamp*: It is a good test, is it not?—One is so often in these matters up against what ought to happen in theory, and what happens in practice. Certainly anybody who is looking out for money for the development of his business would, I should say, find it much more easy to get it.

4452. Suppose that the liability on this new capital spread over the citizens were not in the form of taxation but were in the form of deliberate mortgages. I have in mind the recent German settlement, in which a part of the burden is to be met by actual individual debentures. It might have been done by taxation; they would pay the same amount of tax as they are now paying in Sinking Fund. In the case of the tax nobody would bother themselves about it, but in the case of the debenture debt it is immediately and definitely taken into consideration. You are really balancing obvious negotiable additions against intangible and nominal subtractions from a man's power taken by taxation. (*Sir Arthur Balfour*): It becomes a direct overhead charge put in that form. (*Sir Josiah Stamp*): The rate of taxation is not taken into account in judging a man's credit, but individual mortgages and debentures are; whereas they are really only convertible terms?—(*Witness*): Of course, the actual capital and all visible tangible signs of it must remain the same. Then there is something which you would call capital, which is the capacity of the sum of the individuals forming the State; capital in that form is neither increased nor decreased, I take it, either on the one hand by being put into the form of State loans, or on the other hand when those loans are repaid. But the issue of a State loan does bring the *taxable* capacity of the citizens into some sort of negotiable shape, does it not?

4453. I agree very largely with your view that you do add to obvious things which people take notice of, but you are subtracting from the general capacity which people take notice of in judging commercial credit?—Yes, I think that must be so.

4454. *Sir Alan Anderson*: Do we not arrive at this, that Mr. Pease's argument is all right, even when it is stated in the reverse direction where it looks rather fallacious, subject to your point, and subject to the other point which is just an extension of yours, that if the State went on issuing paper long enough its credit would disappear?—(*Sir Josiah Stamp*): You would be forced to take notice of the intangible then?—(*Witness*): Quite so.

4455. It is quite obvious that the State might say: "We are not going to make a charge in future by way of taxation, but we are going to put a mortgage over everybody's capital," just as they did in Germany. In that case it would be taken into consideration by every banker when the man who had that mortgage over his capital came up. You would have the sum total of that man's borrowing power reduced?—Yes.

4456. But you do not do that in the case of taxation?—No, I think that is true.

4457. *Sir Arthur Balfour*: Would you like to go to the next question: "Does the existence of the debt, or movements in the debt, affect the terms upon which capital can be raised for trade and industry"? —I think it does affect the terms. If there was no National Debt the competition for getting capital would be lessened, and the National Debt does introduce an added element of competition.

4458. *Sir Josiah Stamp*: Do you mean at the time it is being raised?—Yes, and even when it is in existence.

4459. We have had a lot of evidence on that. Does the existence of the National Debt in the past influence at all the rates at which money can be borrowed now and in future?—The existence of it at the moment I think does influence the terms on which capital can be borrowed. It is: "capital borrowed for trade and industry" in this particular question. I think anybody who is going into the market and wants to apply for permanent capital for his business would be guided no doubt by what the State have to pay for their loans, in fixing the terms which would make it likely that the public would take his issue up.

4460. *Sir Josiah Stamp*: But supposing the State are not borrowing any more money?—Then it is the yield which the State loans give to the investor.

4461. *Sir Alan Anderson*: The market price?—The market price would certainly affect the terms on which capital for industry could be got.

4462. *Sir Josiah Stamp*: Is not that rather the reverse of cause and effect? You have the yield of Government securities very largely settled by existing borrowing conditions; which is cause and which is effect?—I am quite sure if you go to any issuing house and say: "I want to apply to the public for capital for my own business," they will say: "What is the nature of it?" compare it with the security it gives, and see what terms the National Debt gives, and how it is priced by the public; and in fixing the price at which the issue for industry should be issued, the practical man certainly takes that into account.

4463. Is not that rather the appearance of what happens than the actual thing? Otherwise the rate of capital before the War ought to have been more or less constant for very many years, having regard to the rate of interest paid on Consols, but as a matter of fact the rate of interest paid on Consols went all over the place over a long period of years? —Every time you have capital issued for industry, the issuer will look at these comparative rates.

4464. *Sir Arthur Balfour*: The condition of trade and industry and the possible return must be a very big factor?—Yes.

4465. *Sir Alan Anderson*: The market rate of the National Debt depends on the individual's opportunity of investing in other things. (*Sir Arthur Balfour*): That is so. (*Sir Alan Anderson*): So the market rate of the National Debt on which the issuing house bases its price is in itself based on the opinion of all these individuals of what they can get the money at. (*Sir Arthur Balfour*): It is the effect on the conditions of industry and commerce?—(*Witness*): The reverse, I think, also happens, as I think I point out here, if the Government wants to borrow money. It has to take into account what return the public can get on competing issues.

4466. *Mr. Bowen*: If the Government wished to borrow money anew it would have to take into account the existence of a 5 per cent. Stock now which may be on the market available for purchase to anybody who wants to invest in that form?—Certainly.

4467. *Sir Arthur Balfour*: The situation would be also very much affected by the condition of trade and industry, and the return you get from trade and industry at the time, obviously?—Yes.

4468. And that again would affect the return on the War Bonds?—Yes; they affect each other.

4469. *Sir Josiah Stamp*: We have had it put to us in this way, that the real effect of each Government rate at par—not on market values—is a psychological influence on the mind of the individual saver. It is such a large mass that it is rather as if a standard was fixed of the least amount he would like to get for his thrift, or his saving. If he cannot get it, he is disinclined to save; it forms a fundamental fact in the psychology of saving in the future?—I should have thought that the practical determining factor was not the amount of interest at par, but the yield which National Debt gave to the holder of the investment. The fact that there is a loan issued at 5 per cent. I do not think has any bearing on the matter. That 5 per cent. stock may have gone down to 90, or may have gone up to 120; it is the actual yield which it gives that would influence the public.

4470. *Sir Alan Anderson*: You do not think the nominal value has any psychological effect on the demands of the investor?—It is rather slight.

4471. *Sir Arthur Balfour*: Now may we go to Question 3 which deals with the rate of repayment of the debt and with the Sinking Fund; would you like to add anything?—I had a difficulty in being at all precise about this answer, and I have really no means of saying whether £50,000,000 is the correct figure or not.

4472. But you do think it is important to have some figure fixed?—Certainly. My difficulty is this: it is a case of weighing advantages and disadvantages. At some periods it might be an advantage to have the amount as high as possible for the redemption of debt, and at other times it might be more to the advantage of the country that the Sinking Fund should be less and the freedom from taxation should be more.

4473. We have had several proposals put to us that there should be some kind of sliding scale for the Sinking Fund; would you approve of that, or do you think it is better to have a fixed sum, and take in addition any surplus?—At present, under law, the surplus has to be applied to Sinking Fund.

4474. So it is a question to a certain extent of exact budgeting? (*Sir Josiah Stamp*): The point is, assuming exact budgeting and no casual surplus, would you favour any fluctuation in the regular rate of Sinking Fund application?—(*Witness*): I think it would be a good thing to have a safe minimum under all ordinary circumstances.

4475. *Sir Arthur Balfour*: That is really what we have now—a reasonable minimum?—Yes. That seems to me to be the right principle to go on—to increase it where you can, where the advantages outweigh the advantages of reducing taxation.

4476. *Sir Josiah Stamp*: How would you determine it then? Would you say, in a given year, it seems that you have more prosperity and you should therefore have a percentage addition to that minimum; would you have a scale?—I think it would be very difficult to lay down such a hard and fast rule as an actual scale or percentage, but on general principles I take it, it would be a good thing that in prosperous times——

4477. The Chancellor would come into the House and say: "Here is your £50,000,000 minimum; I think it is going to be a good year; we ought to add £15,000,000 to it" and budget for that?—And not reduce taxation.

4478. *Sir Josiah Stamp*: If you like. (*Sir Arthur Balfour*): You say in paragraph 10: "But in certain circumstances it might be wiser to budget for reduced taxation rather than continue debt redemption"?—(*Witness*): Yes, that is the difficulty I have in giving a definite answer to the question. I think it would depend so much on the circumstances of the time. If trade really looked prosperous and if it could stand the burden of taxation, then I am all for increasing the credit of the country by reducing the amount of outstanding debt.

4479. Do you think that a reduction of, say, 1s. 6d. in Income Tax would be very valuable in increasing trade and employment—sufficiently valuable to make it right to postpone paying off debt or not to pay quite so much off?—It is very difficult to answer a question of that sort. I think it would be of very great value from the point of view of increasing the prosperity of trade, increasing the capacity for demand, making the demand effective; and it is a matter of weighing in the balance at the time, taking all the factors into consideration, as to which of the two is desirable.

4480. Of course it might widen the base of taxation too?—It might widen the base of taxation, as you say.

4481. We now come to Question 4: "Is it thought to be desirable to convert any or all of the Floating Debt"; I do not know if you would like to enlarge on that?—Is that from the point of view of the Treasury, or from the point of view of trade, or from the point of view of the banks?

4482. From the point of view of trade and the country as a whole; it is the effect on trade?—From the point of view of the Treasury obviously it is a good thing. From the point of view of the comparatively low rate of interest it is a good thing to have a large Floating Debt.

4483. But from the point of view of the trade of the country as a whole the question is asked?—Yes. I look at this question largely from the point of view of those who are to supply credit for trade as a whole, and there is no doubt that the Treasury Bills at present are fulfilling a very useful function to those who have to supply credit. I do not know what the proportions are, but I should imagine roughly the proportions of Treasury Bills to ordinary trade bills held by banks would be something like three-quarters.

4484. But that is owing to the condition of trade largely?—Owing to the condition of trade very largely, but unless trade were to improve and the supply of ordinary commercial bills were to be largely increased, the banks would be in great difficulty in their credit operations if Treasury Bills were taken away.

4485. *Sir Josiah Stamp*: Look at it from the point of view of the Treasury; you have looked at it from the point of view of the banker. Trade is good and the bank facilities are absorbed by trade bills, and the banks no longer want Treasury Bills; what is the Treasury to do in order to renew?—Do you mean they might have to compete in rates?

4486. They become a competitor, do they not, for the funds?—They do, and of course the more active trade is I take it the greater the competition would be in that respect.

4487. That is the state of affairs you had in March and April, 1920, particularly, where it seemed as if there was violent competition between the Treasury demand for renewals and the trade demands on a boom.—There was a great deal of competition as far as rates were concerned, but I do not think the proportions between Treasury Bills and ordinary trade bills were very different from what they are now.

4488. *Sir Josiah Stamp*: But the Treasury could only maintain that position and get renewals by paying a high competitive rate?—Yes.

4489. Do you see any objection to that state of affairs, which was supposed to be very dangerous and objectionable?—Of course, in 1920 I should imagine the amount of Treasury Bills to be very much higher than at the present time.

4490. Yes, it was about double. (*Sir Alan Anderson*): Is the danger you are referring to the danger of having to quote high?—(*Witness*): Well, it comes to that, but the danger was having a very large debt, repayable at very short notice.

4491. *Sir Arthur Balfour*: Disturbing the market?—Dangerous to the Treasury, I mean.

4492. *Sir Josiah Stamp*: Could you give us some guidance as to how you would arrive at the amount that would be dangerous and the amount that would be safe. Would you say that £1,300,000,000 is dangerous, and £700,000,000 is safe?—(*Sir Arthur Balfour*): You mentioned £500,000,000.—(*Witness*); I put £500,000,000 as a very rough figure, of course. I do not think we have ever discovered accurately what proportion of Treasury Bills is held by the credit-giving institutions, and what is held by the public, but I should say it was roughly something like one-third held by the credit-giving institutions.

4493. Would there be as much as two-thirds of the Treasury Bills held by the public?—I rather base that calculation very roughly on the main big banks; I have not taken the Scotch and provincial banks. It probably would be rather more than one-third.

4494. *Sir Arthur Balfour*: Now we can go to Question 5: "To what extent is the debt charge held to necessitate an injurious restriction of public expenditure upon desirable objects?" Have you anything you would like to add to your answers there?—No doubt taxation does take away money which might be used for various other objects, but we have got the debt in its present very large form, and there is no way of getting rid of it except by taxation.

4495. Is there any way of getting rid of it, which would be warranted in order to get these desirable objects—I mean, could you risk some drastic step to get rid of it, and what would be the effect of that risk on trade and commerce if you took it in trying to carry out such desirable objects as housing, education, and so on?—That is rather the argument of the poor man, who steals a load of bread for his starving family. He has a very desirable object, but he does commit a robbery in the process. I do not see how you can really get over the facts which are staring you in the face, however desirable the objects may be.

4496. Then I think we may pass to Question 6: "Does repayment of the debt necessarily involve deflation of prices such as is likely to be injurious to trade?"—I am afraid I have given rather an inconclusive answer there. I pointed out that it is exceedingly difficult to say what the actual effect on prices would be of the large repayment of debt. On the one hand it reduces purchasing power, and on the other hand it might create an artificial scarcity of capital, and increase both the cost of capital and credit, and tend therefore to raise prices; but I also have in mind what I said in the earlier part, that if the repayment of debt is made to banks, then deflation does occur; the volume of deposits is decreased. I think you will follow that from the hypothetical balance sheets which I have annexed to my evidence.

4497. *Sir Alan Anderson*: What sort of figure have you in mind when you say "large repayment"—£100,000,000 or £300,000,000?—I think what was roughly in mind mind was the question of a Capital Levy there.

4498. Thousands of millions?—Well, many hundreds of millions.

4499. Getting up to £3,000,000,000? — Yes, £3,000,000,000.

4500. *Sir Arthur Balfour*: Question 7 relates to the position of industry in the matter of capital. Would you like to enlarge upon that at all?—I did not feel that there were any signs of shortage of capital at present. As I point out later on in the answer, a great deal of our permanent plant is not employed up to its capacity at the present time.

4501. Then you say you do not anticipate a shortage of permanent capital, even when trade revives?—Of course, that must be a question of degree. If trade were so prosperous and conditions looked so favourable that many people were trying to come into those trades which were enjoying this height of prosperity, there might be a considerable demand for capital which could not very well be supplied

4502. Demand for working capital?—No; I mean for permanent capital there; but I do not anticipate that. The question of working capital is not so easy to answer. It might be that rates would go up, and there might be rather a shortage.

4503. In your view there is a certain amount of latent capital in the way of plant, buildings, and so on, which is not in full use?—Certainly at present.

4504. To operate those, of course, large working capital would be necessary?—Yes.

4505. Question 8 deals with the question how far existing taxes act as a deterrent to savings; do you wish to add anything there?—I can only give the answers I have done, that taxes must reduce the capacity to save.

4506. Have you considered how you could exempt from taxation reserves kept in a business? It has been put to us by a number of witnesses that it is very desirable, but we have not yet had an answer from anybody who could tell us how to do it equitably.—No; it is very difficult. In the first place, I suppose it would cost the Treasury a great deal; I do not know whether they could afford it. There is something of the kind abroad, is there not—something that indicates a possible sort of rough scheme that profits put to reserve up to a certain percentage of the capital might be free from Income Tax until the reserves had reached the amount of the capital, for instance; that is a suggestion.

4507. *Sir Josiah Stamp*: That is the only form in which it is found, is it—a fixed percentage?—As far as I know.

4508. *Mr. Bell*: Is that in Italy?—In Italy you have to put to what they call a legal reserve 10 per cent. of the profits.

4509. *Sir Arthur Balfour*: You have legal reserves in France too?—Yes.

4510. *Mr. Bell*: Is it in Italy where it is exempt?—No. That is only what suggested this to my mind—the fact that legal reserves are compulsory in certain countries up to a certain proportion of the profits until they reach a certain proportion of the capital. You might apply some argument of that kind for exempting taxation of profits when put to reserve, until the reserve reached a certain proportion of the capital.

4511. *Sir Josiah Stamp*: In effect you would charge your rate of Income Tax upon a certain percentage of the total profits rather than on the whole?—Yes.

4512. Say, 90 per cent., or whatever it was?—Yes.

4513. In what way does that really differ from having a lower rate on the whole of the profits?—I do not think it does.

4514. *Sir Arthur Balfour*: We have had this question up with the accountants, and Sir Josiah Stamp has drawn up for the Committee a number of questions which the accountants are now trying to answer on this subject of exempting reserves in business; I do not know whether you would like to look at that at some time? It is a fairly long document, but it is very interesting. We have not had the accountants' reply yet?—It would be very interesting to see it.

4515. *Sir Arthur Balfour*: Question 9 asks how far high Income Tax withdraws money which could otherwise be counted on for the expansion of business, and so on; have you anything to add there?—I think it certainly would reduce the capacity of the individual to save and invest his money in trade or anything that he likes. Of course, as to his choice of investment, I am not quite clear what the question means, or what I am supposed to infer from it.

4516. That money is supposed to fructify better if left in the hands of an individual who has an established business than if it is taken out?—I follow.

4517. *Sir Josiah Stamp*: It is put to us very strongly that the evil effect is not so much that you annihilate capital by taxation, as that you divert it in a direction where less profitable use will be made of it?—It is a very sound principle that a man

should put his profits and savings into a business he is conducting himself, and which he knows all about, and which it is to his interest should prosper.

4518. *Sir Arthur Balfour*: Particularly if it is used for extending our exports?—Yes. Of course, as to what he would do with the money if he had not got a business depends on the idiosyncracies of the individual.

4519. Question 10 is: "How far does the burden of the Income Tax fall upon the business itself and hamper its operations," etc. Have you anything to add there?—It does, as we have seen, hamper its ability to build up reserves. In regard to the policy as between distribution of dividend and allocation to reserve, I do not think in any good companies there would be very much effect in that respect.

4520. You deal with the three years' average there; do you think the three years' average is a good system?—No, personally I do not. There are occasions when it seems to be a relief; in fact it is made a five years' average in some particular businesses, is it not?

4521. Would you rather pay on the year?—In the majority of businesses I should say yes.

4522. Would you not have enormously fluctuating budgets in the alternations of good and bad trade?—I was not looking at it from the point of view of the Treasury then; I was looking at it from the point of view of the majority of traders.

4523. From the practical point of view, from the Chancellor of the Exchequer's point of view, would you not have enormously fluctuating budgets and very great difficulty in regulating your expenditure in consequence?—Yes, I think you would. Of course, as a banker one is constantly up against the difficulty of a man in a bad year having to pay a large Income Tax for a previous good year.

4524. Because he has not provided for his Income Tax in advance really?—Well, it is not in a liquid form.

4525. *Mr. Bell*: When was the three years' average system introduced?—(*Sir Josiah Stamp*): In 1842. For certain sections it was three years and five years, and there were certain businesses that were one year. It was five years for mining, and one year for certain restricted subjects like tolls. For a small section of the tax there was a period of 11 years, when it reverted to a single year basis.

4526. *Mr. Bowen*: What do you call a high Income Tax?—(*Witness*): Well, the present one, I think, is high.

4527. How far do you think the present one ought to be reduced?—I think even the Chancellor of the Exchequer would find some difficulty in answering that question. You have to meet your liabilities; that is the first essential; and if high Income Tax is necessary for that, there is no way out of it. I think a reduction of the Income Tax would certainly stimulate trade very considerably.

4528. But calling an Income Tax high or not is purely relative?—Certainly.

4529. In proportion, therefore, to our turnover as a national concern, the present rate of Income Tax may not necessarily be high?—I do not know whether our turnover has increased to the same extent as our taxation has.

4530. *Sir Josiah Stamp*: Would you regard a standard rate of 1s. 3d. in the £ as a crippling high rate?—No.

4531. If you read Hansard of 1914 and the previous years, you will find that all the speeches in the House of Commons refer to it as an absolutely criminal rate, and a rate throwing us into bankruptcy. I only want to elicit your view as to the relativity of this word "high"?—I believe you can get accustomed to most forms.

4532. *Mr. Bowen*: So many people speak about high Income Tax, but I have never yet heard a witness say what would be an Income Tax acceptable to everybody or good for trade.—I agree there is a difficulty. It is to a certain extent a matter of what you are accustomed to, what you have laid your plans for and been obliged to put up with.

4533. One particular witness told us that he would not be very much worried about the National Debt at its present figure; we were getting used to it. Would you say we are also getting used to the present rate of Income Tax?—Yes; from one point of view you are getting used to it.

4534. *Sir Arthur Balfour*: But the Income Tax begins to be high, surely, when it kills enterprise and interferes with competition with other countries—with your export trade.—The higher it is the more it must do so really.

4535. *Mr. Bowen*: But that is applicable to any tax you care to mention, high or low. (*Sir Arthur Balfour*): Yes. (*Sir Josiah Stamp*): Would that be true if the Income Tax in the other countries were high also?—(*Witness*): Well, the competition of course from the other countries would be lessened if their taxation were high.

4536. *Sir Arthur Balfour*: Or equalised?—Yes, equalised. I mean, if they are at present competing unfairly, so to speak, with us, that capacity would be lessened.

4537. *Mr. Bowen*: But you remember that some countries are not attempting in any way to reduce their debt, and do not appear to be very particularly concerned about it. There are people who say that that is going to lead to disaster by-and-by. Would you regard that as a correct policy for this country to adopt?—No, I should not.

4538. So therefore it comes back really to what is relatively good for this country, having regard to all the factors?—You have to look at it from two different points of view. From the point of view of what is good for our credit—certainly reducing our debt fulfils that object. From the point of view of what is good for trade, anything in the way of high taxation, which would be necessitated in the scheme of reduction of the debt, would cause trade to suffer.

4539. But in proportion as our credit is improved, so will our industry benefit?—I do not know whether that is in exact proportion or not.

4540. *Mr. Bowen*: I would not like to dogmatise about it; I just put the questions to you. (*Sir Arthur Balfour*): You have to take every country on its merits. We being a great food-importing country it makes a considerable difference to our position?—(*Witness*): We are very much handicapped in that respect, of course.

4541. We now come to Question 11 as to whether Income Tax enters into prices. We have had a great deal of contention upon this, and we are very much interested in your reply?—I have made rather a stupid answer, I think, in a way, because I say in theory it is one thing and in practice it is another, which logically means that the theory is wrong. I think certainly it does enter into prices. The simplest and most direct proof of that, I think, is in connection with one form in which taxation is borne, that is, if an industry or a particular company is paying its employees' salaries free of Income Tax, it is admittedly bearing the burden of that tax and making it a charge on the business just as the rest of the expenses, rent and so on, are a charge on the business.

4542. *Sir Josiah Stamp*: Do they in fact pay the same salaries as the others? Do you mean that for the same ability they will pay not only the same salary, but also the tax on top of it? What induces them to do that?—I agree; I think it is an entirely wrong principle.

4543. You say its costs go up because it does that; therefore, you mean it pays the same salaries as the other firm, and it pays the tax in addition; therefore, its costs go up and prices go up. How does that firm ever remain in business?—I think it obviously does that. If the Income Tax were to go up now, all the salaries would go up also.

4544. The real salaries?—The actual amount paid by the firm to its employees would be increased in all those cases where the firm undertakes to pay the tax.

4545. *Sir Arthur Balfour*: Is it not going further than that?—It goes further than that.

4546. In the case where you have a large staff who have family obligations, schooling and so on, the tax goes up and their real wage goes down; therefore, you have to increase their wage to make up the amount?—You may have to do that, but what I had in mind was that it is cumulative in its force; that an industry which does pay its employees' Income Tax depends for its raw material on other companies who are presumably doing the same thing, directly or indirectly, and the price of that raw material goes up.

4547. *Sir Josiah Stamp*: Can you tell us which industries as a practice do this, other than banking and insurance?—Directly, there are not a great many outside banking and insurance, but, indirectly, I think it does affect the whole of industry.

4548. On the direct point of actually paying to the Exchequer the tax on the salary, you would not find it in 1 per cent. of the cases outside banking, would you?—I do not know what the proportion is; it is very small, I agree.

4549. Therefore, your answer as regards industry generally is confined to the effect of high rates of Income Tax on the salaries that have to be paid?—But all these things are a matter of competition, and if banks and insurance companies are paying their staffs free of Income Tax, the tendency is to increase salaries up to a similar point all round all over the country.

4550. Is not banking so distinct from industry that its scales of pay cannot come into real competition in the way of affecting the scales of industry very seriously? They can only do so very indirectly?—That may be so, but I think the tendency must be there to a certain extent. It might come to a point when the banks themselves, because of this charge, would have to put up their prices of financial facilities to all their customers, but in that case all firms would be concerned in it.

4551. *Mr. Bowen*: Is it not a fact that the general level of wages and salaries in relation to the general level of prices is considerably lower than it was before the War?—I have not got any figures to prove that; I should have doubted it.

4552. I think that Government returns show that the rise in prices has always exceeded any rise of wages, and that in no case that I have been able to see have the rises in wages been equivalent to the rises in prices, bearing in mind the point that you made, that there is a tendency to pass on Income Tax into prices?—I should have said in those things which come more directly under my own observation, the rise in salaries has more than met the rise in prices.

4553. In every case, or only in the banking industry?—Not only in banking, but in those cases in which I have seen any sort of figures.

4554. *Professor Hall*: That is salaries, and not wages. (*Sir Arthur Balfour*): The whole discussion was salaries?—(*Witness*): My information, of course, is more directed towards salaries, but I should have thought in some cases it concerned wages too.

4555. *Mr. Bowen*: You do not know of any one in particular?—(*Sir Josiah Stamp*): Is it true of Civil Service salaries?—(*Witness*): I have not got any information.

4556. Or municipal employees' salaries?—Certainly in banks, and I should say in insurance companies and all similar companies, the salaries have increased more than the rise in prices.

4557. They have increased by 70 per cent. over pre-war, I think?—Yes.

4558. *Mr. Bowen*: And prices have gone up over 80?—Of course, there is a good deal of discussion on exactly what the increase in prices is.

4559. *Sir Arthur Balfour*: And a good deal of discussion as to the cost of living index number, which is a difficulty?—I have seen it stated—I do not know whether it is true or not—that railway wages, as a whole, have overtaken the rise in prices. (*Mr. Bowen*): I do not think that is true; it is not true of the Civil Service anyhow.

4560. *Sir Arthur Balfour*: May we pass now to Question 12: "How far do the Death Duties involve a destruction of capital?" and so on. In the last paragraph you say: "I think it would greatly encourage the provision for such duties by insurance, which, economically, is a very sound thing to do, if the provision itself were exempted, subject to proper limitations and safeguards."—Yes, that does seem to me to be a very proper and fair thing to do.

4561. What sort of limitations and safeguards have you in mind?—Well, it must not be abused. I take it there was abuse of the liberty given to deduct the premiums of life insurance from Income Tax returns.

4562. Then Question 13: "Are any of the Stamp Duties detrimental to trade, industry or employment and, if so, in what manner?" You say "Yes" to that?—They all add, of course, to the charges and expenses. As I say in my answer, I do not think that the increased penny stamp on cheques, although there is a certain amount of agitation about that, has diminished the amount of cheques, as far as I can make out from any figures that are available and from what I can see around me with regard to the practice of people issuing cheques or refraining from issuing cheques.

4563. Does it not lead to the expansion of paying in cash?—No, there has been a decrease, as far as there are any figures available.

4564. Has there been a normal expansion of the use of the cheque or has it stood still?—I should say there was a normal expansion.

4565. *Mr. Bell*: I think it is stationary. That is what is put forward—that there has not been a normal increase?—The only figures one has with regard to the proportion of cash to cheques show that the proportion of cash is going down considerably. There were some figures taken out by Lord Avebury a good many years ago, and the proportion of cash was 2·7 to the cheques paid in through his bank. In the Clearing House returns of, I think, 1923, that proportion had dropped to 0·7. So that 99·3 of all transactions going through the bank in that particular case were in the form of cheques.

4566. *Sir Arthur Balfour*: Then Question 14: "To what extent is a tax on commodities borne by the consumer? How are internal and external trade affected"?—I think the tendency always is to put it on to the consumer, whenever possible, but sometimes, by competition, the producer finds that it is not possible.

4567. *Professor Hall*: Does the consumer in the long run pay it, or does it come back to him in higher wages, do you think—as far as the small income receiver is concerned?—It is very difficult to follow all the ramifications, and it is possible that he does get it back, to a certain extent, but in the first place, of course, he pays it in most cases, and suffers from it at the time.

4568. Do you think that is economical in the case of a very low wage earner?—Not if it deprives him of his efficiency.

4569. *Sir Arthur Balfour*: Question 15 is directed towards the ratio of direct to indirect taxation You make an interesting reply there: would you like to expand that at all?—That answer is very strongly the "no taxation without representation" theory, of course, and to that extent I think it is sound. The proportions of indirect and direct taxation are a little difficult to follow; they have been complicated by the Excess Profits Duty.

4570. And also by values?—And also by values. But in looking at some returns which I saw recently, the proportion of indirect taxation in 1917-18 was down as low as 17·3. It started in 1914-15 at 39·9.

4571. *Mr. Bowen*: Would you agree with me—and this is a point that several witnesses have been interested in—that if some of the taxation classed as direct taxation falls upon the consumer, or what we may, for example, call the indirect taxpayer, the ratio of these figures would be considerably altered? If, for example, you have 2,500,000 people who are called direct taxpayers, and if, through some machinery which they find it necessary to use, they pass on that tax to a portion of the 42,000,000, would you then say the 42,000,000 are not taxpayers?—No, I never suggested that the 42,000,000 are not taxpayers, but if indirect taxation was abolished, they would not be taxpayers.

4572. If the Income Tax, or any tax on commodities were passed on from the direct taxpayers to those people who, say, were not paying any indirect taxation at all, would they not then become indirect taxpayers by reason of the passing on?—(*Sir Josiah Stamp*): Putting it in another way; take a direct tax like the Income Tax. You think that in practice it is passed on to the consumers. Do you not think they become indirect taxpayers bearing somebody else's direct tax?—(*Witness*): Yes, I suppose, to a certain extent, they do.

4573. Would you look at these figures?—42,000,000 is the population of Great Britain and Northern Ireland?—Yes.

4574. What are the 2,500,000 people? Are they not the taxpayers? (*Sir Arthur Balfour*): After exemption?—(*Witness*): Income Tax payers.

4575. *Sir Josiah Stamp*: Have you not got to add their wives and children, to make it comparable?—Have you?

4576. Is the comparison fair? You have the population on one side and you have what is generally the head of the family paying Income Tax on the other?—All people have to eat and drink, but only a certain portion pay Income Tax.

4577. You are making a comparison and a deduction. In the 39,500,000 you have got all the children of the 2,500,000. Would you split up the Income Tax paid by the head of the family and make it payable by the wife and children separately? Is the comparison a valid one?—I do not quite see the fallacy of it. In the 2,500,000 the father of the family pays Income Tax and also, in so far as they have to supply their children and the others coming into the 42,000,000, with food and other things which are taxed, they have to pay also indirect taxation.

4578. *Mrs. Wootton*: There are not 42,000,000 receiving income at all, and therefore they could not pay the tax. (*Professor Hall*): The husbands only are included in the 2,500,000, but their wives and children are included amongst the 39,500,000 as not being taxpayers. (*Sir Josiah Stamp*): That is the difficulty. You have to arrive at the number of the population that are affected by the 2,500,000 taxpayers. (*Sir Arthur Balfour*): It really means you ought to add the wives, in the first instance, to the 2,500,000, to begin with, and deduct them from the other total?—(*Witness*): Not for the purpose of this argument, unless they are taxpayers.

4579. Unless they have an income which is added to the husband's income and he pays. Some do and some do not, of course?—Yes, in that case, I agree.

4580. But the figure is not absolutely correct as it stands?—No; in so far as the figure of 2,500,000 only represents the husbands and does not represent the wives who are taxable.

4581. *Sir Josiah Stamp*: Wives and children?—The children are not taxable, are they?

4582. That is the whole point. Would not your point be met if you stick to the 2,500,000 but altered the 42,000,000 to the heads of families or adults or people that could be charged to Income Tax?—I agree the 2,500,000 ought to be increased to the extent of the wives who are charged to Income Tax, but I do not quite see why the children should be added to them. (*Sir Josiah Stamp*): I will not pursue it. (*Sir Arthur Balfour*): I do not think it is necessary to spend much time on it. There is an adjustment of the figures needed there.

4583. *Mr. Bowen*: In paragraph 25 you speak of ability to pay, and then you say: "If indirect taxation were entirely abolished, then Income Tax (graduated) should be made practically universal, with a much lower exemption limit." If indirect taxation were abolished and the principle of ability to pay were adopted, and if your suggestion that Income Tax should be made universal were accepted, have you anything in your mind as to what would be a proper exemption limit, if not in figures, in some kind of formula representing a standard?—At the moment? Because it would depend on different periods as to what is a maximum efficiency income.

4584. There is usually an idea of what an efficiency income standard means?—I do not know whether you would take it at £2 a week, or what you would take. Is that the sort of figure that is taken as a minimum efficiency wage?

4585. I have not set it down like that. I wondered what you had in your own mind to help the Committee?—I cannot pose in any way as having any special experience of this question of taxation. I should have thought at the present time a wage of £2 was a minimum from the point of view of getting proper efficiency.

4586. *Sir Arthur Balfour*: Of course you appreciate that the collection of Income Tax on low incomes would be very difficult?—Yes.

4587. Much more difficult than collecting Income Tax at present?—Yes, there would be much more friction, I take it.

4588. And also it would be very expensive?—Yes.

4589. Then Question 16: "What effects does the present system of taxation tend to have upon the distribution of wealth?"—I follow that that question rather presupposes a different function for taxation than I did.

4590. *Sir Josiah Stamp*: The question is one of fact and also one of opinion. It is the one of opinion that you have answered. You do not tell us whether you think it is redistributing wealth?—Yes, I think it probably does.

4591. I quite understand that you say it ought not to be used for that purpose, but you do think it is redistributing wealth?—Yes, I think so.

4592. *Sir Arthur Balfour*: Do you think that a much better form of distribution would be profit-sharing schemes and things of that kind?—Yes, that is my own view.

4593. Have you any kind of profit-sharing scheme in mind?—There are all sorts of forms. Some profit-sharing schemes, of course, are not full in their scope at all; they relieve the employee who is sharing in the profit-sharing scheme from any liability with regard to loss.

4594. *Sir Josiah Stamp*: Are there any schemes that are working satisfactorily that take such loss in?—The gas companies are always quoted, are they not, as the most satisfactory and efficient form of profit-sharing, and I do not think any loss comes into their arrangement, as far as I know.

4595. Probably because they have not made any loss. Is there provision in case they do?—I do not think there is any provision.

4596. Can they make a loss? (*Sir Arthur Balfour*): They cannot make a loss, can they? They have a commodity that has to go, and they simply raise the price till it pays?—(*Witness*): I do not know whether there is any provision for a hypothetical loss which it is impossible to make.

4597. *Mrs. Wootton*: On the question of redistribution of wealth, have you seen any figures as to the amount on the average that is added to wages under the existing profit-sharing schemes?—I should think they vary very considerably in different cases.

4598. If my recollection serves me aright, in the last Ministry of Labour report the average addition to wages was about £3 13s. 3d. per annum. If that

is so, this kind of scheme does not redistribute wealth very rapidly?—I agree that is so, but if you were to withdraw the whole of the profits, say, of the mining industry, the whole of the profits of the concern, it would only increase the individual wage earner's income by a few shillings a week.

4599. It may possibly not effect very large additions but I only wanted to bring out the point for the purpose of comparison between the amount that would be received from profit-sharing and the amount expended on such matters as education?—I agree that any amount divisible under a profit-sharing scheme, when it is put in the form of so much extra wages a week to the wage-earner, is very small, in fact it probably does not amount to shillings.

4600. At present the wage-earner gets extended education, and so on, which would probably amount to more than any money paid under a profit-sharing scheme?—I think everybody would agree that taxation is necessary for those purposes. I bring in here the question of profit-sharing schemes only as being a better method than taxation of effecting redistribution of wealth. Of course if you take taxes for educational purposes as being a redistribution of wealth, I agree it is desirable from the point of view of education rather than from the point of view of redistribution of wealth.

4601. I only want to bring out the point whether it is in fact redistributing more. It is only the question of fact, whether you really do redistribute more under profit-sharing schemes, quite apart from the question of whether you should redistribute. It is a quantitative matter, really?—I really could not give any figures to compare the actual amount which might be handed over to employees throughout the country in all industries if there was a liberal scheme of profit-sharing, and the amount of taxation which is expended on such desirable objects as education and so on for the relief of the poorer classes. I cannot compare the two; I have no figures to show which would be greater.

4602. It is not a question of what might be in one case and what is in the other; it is a question of comparing what is in one case and what is in the other?—There is not the slightest doubt which is the bigger at the moment.

4603. *Sir Arthur Balfour*: Then question 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?" (*Sir Josiah Stamp*): On your answer there I would like to ask, with regard to the last three lines, whether you disagree with the unanimous conclusions of the Royal Commission on the Income Tax four years ago? —(*Witness*): I am afraid I am not familiar with what they were.

4604. With regard to the non-allowance of any sinking fund for wasting assets. You disagree with the conclusions of the Royal Commission on that point?—I had forgotten that their conclusion was as you state.

4605. They had an elaborate examination of the point, and they did not find there was any grievance. I did not know whether you had come to a reasoned decision that they were wrong, or whether you took the *prima facie* view that is generally held?—I am afraid this is only an answer on the *prima facie* view that you were being taxed on your capital which was wasting.

4606. We need not take it that you are prepared to reason that out as against that conclusion?—No, I am afraid I cannot.

4607. *Sir Arthur Balfour*: Then question 18: "How far would increased productivity in trade and industry affect the burden of the debt?—I say there that it would widen the field over which it is spread.

4608. Question 19: "To what extent can taxation (as distinguished from changes in taxation) be regarded as a determinant of employment or unemployment?" and so on. Would a Capital Levy accentuate what you refer to there?—I think a Capital Levy would certainly tend to unemployment—a Capital Levy to an extent which would dislocate trade.

4609. Is there anything more you would like to add to your evidence generally?—I do not think I have anything further to add to what I have already said.

4610. *Mr. Bell*: You say in answer to the first question: "To the extent that the existing National Debt was, and further issues may be taken up by banks, or out of the proceeds of loans made by banks to their customers, the supply of banking credit is diminished." Is it further implied that if there were no National Debt, the banks would go in for permanent investments to a much smaller extent and so be able to give more credit?—I think at the time of the issues of National Debt, banks were rather urged to subscribe to a larger extent than they would have done, and their proportion of investments has increased in consequence.

4611. I take it that the banks would be hindered in meeting demands for further credits, if such arose, if their investments were locked up, or if their investments were made in long-term securities rather than in short-term?—Is your question directed against the investment by banks in Treasury Bills or in long-term National Debt?

4612. The difference between short-term and long-term. I think you have already answered that there would certainly be a diminution; there must be less credit if money is invested in long-term securities than if the same amount is in short-term securities? —Quite so.

4613. You speak in paragraph 7 about changes in the direction of capital caused by debt repayment. That is a very serious point. Would you kindly amplify that a little? You say: "There may, however, be a great change in the direction of capital"? —What was in my mind, there was the case which we have already been discussing, of money being taken from A, who is conducting a prosperous business, and knows his business, and is doing good service from that point of view, and handed over, in the reduction of debt, to B, who may invest that money in all sorts of wild-cat schemes, or it may go to less productive objects, or may in fact remain idle and unproductive altogether for some period of time, and would be rather lost from the productive point of view.

4614. *Mr. Bowen*: It does not follow that that would necessarily be the case, does it? Why should it be assumed that a transfer of that nature would of itself cause wastage, or that the money would be in any way invested in such form as to be less productive?—I have already stated that in the case of a man who knows his business and who is conducting it well—and from the fact that he is making big profits which are being taxed, presumably he is conducting it well—the odds are that if money is taken from him, it will get into less productive or less profitable hands.

4615. *Sir Josiah Stamp*: Take the case of a man who receives repayment of War Loan and who reinvests the money. Are you suggesting that the average War Loan holder, when he gets his cash, goes into wild-cat schemes? Evidence has been given to show that he plays too much for safety. (*Mr. Bell*): That was not quite the question. It was the direction I was referring to. Would it come back to him in the same direction? (*Sir Josiah Stamp*): The witness says No, it will go into more dangerous directions. (*Mr. Bell*): It might go. But I was trying to ascertain if you thought it would actually go back to where it would most profitably be used. That is the direction. I take it you do not think it would necessarily do that?—(*Witness*): No. I think the odds are that it would be wasted in its usefulness, to a large extent.

4616. *Mr. Bowen*: Does not that assume that men of business have very little money invested in these

kinds of investment? (*Mr. Bell*): I was coming to that point later. (*Sir Arthur Balfour*): Perhaps Mr. Bell would develop his point. (*Mr. Bell*): Perhaps I was going to say the same thing. Have you formed any opinion as to the extent to which War Loan holdings are still used as security by traders? I gave the Committee some figures of the bank of which I am a director, where there are a great many amounts in small sums of War Loan holdings pledged from time to time to assist them in their trading by small shopkeepers and others. I was wondering if from the larger point of view of the joint stock banks you could give any information as to whether it was a considerable amount which was actually used?—(*Witness*): Certainly very considerable. I have not any figures as to the proportions or as to the actual amounts, but it is very largely used.

4617. Could you regulate this policy of cutting down the short date Floating Debt figure to say £500,000,000, which you give as a possible figure, at all by reference to the expansion or contraction of the supply of commercial bills? Would that be a relevant point at all in this matter?—From the point of view of the banks, I think it would be.

4618. Doubtless it would be more convenient for them, but I meant as a Treasury policy?—Of course, that was not really the object of the question. The question, as put to me, was how it would affect the amount of credit available.

4619. In any case of repayment would you consider it necessarily sound finance to pay off the short date loans before the long, bearing in mind that the short date loans are so useful, as they are represented to be, for practical purposes, and also are so much cheaper to raise?—No. In present conditions I would not make much reduction in the outstanding Treasury Bills.

4620. Because witnesses who have come here have laid it down as a sort of settled text that if we are to reduce any debt we must go for the short-term debt rather than the long-term; but I cannot follow that?—No, I agree with you, that does not seem to be right.

4621. It seems to me, as long as it is cheap and as long as it is convenient and as long as the figure is not dangerously large, it might be well to keep that debt unrepaid, and rather pay off some of the longer and more expensive debts?—Yes.

4622. *Professor Hall*: It would depend upon the volume, I think. (*Mr. Bell*): Yes, but it has come down from a great figure of £1,300,000,000 to a much smaller figure. (*Sir Arthur Balfour*): About £700,000,000. (*Witness*): It is under that, I think. The last figure I saw was under £700,000,000.

4623 *Mr. Bell*: Would you take the view that a large repayment of debt by means of a Capital Levy might redistribute wealth in such a way as to render it not merely no easier but possibly more difficult to raise increased funds for public expenditure?—I think it quite easily might have that effect.

4624. Do you yourself advocate the exemption of companies' reserves from Income Tax? I think you have already answered that?—I did answer it by saying that I thought some exemption might be made with regard to a certain proportion, but I did not think that it would feasible practical politics to suggest that all of it should be free from Income Tax.

4625. The last question I have to ask is about a proposal, one of the few concrete proposals, that we have really had. We have been discussing all sorts of views, but here is something that is definite in regard to Question 8. If a man saves sufficient out of his income to pay the premiums on an insurance policy assuring a capital sum which will meet the Death Duty when it has to be paid out of his estate, would you like that exempted from the total capital upon which he should be chargeable?—Yes.

4626. The difficulty is this. It has been put to us that that saving is, from the Revenue point of view, an accumulation of capital, and it might be rather illogical to exempt a capital sum saved in this manner, while taxing to the full capital which had been saved in other ways. It is a little difficult to answer how it is to be discriminated from another way of saving which would bear the tax?—Insurance policies no doubt are a form of saving, but I think you can differentiate quite logically between that form and the ordinary form of saving yearly out of income. I suppose if a man lived to the proper expectation of life, and instead of paying a premium was to put an equivalent amount on one side and invest it in the same way as an insurance company does, he would at the end of the period have saved exactly the amount of his policy; and to that extent you may say it is illogical to tax the man who does it himself, and not tax the man who does it through an insurance company. But there is a distinction, is there not, between individual saving in that way and taking out a policy? If a man dies a year after he has taken out a policy and has only paid one premium he is in a very different position of course from the man who has lived to the full extent of the expectation of life, or, if it is an endowment policy, to the period for which the policy was issued.

4627. That would be the principle upon which you would put the exemption—that it provides for contingencies?—Yes.

4628. *Professor Hall*: Referring to paragraph 2 of your answer to question 1, on the question of the transference of capital, might there not be, as the result of taxation, a restriction on extravagant expenditure, and an actual increase of capital so that the amount available for industry might be increased, and as an off-set against the loss resulting from the transference from the business man to the debt holder, you could put the increase of capital due to the saving that is stimulated by taxation?—In so far as it is taken from something which would have been spent on consumption.

4629. I am thinking of extravagant consumption at the moment; luxuries?—Yes, I suppose that might be so to a certain extent.

4630. You do not think it is to a very great extent? —No, I should not have thought it was. I should have thought the majority of taxation was taken from excess of revenue over expenditure rather than from a diminution in consumption.

4631. Your summing up generally has been against a Capital Levy?—Yes. As a matter of fact I have not been approaching this subject from the point of view of a Capital Levy.

4632. *Sir Arthur Balfour*: I was going to say that we are drawing up a questionnaire on the Capital Levy, and perhaps after you have seen it you might like to come and deal with that subject separately. We purposely have not gone into that very deeply? —Yes, I understood that.

4633. I do not want it to be prejudged that you have given your opinion on a Capital Levy?—No.

4634. *Professor Hall*: I wanted to put the same thing. In asking this question I was not wishing to assume that you had expressed yourself very definitely about it, but on the whole your evidence seemed to be rather against it. I was going to ask you on paragraph 4 of your answer to question 1, whether you thought a Capital Levy would have the effect of reducing credit. You say if repayment of the National Debt is made to banks there is an increase of credit, but if it is repaid to the ordinary public there is no change. So that in any case the repayment of the debt does not mean a diminution of credit. Would you say that was true if a Capital Levy was applied for repayment of debt?—I think as far as that particular aspect of the question goes that would remain true. There would be a reduction of the basis of credit, of course, by a Capital Levy, but I do not see that there would be a reduction of actual available credit in the hands of the banks. In so far as a Capital Levy redeemed debt in the hands of the banks, to that extent the banks would have increased credit facilities.

4635. The further question I want to ask is with regard to the taxable capacity of income. Do you think that depends on any relation to the total

annual savings of the country? Would you say, for example, that if we were saving the same amount as in pre-war days, the Income Tax would be a bearable tax or at a bearable rate, and that if we were saving more per year than in pre-war days, then the Income Tax might be increased with safety? Would you relate it in any way to a standard of annual savings?—If you could take in all the factors, I do not think that would be an unfair basis, but I suppose £100,000,000 saved now is not of the same equivalent value as £100,000,000 saved 20 years ago.

4636. I do not want to tie you to any particular standard, but do you think it could be related to a standard? It is often argued that the Income Tax is checking the accumulation of capital, and we have had raised this morning the question of what is a high rate of tax and what is not a high rate of tax. Do you think it is possible that we might relate this question to the annual savings, so that if we were able to save what was conceived to be a sufficient sum, we should be able to say that the rate of Income Tax was not an unbearable one?—That sounds fair. I have not examined it through all its ramifications.

4637. *Mr. Bell*: May I put it in this way? Is not the whole question what is going to be done with the tax? Is not that as interesting a relation as anything else?—In my answers I have rather eliminated that, because it is so difficult to say how it is expended.

4638. But I meant as a general principle. You relate, do you not, the raising of taxes to the purpose for which they are put rather than to any figure of saving?—Yes, certainly, that is a very important feature.

4639. *Sir Arthur Balfour*: Of course you will have to consider the question of the increase in population, and many other factors?—There are innumerable factors involved in it.

4640. It is not a plain proposition: we have saved £400,000,000 and therefore Income Tax at 4s. 6d. is all right, or, we have saved £200,000,000 and therefore Income Tax at 4s. 6d. is too high?—No. On the face of it as a bare proposition I say it sounds all right but there are so many factors to be considered that I do not think it is possible to lay down a hard and fast rule.

4641. *Professor Hall*: We are so often told that the Income Tax is preventing the accumulation of capital, and that the Income Tax is too high, yet we have found it very difficult to get from anybody an idea of what is a justifiable rate of Income Tax, and I was wondering whether you thought that afforded the basis of a principle that might be applied. I do not say it should be the same as in pre-war days, but is there a standard? In regard to the objects, that of course is another matter that has to be gone into. One does not raise taxes merely for the sake of taking money from the taxpayers, but it has been put to us that there are things we cannot afford. Now I want to know where is the point limiting what we can afford?—I think we have got to that point where we cannot afford any more in the way of taxation.

4642. But on what ground? I am not disputing your statement, but on what ground do you put it? —I should imagine that if you were to increase taxation, possibly the amount which was obtained would be even less. In spite of the increased level of taxation the amount gathered by the tax gatherer would be less than at its present lower figure.

4643. *Sir Arthur Balfour*: Another factor to be considered would be how the amount of the national saving was used. The amount of saving might be used productively at one time and not productively at another time, or half productively, which would make a very great difference to the value of the saving and its taxable capacity?—Yes.

4644. It is a very large problem?—Yes.

4645. *Professor Hall*: If, for example, the annual savings to-day were £1,000,000,000 as compared with £400,000,000 in pre-war days, it could not be very seriously argued that Income Tax was unduly checking saving. It seems to me there must be some relation between these two things?—I agree that on the face of it there is a good deal in the argument, but there are so many factors involved that I think it is very difficult to lay it down as a hard and fast proposition.

4646. *Mr. Bell*: Does not the incidence of taxation fall upon each of us separately, and a great saving in some portions of the community would not make it any easier for me as a salaried person to bear another shilling?—That is so.

4647. It might merely relate it to the profits made, say, by a business man, but it would be rather hard on some others?—Everybody, of course, is inclined to look at the question of taxation from his own individual standpoint.

4648. *Professor Hall*: I will not take that any further. It has been suggested by other witnesses that the present rate of taxation is unduly hampering industry and reflecting, of course, upon employment. Do you think that is a more serious deterrent to the development of industry to-day than, say, the political conditions and the lack of prosperity in some of our customer countries?—I see your question. I have not any figures which would really compare the two. I do not know how you are going to get them.

4649. But you would agree that there would be an enormous stimulus to our trade if our customers were in something like pre-war conditions?—I quite agree with that.

4650. But you have no opinion as to whether a restoration of those conditions is of more importance than a reduction of Income Tax by, say, 1s?—No, I do not think I can give a really useful answer to that. The amount of increased prosperity which we should get by getting back into more normal trade with our customers in Europe, and so on—how far that would compare with increased prosperity in trade from a reduction of Income Tax is very difficult to say. They are both very important factors.

4651. *Mrs. Wootton*: I am not quite clear about your meaning in two sections of your evidence taken together. One is in your answer to Question 6. You say: "If repayment of debt is made to banks, deflation occurs, and the volume of deposits is decreased." Then I refer back to your answer to Question 1, paragraph 4, where you say: "If repayment of the National Debt is made to banks . . . the supply of credit will be increased." Do those sections mean this: that if repayment is made to the banks, the banks' liabilities in the form of deposits are decreased, but that their assets are not correspondingly decreased, and therefore the supply of credit can be increased? Is that right?—If repayment is made to the banks, deflation occurs, because the volume of deposits is decreased. I think that is an actual fact.

4652. How does that fit with the other. That is what I want to get at?—At the same time, the facility of the bank to give credit is increased, because of the increased proportion of cash which it has to its liabilities.

4653. Its liabilities are reduced on the one hand and cash assets are not reduced on the other hand, and therefore the proportion available is greater? —Yes.

4654. *Sir Arthur Balfour*: The Committee very much appreciate your paper and also your evidence that you have given to-day. We should very much like you to come back and have a talk with us on the Capital Levy when you get the questionnaire, if you will kindly do so. We will let you have it in good time.—Thank you.

(The Witness withdrew.)

(Adjourned for a short time.)

Mr. BELL in the Chair.

Mr. P. D. Leake, called and examined.

Evidence-in-chief handed in by Mr. Leake.

The meanings attached in this memorandum to certain terms of a more or less indefinite character are stated in the Appendix. The terms are as follows:—

Capital as it exists.
British national capital.
Personal capital.
Value of capital.
National Debt.
National income.
Employers and wage-earners.

National Debt and Taxation.

1. The great evil arising out of the existence of the National Debt is that it doubles the amount which must be raised annually by taxation. All forms of taxation—both imperial and local—and whether direct or indirect—constitute a burden upon industry, that is to say, upon annual production and employment. This burden operates both to reduce the amount of capital arising from savings available for industry, and to maintain high prices, and these effects are detrimental to industry and employment, and reduce confidence, enterprise and the sound demand for credit. Floating Debt is more harmful than Funded Debt, because it can be more readily turned into currency, and, in the absence of the normal machinery for controlling credit, viz., an effective bank rate and a free gold market, it tends to produce further inflation. The most pressing need of the country is to reduce taxation, and next in importance, to see that the burden of necessary taxation is laid in the way least harmful to trade, industry and employment.

2. The existence of the National Debt need not directly affect the terms on which capital can be raised, provided that a sound financial policy likely to promote a sense of confidence and security is adopted and consistently followed. But it tends indirectly to make capital dearer by doubling taxation and so—particularly under our present tax system—reducing the amount available for industrial capital and increasing the rates of interest necessary to attract capital.

3. The reduction of the National Debt should be undertaken—not in an uncertain and haphazard way—but by means of a regular Sinking Fund. The annual Sinking Fund should be not less than one half of one per cent., amounting to about 33 millions, which, added to the interest on the debt redeemed, would repay a 5 per cent. debt in 50 years. The amount of the Sinking Fund should be provided just as surely as the annual interest on the debt is provided. A sound financial policy of this kind would soon enable an annual saving in interest to be effected greater than its whole annual cost. The regular annual provision should not be suspended during a period of trade depression nor should it be accelerated during a period of trade prosperity.

4. Income taxation, under our present system, has two very marked effects—(*a*) The Death Duties and Super-tax especially operate to decrease domestic and industrial employment and to diminish the supply of capital held in capable hands available for production (industry) in co-operation with employers and wage-earners, and (*b*) Income Tax, falling as it does almost wholly upon employers (*see* Appendix, para. 32) is an unscheduled and unacknowledged factor in the cost of production which causes high prices to be maintained.

5. The burden of Death Duties and Super-tax, by diminishing the supply of capital in capable hands available for production, falls particularly upon industry and hampers its operations. Income Tax, in particular, contributes to handicap the exporter in competing in foreign markets against world prices, because, as an unscheduled factor in the cost of production, it operates to maintain high prices.

6. Interest paid to industrial holders of the debt does not measure, and cannot be set off against, that part of the tax paid by industry in taxes for the service of the debt. Industry is not an investor in the national debt, except for purely temporary purposes.

7. The effect of Income Tax—paid as it is almost wholly by employers, including companies—is to maintain high prices of production, and therefore it is probable that the present high rate of Income Tax has little effect upon companies' undistributed reserves.

8. The effect of Death Duties and Super-tax is specially to diminish the supply of capital to industry from the public, and the effect of the high Income Tax is specially to maintain high prices, and so to reduce the total purchasing power.

9. The heavy Income Tax operates seriously to deter the foreigner from investing in this country in any securities chargeable in his hands with British Income Tax. British residents gain no advantage by investing outside this country while they remain British residents, because—with unimportant exceptions—they are liable to be assessed to Income Tax upon the whole of their incomes, wherever arising.

10. Income Tax operates to maintain high prices, for the reasons set forth under the head of "Income Tax and Prices" below. It thus contributes seriously to handicap the exporter in competing in foreign markets against world prices.

11. Existing taxes, and particularly Death Duties and Super-tax, seriously diminish savings and discourage enterprise, and have the effect of narrowing employment in all directions. Joint stock companies suffer from lack of enterprise on the part of would-be investors whose savings are diminished.

12. Death Duties do not involve a destruction of existing capital, but they tend to lessen its value and to transfer capital from capable hands where it is successfully employed in co-operation with wage-earners and apply it to less useful purposes, thereby diminishing production and employment.

13. Stamp duties, like all other forms of taxation, are a burden upon industry. It is probable that these are to a great extent recouped in prices of production.

14. Indirect taxes, that is to say taxes on commodities, are in the main borne by the consumer and often with some addition to the amount of taxes in the prices charged for production. This effect is, for the most part, continuous through periods of depression and of normal trade.

15. Customs and Excise duties, as taxes on commodities, are also borne by consumers, often with some additions to the net amount of the tax, in the prices of commodities. These, like Income Tax, operate, by maintaining high prices, to reduce purchasing power and thus to restrict both internal and external trade.

16. Heavy taxation, being now world-wide, can be borne by a nation without much injury to its trade, industry and employment, provided that the taxation is well laid. A burden which can be carried without

hurt, and even with ease, if properly adjusted to a man's back, becomes intolerable if it is suspended about his neck or attached to his legs. The taxable capacity of a nation depends much more upon the system under which taxation is laid than upon the actual amount to be raised by taxation. Our tax system, in common with the present tax systems of most other countries in the world, has two great defects which are very damaging to industry and employment and to the prosperity of a State. The first defect is that it attempts to bring about, by a system of tax progression, an impossible permanent redistribution of effective incomes, and the second is that it is spread over too many sources and is too capricious and uncertain in character. These defects destroy the feeling of confidence and security on the part of employers which is so essential in order that there may be full employment for wage-earners, and that their wages may have the largest measure of purchasing power. These defects cause the burden of taxation to lie with unnecessary weight upon production. They operate directly to diminish production and to maintain high prices of production to a far greater extent than need be.

PROGRESSIVE TAXATION.

17. Income Tax, Super-tax and Death Duties are in each case levied as graduated or progressive taxes. Progressive taxation is based upon the principle which economists call "marginal utility." The theory is that the more a man has of anything—including money—the less value it is to him; and therefore the less will he suffer inconvenience if part of it is taken away from him in taxation. This appears at first sight to be a plan which enables taxation to be borne with the least possible discomfort, because it seems to adjust the tax according to ability to pay. But it is having results not commonly expected and which, if not promptly checked, must irreparably damage the mechanism of any modern industrial State. It is already acting disastrously in this country upon the well-being of wage-earners and others in receipt of small incomes.

18. Progressive taxation is based upon a principle which assumes that the natural desire and custom of all men is to spend their incomes for their own personal wants and pleasures. It ignores the fact that large incomes cannot possibly be so spent, but that the greater part of the larger incomes is—and always must be—applied rather more directly to the wants of others, in the forms of wages and fresh capital, thus maintaining and increasing industrial and domestic employment. For this reason the encouragement and protection of the larger incomes is essential to the welfare of a modern industrial State.

THE DEFECTS OF PROGRESSIVE TAXATION.

19. Progressive taxation is popular because it appears to exempt from taxation an amount which is regarded as necessary for the subsistence of the taxpayer. The detrimental effects of progressive taxation on employment and on the purchasing power of wages remain hidden. The result of our tax system is that about 75 per cent. of our total national income goes almost free of income taxation. If the true effects of this plan could be made known it would soon become unpopular. It has three fatal defects as at present levied—(1) It is constantly narrowing both industrial and domestic employment; (2) it constitutes an important factor in the maintenance of high prices, and (3) it is very complex, difficult, and costly to administer, while there are easy legal means of avoiding it.

BREAKING UP INDUSTRIAL CAPITAL.

20. The last-mentioned defect is too well-known to need further comment. It is the narrowing of employment in all directions, and the maintenance of high prices, which are the worst defects of progressive taxation, because unknowingly the wage-earners finally bear the burden. Employers are, in the main, those in receipt of the larger incomes, whether arising from their personal services or from the services of their capital invested in public companies, private firms, or otherwise, and the fact that the masses of the people are dependent upon employers is supported by statistics referred to in the Appendix under the head of "Employers and wage-earners." The destructive effect of the post-war increase in progressive taxation is shown by the fact that whereas before the War an annual income of £50,000 paid about £4,100 in income taxation, the amount payable for the year 1921-22 was no less than £28,000. The amount of £24,000 paid in additional taxation would otherwise have been destined to increase employment, both industrial and domestic; it would have been distributed to wage-earners, directly or indirectly; or, if invested in Government securities, it would have released an equal amount in other hands which again would go to wage-earners. For this reason the larger incomes constitute an important part of the wage-fund and are the very nursery of industrial capital, and they are thus needed to maintain and increase employment, both industrial and domestic.

21. Industrial capital is indispensable because it is the tools of industry; it abhors idleness, it needs the co-operation of wage-earners; and industrial capital can arise only from savings. Besides capital, successful industry needs to be directed by men of sound judgment; and these are to be found chiefly among the owners of the larger incomes, who, again, are normally the large efficient savers. When other conditions throughout the world become more settled and the outlook is again favourable for a general expansion of industry, the supply of capital will be found short owing to the destruction of the larger incomes by progressive taxation, particularly the Death Duties and Super-tax. Small savers cannot—even if they would—successfully employ their capital in industry—they are too easily tempted to unsound speculations by promise of large profits; therefore they are wise to invest in Government securities.

22. According to "*The Economist*," the total amounts of actual new capital money raised in London, excluding head (*a*) below, during the years 1913 and 1923 were as under:—

	1913.	1923.
Government ...	52,436,900	173,407,500
Other	144,100,100	97,985,700
	£196,537,000	£271,393,200

These figures suggest that private enterprise is much diminished; but the figures as a whole require further analysis.

New capital issues are, in the main, intended for application under one of the following well-defined heads:—

(*a*) repayment of existing loans, as in the case of Government and other—including industrial—securities falling due;

(*b*) capitalisation of the value of rights such as business goodwill, as in the recent case of a newspaper trust issue of £8,000,000; and transfer of existing capital; and

(*c*) provision of new construction work, such as railway extensions.

In considering the bearing of the amount of new capital issued under head (*c*), it is necessary to make allowance for the fact that the general level of prices and of wages has risen from 100 in 1913 to say 170, or thereabouts, in 1923, and that therefore £170 of new industrial capital is required in 1923 to pay for the same amount of work that £100 of new capital would have provided in 1913.

Income Tax and Prices.

23. There is another obscure and equally disastrous effect of progressive taxation—especially Income Tax—the result of which on the wage-earners can scarcely be appreciated, and that is its operation in maintaining high prices. High prices reduce the value of wages by causing them to have less purchasing power, and they also diminish the actual volume of wages by restricting and making more difficult not only our internal but also our export trade, which, in order to pay for our necessary imports, should normally amount to about one-third of our whole annual production. In order to understand the effect of high prices upon wage-earners, it must be borne in mind that—setting off imports against exports—the consumption of a nation is, except for savings, equal to its production; the production being, of course, necessary to supply the nation's wants. All production must be finally purchased by the actual consumers—2½ per cent. of whom are employers and 97½ per cent. are employed (*see* Appendix, para. 32). The important point is therefore not what is the amount of a man's income, but what proportion of it does his family actually consume in quantity of goods, clothes, shelter, and amusement. The personal capacity of a man's family for consumption is, in fact, very limited. An employer's family consumes—as a rule—more than a wage-earner's family—perhaps, taken all round, twice, and probably less than three times, as much. And taking full account of this, it is probable that after setting aside out of production 10 per cent. or under for annual savings—so essential to industry—at least 85 per cent. of production is paid for and actually consumed by the wage-earners and small independent workers, including employed persons connected with the domestic establishments of employers. The great bulk of the income of employers, who are often rich men, is naturally destined to be applied in wages and consumed, not by the employers, but by the industrial and domestic workers to whom they give employment.

24. The level of selling prices is thus of the greatest importance to the well-being of the wage-earners, who must exchange their wages for food, clothes, shelter, and amusement. But it is the employers, including the owners of industrial capital, who are the producers of all these things, and who fix prices at a level which will yield them not less than a fair average profit—otherwise it is obvious they will gradually cease to produce. Thus, apart from current price fluctuations due to changes in supply and demand, the general level of selling prices must inevitably be based upon the cost borne by employers incidental to production, and this cost includes the employers' disproportionate burden of progressive taxation. Therefore the effect of this extra tax burden must be to foster the maintenance of high prices, and so to lay upon the wage-earners an extra burden of altogether unknown extent, but which may probably amount to not less than 85 per cent. of that part of the employers' Income Tax burden which is inevitably reflected in the retail prices of the commodities purchased by the wage-earners. For these reasons the principle of progressive taxation is clearly detrimental to the interests of the masses of the people, and therefore it should be gradually superseded by some less harmful tax system.

25. There are always in existence economic or natural forces which determine ultimate wages, interests, rents and profits. These forces inevitably control and limit to their comparative economic values the rewards of all kinds of services rendered by man and by capital in co-operative production. Therefore, whenever the relative proportions between these are artificially disturbed, there will be set up a striving to restore the just balance. As opposed to progressive—or disproportionate—taxation, proportionate taxation, levied at a flat rate on all production, would not relatively increase the costs of employers as co-operators in production in such a way as to curtail the employers' just share. It would not disturb the proportions and so would not transgress inexorable economic laws. With proportionate taxation any attempt to maintain retail prices at an unnaturally high level could, and would, be effectively countered by competition between producers, or, failing that, by a corresponding increase in wages, and thus the attempt would be inoperative besides being detrimental to all the co-operators in industry, because it would tend to diminish the demand for production—especially in the export trade which normally should absorb about one-third of our total annual production. The great difference, then, between disproportionate taxation and proportionate taxation is that disproportionate taxation runs counter to economic forces which will always prevail, while proportionate taxation runs parallel with these forces and thus no striving for redress is set up. A flat rate production tax could be levied without difficulty upon employers, who would then distribute production—already taxed—in the several forms of wages, interests, rents and profits. The gradual effects of laying the tax burden upon the right and least harmful foundation would be that prices would tend to fall in all directions, enterprise and industry would revive and the number of employers would increase, industrial capital would become more plentiful, unemployment would soon become normal, and wages—though slightly reduced in nominal amount—would purchase considerably more than present wages will purchase.

APPENDIX.

Capital as it exists.

26. There is nothing in existence to represent capital except tangible things, namely, exchangeable materials and commodities in their many and various forms, including gold and other metallic money.

Existing capital is commonly stated in currency, and whenever there is a condition of currency inflation with consequent rise in prices, the amount of existing capital will tend to be overstated. The stated amount of capital existing in such forms as industrial buildings and plant often includes, by custom, large sums represented only by commercial goodwill. The value of these things themselves is thus overstated, the true basis of value of such things being always their unexpired cost.

All exchangeable values, other than materials and commodities, consist of personal rights of individuals which must be set off against duties to be performed by others. Personal rights thus represent assets to some individuals and corresponding liabilities to others. These rights include national and local debts and other debts of all kinds, and for every debtor there is, of course, a cancelling creditor. These rights also include commercial goodwill and leaseholds which again represent the rights of certain individuals against the duties (active or passive) of others.

The exchangeable value of shares in joint stock companies includes both tangible things and personal rights, less personal liabilities.

British National Capital.

27. British national capital actually existing consists of tangible things only, viz., of all material property such as lands, houses, factories, mills and their contents, growing crops, live and dead stock, railways, shipping, mines, plant, machinery, raw materials, manufactured goods, and metallic money; wherever located belonging to British subjects residing in this country and to Government and municipalities. British national capital does not include personal rights of any kind, as these all fall to be set off and are cancelled by personal duties.

In order to state the position in the simplest way—and without impairing the argument—it may be assumed that in the main, the amount of debts due

to us from the Governments and residents of other countries provides a set off equal to the amount of debts due by us to the Governments and residents of other countries. British national capital actually existing thus consists wholly of tangible things in the forms of exchangeable materials and commodities. The amount of these materials and commodities stated in money includes, by custom, large sums represented only by commercial goodwill, viz., the present value of expected future super-profits. The amount also includes any over-statement due to a condition of currency inflation. The National Debt, to the extent that it is an internal debt, is no indication of any diminution of national capital. It is an asset to the individual holders of the debt, which must be set off against the liability of the nation as a whole to those individual holders.

Personal Capital.

28. Personal capital includes exchangeable materials and commodities, and all personal rights less personal liabilities. The value of personal capital is therefore computed by adding to the value of exchangeable materials and commodities owned by an individual the value of rights owned by him and then deducting from the amount the debts due from him. The value of personal capital thus includes the value of shares in joint stock companies and other securities owned by individuals, including the national and municipal debt. The personal capital of all individuals added together will be much greater than the sum of British national capital. The difference is equal to the amount of the national and municipal debt, less the amount of materials and commodities in national and municipal ownership.

Value of Capital.

29. The declaration of War in August, 1914, necessitated a departure from the gold or commodity standard of exchangeable value. It became necessary at once to substitute for an automatically stable gold currency an unstable and expandable paper currency consisting of currency notes. This and other war conditions resulted in currency inflation and rise in prices, in consequence of which the value to-day of British national capital—consisting wholly of tangible things—measured in paper currency would obviously amount to considerably more than its value before the War stated in gold standard currency, although, in the meantime, some of the tangible things have been reduced, both in quantity and condition.

National Debt.

30. In order to understand the origin and nature of our great National Debt, and its relation to British national capital, it is necessary to consider the waste of material and human effort entailed by the War. Except in invaded countries, this waste did not entail any very great destruction of existing capital. The German armies succeeded in destroying much existing capital in France and Belgium. But the destruction of existing capital belonging to this country was small in comparison with that belonging to countries which were invaded.

The waste of human effort during the War was so vast in extent as to be almost inconceivable, and in addition to the waste of human effort large quantities of raw material *in situ* in the forms of coal, iron and other things were used up and destroyed. But these latter were of little value while they remained in the ground, and they will scarcely be missed. Waste of current human effort must not be confused with the destruction of existing capital. The two issues are quite different and distinct.

Apart from loss of life, our war loss was almost wholly represented by waste of human effort exerted with extraordinary intensity during the years of war. An immense mass of exchangeable materials and commodities, which were being currently manufactured, was destroyed during the War. But this was almost wholly produced by us over the period of war by means of the disciplined human effort which we were putting forth during that time. The exchangeable value *in situ* of the raw material actually used in the manufacture of all these materials and commodities was almost negligible. Had the same intensity of human effort been applied to useful production and had this production been saved, it would have resulted in a great increase in our national capital during those years.

Millions of men and women were employed to maintain the fighting forces and to produce all kinds of instruments of destruction, and simultaneously there was a great acceleration and speeding up of industry. Each unit was working at high pressure. In the meantime, the men and women so engaged, whether principals or employees, were paid by the Government for their services at rates involving high profits to principals and high wages to employees. These immense payments were made out of moneys borrowed on credit, and this has resulted in the creation of a huge and inflated National Debt.

This debt constitutes a charge given on behalf of the whole nation in favour of the individual holders of the debt; a charge, not upon existing capital, but upon the future production of the whole nation. The debt, to the extent that it is an internal debt, does not of itself represent any destruction or diminution of national capital. It was instrumental in causing the great redistribution of wealth among individuals within the nation which has taken place since the year 1914. The general effect of this redistribution of wealth was that many of the pre-war rich became poor, and many of the pre-war poor became rich. These changes arose almost entirely out of the inevitable financial disturbances caused by the war.

There is a set off against the loss represented by the destruction of our raw materials *in situ* during the War, such as coal, iron, &c., and by the deterioration of railways, buildings, &c., owing to lack of repair, and by ships sunk. This set off is represented by a considerable increase in our manufacturing plants existing in this country, the greater part of which should be capable of being turned to use for industrial production.

National Income.

31. In its widest sense national income is annual production arising out of service rendered by man and by capital in supplying all required for man's wants. British national income is thus equal to the amount of annual wages, salaries, interests, rents and profits, less losses, accruing to British subjects residing in this country. It is probable that about 75 per cent. of British national income is represented by wages, and about 25 per cent. by salaries, interests, rents and profits, less losses.

Employers and Wage-earners.

32. Employers are almost always the owners of capital—in other words, they are the capitalists. It may thus be said that capital is the real employer, but to provide permanent employment capital must be in capable hands. There are upwards of 20,000,000 occupied persons in this country including owners of large holdings of industrial capital, each one of whom may be assumed to be in receipt of an income, and there are, of course, in addition, a number of persons in receipt of incomes derived from Government Securities. A rough estimate of the comparative number of employers and of wage-earners respectively may be obtained by assuming that those in receipt of incomes exceeding £500 per annum include—in the main—those entitled to be called employers, and that those in receipt of incomes not exceeding £500 are wage-earners—a term which, for present purposes, is taken to include those in receipt of the small salaries and also small independent workers. In such a division, there will, of course, be many with incomes exceeding £500 per

annum who can scarcely be called employers except in the sense that they may own industrial capital—which is never idle—and others with incomes not exceeding £500 per annum who should be included as employers, but the estimate will probably err on the side of over-stating the number of employers. The 64th Report of the Commissioners of Inland Revenue contains a table on page 112 showing that for the year 1919-20 the number of incomes exceeding £500 per annum was only 563,000. Therefore, it may roughly be taken that the number of employers does not exceed about 500,000, or say 2½ per cent., and the number of wage-earners is not less than 19,500,000 or 97½ per cent. of the total number of persons in receipt of incomes. It is thus clear that the number of employers is remarkably small, and as there cannot be employment without employers, everything possible should be done in the interest of wage-earners to encourage capable employers and to increase their number.

4655. *Mr. Bell*: We have your evidence-in-chief before us, and perhaps it would be most convenient if you would go through the paragraphs falling under the heading "National Debt and Taxation" and add any additional points you wish?—With regard to my remarks on annual debt repayment in paragraphs 1 to 3, I think it is most important that this should be a definite system adopted and consistently followed, because that would promote public confidence. It would be desirable to reduce the debt as quickly as possible, but I think there is no way of reducing the debt more rapidly except by increasing taxation. The most important thing in connection with taxation is to reduce it. That is why I should not favour the allocation of any surplus which might arise on the Budget to the reduction of the National Debt. Any surplus which arises on the Budget means that there has been some unnecessary taxation during the year in which it arises. For the sake of industry and employment I would be glad to see any annual surplus used to reduce taxation in the following year rather than to pay off debt, much as I think it is desirable that debt should be paid off.

4656. *Professor Hall*: That means to say you would not apply it in the year in which it arises?—No, not to the extinction of debt. I would rather lighten the taxation of the following year by using that surplus.

4657. So that you would revise your Budget estimates for the following year in the light of the surplus which had accrued during the previous year, and in addition to that you would carry over the surplus itself?—Yes. The surplus would then have to be carried over, because it would be needed in order that the new Budget should provide sufficient to pay the estimated expenditure of the following year. In the latter part of each year Budget estimates are being made. If it seemed probable that there would be a large surplus, I would bear that in mind in forming the estimates for the coming year.

4658. But in the year after that would you not have to increase taxation again since you would not then have an amount available for reducing taxes? In the first year you have a surplus, you carry it over to the second year, and you reduce taxation accordingly; in the third year you have no such surplus carried forward; will you not have to raise taxation again?—That might or might not be so, one might again have a surplus. If expenditure were being cut down there might be at the end of the second year another surplus. I only suggest that it is better to apply any surplus so far as may be possible to a reduction of taxation rather than to a reduction of the National Debt.

4659. It is difficult to see how you are going to have regular taxation if you apply the methods you have suggested. If there is precise budgeting in the second year, so that, after allowing for this carry-over, you raise just sufficient to carry on your services, in the third year when you have not this carry-over will you not have to increase taxation to make good what you brought into the second year?—Usually I think there are supplementary estimates in the course of each year. Might it not be possible to employ any surplus in reduction of these?

4660. Would you think that was a sound method?—I think it might be desirable. Budgeting is certainly not an exact science.

I now go on to the next paragraph.

(*Paragraphs* 4 *and* 5 *read.*) Regarding the effects of Income Tax on exports, I have called attention in another place to the fact that in this country we should be able to export about one-third of our total annual production in order to pay for food and raw materials, and so on, that we must import. Prices from that point of view are exceedingly important in that high prices must cramp the amount of our exports and so narrow the amount of employment which is obtained from the production of those exports.

(*Paragraphs* 6 *and* 7 *read.*) I speak of Income Tax as being paid almost wholly by employers, and I should like to say on this that I include in the word employers the owners of capital. Industrial capital is always at work; it always calls for the co-operation of wage-earners, and the owners of capital or their agents direct the application of that capital and so are rightly and necessarily classed as employers. I think that is a point that is sometimes overlooked. In my references to employers I always include the owners of capital. They are automatically employers because industrial capital is never idle; it abhors idleness, and it always calls for the co-operation of man's service.

(*Paragraphs* 8 *to* 13 *read.*) In whatever form taxation is levied it is always a burden upon industry in some way or other; therefore more attention might well be given to the question whether taxation is laid in the way which is least harmful to production and industry. We have never given much attention to that subject. Our present taxation is capricious and discriminating taxation; it arises from various sources, and these are apt to be shifted and changed in attempting to please electors. New sources are suggested from time to time, and this disturbs that public confidence which is so essential to ensure enterprise on the part of employers, and to promote the feeling of safety and security which encourages them to adventure their capital and their services in production. This capricious taxation is much the same in other parts of the world, and it is very damaging to industry and employment. We have never yet fully considered the important problem—what is the true foundation of taxable capacity? Is there an economic foundation? I venture to think that there is. We might possibly ultimately contemplate the adoption of that true economic foundation for raising all taxation. It is a subject which has more and more forced itself on my mind in the course of examining the many questions relating to taxation and taxable capacity.

(*Paragraphs* 14 *and* 15 *read.*) The general effect of indirect taxes is that they fall on the consumer. Indirect taxes constitute another class of capricious taxation, arising as they do from many different sources. They are subject to change from time to time and promote that feeling of uncertainty which often causes the producer to add to selling prices rather more than he need add to cover the amount of the taxes. This is a serious matter for wage earners when we come to consider that not less than 85 per cent. of all production must be purchased and consumed by the wage-earning class and by those whose incomes do not exceed £500 a year.

4661. *Mr. Bell*: You have already dealt with paragraph 16. You have told us you think the question of adjustment is important, and that we must possibly think out some other way; do you wish to amplify that?—I think not now.

4662. *Mr. Bowen*: In paragraph 6 you tell us that industry is not an investor in the National Debt,

except for purely temporary purposes. Would you class the obtaining of credit for business development as a purely temporary purpose?—No; credit, I think, is a necessity.

4663. Would you say that an important amount of debt is held as collateral for securing loans; if not, would you infer that a large amount of debt could be repaid without causing serious restriction of credit?—Except for short loans the better plan might be to sell the debt and use the cash.

4664. In your paragraph 16 you say that the first defect of our tax system is that it attempts to bring about an impossible permanent re-distribution of effective incomes. Would you hold that the present tax system has no permanent effect on the distribution of wealth?—The present tax system, including particularly Death Duties and Super-tax, must tend to disintegrate industrial capital. It is pulling down the large incomes arising in capable hands at the present time, and these are a necessary part of the mechanism of a modern industrial State.

4665. I take it that one of your points is that heavy taxation of large incomes is bad for savings?—That is one point.

4666. If that argument holds, what would you say to the statement on the other side that such taxation would lead to a more even distribution of wealth and thereby secure a larger current demand for commodities?—I do not think those commodities would be forthcoming except at prices containing the disproportionate taxation which is now thrown upon that numerically small class of co-operators in production—the employers. There is a countervailing force at work

4667. There must be some taxation whatever prices may rule?—Yes, but a flat rate tax on all annual production would not relatively increase the costs of employers as co-operators in production in such a way as to curtail the employers' just share.

4668. But can you contemplate the possibility of having taxation so devised as not to impose any burden at all?—No, all forms of taxation—both imperial and local—and whether direct or indirect—constitute a burden upon industry. I think that all taxation must lie upon industry; it is a burden which has to be carried; and I have ventured to suggest the importance of the scientific adjustment of the burden. We can bear with ease a heavy burden if strapped on our backs, but, if it be hung round our necks, we may be unable to carry it. That is the point to which I want serious attention to be devoted.

4669. Could you indicate some broad principle which would transfer the shackle from the neck to some other part of the body?—Yes. All taxation in its various forms at present, according to my view lies on production, but now it lies unnecessarily heavily on production. If we could gradually substitute a flat rate tax on annual production we should avoid most of the evils arising out of our present capricious system of taxation. Taxation must be reduced to the lowest point, but when it is reduced to the lowest point—as it must lie on annual production—let us levy it in a simple and straightforward way as a flat rate tax. I think it would have the effect of immensely improving industry and the position of the wage-earner. It would undoubtedly tend to a substantial fall in the prices of production of which the wage-earner must buy and consume not less than 85 per cent. I am convinced that then a lower nominal wage would purchase a good deal more than present wages will purchase.

4670. You say a flat tax; do I understand correctly by that that you would levy a tax of a certain amount, regardless of ability to pay either on the part of the employer or the employed?—I would ultimately levy a flat rate tax on the whole of annual production of a percentage sufficient to raise the whole of the amount necessary for national revenue purposes.

4671. But how would you apply it to the individual?—The tax would be wholly paid by employers in whose hands all production arises. They are, in number, comparatively few. I would take the annual profit and loss account and add together wages, salaries, rent, interest and profits. I would then assess the necessary tax, say, 10 per cent. on the amount of these. To supersede Income Tax, Super-tax and Death Duties 10 per cent. would probably be enough. I would ultimately go further and take off indirect taxes now imposed for revenue purposes. I do not suggest we should not impose taxes which it is thought desirable to impose for other purposes, like a tax on alcoholic drinks, for instance; if it is thought desirable for purposes other than revenue purposes, to tax certain things, I would certainly do that, and the amount received would supplement the national revenue, and enable a lower rate of production tax to be levied. Supposing the annual production arising in the hands of a certain employer and his co-operators, by which I mean the recipients of wages, salaries, rent and interest, is represented by 100, and supposing that the production tax necessary is 10 per cent., the employer would pay the 10, and he would then have 90 of taxed production which he would distribute between his various co-operators and himself, exactly as he did in the years before taxation amounted to anything substantial. With such a change in system we should find that employers would become more enterprising, there would be more employers, there would be more willingness on their part to enter into undertakings involving risk, and we should soon hear very little of unemployment.

4672. By that I understand you to mean that the employer practically would determine his own proportion of tax and the amount which the employee would have to pay?—The employer would take his share of production less the production tax, just as he took his share of production before any taxation was imposed.

4673. But if the tax is 10 per cent. on production, and if the employer may reduce the wages by 10 per cent., what percentage of the tax does he pay?—The employer would in that case pay 10 per cent. on his own share of the annual production.

4674. Does that mean that the wage-earner would be able to put up his wages by the present recognised Trade Union activities?—The wage-earner in an industry cannot divide more than there is, and he must leave just shares for his co-operators. I have not here taken into account the Trade Unions. I realise that they will have to be taken into account in anything of this sort, but I want to show them that this is the best thing for their constituents.

4675. I want to be quite clear about this. If the employer has the power, as I understand it, to pass on the tax of 10 per cent. to the wage-earner without apparently taking any portion of the burden himself, do you really think there would be any real co-operation between the wage-earner and the employer in determining how that 10 per cent. shall be exacted from wages?—May I, in answer to that, read paragraph 25 of my evidence-in-chief, because that shows the essential and very important difference between disproportionate and proportionate taxation. (*Paragraph read.*)

4676. I am not going to quarrel with economic laws, but I want to suggest to you that if you substitute for the word "striving" in that theory the word "striking" you will probably get an answer to your suggestion as to how taxes should be passed on?—My suggestions are put forward in the interests of the wage-earners, and strikes could only happen from lack of knowledge of the futility of strike action and of the enormous damage which strikes inflict upon the great mass of the people, including the strikers themselves.

4677. *Professor Hall*: In paragraph 1 you say that the most pressing need of the country is to reduce taxation. Do you think that to be of more importance than the reduction of the debt?—Yes, much more. I do not regard the debt as of very great importance except that it doubles taxation,

and the only way to reduce the debt would be still further to increase taxation.

4678. When you say "the most pressing need of the country," are you thinking of industry and commerce?—Yes, always.

4679. Do you think that a reduction of taxation is more important than the restoration of world conditions?—I do not quite follow that question. Of course, restoration of confidence and so on is of the greatest importance to production and employment.

4680. Do you think that the reduction of taxation would stimulate trade more than, say, the increased prosperity of our customers abroad? How are we going, by reducing taxation, to make people abroad more prosperous and better able to buy from us?—If we could reduce prices here, we could offer goods at a less price, and therefore make them more attractive to our customers abroad.

4681. Do you think that a reduction of Income Tax would have a very considerable effect upon prices?—Yes, I do.

4682. Sufficient to induce a considerable additional demand?—Yes.

4683. You do think this reduction of taxation is the most pressing need for the development of trade and commerce?—I feel it very strongly.

4684. More than any other subject?—Yes.

4685. Would you even reduce the Sinking Fund?—Not below one-half of one per cent., which would repay the debt within 50 years.

4686. There is then another pressing need besides the reduction of taxation?—We want to reduce the debt by means of a regular Sinking Fund.

4687. Would you then say that the most pressing need is to maintain that Sinking Fund of £33,000,000?—Yes, we must maintain that Sinking Fund.

4688. So that this suggestion about the most pressing need being the reduction of taxation is of limited application. It is only down to a certain figure?—The most pressing need is the reduction of taxation after making reasonable and certain provision for the ultimate repayment of the National Debt.

4689. You would not reduce taxation beyond a certain figure?—No, not at the expense of a regular Sinking Fund to repay the National Debt.

4690. You have mentioned this question of the Sinking Fund. Are we to understand your statement as meaning that you would add to the £33,000,000 the amount of the interest saved?—Yes, the amount of that £33,000,000 would be increased every year by the interest which would accrue on the debt which had in previous years been purchased in the market.

4691. Would you expect the debt then to be paid off in 50 years?—Yes, it would be.

4692. And you would continue that policy?—Yes, up to 50 years.

4693. With the intention of paying off the debt in 50 years?—Yes.

4694. Going now to paragraph 2, you say: "The existence of the National Debt need not directly affect the terms on which capital can be raised." Do you not think that during the period of the War, when the debt was being created, there was of necessity a large restriction of capital expenditure that is only now being met?—No doubt municipal authorities, railways and other industries held up their capital developments during the War, and we have now a bigger demand for capital from those sources than we would have had if we had not been so long engaged on War services.

4695. So that in that sense the National Debt does affect the present rate of interest. It has increased what we may call the annual demand for capital?—The War, I think, has caused some arrears of maintenance and capital developments to exist and capital is needed to wipe them off.

4696. To that extent the rate of interest to-day is affected?—Yes, I think the National Debt, amongst other things, has operated to increase the rate of interest which is demanded by capital, if only because it has doubled taxation, and so under our tax system has increased prices of everything, including the wages of capital which is interest.

4697. Leaving out for the moment the consideration of taxation, would you agree that the demand for capital to-day is greater because of the War?—I think there are greater opportunities for the employment of capital if it could be got.

4698. In paragraph 4 you take the view that Income Tax becomes a factor in prices?—Yes, because under our present system it is a disproportionate tax.

4699. And the suggestion is that when Income Tax is increased employers obtain higher prices?—Yes, while it is levied disproportionately.

4700. If they can obtain higher prices after the tax has been put on why should not they have obtained the higher prices earlier?—The answer is contained in para. 25 of my evidence in chief. Without the striving set up by disproportionate or progressive taxation any general raising of prices would have been inoperative for the reasons there shown.

4701. Surely if it is possible for them to get a higher price after the tax has been put on it must have been possible for them to get a higher price earlier?—I think not, because there would be competition at once then. It would be said, these men are getting more than their just share.

4702. Do you think that business men argue on those lines?—They act remarkably like it. It is extraordinary how these obscure economic laws are reflected in the action of business men everywhere. They do not argue, they do better than that, they act upon those lines.

4703. Do you think there is a kind of invisible hand working in this matter?—I do think so, natural forces, which we cannot control.

4704. So that it does not really matter very much what rate of Income Tax is paid; employers will tend to get their just share, as you call it?—Yes. They will ultimately have their just and reasonable share, or they will gradually cease to produce. The striving set up in the meantime and the disturbance of price levels and other things are disastrous to industry and employment, and it is always the wage-earner who suffers most owing to his dependent position.

4705. *Sir Josiah Stamp*: You have been referring to those economic laws and forces which determine prices and also determine the rewards given to the different factors of production. Could you give us any reference to any place where we could find authoritatively set out those laws that work in the way that you suggest?—I believe that the existence of these economic laws is accepted generally by economists.

4706. There is a scientific theory of economics as taught by people who study it as a branch of science. Do you accept their teachings and their principles, or have you got a brand of economics of your own, or is there a rival set?—There are many theories claiming to be scientific. The word "economist" is used to range over a very wide area of thought.

4707. Let us narrow it down. Take what we might call the conventional teaching of economists on the marginal principle. Do you accept that or reject it?—I reject it as applied to taxation.

4708. You say the marginal theory is wrong?—Yes, as applied to taxation.

4709. So that the body of economics to-day which centres round the marginal principle is, in your judgment, erroneous?—I think it is not applicable to matters of taxation.

4710. You would say that prices of commodities, and the rewards of the factors of production, are settled by other economic forces than the marginal principle?—Yes.

4711. And there is a body of economic teaching which would put these matters right, only we have not got it set out formally before us?—It is the generally accepted principle of the existence of natural forces which determine ultimate wages, interests, rents and profits.

4712. I understand that you do not approve of the modern marginal principle?—Not for taxation purposes.

4713. I am on the question of the determination of price. You have been enunciating a principle of the determination of price, which is quite at variance, as I understand it, with the accepted body of teaching of economics. I want to know if you can point us to anywhere where your particular brand of economics is to be found, so that we can study it?—I think my particular brand is the generally accepted principle which I have suggested. I can only refer to the well-known writers on economics, but I cannot at the moment give any particular chapter and verse.

4714. You said just now that you did not believe in the marginal principle of determining prices or the rewards of the factors of production. Could you tell us any prominent economists of to-day who do not accept the marginal principle, or any school of thought that does not?—I should not be prepared to say that it was by any means commonly accepted.

4715. Would you tell us any economist or school of economists which on this question of value and price would differ from the teaching, say, of Marshall?—I should say that many competent thinkers are unable to accept as sound Marshall's application of the theory of marginal utility to taxation.

4716. May I suggest to you a school of economists who differ from Marshall and ask you whether you identify yourself with them?—If you please.

4717. The Karl Marxian school cannot be reconciled with Marshall, and that is the only big school that I know. Do you accept that school?—No.

4718. I want to find where I can get enunciated the theory on which you are relying. If they are your own economic laws that you yourself have evolved, I understand exactly where I am?—No, I would not venture to claim that.

4719. Would you tell me where the representative school to which you belong is to be found?—Is it not possible that it is in the world at large rather than in any particular representative school? I am sorry I cannot answer better.

4720. *Mrs. Wootton*: At the end of paragraph 6 you say: "Industry is not an investor in the National Debt except for purely temporary purposes." I want to ask on what sort of evidence that general statement is based?—My own experience, because as a chartered accountant in practice for a good many years, I am always examining balance sheets and statements of account.

4721. Do I understand that the balance sheets of industrial companies do not at present show considerable holdings of Government securities?—Except, I think, for temporary purposes. It may be that they are accumulating a fund for some contingency which will arise some years hence; I do not want to narrow the word "temporary" too much. I quite agree you do find investments in Government securities in balance sheets, but I think that they are not wrongly described as being for temporary purposes. The investment is not simply for the purpose of holding the security in order to receive the interest.

4722. But the investment may recur in balance sheets over quite a long number of years?—Yes, I think so.

4723. *Mr. Bell*: I think if we asked you to read the remainder of your paper it would occupy you too long. I think it may be possible, without asking you to read through the following paragraphs, for the Committee to ask questions upon them?—If you please.

4724. *Sir Alan Anderson*: You have told us what you were going to substitute for the present capricious taxation. What exactly was it to be?—A flat rate tax on production.

4725. How do you reckon it on production—on the sales?—No, on annual production arising in the hands of each employer or independent worker.

4726. On what would you base it—on the revenue of the industry?—No, on the annual production of each industry.

4727. *Professor Hall*: The added value?—I would extract from the year's profit and loss account, the wages, salaries, interest, rent and the employer's share. Then I would add those together and apply the tax at the necessary rate, 10 per cent., or whatever it might be, and the employer would be responsible for paying that.

4728. *Mr. Bell*: Without reference to the question of a profit or a loss?—No, the method of dealing with losses is clearly shown in a short summary of my production tax proposals which, with the permission of the Committee, I will put in later.*

4729. *Sir Josiah Stamp*: You have published your scheme, have you not?—I have.

4730. Does it not come to this: that you take first the turnover and deduct from it the cost of raw materials, transport and so on, leaving as a balance all the rewards and all the factors of production in that business?—That is precisely so.

4731. What you do is to put the national production into a heap on the floor. In the night the Government comes along and takes away one-tenth, or whatever it is, and the next morning economic forces work just as usual as though the production never had been any larger than the amount left. That is your position?—Precisely; that is it in a nutshell. We deduct from the sales the amount of the purchases, expired capital outlay or depreciation of plant, and all outside expenses like railway carriage, postage, and services received from other undertakings, and the difference will be found to be production. This the employer distributes to his co-operators—the wage-earners and salary-earners and rent and interest—to those who lend him land, buildings and money—leaving a certain balance of profit in the hands of the employer.

4732. *Professor Hall*: Do you include the professional man's earnings, too?—Yes, the professional man's earnings and the earnings of all employers and independent workers. I define "production" in this way: "annual production arising out of service rendered by man and by capital in supplying all required for man's wants." Thus the singer, the painter, the surgeon, the barrister, the cinema proprietor, everybody who is supplying man's wants and drawing an income from it is a producer just as though he was making a table or other tangible thing.

4733. *Sir Josiah Stamp*: I have studied your system carefully, and it amounts to this in the final resort. You put a flat rate tax on everybody's income, only you do it in the quickest way, at the source. It allows no limit of existence exemption. It is just as if you left the milk out at night and the cat got some, and you make allowance for that in the family, and you divide the remainder out?—Yes, exactly; it is a just system. And it avoids the temptation to interfere with the play of natural forces—such interference being not merely futile but actually disastrous in its ultimate results on the mechanism of modern industry.

4734. *Professor Hall*: You ignore the "ability to pay" principle?—Yes, because it defeats itself; it brings worse reactions upon the wage-earners, and others with small incomes.

4735. *Mr. Hichens*: Would the owner of Government securities pay anything?—Yes, he would.

4736. He is not contributing much in the way of immediate benefit?—Production tax would be deducted at the current rate from all interest paid on British Government and municipal securities. This would naturally be so, because all such securities represent unredeemed debts of the State or municipalities incurred in defence, or in providing for the future supply, of something or other required for man's wants, including endeavours to attain peace and security. That is logical; that is quite right. That falls within the definition of "production," which I have just ventured to give.

4737. *Professor Hall*: You deduct production tax from the one who receives interest from a munici-

* Printed at end of oral evidence (page 340).

pality which merely invests his capital in a gas works, but you would not deduct it from the interest of a shareholder in a gas company?—Production tax would be provided for in both cases. If the municipality pays interest at 5 per cent. on its gas works loans, it would deduct the 10 per cent. production tax and pay £4 10s. net. If the gas company earns a distributable profit of 5 per cent. on its ordinary shares, it would also pay £4 10s. net. The deduction of production tax is effected whether shown or not. I would like to provide, by statutory enactment, that in paying interest and rent—as well as wages and salaries—out of taxed production, employers shall, in every case, show the gross payment and the deduction of production tax.

4738. *Mr. Bowen*: Just a couple of points on paragraph 19. You say that the Income Tax is costly to administer, while there are easy means of avoiding it. From the figures that we have before us we find that the cost of the two collecting departments, the Inland Revenue and the Customs and Excise, was under £11,000,000 last year, and the tax received amounted to over £700,000,000. Do you regard that as a high cost of collection?—No, I do not, considering the vast complexity of the whole system. I do not know, however, whether that includes rent, rates, stationery, printing, postage and other expenses or whether it is salaries only. But in any case it does not represent half the actual cost to the country. Employers and their agents are finding that it is necessary to occupy a very great amount of time and attention in dealing with these taxing matters. I have lately been making inquiries among friends who are accountants like myself, and I find they think that about one-third to one-half of the time of skilled accountants throughout the country is now occupied on taxation matters and the many problems which arise in connection with taxation. For this reason £11,000,000 does not represent anything like the cost to the country.

4739. What do you think would represent the cost to the country?—I should think that the direct, but unrecorded, cost to taxpayers of the services of themselves and their advisers in connection with tax payments and re-payments must be twice as much as the cost of the revenue departments. I should therefore put the cost to the country at £33,000,000.

4740. Even that £33,000,000 is not a very high cost of administration for the collection of £700,000,000?—It is nearly 5 per cent. With a simple tax system there would be no need for this expenditure.

4741. Have you any figure in your mind which would indicate the cost of the alternative method?—I should think that with a simple flat rate tax on production, such as I have suggested, the cost would not be more than 25 per cent. of what it is now.

4742. *Sir Josiah Stamp*: Do you mean the accountancy costs attaching to your scheme would be 25 per cent. of the accountancy costs attaching to the present scheme?—Yes, and also all other costs.

4743. *Mr. Bowen*: You do not think you are unduly optimistic?—No; a production tax would be exceedingly simple to apply and administer.

4744. *Sir Josiah Stamp*: Have you realised that as compared with the present field of taxation covered by accountancy your system would involve elaborate accounts to be kept by small retailers who are at present charged on round figures? You have a baker, for instance, who is charged on £200 or £300, and it is known to be roughly accurate over a period of years. Your scheme involves a different method of charge altogether, because he has got to pay on the wages of his employees and everybody else. It involves large and elaborate accounts?—No, that is not so. If necessary a man can be easily assessed to production tax without any accounts at all. I think many of the smaller shopkeepers even now are unable to produce accounts, and they may think they are not making profits; and sometimes they do not record all their receipts, and so on. Now if we had a production tax we should have the shopkeeper before us and we should say: "How many men do you employ?" If he employs so many men we know pretty well what the wages are. Then: "What is your rent?" Then: "Do you borrow any money from the bank or from anybody? What interest do you pay on it?" We add up the amounts of all those items and we say: "Your tax must be not less than 10 per cent on this total plus a reasonable amount to cover the fact that you have lived out of the business." He may say that he had lost money during the year. Then he would have to state in writing which of his assets had deteriorated in value or which of his liabilities had increased.

4745. Does he know?—He would have to deliver a list showing the estimated values, if he had no accounts. He would have to say what he valued his assets at, and what his liabilities were, and even if his values were wrong the values would be the starting point for the following year, and then the following year we would ask him again: "What are your assets and liabilities"?—If he claimed again and again that they had fallen still further in value there would soon be no value left, and thus he would be condemned out of his own mouth. I have been very much struck with the advantage of this scheme from the point of view of roping in the small man who lives well but does not keep any accounts, and may now escape tax.

4746. Do you really think you are describing what is a practicable procedure in the Tax Office?—Yes. The Inspector of Taxes would ask, "What wages do you pay? What rent do you pay? What interest do you pay? What are your assets and liabilities?" The taxpayer may not have any books, but he must answer those simple questions. The following year he would have to start with the amounts at which he estimated his assets and liabilities at the end of the previous year. The Inspector's work, even in the absence of accounts, would be comparatively easy and straightforward.

4747. *Mr. Bowen*: As regards avoidance, of which you speak, do you not think that our Income Tax must compare well with other taxes in view of the fact that so large a part of it is collected at the source before the income is distributed to the individual recipients?—I think that collection at the source is a very necessary thing from the point of view of the national revenue.

4748. But where does the avoidance show itself?—There are many ways. A good many people are going to live abroad. There are arrangements possible by which a resident here makes investments abroad, and vests them in a foreign company registered for the purpose, the shares of which are held by him. This and other methods render possible all kinds of legal avoidance of tax. People divide their estates with their children to reduce Super-tax and Death Duties. Again, large estates are registered, as is well known, as limited companies. That plan has now been countered to a considerable extent by certain provisions that undistributed profits of companies may be assessed to Super-tax, so that that is not now so effective as it used to be. But there is, I am afraid, a great deal of avoidance of Income Tax, not illegal, but legal. I think that is well known.

4749. Do you think any legal means could be devised to prevent avoiding any tax of any kind?—Not under our present system.

4750. Then we need not stress it here?—No. There could, however, be no important avoidance of a production tax.

4751. *Mr. Bell*: I see we have already discussed the questions raised in the following paragraphs, with one exception, which I want to bring you to. You have emphasised in paragraph 21 that the savers of money are really doing a very useful economic service, and in paragraph 22 you raise some very interesting questions on the amount of capital required on which I would like some of the members of the Committee to examine you. We have had rather different views given to us; we have had the views of a banker that a great deal of capital is really available for new enterprise if that new

enterprise happened to want it, and we have had put in lists of five or six recent issues, some of them industrial issues, which were over-subscribed within a few hours. You show here that the Government borrowings were very much less than other borrowings in 1913, and that the reverse was the position in 1923. That might arise from two causes. It might arise because there was not money available for the other borrowers, or it might arise from the fact that the other borrowers did not want it. You take rather the view that there is not the money for the other borrowers, which is different from the views I have referred to. I will not ask any questions on this, but I have just explained the two views in case any other member of the Committee may like to question you on this matter. (*Professor Hall*): On paragraph 22, we have had a good deal of evidence that there has been a very big demand for such industrial issues as have been offered, which suggests that there is no dearth of capital at the moment for investment purposes. Is it your opinion that there would be any dearth if trade revived?—(*Witness*): I think that in diminishing real savings we are diminishing the foundation upon which credit rests. There is now an improved state of general confidence and feeling of security, and I think that is probably the reason why at the present time fresh issues are coming out, and the capital is found, but I think largely upon credit. I think that that could not go on indefinitely without adequate saving year by year out of profits to provide fresh real capital as the basis of credit. It is a very difficult subject, but I think that in order to sustain the apparent plentifulness of capital at the present time we must take care to save out of production year by year. The present high rates of taxes on the bigger incomes are preventing or curtailing the necessary annual savings by those best able to employ the savings in successful production.

4752. It has been put to us that there is a great deal of capital in the country which is idle at the present moment, and, without any further saving, if we had a sufficient demand we could find better employment for that capital. Is it not then a question to some extent of demand for finished products as well as a question of supply of capital?—If we did not discourage employers there would be more new enterprise, building fresh works, factories, and so on.

4753. I was thinking at the moment of the demand for finished products. There is a good deal of capital in the country lying idle. Take the cotton industry, for example?—What do we mean by capital lying idle? I have sometimes thought that confidence and capital are almost identical. Without confidence capital vanishes. With the existence of a state of public confidence you can get credit to a very large extent to start any promising new enterprise, and so we say that capital is lying idle. I do not think it is actually existing capital. There are evidently at the present time facilities for obtaining credit which are not yet wholly absorbed.

4754. Perhaps we are using the word "capital" in different senses. There is a good deal of capital in the form of machinery and buildings which is not fully employed at the present moment?—That I agree; we are discouraging employers.

4755. In that case the greatest need is surely a bigger demand for the finished products that the capital might produce?—Or the ability to produce on terms which will leave the employer something for himself. Because you can only produce if you get your employer who finds the proposition is sufficiently attractive.

4756. In some industries to-day if the employer were to sell without any profit at all he could not sell his goods, and in that sense there is machinery and plant which forms fixed capital lying idle?—Yes, lack of industry and lack of demand react on each other. Lack of industry creates lack of demand and *vice versa*, it is only out of industry that you can get the means to satisfy your wants.

4757. *Mr. Bell*: This morning we were on the specific question of actual subscriptions to various issues, and the evidence we had was that there was sufficient capital for new issues?—I think there is a plentiful supply of credit at the present time.

4758. We need not go into it, because it takes us away into the future, but at present, as far as one can see, there is money in the country ready to be invested in issues other than Government issues if they were made?—Yes. I would rather say that there is confidence in the country which would enable credit to be obtained for promising enterprises. I think it is largely a question of public confidence.

4759. That is always, of course, a condition precedent, but the point we are on is: Is there money, given that confidence, to be got?—Yes, I think so, but employers require attractive opportunities.

4760. It is very kind of you to have come. I am afraid we have taken up a lot of your time?—Thank you for giving me the opportunity of being heard. I appreciate it very much.

(*The Witness withdrew.*)

(*Adjourned.*)

Mr. Leake afterwards submitted the following summary of his proposals for the replacement of the present system of progressive taxation and ultimately of indirect taxation, by a flat rate tax on production.

Proposed Production Tax.

A New System.

1. It is suggested that the foundation of the annual taxable capacity of a nation is annual production arising out of service rendered by man and by capital in supplying all required for man's wants. Subject to certain reservations, mentioned below, the proposal is to assess a flat rate production tax of 10 per cent., or other required amount, upon the actual employer on the whole amount of the service as rendered by him and his capital, and by his co-operators. His co-operators include wage-earners, salary-earners and the owners of all borrowed or hired capital employed. The term "employer" includes joint-stock companies, private partnerships, and independent workers of all kinds, whether engaged in trade or business, and it also includes persons employing others in domestic occupations. The employer's liability will be measured by a tax of the weight required on the amount of the earnings of the employer, and of all his co-operators, instead of, as now, by a 22½ per cent. Income Tax (plus Super-tax) upon the employer's earnings only. This will, in the first instance, leave the employer with his old share of untaxed profits, less the amount of the new tax to be paid by him. The amount of the new tax, although measured in a different way, may or may not be greater than the tax which the employer pays under our present Income Tax system. It seems probable that whether, and to what extent, the employer will find it necessary immediately to reduce the shares of taxed production paid in the forms of wages and salaries, will depend upon the circumstances. It may be that any reduction in the rate of wages and salaries will coincide with, or perhaps may actually follow, the gradual fall in prices and the cost of living, together with the increase in opportunities of employment, which will result from the gradual release of employers from the present crushing burden of progressive taxation.

Method of Assessment of a Production Tax.

2. The method of arriving at the amount of the assessment to be made upon an industrial employer is to add together the payments made in the year to wage-earners and salary-earners, and the profits taken by the employer, and by the capital employed. The method of computing the amount of the assessment will be clear from the following case of a manufacturing undertaking, the output of which for a given year realises £100,000. The Profit and Loss Account might stand thus:—

Service as rendered, to be assessed on this manufacturing undertaking.

		£		£
	Stock at beginning of year	10,000	Sales	100,000
	Purchases (materials) ..	10,000	Stock at end of year ..	10,000
50,000	Wages	50,000		
	Balance carried down ..	40,000		
		£110,000		£110,000
	Expired capital outlay on plant, &c. (depreciation)	5,000	Gross profit brought down	40,000
	Expenses, including payments for coal, gas, electric current, carriage, rates, insurance, law charges, travelling, horsekeep, advertising, stationery, printing, postages and telegrams, telephones, repairs, &c.	5,000		
8,000	Salaries	8,000		
	Rent of hired premises	1 000		
900	*Less* Production tax 10 per cent. ..	100		
		900		
	Interest on borrowed capital ..	1,000		
900	*Less* Production tax 10 per cent. ..	100		
		900		
30,200	Balance — available for payment of production tax and for the employers' services and the services of the employers' capital	30,200		
	This balance is applicable as follows:—			
	Production tax 10% on £80,000	8,000		
	Employers' share of taxed service ..	12,200		
		£30,200		
£80,000			£40,000	£40,000

3. What is the annual produce of this undertaking upon which the State has a claim for production tax? In order to illustrate this, it will be convenient to re-state the account, although, when the principle becomes familiar, it will be unnecessary to do so. The annual produce of the undertaking is ascertained thus:—

	£		£
Stock at beginning of year	10,000	Sales	100,000
Purchases (materials) ..	10,000	Stock at end of year ..	10,000
Expired capital outlay on plant	5,000		
Expenses as detailed ..	5,000		
Balance carried down ..	80,000		
	£110 000		£110,000
		Gross produce, before taxation, brought down	£80,000

This statement is a reproduction of the Profit and Loss Account, omitting only the payments made to the co-operators. It shows that the annual produce of the undertaking—the gross produce of the work of all the co-operators—is £80,000.

4. It will be observed, on reference to the Profit and Loss Account, that all payments made by the employers to co-operators in the undertaking are net payments; that is to say, they would be made out of taxed production. In the case of fixed contractual payments, under such heads as rent, interest, etc., the production tax of, say, 10 per cent. would be specifically deducted, and the net amount only debited to the Profit and Loss Account. It may be found desirable to provide, by statutory enactment, that, in paying wages and salaries out of taxed production, employers shall, in every case, show the gross payment and the deduction of production tax, but otherwise no specific deduction of 10 per cent. would be made from the wages and salaries paid, because these payments would always be made by the employers out of taxed production. In the case illustrated above, therefore, the position is that, with a production tax of 10 per cent., the employers would be liable to the payment of 10 per cent. on £80,000, the amount of the service rendered within the year. This tax amounts to £8,000, and would be payable by the employers out of the balance of profits amounting to £20,200, thus leaving the employers' share of taxed production £12,200.

5. In the case of other profit-seeking undertakings the method of computing the assessments would be equally clear and easy. In the case of a merchant's business, the annual Profit and Loss Account, as usually prepared, would show certain items which, when added together, would represent the amount of the reward paid for services rendered. Each annual assessment would be based on one year's accounts, and would always be easier to compute than at present. The farmer should be assessed on the amount of wages paid by him, added to the amount of his profits—as now computed—and to the amounts taken by the owners of all capital employed by him. If the farmer pays a fixed annual rent for his farm, he would be entitled, in paying the rent, to deduct the production tax at the rate in force for the period. Shopkeepers would be assessed, in like manner, upon an amount equal to the wages paid, added to the sum taken by them as profits, together with the net amounts of all interest and rent paid to the owners of capital employed. The employer would always have the right to deduct the tax at the rate in force for the period, from all fixed contractual payments made by him in respect of salaries, interests, rents, etc. Medical practitioners, brokers, lawyers, artists, and all other independent workers, would be assessed in the same way, and by reference to the same factors as others engaged in industry and commerce.

Method of Dealing with Annual Losses.

6. Production—the supply by man of all required for man's wants—is a plus or profit and not loss. But if, in any year, in consequence of falling prices, the accounts show that there is no gross produce, there would be no assessment made for production tax in respect of that year. Any deficiency would be carried forward as a set-off against the gross produce arising in succeeding years, the balance only being then assessable to the production tax.

7. It may be necessary, in the interests of the State, and in order to prevent unemployment, to grant some special consideration—in times of sustained adversity—to certain classes of industrial undertakings carrying heavy labour bills. At such times, if the gross produce is found, at the end of the year, to be insufficient after deducting the payments made to wage-earners to pay the production tax, and to leave a reasonable margin for the shares of the other co-operators, an appeal against assessment to production tax should lie to a body such as the Board of Referees.

8. If, in the course of the Inquiry, it could be shown that the employers have paid no more to the wage-earners and salary-earners than must be reasonably regarded as minimum payments necessary for subsistence, the assessment for production tax for that year should be cancelled, or some suitable compromise arranged, according to the circumstances of each case.

9. It is not suggested that such relief should be available in cases of ordinary speculative undertakings. In such undertakings—whether manufacturing or merchanting in character—the employers' share tends to average itself over a period of years. The loss of one year is counterbalanced by the superprofit of another year. The suggested relief is intended to meet cases which may exist—especially

at the present time—where it is found that—taking the average consideration received for the commodity or service supplied—a big labour bill has absorbed so much of the gross produce that there is no reasonable margin left for the shares of the other co-operators. Such a condition of affairs may be due to circumstances altogether outside the control of the employers.

10. In order further to illustrate the proposed method of assessment in the case of ordinary speculative undertakings, which sometimes incur annual losses, examples are set out below of a manufacturing undertaking and of a merchanting undertaking. The examples cover a period of three years. The first year's profits are supposed, in each case, to be about normal; the second year results in a loss to the employers, owing to falling prices; in the third year, in consequence of rising prices, the employers' profits are abnormally high. Over the whole period of three years the average annual profits are normal.

Manufacturing Undertaking.

	1st year £	2nd year £	3rd year £		1st year £	2nd year £	3rd year £
Stock at beginning of year ..	10,000	10,000	10,000	Sales ..	100,000	70,000	130,000
Purchases (materials)	10,000	10,000	10,000	Stock at end of year ..	10,000	10,000	10,000
Expired capital outlay on plant ..	5,000	5,000	5,000				
Expenses	5,000	5,000	5,000				
Balance c/d	80,000	50,000	110,000				
	£110,000	80,000	140,000		£110,000	80,000	140,000
	£	£	£		£	£	£
Production tax..	8,000	5,000	11,000	Gross produce before taxation ..	80,000	50,000	110,000
Division of net produce:							
Wages ..	50,000	50,000	50,000				
Salaries ..	8,000	8,000	8,000				
Rent ..	900	900	900				
Interest on loans..	900	900	900				
Employers	12,200	—	39,200	Employers' loss ..	—	14,800	—
	£80,000	64,800	110,000		£80,000	64,800	110,000

In this case the annual assessments and the 10 per cent. production tax would be as follows:—

	Assessment £	10% Production Tax £
1st year	80,000	8,000
2nd year	50,000	5,000
3rd year	110,000	11,000
	£240,000	£24,000

It is assumed that this undertaking is not entitled to special relief, although it carries a big labour bill. Falling prices caused the loss of £14,800 to the employers in the second year. The employers' average annual profit amounted to £12,200.

Merchanting Undertaking.

	1st year £	2nd year £	3rd year £		1st year £	2nd year £	3rd year £
Stock at beginning of year ..	10,000	10,000	5,000	Sales ..	100,000	70,000	115,000
Purchases	70,000	70,000	60,000	Stock at end of Year ..	10,000	5,000	15,000
Expenses	5,000	5,000	5,000	Deficiency	—	10,000	—
Balance c/d.. ..	25,000	—	60,000				
	£110,000	85,000	130,000		£110,000	85,000	130,000
	£	£	£		£	£	£
Deficiency	—	10,000	—	Gross produce before taxation ..	25,000	—	60,000
Production tax..	2,500	—	5,000				
Division of net produce:							
Salaries ..	8,000	8,000	8,000				
Rent ..	900	900	900				
Interest on loans...	900	900	900				
Employers	12,700	—	45,200	Employers' loss...	—	19,800	—
	£25,000	19,800	60,000		£25,000	19,800	60,000

The annual assessments and the 10 per cent. production tax on this undertaking would be as follows:—

		Assessment £	10% Production Tax. £
1st year		25,000	2,500
2nd year		Nil	Nil
3rd year	60,000		
Less Deficiency from 2nd year ..	10,000	50,000	5,000
		£75,000	£7,500

It will be observed that although, owing to falling prices, the employers suffered a loss of £19,800 in the second year, the employers' average annual profit over the period amounted to £12,700.

Interest on Government securities.

11. Production tax would be deducted at the current rate from all interest paid on British Government and municipal securities, though it may be that ultimately under a suitable reciprocal arrangement (*see* paragraph 17) no production tax would be levied on the interest paid to persons domiciled in this country by Indian, Colonial and foreign Governments.

Domestic establishments.

12. Annual production naturally falls under two well-defined heads, (*a*) industrial production and (*b*) domestic production. The annual value of capital represented by lands, and houses in private occupation, would continue to be assessed to production tax as it is now to Income Tax and Super-tax. In addition, the annual value of furniture, works of art, jewellery, wearing apparel and all other personal belongings would be assessed. This annual value might be taken at say 5 per cent., or more or less, on the capital value according to the nature of the possessions. In view of the cost of collecting small sums, individual personal possessions worth less than £200 in the aggregate might be exempted. Further every employer of domestic service would be assessed to production tax upon the amount of the effective wages paid in any year to domestic servants, gardeners, etc., some provision being made in this case also to avoid assessments where the tax would be too small to be worth collecting.

13. The after-war value of household furniture, works of art, etc., has been estimated at £1,500 millions, which might be reduced to £1,000 millions by the exemptions referred to above. The annual value at 5 per cent. would therefore be £50 millions on which a 10 per cent. production tax would yield £5 millions. A further source of increased tax revenue might arise from the wages of those engaged in domestic service, including, when provided, the value of board and lodging. The number of people so employed is estimated at about 2¼ millions and the inclusion of the value of board and lodging might, after allowing for exemptions, represent a sum, in excess of domestic wages usually included in estimates of the national income, of about £50 millions a year, on which a 10 per cent. tax would yield £5 millions a year.

Great reduction in number of individual assessments.

14. As a production tax would be assessed directly upon employers of labour and capital, independent workers, and owner-users, a great saving in labour both to the State and to the taxpayer would result. Of the 20,000,000 occupied persons in the United Kingdom, under 3,000,000 are employers or independent workers—mostly with incomes under £500 per annum—and it is probable that the number of assessments to production tax, including domestic assessments, would not exceed three or four millions as against the 7,800,000 individuals with taxable incomes dealt with under the present system in the

year 1919-20. In that year no less than 3,900,000 individuals were ultimately relieved from tax by abatements and allowances. Under a production tax no repayments of relief to tax-payers would be needed, and in many other ways there would be a great saving in costs of administration and of trouble to the taxpayer.

15. It should be noted that the proposed production tax coincides in every particular with Adam Smith's four tax maxims while the present progressive tax system transgresses every one of them.

British capital invested abroad.

16. It is becoming clear that unless, in the future all nations are content to restrict annual taxation to the annual production arising out of service rendered by man and by capital domiciled within their own borders, all international investment will become so unattractive as to cause it to be restricted to a minimum. Since the War almost all nations have found it necessary to impose heavy taxation and they are turning, almost universally, to some form of Income Tax, based largely on the practice of this country. The position of our nationals who own incomes already taxed in the country of origin is almost unbearable, although under recent legislation partial relief has been given to incomes arising within the British Empire.

17. Our present system of Income Tax, instituted under conditions differing widely from those of to-day, wholly ignores the territorial limitations of taxation. This position should be remedied if, hereafter, some arrangement becomes possible based on a principle of reciprocity or national policy. On this subject the Royal Commission on Income Tax reported that no satisfactory change from present conditions could be made unless reciprocal arrangements were effected between the United Kingdom and each foreign State where an Income Tax is in force.

18. It is not likely that the exemption from British income taxation of profits arising abroad would tempt too much capital to go abroad, as many considerations other than taxation (including security, yield, etc.) affect such investments. The loss of revenue under a 10 per cent. production tax would not be great as it would amount only to 10 per cent. of such profits.

Small shop-keepers, etc.

19. The substitution of a production tax for the present Income Tax would make it much easier to deal with the difficult cases of the hundreds of thousands of small shop-keepers and independent workers who frequently do not keep proper accounts, and it would also reduce evasion. It would be possible to compute a minimum assessment upon written information regarding the number of employees in the business and in the home, the rents paid, interest paid on loans, and the insurance value of domestic furniture, etc. If the taxpayer alleges that he is poorer at the end of the year than at the commencement, the burden of proof will lie on him, and he will have to show in a signed statement which of his assets have fallen in value or which of his liabilities have increased in amount during the year. As those valuations would be the basis of computing the assessments of the following year, it is obvious that if stock and debts are under-valued at the end of any year the assessment for the following year will be correct unless still further under-valuations take place, a process which cannot be carried on for long without reducing the value to nil. This method of dealing with assessments to production tax would render serious evasion impossible.

Conclusion.

20. It is suggested that, as a beginning, a production tax of 2½ per cent., or 6d. in the £ only, might be applied, simultaneously with some further reduction of the maximum rates of Income Tax and Super-tax. The revenue received might be as under:—

21. Production tax of 2½ per cent. on annual production arising out of service rendered by man and by capital estimated as follows:—

	Millions. £	Millions. £
Estimate of national income as usually computed (say)	2,900	
Add		
Annual production arising out of service rendered by capital represented by household furniture, works of art, wearing apparel etc., held in individual holdings of the value of £200 and upwards, say £1,000 millions at 5 per cent...	50	
Additional annual production arising out of service represented by wages taken in the form of board and lodging	50	
	£3,000 at 2½% or 6d. in £	£75

22. Unless and until the profits arising from capital domiciled abroad are exempted from British taxation, under suitable reciprocal arrangements, there would be no deficiency of revenue to provide under this head. It is thought that, in course of time, the production tax would prove to be the least harmful means for raising the whole of the requirements of the State for revenue purposes.

23. If—as is suggested—the least harmful foundation upon which to lay taxation is annual production arising out of service rendered by man and by capital in supplying all required for man's wants, then in that case all taxes and rates raised for revenue purposes should be gradually shifted on to that foundation. In course of time the production tax would thus supersede, not only Income Tax, Super-tax and Death Duties, but also Customs, Excise, revenue stamps and other miscellaneous duties, and possibly, under some equitable system of contribution, even local rates.

Minutes of Evidence

TAKEN BEFORE THE

Committee on National Debt and Taxation.

VOLUME II.



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MINUTES OF EVIDENCE

TAKEN BEFORE THE

COMMITTEE ON NATIONAL DEBT AND TAXATION.

FIFTEENTH DAY.

Tuesday, 6th January, 1925.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman.*
SIR CHARLES ADDIS, K.C.M.G.
SIR ARTHUR BALFOUR, K.B.E.
MR. HENRY BELL.
MR. J. W. BOWEN.
PROFESSOR FRED HALL.
SIR WILLIAM McLINTOCK, K.B.E., C.V.O.
SIR JOSIAH STAMP, G.B.E.
MRS. BARBARA WOOTTON.

MR. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

Mr. R. G. GLENDAY, representing the Federation of British Industries, called and examined.

EVIDENCE-IN-CHIEF handed in by Mr. GLENDAY.

INTRODUCTION.

1. The problems raised by the terms of reference of the Committee can be regarded from many aspects, but to the Federation of British Industries, as representing manufacturers and producers, the effects of the taxation, and of different methods of debt repayment, upon the maintenance and development of the wealth-producing capacity of the country, necessarily seem the most important.

2. In a highly industrialised country such as Great Britain, dependent upon the export of manufactured goods to obtain a large proportion of her necessary supplies of food and raw material, the maintenance and development of wealth-producing capacity is virtually synonymous with the maintenance and development of industry.

3. The maintenance of industry depends upon a successful solution of the problems involved in the continuous adjustment of current production to current needs, including the production and marketing of goods in such quantities, of such qualities, and at such prices that they can compete successfully in the markets of the world with the goods produced by other countries. The solution of these problems at the present time is rendered abnormally difficult by unstable and depreciated exchanges and the other after-effects of the War on world trade conditions.

4. The further development of industry, which is essential if employment is to be provided for an increasing population, depends upon the successful solution of such problems as the early detection of new needs, or of new means of satisfying old needs, the correct appreciation of the possibilities of new inventions, and the ability to overcome the difficulties inherent in the co-ordination and combination of the financial and productive resources necessary for putting new projects into practical execution.

5. Both the maintenance and development of industry require, therefore, ability, experience and foresight of a high order in those who direct it, but this ability will be useless unless those who possess it have also at their disposal sufficient funds to maintain existing plant and equipment at its highest efficiency, and to test and prove the commercial possibilities of new developments.

6. These funds can only come from the accumulated savings of the community; that is, from a surplus of past production over past consumption; and these accumulated savings will only be placed at the disposal of those who direct industry if the expectation of future reward outweighs the possibilities of loss in the minds of those who possess them.

7. If, therefore, the character or amount of taxation is such as either to discourage or hinder the exercise of effort and initiative on the part of individuals possessing ability, or to discourage or impede the accumulation of savings, or by unduly reducing the reward of successful enterprise, to remove the inducement to the individuals who possess accumulated savings to incur the risk inseparable from the initiation of new projects, industry will suffer, and with it employment, and the comfort and well-being of every individual in the country.

8. The Federation of British Industries desire to lay particular stress on this aspect of the problem of taxation and debt redemption, since they have been much impressed by the small attention paid to it in current discussion, and by the frequency with which it is assumed that, since debt redemption is fundamentally a question of transferring wealth from one set of individuals to another, it can have little or no effect—beyond the more obvious consequences of redistribution—upon the operations of industry.

9. The Federation of British Industries believe that this view rests upon a profound misunderstanding of the highly complex character of modern industry, and upon a complete failure to appreciate the nature and variety of its technical difficulties.

10. They have, therefore, in preparing this memorandum of evidence, devoted their attention mainly to the reactions which will tend to be set up by different forms of taxation, and, in particular, by different methods of taxation for debt redemption, upon the current operations and upon the future development of industry.

EFFECTS OF TAXATION AND DEBT REDEMPTION ON INDUSTRY.

ANALYSIS.

(I) *Effects on the current operations of industry.*
Comprising:
- (*a*) The dislocatory effects of taxation.
- (*b*) The effects of different ways of spending the proceeds of taxation.
- (*c*) The effects of taxation and debt redemption on the supply of credit, money and liquid capital.

(II) *Effects on the future development of industry.*
Comprising:
(*a*) The effect on the rate and volume of savings.
(*b*) The effect on the amount invested in industrial enterprises.
(*c*) The effect on the readiness to incur risk.

(III) *General considerations and conclusions.*

(IV) *Some notes on the problem of external debt.*

(I) THE EFFECTS OF TAXATION AND DEBT REDEMPTION ON THE CURRENT OPERATIONS OF INDUSTRY.

(a) *The dislocatory effects of taxation.*

11. Trade seems often to be regarded, when dealing with the incidence of taxation and kindred questions, as being something inanimate, like a building or a lump of metal, of which part can be removed or manipulated without effect upon the remainder; whereas it is in fact more akin to a highly complex *living* organism. The functions of this organism, which is continuously undergoing movement and change, are the production and exchange of different classes of commodities and services. These functions are carried on through the medium of money, whose work may not inaptly be compared to the circulation of the blood in the higher organisms. External interference with this organism is not unlike similar interference, such as an operation, upon any other living organism. There is an immediate and obvious disturbance of the part affected, and further reactions, which may be far more important, upon the organism as a whole.

12. The raising of money by taxation, involving as it does a transference of wealth from one set of holders to another, independently of the normal cycle of trade operations, must, apart from its immediate and visible effects, set up general reactions on the whole trade organism. Moreover, since taxes are paid in *money*, whereas the means of payment are primarily derived from the production of *goods*, these reactions are of far greater ultimate importance than any immediate and visible effects. Unfortunately they are peculiarly difficult to measure, since we have as yet very little knowledge regarding the more intimate relations of different industrial movements to one another, or of the exact effects of changes in credit and money conditions generally upon the production and exchange of goods.

13. In spite of the present limitations of our knowledge, however, it is possible to lay down with a fair degree of certainty a few general propositions as to the manner in which taxation will affect industry.

14. Generally speaking, since trade consists of a large number of separate and continuously moving operations which are at the same time closely connected and constantly reacting on each other, it is extremely sensitive to any influence or pressure from causes outside its normal cycle of operations. Such outside pressure necessitates internal changes and adjustments which cause friction and loss.

15. Taxation in any case produces such an outside pressure, but, like the living organism to which we have compared it above, trade has a considerable capacity of adapting itself to a constant and uniform pressure, and, once it has had time to complete the initial readjustment and to recover from the consequent disturbance and loss, can often function to all appearances almost as healthily and effectively as before.

16. It is obvious, however, that frequent readjustments, or too drastic a readjustment in a short period, will necessitate a strain which may gravely diminish its prosperity and power of giving employment. Frequent readjustments would be necessitated by frequent changes in the rate, incidence, or character of taxation. Too large a readjustment in too short a period would be caused by a serious increase in the total volume of the taxation which it is sought to raise in that period.

17. These disturbing effects of taxation will be accentuated during a period of price instability, particularly during a period of falling prices, since broadly speaking, while those engaged in industry pay their taxes in money they earn that money by the production and sale of goods.

18. In drawing up a debt redemption scheme, the annual instalments of taxation must necessarily be calculated and fixed for a definite period ahead, as it is a practical impossibility to adjust them rapidly to a constantly changing trade position. A period of rapidly falling prices consequently tends to cause a temporary heavy increase in the burden of taxation, and, as prices fall, more and more of the country's productive resources must be diverted to meet the annual taxation charge; at the same time, the costs of production, owing to the well known time lag between movements in price and movements in cost of production, will still remain relatively high.

19. The effects on industry in 1921-22 of the high taxation imposed by the Budget of 1920-21, and the converse experience in Germany where rapidly rising prices completely outstripped the successive attempts to impose adequate taxation, clearly illustrate this danger.

20. Attempts to maintain a high level of taxation during a period of price instability, especially when the probability is that prices may fall, involve a danger of imposing a very serious strain on the vitality of industry, of which the ill effects may remain long after stability has been restored.

21. This point, for obvious reasons, becomes of particular importance when considering taxation of a type or volume which is in itself likely to have a violent or sudden "deflationary" effect.

(b) *The effects of different ways of expending the proceeds of taxation.*

22. Apart from the disturbing effects upon trade caused by the raising of taxation, a further series of reactions will result from the way in which the funds raised by taxation are expended.

23. Different objects of expenditure will obviously have differing effects on the demand for various services and commodities, and consequently will set up internal friction and disturbance in the body of trade.

24. For instance, to take examples at random, expenditure on unemployment relief, or armaments, or the repayment of debt, will obviously stimulate very different types of demand. And this difference in demand will react in very different ways on industry, and on the general balance and relationship of different industries to each other.

(c) *Effects of taxation on the supply of credit, money and liquid capital generally.*

25. While repayment of National Debt is only part of the general problem of taxation, it involves special considerations arising out of the magnitude of the sum involved and its intimate relation to the general credit machinery of the country.

26. If trade in any way approximated to the inanimate and motionless object of economic textbooks, there might be some ground for the theory that the problem of repayment of our National Debt merely represents the taking of so many million pounds of accumulated wealth by the State, which, by using it to pay off its debt, puts this money into the pockets of people who now hold the debt, who in their turn, either directly or through the banks, immediately reinvest it in industry.

27. Unfortunately, this theory makes the capital blunder of failing to take into account the effect of such a transfer on the financial machine.

28. It is almost impossible in this connection to over emphasise the extreme sensitiveness of the financial machine to large movements of money outside the normal cycle of trading operations. This is

well exemplified by the care with which the movements of money in connection with the annual payments of the revenue to the Exchequer have to be regulated and circumscribed. For example, the Treasury is practically (as well as legally) compelled to apply surplus balances as they accrue to the repayment of debt, since, were this provision not in force, any attempt to hold, say, £100,000,000 in Exchequer balances would put the financial machine out of gear, as the abstraction even for a comparatively short time of such a sum of money would reduce the supply of money available for trade and industry; in other words, would involve serious deflation of available credit.

29. It is, therefore, convenient to consider this portion of the subject in connection with the special problem of taxation for the repayment of debt, and it should make for greater clearness if we consider the problem in an extreme form, that is, repayment of a large amount of debt by heavy taxation over a short period such as would be involved by a Capital Levy, since the effect of more gradual methods of taxation and repayment will be similar in kind though less in degree.

30. Any attempt to secure the repayment of the National Debt in a comparatively short period of time by a sudden transfer of large sums of cash, War Loan, or other securities, would inevitably involve a serious dislocation. But this would not be the only result. Such a method of repayment could hardly avoid compelling the handing over to the Government in payment of taxation of either cash or gilt-edged securities previously employed by manufacturers and traders as a collateral for the purpose of temporary banking accommodation, with the result that the credit given them upon it would no longer be forthcoming, and they would have to contract the volume of their business. Moreover, the effect of the above contraction of business would be cumulative, since the principal fund out of which finished goods are bought by the ultimate consumer is provided by the money paid out in the form of profit, wages, etc. When the existing stream of goods finds itself faced with reduced purchasing power, the goods will be sold off probably at some sacrifice in price and not fully replaced. This would lead to still further contraction of production.

31. Since the above reactions are in some degree necessary concomitants of any scheme of debt redemption on a large scale, we feel it desirable to carry our analysis a step further and to consider in some detail the two most important means which may be used for the discharge of taxation, *i.e.*,

(1) Payment in War Loan or other gilt-edged securities;
(2) Payment in money.

1. *Payment in War Loan or other gilt-edged securities.*

32. Where the tax is paid in War Loan and the owner has not been using it as a collateral, there will be no deflation in the process of cancellation, or only deflation of a remote order. But even if he has been using it as a collateral, deflation may not necessarily ensue, for there are many overdrafts where the security given is War Loan because it is the most readily acceptable of the borrower's securities. If his "front line" is depleted he may mobilise his reserves of securities to take the place of the War Loan security. The result will be that the bank credit will not cease but will be based on the second line.

33. There is a second class, however, which must be considered, namely, people who have been using the War Loan as collateral, and if the War Loan is surrendered have no other securities to employ as "cover." In such a case the proportion of War Loan surrendered will make for active deflation.

34. Similar considerations to the above apply to people tendering other gilt-edged securities. If such securities are being used as a basis for credit and there is no other second line as a substitute, such people will have their credit contracted.

35. The deflation which can be expected to follow from the above methods of paying the tax depends, in the first place, on the amount of debt repaid in a given time, and secondly on the proportion of the total sum tendered in War Loan and approved securities by the people who use the War Loan and securities as collateral for credit purposes in trading, and who did not possess a balance of similar securities (after paying the tax) equal to the cover required for their existing trade activities.

36. In this connection the following two estimates of the distribution of the National Debt among the various classes of holders are of interest as showing that the bulk of the debt is held by persons other than manufacturers.

37. The first is taken from *The Economist* of April 19th; and the second is by Sir Josiah Stamp, a member of the National Debt Committee:—

"Economist" Estimate.

	£ Millions.
Debt to foreign or Colonial Governments	1,108
Bank of England and other Banks ...	820
Savings Banks or invested for subscribers through Savings Banks ...	555
Treasury Note reserve and advances of Government Departments	310
Other holdings of Treasury Bills ...	300
Insurance and Railway Companies ...	430
Add to preceding items to bring to par value	277
Held by private persons liable to Estate Duty	2,350
Held by foreigners, trusts, charities, trade unions, joint stock companies, etc.	1,550
	7,700

Sir Josiah Stamp's Estimate.

In an article in the *Contemporary Review* of January, 1924, Sir Josiah Stamp estimates "that the total War Loan in the hands of individuals lies somewhere between £2,200,000,000 and £3,000,000,000."

2. *Payment in money.*

38. This includes both cash and bank deposits. Few people keep enough cash in their till to make a large tax payment. Money may be obtained, however, either

(1) by drawing on balances on deposit in the bank;
(2) by raising bank loans or mortgages;
(3) by selling off securities, or
(4) by selling off trade stock, which, since it necessitates handing over the proceeds without replacing such goods, contracts the volume of business.

(1) *Drawing on balances on deposit at the banks.*

39. What is the effect of reducing bank deposits? To decide this point it is necessary to consider the use the Government would make of the money when received. Probably their first use would be to repay Treasury Bills to the banks and others, and also the various Government stocks with early maturing dates. We must carefully distinguish between the results which follow from paying off Treasury Bills and similar securities held (a) by the banks, and (b) by non-banking holders.

(a) *Reduction of Treasury Bills, etc., held by the banks.*

40. In the case of a deposit withdrawn by cheque for the purpose of paying the levy, the bank's liability to its depositor would be reduced by a given sum and its assets by a corresponding withdrawal and cancellation of a Treasury Bill. If putting its

depositors' money into a Treasury Bill were the only function performed by the bank in this case, neither deflation nor inflation would result. But it is not. Treasury Bills are, to a considerable extent, used as "second line" cash, and therefore are nearly as sensitive as cash in regulating the proportion of advances which the bank is prepared to make. (This aspect of the question was fully dealt with by Mr. McKenna in a speech which he delivered in January, 1923.)

41. Sir Josiah Stamp estimates the amount held by the banks in a form suitable for redemption at, perhaps, £500 to £600 millions. If the cash received by the Government were used to take up a considerable proportion of this, the shrinkage in advances might be substantial.

42. The main point to observe is that, so far from money getting "back into trade" by this process, the contrary happens and credit shrinks.

43. It is interesting to observe that during the last two years the quantity of total bank credit available (*i.e.*, clearing banks' deposits) has contracted *pari passu* with the contraction in Treasury Bills.

(b) *Reduction by the redemption of Treasury Bills, etc., held by non-banking holders.*

44. Where a deposit is withdrawn by cheque and the Government uses the cash to redeem bills and securities held by *non-banking* holders or private individuals, these holders become possessed of cash instead of stock, and this can be used to pay off part of their existing advances from the banks, or to extend their liquid reserves. At first sight, therefore, it does not follow that there will be any deflation. In this case, unfortunately, however, all the people with free funds as a result of redemption of National Debt by the Government do not return it to industry either directly or through the banks; indeed, the experience of the last year suggests that the psychological effect of greatly increased taxation would probably be to cause them to re-invest the greater part of the funds received in foreign securities. As we have already seen, the major part of the holders of National Debt are gilt-edged investors. There will, therefore, be a strong demand for gilt-edged securities at a time when the supply has actually been cut down.

45. (2) and (3). Similar considerations apply when the money for paying the tax is obtained by bank loans or mortgages or by selling securities.

46. (4). Where the liquidation of trade stocks has been necessary to obtain the cash, a depletion of the trading wealth in the case of individual businesses working on their own capital will be entailed, and before any of the new free funds in the hands of, say, a holder of War stock who has been paid off can reach such a business as a loan via the banks or similar channels, there must be a good deal of friction to be overcome, having regard to the fact that the manufacturer may be an untried borrower, having no good collateral, who in the case of repayment on a large scale at any rate, would be trading on a falling market. So we may conclude that the funds in the hands of individual businesses would of necessity suffer marked contraction if this operation took place on a large scale.

47. The possible deflationary effects of a Levy or other method of rapid repayment of debt over a short period may be summarised in the words of Sir Josiah Stamp (*Contemporary Review*, January, 1924) as follows:—

(1) *Primary or automatic deflation* due to the final removal of a definite proportion of the basis of existing credit.

(2) *Secondary or consequential deflation* due to the influence of the first deflation in reducing the money value of remaining collateral cover for credit (in stocks or goods). This would cause a general tightening of credit limits and margins. Included in this effect is the fact that (value for value) the second line of securities which would be partly mobilised for collateral would have (in individual cases) less proportionate potency as cover for overdrafts than now.

(3) *Disturbance deflation* due to maladjustment in the demand and supply for new securities of different types. It is one thing to show that for every £1,000 of shares on the market seeking a buyer, there is £1,000 of recently freed buying power. Equivalence in amount is not equivalence in kind. There would be a stiff demand for securities of a kind to replace those cancelled, whereas the supply would be mainly of sound but little known industrials, stocks with narrow markets, which must suffer, and so reduce the general credit basis. Lastly we must add

(4) *Psychological deflation.* — If individuals become nervous through the deflation resulting from the foregoing causes, and general distrust sets in, their mental processes will carry the preceding effects far beyond the point arithmetically or automatically necessitated. A stampede is no less effective or dangerous because the size and ferocity of the incoming pursuer is somewhat exaggerated by the pursued; while a second class of "psychological deflation" due to a lack of confidence in general political conditions might also very probably manifest itself and accentuate the "deflation" due to the previously cited causes to an almost incalculable extent.

(11) THE EFFECTS OF TAXATION AND DEBT REDEMPTION ON THE FUTURE DEVELOPMENT OF INDUSTRY.

48. The most important aspect of National Debt redemption in relation to the future developments of the industries of the country and trade generally is the redistribution of the current accumulation of the community's surplus resources which it entails. The effects of this redistribution can be considered under three heads:—

(*a*) The effect on the rate of savings;
(*b*) The effect on the amount invested in industrial enterprise;
(*c*) The effects on willingness to bear risks.

(a) *The effect on the rate of savings.*

49. It is generally agreed that high taxation tends to diminish the taxpayers' incentive to save, and, indeed, if carried to extremes would destroy savings altogether. In connection with industry it retards the building up of the reserves for the expansion of industry both by entrenching upon the profits available for this purpose and by reducing the incentive to save.

50. While it is obviously impossible to give actual figures, we believe that it would be difficult to adduce reputable authority prepared to deny that the present level of taxation has a deterrent effect on saving, especially when account is taken of the very heavy burden borne by the higher incomes which normally afford the principal sources of capital for the initiation of new ventures and for experiments in new methods of production. This danger has already been commented upon by the Federation of British Industries on previous occasions, and their views have been corroborated by many independent observers of undoubted authority, and in the highly important reservation to the Report of the Royal Commission on Income Tax, 1919-1920, which was signed by Mr. Geoffrey Marks and three other Commissioners.

(b) *The effect on the amount invested in industrial enterprise.*

51. From the point of view of industry the essential aspect of National Debt redemption is the transferring of wealth from industrial employment to gilt-edged and other fixed-interest bearing securities which it involves. The principal danger of this transfer is that if its rate is too high it must lead to

a diversion of too high a proportion of the national savings from industrial developments, and lead to an undue demand for relatively non-productive investments. That this danger is a real one can be seen from the following figures taken from *The Economist* showing the distribution of new capital issues between the State, Municipal and Industrial issues respectively.

New Capital Issues.

	State and Municipal. (000's omitted) £	Industrial Issues. (000's omitted) £
1900	68,597	96,902
1901	100,994	58,360
1902	83,656	70,156
1903	67,655	50,856
1904	73,741	49,278
1905	77,246	89,942
1906	40,160	80,014
1907	44,842	78,787
1908	65,441	126,763
1909	77,218	105,138
1910	91,709	175,730
1911	44,570	147,190
1912	44,307	166,543
1913	75,121	121,417
1919	820,534	215,524
1920	96,070	271,477
1921	309,333	72,044
1922	472,226	101,549
1923	178,144	93,248

52. While we realise that a great part of capital invested in this country is raised privately, and moreover that it cannot be assumed that the whole of the capital issues taken by public bodies is used for non-productive ends we believe that the above figures give a not inaccurate representation of present tendencies.

53. These figures should be taken in conjunction with the following figures showing the balance available for overseas investment taken from the *Board of Trade Journal*:—

—	1907.	1910.	1913.	1920.	1922.	1923.
	In Million £.					
Net income from Overseas Investments.	160	187	210	200	175	150
Net National Shipping Income.	85	90	94	340	110	110
Commissions	25	25	25	40	30	30
Other Services...	10	10	10	15	10	10
Total "Invisible Exports" on balance.	280	312	339	595	325	300
Excess of Imports of Merchandise and Bullion.	142	159	158	343	170	203
Available for Investment Overseas.	138	153	181	252	155	97

54. From these figures it will be seen that the amount of money available for overseas investment last year was only about half the pre-war figure measured in money, and considerably less than half when account is taken of the fall in the purchasing power of money since then.

55. The significance of the tendencies revealed in the above figures for home and foreign investment lies in the fact that at the present time we must not only provide the new capital equipment necessary for the annual growth in our industrial population as in pre-war days, but in addition that required to provide employment for over 1,000,000 workers who are at present unemployed.

(c) *The effect on willingness to bear risks.*

56. Risk of loss is inseparable from the early stages of new enterprises and of new developments of old enterprises, and in actual practice this risk is almost invariably borne by a single individual, or at most by a small group of individuals. If taxation is of such a character as to deprive these individuals of a reasonable expectation of substantial gain in the event of success, there will be an increasing tendency for the prospect of loss in the event of failure to deter them from displaying the necessary spirit of enterprise and adventure.

57. Yet it is this spirit which is the paramount industrial need of the moment, since without it the great industrial expansion and development, which can alone absorb our surplus population into productive employment, cannot take place.

58. The Federation of British Industries fully realise that the present lack of this spirit cannot be ascribed solely to the character and high level of present taxation, for the disorganisation of Europe and the general dislocation of the normal channels of trade since the War must bear a large share of the responsibility.

59. The effects of the War are, however, slowly passing away, and a general revival of world trade may be more imminent than is generally realised.

60. It is essential that the industries of this country should play their proper part in this world revival, and they will fail to do this if enterprise, initiative, and a readiness to face risks are penalised by our system of taxation.

(III) General Considerations and Conclusions.

61. The Federation has based this evidence on the assumption that all parties are agreed that debt must be reduced, and that constant vigilance should be exercised to reduce national expenditure in other directions. Debt redemption, however, involves taxation which must inevitably occasion disturbance to industry, and the problem to be solved is the discovery of those means of taxation which will minimise that harm to the greatest extent possible.

62. They would therefore suggest:

(1) That in order to minimise the dislocatory effects of taxation, changes in the method, form and incidence should only be made, if at all, with the greatest caution and as gradually as possible. This, of course, does not apply except in a comparatively minor degree to changes in form or incidence arising from reductions in taxation where the beneficial effects, both real and psychological, tend as a rule to offset any temporary dislocation, although even in this respect a certain uniformity in reduction throughout the range of taxation seems desirable, *e.g.*, reductions which radically and suddenly altered the relative proportions of direct and indirect taxation might have dislocatory reactions which would seriously diminish the benefit derived.

(2) That considerable caution should be observed during any period of price instability, particularly during any period when prices are falling rapidly. The maintenance of a high rate of taxation for the repayment of debt during such a period may involve so serious a strain on industry as to cause damage which it will take many years to repair and which will far outweigh any advantage gained by debt reduction during the period, while the increase of taxation for any purpose during such a period might be disastrous.

(3) That care should be taken that the repayment of debt is not so rapid or in such a form as to cause violent and sudden deflationary effects.

(4) That care should be exercised that the amount of taxation imposed is not such as to deplete unduly the annual surplus of production over consumption, and thus hinder the accumulation of savings which can be applied for the maintenance and development of industry.

(5) That taxation should not be of such a type or character as to act as a psychological or physical deterrent to those otherwise prepared to devote their ability or their money to the initiation and development of new sources of production.

63. In fact, from the point of view of industry, reductions of internal debt should be gradual, and spread over as long a period as possible, while the taxation required for the purpose should be as uniform in method and rate as practical considerations permit.

64. The problem of the debt is, therefore, to determine the length of the period over which repayment can be spread, having regard to the considerations—other than industrial—which must be taken into account.

65. Too short a period, involving too large a Sinking Fund and too heavy taxation, will produce the detrimental effects on industry already considered.

66. Too long a period and too small a Sinking Fund might mean an unnecessary prolongation of the period of heavy interest payments and have a detrimental effect on the credit of the State, thus delaying a reduction of the interest burden by conversion.

67. There must obviously be some point at which the advantages and disadvantages of the two courses balance, but no data exist by which this point can be determined exactly.

68. There are certain considerations, however, which at the present time lead the Federation to believe that error on the side of too small an annual Sinking Fund and too long a period of repayment must be infinitely less harmful than any error on the other side. Among these considerations are:—

(1) The existence of certain large but diminishing liabilities which are being paid out of income, the most important perhaps being War pensions. These in the broadest sense represent additional debt repayment.

(2) The great importance at the present time of maintaining and increasing national productivity, and thus of maintaining and developing the only source from which the debt can be paid. The importance of this consideration is greatly enhanced by the European settlement and the prospects of a general trade revival, with its increased opportunities for industrial expansion and its inevitable accompaniment of increased foreign competition.

(3) The part played by the prosperity of national trade in maintaining the national credit. Post-war experience gives considerable grounds for the belief that evidence of an ample and increasing capacity to bear the burden of a debt may be at least as encouraging to creditors and potential creditors as reduction in the volume of the debt itself.

(4) The high level of local taxation, which greatly increases the total burden on industry and is in most instances a direct element in cost of production.

69. It appears to the Federation that in view of these circumstances it is justifiable, instead of the more usual method of adding up what are assumed to be the minimum national liabilities in the shape of essential expenditure and debt services, and then endeavouring to devise the least harmful method of raising the necessary revenue, to suggest that the question should be approached from the other end, that the maintenance and development of national production and trade in order to meet the needs of an increasing population should be regarded as the principal objective, and that only that portion of the national income which is left after ample provision has been made for this object should be regarded as available for current expenditure or debt reduction.

70. They are aware that exact calculation on such a point is probably impossible, although they believe that the Committee on the National Debt, with the mass of statistical information which can be supplied by the Government Departments, and the wealth of expert economic assistance upon which they can call, should be able to obtain an approximate estimate.

71. Such an estimate would be of incalculable value not only as a guide to the annual sum which can safely be applied to the redemption of debt, but also as a means of determining the limits within which current expenditure must be confined.

72. The Federation are convinced that until these problems are approached in a new spirit and from a new angle there will be a constant danger that either debt redemption or current expenditure will exceed the limits of safety, and they would plead most earnestly for a general realisation that the rate both of debt redemption and of current expenditure must be kept within the bounds imposed by the necessity of maintaining a constant development and expansion of industry.

73. In regard to both it is not the weight of the burden which matters; it is the capacity to bear it; and it is the development of this capacity, by assisting the recovery of industry and the expansion of production, which must be the first object. If the rate of debt reduction and general expenditure is placed too low, the worst that can happen is delay in attaining certain desirable objects; if it is too high the result may be disaster. Rapid redemption of debt and heavy national expenditure can follow the return of prosperity; they cannot precede it without involving a lowered scale of living and heavy unemployment.

(IV) External Debt.

74. The taxation problems involved by the American Debt are similar to and have already been dealt with in the portion of this evidence which deals with internal debt, while the special problems involved by the payment of an external debt have been so admirably and exhaustively analysed in the Report of the Experts' Committee on the Reparation problem that but little remains except to point out that reparation payments to a victorious enemy and debt payments to a creditor ally amount, economically speaking, to very much the same thing.

75. They both consist, fundamentally, in the annual presentation of a certain quantity of goods (including gold) to another country for nothing.

76. Two points, however, seem worthy of consideration from the British standpoint:

77. Firstly, the money for the payment of the interest and sinking fund on the external debt is found from the surplus of visible and invisible exports over imports. This surplus is normally invested abroad as it is acquired by the different individuals to whom it belongs, and this re-investment is a continuous process. There is not, as it were, any particular moment at which the country as a whole takes stock of its export surplus and says to itself: So much of this surplus must go in payments for the American Debt, and what is left we can invest abroad. There, therefore, seems to be some danger of over-investment abroad and under-investment at home with consequent detriment to the accumulation of the capital necessary for the maintenance and development of industry.

78. There is, of course, no cut and dried remedy which can be applied, since any attempt to control or restrict foreign investment artificially would obviously endanger the position of London as the world's money market and entail evils at least as serious as those it cured.

79. The possibility of an excessive drain of capital abroad does, however, emphasise the importance of extreme care in the rate of repayment of internal debt, and suggests yet another reason why any attempt to repay it too rapidly might be inadvisable, since heavy taxation, still more taxation of a psychologically alarming character such as a Capital Levy, makes home investment less attractive and tends to develop a "flight of capital" into foreign investments.

80. Secondly, it seems obvious that debt payments to a foreign country, especially if allowed to have their natural effect on the exchanges, must constitute a stimulus to exports and a corresponding check on imports, and that both these effects may react differently on different industries in the country.

81. These effects and their reactions on the well being and balance of industry as a whole would seem to merit the careful investigation of Lord Colwyn's Committee.

4761. *Chairman*: You have come here to give us the views of the Federation of British Industries. We will look through your paper paragraph by paragraph, and the Committee will ask you questions as the points come up. The first few paragraphs are introductory?—I might interpose to say that we have deliberately omitted all reference to local taxation, as we understood that was outside the terms of reference of the Committee. But, of course, you cannot consider national taxation without considering local taxation. At the present time the burden of local taxation on industry is a peculiarly heavy burden, because it is a direct tax on industry; it differs in that respect at least from national taxation.

4762. *Sir Arthur Balfour*: On paragraph 12 I should like to ask what are the views of the Federation as to the exact effect that taxation has had on industry as a whole? You refer particularly to Income Tax, I take it?—We are referring there particularly to the changes in the effect of a given money burden of taxation consequent on the changes in the state of production. If you have a change in prices taking place, so far as the manufacturer is concerned the effect of the burden of taxation of a given weight at one period may be quite different from the effect at another period. For example, supposing you are raising £100,000,000, or, as we did during the last two years, supposing you had £150,000,000 more than was budgeted for, that represents a much heavier burden on industry as a whole than if all that £150,000,000 had been taken in 1919 and 1920; because, of course, prices were higher then and the actual burden, measured in goods, if you take the country as a whole, was much less.

4763. Is it your view, then, that traders as a whole, leaving out exceptional cases, have had to borrow more money to pay taxation in later years than in previous years?—I should say certainly that they have. Of course, that is a point on which you have to get evidence from individual manufacturers, and it is not the kind of evidence which they are going to publish; but I think it is well known that a large number of manufacturers have had to borrow money from the banks in order to pay their taxes.

4764. Was that due to the fact that they incurred liabilities with high priced stocks, which afterwards fell away in value?—It is rather difficult to isolate a particular factor and deal with it alone. But, taking the last three or four years, on the whole I think it is quite fair to say that a very large number of manufacturers found themselves with stocks they were unable to sell, and of course that made their difficulties very much greater.

4765. But their difficulties were made greater by the higher previous taxation; in a normal way a manufacturer would have made reserves against the contingency?—Certainly.

4766. Owing to the higher taxation he was not able to make those reserves?—Certainly.

4767. *Sir Charles Addis*: The gist of the paragraph is that a fall in prices increases the burden of taxation?—Yes.

4768. *Professor Hall*: With regard to paragraph 16, having read that paragraph in conjunction with a later paragraph, I take it that you do not object to readjustment of taxation by way of a reduction. This paragraph only applies really to a readjustment of taxation if it means an increase?—There are two points. First of all, any readjustment of taxation may produce dislocation, and so may tend to deflation. Of course, if you are reducing taxation you are countering that effect, so in the main the paragraph refers to an increase. But a very violent reduction of some particular tax alone might produce dislocation.

4769. I want to see how much importance you attach to the desirability of maintaining a constant rate of, say, Income Tax, as against the desirability, which you argue elsewhere, of reducing Income Tax. Do you think that the maintenance of a stable rate of taxation is of more importance at the present moment than a reduction in the rate of taxation?—I should say at the present moment a reduction would be much more important; but this evidence is intended to cover on broad lines the whole period of debt repayment.

4770. This is the principle you are enunciating here?—Yes.

4771. And the present policy you think should be in the direction of the reduction of taxation?—Yes.

4772. *Sir Arthur Balfour*: On paragraph 17, what are the views of the Federation on the question of Income Tax entering into prices? Perhaps I ought to say entering into the cost of production, and then into prices?—I suppose the answer would be that you cannot say that Income Tax enters into prices directly, but that indirectly it has a very serious effect. For example, if you have a high tax and if goods have to go through a series of different stages—involving charges first of all for raw materials, then wages and salaries and manufacturer's overheads, and finally for wholesale and retail distribution—there is a tendency, at least until people have got used to the high tax, at each stage to make some allowance for Income Tax in their charges. It is very difficult to avoid that, because they are not quite sure exactly what is going to happen to taxation. It has probably a very important effect on foreign competition. But here you have to consider local taxation as well as Income Tax. If the burden of tax in one country is less than in another—I have in mind at the moment, for example, Germany—the fact that you have higher taxation will undoubtedly make it more difficult for you to compete, though it is probably impossible actually to isolate the particular part in the process where it would make it so. In the case of Germany it is relatively simple because there I believe they have very largely a local Income Tax, whereas here we have local rates.

4773. In any case, unless there is a sufficient amount in the sale price of the goods you cannot collect Income Tax?—Income Tax is actually charged on profits, but a manufacturer who is making out his programme has to take some account of the fact that he will have to pay Income Tax.

4774. *Mr. Bowen*: Would that mean that the Income Tax would be taken into such account that the two or three people through whose hands the goods were passing would each put his share of Income Tax on the price?—There would be a tendency in that direction. Trade is a speculative thing, and if Income Tax is high and you are not quite sure exactly how your sales are going—it is in a sense a risk which has to be insured against.

4775. So that it would really transfer the burden of Income Tax from industry to the consumer?—To a certain extent it would.

4776. *Sir William McLintock*: You are referring to Income Tax only?—At the moment I am talking

about Income Tax, but I say you cannot isolate it from local taxation. I say local taxation is exactly the same as a labour cost.

4777. You suggested that if the goods, from the time they left the manufacturer until they reached the consumer, had to pass through other hands, each handler of those goods would take into account his Income Tax?—I think you are reading more into my words than is intended. All I am saying here is this. First of all, I think it is doubtful whether Income Tax enters directly into prices; but indirectly, when you have a high level of tax and you have a large number of people, each of whose risks are different, dealing with the goods, and particularly during a period such as we have had recently when you do not quite know what is going to happen, unconsciously the man takes into account the burden of taxation. I would not say it is a conscious calculation.

4778. If he does take it into account indirectly, then each handler of the goods must be putting on probably the full rate of the tax?—Again it depends on the nature of the risks which he has to bear.

4779. If he takes any of the tax into account the aggregate amount by the time these goods have passed through three different hands may be very much higher than the whole rate?—If each of them puts it on; but I have not admitted that each of them puts it on. I have said that there appears to be a tendency of that sort when taxation is high, and when it is not known exactly how trade is going to go. I do not say you could measure it, and I would object to any statement that each individual put on so much on account of taxation.

4780. I am not suggesting that he puts on so much, but if he takes it into account at all, and the goods go through three hands, and each puts on something unconsciously, the aggregate amount put on may be considerably in excess of the full tax?—In certain cases it might be.

4781. You also refer to local rates. I do not think there is any difference of opinion that local rates enter directly into the cost of the goods?—I agree.

4782. You do not suggest that Income Tax enters into the cost of the goods in the same way?—No. What I had in mind was partly this fact: that you have to have goods going through various stages, and it is quite possible that somebody at one stage might add something on to his price, and that would affect the price of the goods to the ultimate consumer.

4783. *Sir Arthur Balfour*: Do the Federation attach any importance to the ratio between direct and indirect taxation?—It is not a point which we have gone into in this connection.

4784. Your members have not expressed a view on that?—Not in connection with this evidence. But it is a matter which they have dealt with annually in connection with the budget.

4785. Have you any views with regard to Customs and Excise Duties and their effect on prices?—As the Federation contains people on both sides of the fiscal controversy, I should not like to express an opinion on that point.

4786. *Mr. Bell*: Might we understand exactly what paragraph 19 means? You say: "The effects on industry in 1921-22 of the high taxation imposed by the Budget of 1920-21, and the converse experience in Germany where rapidly rising prices completely outstripped the successive attempts to impose adequate taxation, clearly illustrate this danger." Which danger?—They are two extreme instances of the effect of changing prices and taxation.

4787. *Professor Hall*: You have pointed out the burden imposed by the maintenance of the rate of taxation during a time of falling prices. You have suggested that the burden is increased during the time of falling prices. Would you suggest that if prices are rising, that would be an opportune time to increase the amount of taxation?—It is certainly a time when you could take more and do less harm, because during rising prices the tendency would be for something in the nature of inflation to be taking place, and so the deflationary effect of the tax would be much smaller.

4788. So that if prices were to rise during the next few years, you would think that the maintenance of the present rate of taxation, or an increase in the rate of taxation, would be less burdensome than the maintenance of the present rate during a time of falling prices?—I am not quite sure that I have got your point clearly, but may I put it in this way? The first thing is that we would like the burden over a period of years to be settled. In addition, it might be possible during periods of rising prices to repay more debt than in a period of falling prices.

4789. You would rather favour an increase in debt repayment during a time of rising prices than during a time of falling prices?—Yes. But we object to the extent of the repayments during the last two years of depression.

4790. I would like to ask what lesson you wish us to draw from paragraph 24. Have you any particular recommendations to make in regard to expenditure?—In this connection, no. This is merely intended to illustrate that you cannot consider the question of taxation merely as an isolated act of taking a sum of money from one set of people and giving it to another. You have to follow it through its stages in detail.

4791. You are not passing any criticism upon any particular form of expenditure?—No, not here.

4792. *Sir Josiah Stamp*: Suppose you raise money by taxation and pay it out in unemployment relief, is that, in your judgment, inimical to society: is it anti-social?—I am afraid that takes me rather outside the terms of this evidence. It would, of course, be very much better if you could use the money to give people work.

4793. I was thinking more of this. You have deprived certain sections of the community of spending power which would have been exercised in a certain direction. You have handed it over to another lot of people who exercise the spending power in a different direction. Is that second direction less good for industry than the first?—If the money in the first instance was going to be used to develop industry, the answer in Yes. If it was merely, say, going to be spent on personal expenditure, then it probably would be better to give it to the other people. But I have not quite got what your point is.

4794. You say there are different effects in the way of spending the proceeds of taxation. I am taking one example, the first that you mentioned, expenditure on unemployment relief. If by taxation you take away from relatively wealthy people, we will say, money that might have been either saved for industry or spent in some perhaps luxurious personal expenditure or in some other direction, do you think that the purchasing power that is exercised by the unemployed is better or worse for industry than the way in which it would have been exercised by the original taxpayer?—I am afraid unless I knew who held the money in the first instance, it would be very difficult for me to answer that question.

4795. It is not accurate, of course, but assume, for the sake of argument, that the whole of the money spent on unemployment relief comes out of the Super-tax?—I should assume that a good deal of this money is being taken away out of the hands of industry, in the sense that it would be used for capital expenditure and is being spent on consumption.

4796. So that really what you have got by this process is fewer factories and less new machinery for future production and more apparent consumption of clothes and food. Is that so?—Yes.

4797. Is it unwise to have at the present time considerable consumption of clothes?—I am afraid I find a very great difficulty in answering a question of that kind. In the first place, it brings in social questions which are somewhat outside this reference.

4798. I do not want to go into that; I only want the effect upon industry; whether you could say that

industry would be more prosperous at the present moment?—You are getting on to my second difficulty there. My second difficulty is that when you have a period of trade depression with falling prices, I think it is very doubtful indeed whether you can do anything to revive industry immediately. But during this period something has to be done to find work for the people who are unemployed; you may spend the money on special capital works or you may spend it on their personal consumption. It must, however, be borne in mind that it is quite possible that the money you are spending might otherwise have been saved up during the period and used in a year or two's time for capital development. It is a difficult question, but I think my answer would be this. You have either to spend this money on food and clothing which you give to the unemployed, or else on special works which are going to find them employment. I cannot say which is preferable, because one knows that so many of these works are not economical. If the unemployed could be found productive employment, I have no doubt that would be the best solution.

4799. I am not on the point of the inevitability of this expenditure or the fact that it would be better to do this than to allow matters to drift; I am on the whole point as to industry, as it is constituted at the present time, being benefited more by the expenditure, we will say, of a Super-taxpayer in—just to give a concrete example—silk ties, as compared with the expenditure of the working classes and unemployed on boots, having regard to the fact that you have a large amount of fixed capital in the boot industry which is not being fully exercised at the present moment. Now are you not by this expenditure giving output to some of your staple trades that produce these commodities for the million, at the same time that you are depressing possible luxury trades in regard to the output that they might have had?—If you are depressing luxury trades only, then I incline to agree with you.

4800. You see now what my point is—whether in fact this kind of redistribution of income through taxation is worse for industry in the way it is spent?—I do not think I should like to give an answer to that question beyond saying that if it was spent on personal luxuries it would be better to redistribute it in the above way. I should not like to commit myself to a general argument of that kind, because the question arises, where are you going to stop?

4801. *Sir Arthur Balfour*: If it was spent on pushing the export trade of the country and therefore causing more real employment, it would alter the case altogether?—Yes.

4802. *Professor Hall*: There is a further point I would like to ask. We recognise that the imposition of taxation may affect the prosperity of industry. But how far does the payment of the unemployment benefit assist industry later by maintaining the efficiency of the workers? Are you satisfied that the efficiency of labour is more effectively maintained as the result of this policy, and that industry, although it may suffer as the result of taxation, does benefit by the maintenance of efficiency?—Again, in a question of that sort I am in a little difficulty. The only way really in which you can maintain their efficiency is to employ them, and if they cannot be employed, naturally they have to be fed and clothed. The whole thing is a difficult social problem which everybody has to try to solve.

4803. Taxation for this purpose is justified?—Yes, but that is rather outside the present terms of reference.

4804. *Chairman*: On paragraph 29, do you want to amplify what you have said with regard to the Capital Levy?—I do not think so.

4805. *Sir Arthur Balfour*: In paragraph 30 you say that a sudden reduction of the National Debt would inevitably involve serious dislocation—and also, I suppose, serious deflation, would it not?—Yes.

4806. Have you formed any opinion as to the amount of the trade of the country which is in the hands of joint stock companies and in the hands of private individuals, respectively?—No. In this connection we do not attach any particular importance to the distinction between joint stock companies and private individuals. The point was raised, I believe, in one of the questions submitted to our Federation Committee, but they did not consider it important.

4807. If a Capital Levy were to be applied to private individuals and not to joint stock companies, there would be a considerable difference?—It is difficult to say either how much of the money that a private individual has, goes into trade, or to separate it from the amount of money which goes from joint stock concerns. At least that was the view of the Committee.

4808. *Mr. Bowen*: With regard to paragraph 33, could you tell us to what extent people are using War Loan as collateral?—No. But it makes no particular difference whether they are using War Loan or some other gilt-edged security. *Sir Josiah Stamp*: The whole point of the original document from which this was drawn was not so much the total quantity that is being used as collateral, but how much lies behind it that is not being used and could be substituted for it.

4809. *Mr. Bowen*: In paragraph 44 you state: "The experience of the last year suggests that the psychological effect of greatly increased taxation would probably be to cause them to re-invest the greater part of the funds received in foreign securities." Could you amplify that, for my information?—I may explain that this report was prepared fairly early last year—this part, at any rate—when we were being told by bankers that as the result partly of certain incautious statements by a Cabinet Minister, and partly of an expectation that a Labour Party was coming into power, who might attempt to bring in something in the nature of a Capital Levy—money was in fact being invested abroad.

4810. Did the flow of capital abroad come from manufacturers?—I am not prepared to say from whom it came. This statement must not be taken too literally; it is merely an illustration of what might be the effect.

4811. *Sir Josiah Stamp*: Is it anything more than a question of the direction of new capital during the year?—This was credit, rather than long term investment.

4812. Not foreign securities?—It was investment of liquid resources.

4813. *Mr. Bowen*: I saw the statement that capital was fleeing the country, but I never saw any evidence of it, and I am trying to find it?—This is what the bankers told us at the time, and so it was incorporated, but it is not intended to be taken too literally, but merely as an illustration.

4814. *Sir Josiah Stamp*: Supposing a levy were to be imposed and gilt-edged securities were redeemed, would people who get that money on redemption send it abroad into foreign securities in the fear of an immediate second levy; is that the point?—Yes. If you started a Capital Levy, they would not know what else might not happen.

4815. Would a person put his money in securities abroad to escape a Capital Levy, or a second Capital Levy?—I am not prepared to say whether he would or not. I am merely saying here what he would be likely to do. The development of such a tendency would not be good for industry. After all, psychological influences, whether based on reason or not, are important.

4816. *Sir Charles Addis*: They are not susceptible of proof?—No.

4817. It is merely an opinion?—Yes.

4818. *Sir Arthur Balfour*: On paragraph 49, have you any evidence amongst your members with regard to the extent to which high taxation has reduced reserves. One witness told us that he did not think

that high taxation had reduced the rate of accumulation of reserves?—No. That is a thing upon which you will not get the ordinary manufacturer publicly to express views. He has to consider his shareholders and the interests in the business, but in some cases where you have to maintain a high dividend then it is likely to be at the expense of the reserve.

4819. You think the dividend would come first?—In certain cases.

4820. Do you think there should be some tax exemption for reserves left in a business?—That is one of the ideas which we think requires to be explored.

4821. Have you explored it at all?—No. That is rather outside my province, but I believe it is being explored, though I cannot say more at the moment than that we think reserves ought to be exempted in some way.

4822. *Mr. Bowen*: Would you place a limit on the amount of reserves to be exempted?—I have not examined the matter. That is a question which is beyond my powers to deal with beyond saying that we think that reserves certainly occupy a special position and require special treatment.

4823. But you have not looked into the complications?—No.

4824. *Professor Hall*: You have no workable scheme to suggest?—No. Our idea was that it was one of the matters for this Committee to investigate.

4825. *Chairman*: Sir Arthur Balfour asked you an important question as to whether taxation has caused a depletion of reserves, but you have no figures to show the difference between the last year but one and last year?—No.

4826. *Mr. Bowen*: In your manufacturing businesses and in the statement you have just made that primary consideration would probably have to be given to dividends, have you found any inclination to regard dividends as being subject to a certain limit beyond which industry should not go or could not go? You said a moment ago that you thought dividends would have to have first consideration over and above reserves?—You mean that reserves should have prior consideration.

4827. *Mr. Bowen*: I was surprised to hear you say so. *Sir Arthur Balfour*: You did answer me that you thought dividends should have prior consideration?—(*Witness*): I am sorry; I meant it the other way round. Of course, in certain businesses the dividends might be the first concern, and in other cases reserves, but from the point of view of industry as a whole it is quite clear that the reserves should have prior consideration.

4828. *Sir Josiah Stamp*: In the case of the companies who want to keep up dividends is it the gross or the net dividend that they want to keep up?—I suppose it varies—the net in many cases.

4829. *Mr. Bowen*: We have the statement made that high taxation diminishes the taxpayer's incentive to save; we have been told by previous witnesses that shareholders demand the maintenance of a high rate of dividend; what I want to gather is if there is a general understanding that there should be a fall of comforts all round and whether shareholders are being required to put up with a lower rate of dividend?—I am afraid I have not caught your point.

4830. Let me try another way then. Is it found in the various manufacturing businesses that shareholders look to the maintenance of a high rate of dividend all the time without regard to existing conditions in the country?—Everybody likes to have high dividends but they do not get them.

4831. But some of them get them, certainly?—Some do, yes, but the interest of the shareholder is not always that of the business. You have in a business something which goes on for ever, while any particular individual shareholder's interest is temporary only. In many companies there is often a fight, if you can put it so, between reserves and dividends.

4832. *Sir Arthur Balfour*: Is it not a fact that in a great many instances, owing to high taxation, dividends have had to be paid so that people could live at all, and that has affected the reserve?—Certainly, yes.

4833. *Sir William McLintock*: With regard to public companies generally, do you suggest (I understood that you did) that the directors look to the net dividend that is available to the shareholder?—I was referring there rather to the dividend received.

4834. After all, as a general rule, directors of companies settle the reserves, and they settle the dividend policy. Do you suggest that, owing to the high rate of tax, they have had to increase the dividends in order to produce the same net yield after deducting tax?—Yes.

4835. Notwithstanding that no two shareholders are necessarily liable at the same rate. After all one man is liable at 4s. 6d. and another man is liable at a less rate, and another shareholder is not liable for any tax at all it may be: do you suggest still that the net dividend receives special consideration in public companies generally?—I will put it in this way: all these questions you are asking me are questions which face each company and which each company has to balance up, so to speak, from its own point of view.

4836. *Sir Josiah Stamp*: What do the majority of companies do—that is the point; do they consider the net or the gross?—The gross, I should say, on balance, but I should not like to commit myself definitely. It is not a point I have gone into.

4837. *Sir William McLintock*: I agree with you that they consider the gross. They pay a 10 per cent. dividend and are not concerned with whether the tax is 4s. 6d. or 6s. in the £. *Sir Arthur Balfour*: But they are impelled to pay a particular dividend by the necessity of the shareholders to live?—(*Witness*): Each company has these problems to face; some will decide them in one way and others will decide them the other way.

4838. *Mr. Bell*: My experience has been that it is gross dividends that are considered, and the matter of Income Tax is left to the recipient. *Sir William McLintock*: Take the case of the banks; many of them have maintained the same gross rate of dividend for many, many years *Mr. Bell*: Yes. I have known a great number of cases where the directors of companies have come in sometimes to borrow for the purpose of dividend, and have explained to us the very hard position of the wretched shareholders, many of whom had no other means of living at all; and they say: "If it is at all possible for us to pay a dividend we must do it in very charity. These wretched people come to us and say they have no other money to live on." *Sir Arthur Balfour*: A form of dole. *Sir William McLintock*: That is an increase to the sort of people who have very little money to live on, but the tax does not bear on them at all. *Mr. Bell*: I am not thinking of the tax; I am thinking of the dividend and the reserve. If they can make a fair reserve they do not want to make such a large reserve that they leave a number of poor shareholders without any money at all to live on; it is always a question of adjustment?—(*Witness*): That is what I had in mind when using the terms "gross" and "net"—not Income Tax.

4839. *Sir Josiah Stamp*: In this policy of maintaining the dividend on the point of Income Tax do you think that they regard the net or the gross?—From the point of view of Income Tax probably the gross.

4840. They are content to maintain the gross?—Yes.

4841. In the case of a dividend which used to be 10 per cent. gross and was roughly about 9 per cent. net they are still content to pay 10 per cent. gross, or about 7½ per cent. net?—Yes.

4842. Therefore the shareholder does not get as much even though they maintain the gross?—Certainly.

4843. Will you relate that to your previous answers? You told us that they attempted with a large measure of success to maintain their net profits after payment of Income Tax by getting a larger gross profit; assume that to be the case?—All these questions you are asking me are quetions which individual companies are faced with.

4844. But you gave us a general answer for industry as a whole in which you thought that the tendency was to put Income Tax into price; in order that profits might be maintained at a net figure a larger gross profit was obtained. That being so, the bulk of companies have succeeded in getting a larger gross profit in order to maintain the net, but when they come to distribute dividends they are content to pay the same gross and a smaller net; therefore they must retain the whole of that difference in their own coffers. The difference between their price policy to the public and their dividend policy to their shareholders being in the one case the maintenance of a net figure, and in the other case the maintenance of a gross figure, they must be in funds and therefore their reserves ought to be very much larger. *Chairman*: The witness has said he has no figures about reserves. *Sir Josiah Stamp*: I am only taking his own theoretical evidence. I am relating his earlier theoretical evidence about the price policy with his present theoretical evidence about the dividend policy, and I am asking if these theories are translated into facts what happens to the balance. The company succeeds in passing on the burden of the Income Tax through price to somebody else?—(*Witness*): I think you must have misunderstood me.

4845. *Sir Arthur Balfour*: The companies tried but did not succeed?—Yes. On this point I should think the Federation would probably accept your evidence, Sir Josiah.

4846. *Sir Josiah Stamp*: As long as you will agree that you cannot reconcile the earlier and the later answers?—I do not say that. First of all, I said that Income Tax did not enter directly into prices, but it had an indirect effect, because people tried to do so.

4847. Is there an indirect effect in a thing that people wish to do and try to do and completely fail to do; would you call that an effect?—I am afraid I am looking at it from the point of view of the manufacturer trying to sell his goods.

4848. He would like to get twice the price, but you would not say that that is an effect; it is a wish?—May I put it in this way: Here is a manufacturer trying to sell his goods to the public. The effective factor is the price which the public will pay for those goods. If those goods have to go through a series of hands and one person in that series tries to get Income Tax added to his prices the effect may be just to prevent those goods being sold.

4849. *Mr. Bowen*: Take another theoretical example. If all these attempts are being made, and presumably they are being made, the succeeding attempts must bring about some success in some connections?—Yes, I think that is quite possible, but the whole burden of this, if I may put it so, is that when you get something like a high Income Tax it is very difficult until trade has settled down to it for a period to appreciate its effects, because no two business men know exactly where they stand. That is what I wish really to be read into my answer. I do not wish to imply that it is so much a question of a net addition to price, but that it adds to the difficulty of selling goods.

4850. *Sir Josiah Stamp*: I will sum the matter up to my own satisfaction with one more question: Do you think that the present high level of prices is high because of the high rate of Income Tax?—I should not like to commit myself to that. In certain cases it is quite possible that it is, but, speaking generally, I should say no.

4851. Do you think that if the Income Tax were reduced by 1s. 6d. prices would drop by a corresponding ratio?—Not by a corresponding ratio. I think prices would drop.

4852. By how much—one-tenth or one-twentieth?—As I say, I should not like to treat this as a mathematical proposition at all.

4853. I do not want you to treat it as a mathematical proposition; I only want you to tell me whether it is your firm belief that Income Tax enters into prices in practice as an actual effect—not in the heart of the manufacturer, but in his ledger?—Not the manufacturer necessarily, but I think somebody at some stage may add to the charge which he makes for dealing with the goods because he has in mind Income Tax.

4854. Therefore the existing level of prices is only to a small extent high because of the high rate of Income Tax?—Yes.

4855. Is it of sufficient magnitude to take notice of?—On that particular point it is quite possible that speaking generally the answer is "no," but the point I am trying to make—and the point intended to be made in the written evidence—is that Income Tax not only has a direct effect as a sort of addition to price, but it has a frictional effect on the flow of goods. Buying and selling is a continuous process; if you stop the movement all your prices are altered.

4856. Do you mean that the buying of goods is affected because the rate of Income Tax is 6s. instead of 4s. 6d.?—Yes.

4857. Do you mean that the average limited company finds more difficulty in carrying on transactions because of the rate of tax?—I say buying and selling as a whole.

4858. There is more friction?—Yes.

4859. By "friction" do you mean that it is more difficult to carry out the transactions?—Partly that and partly other considerations. It is very difficult to isolate this factor from the present state of trade.

4860. What problems exist in the buying and selling of goods with Income Tax at 6s. which do not exist with Income Tax at 4s. 6d.?—For example, you have more liquid resources at the lower level.

4861. Is it the amount of Income Tax that you pay that determines the resources?—You have more money to spend.

4862. *Sir William McLintock*: Then you must still have kept the price up?—You may be selling more goods.

4863. *Professor Hall*: Why should it concern a company if it is content to pay the same rate of gross profit?—I am trying to put to you another point of view which is rather opposed to that in which such questions are generally looked at, that is, of a parallel flow of goods and money.

4864. *Sir Arthur Balfour*: Supposing the pre-war net profit of the whole of the industries of the country were subjected to the same total amount of Income Tax as is raised to-day, what would be the position if that profit had not been increased at all?—There, again, I should attach more importance to the indirect effect than to the direct effects.

4865. Could you have collected it? Could you collect the amount of money we are to-day collecting in Income Tax, unless there had been some increase in the selling price of goods?—It is what I may call a monetary effect that you are referring to there.

4866. *Sir Josiah Stamp*: I do not want to pursue this point unduly, but I would like the witness to consider these three different positions, and if possible send in a written statement reconciling them. Position No. 1 is that there is an increased margin of profit to turnover that has been successfully attempted by the manufacturer?—Not by the manufacturer necessarily.

4867. Well, by anybody; that has the effect of making prices higher than they otherwise would have been with the lower rate of taxation; that is position No. 1. Position No. 2 is that the dividends received are, generally speaking, the same gross amount, but smaller net. Position No. 3 is that the

reserves of companies are not as great as they were or ought to be. It is the reconciliation of those three things which is bothering me. I do not want to harass you about it now, but if you will think of those three things and show us how they come about——. *Sir Arthur Balfour*: I think Sir Josiah is putting something which is hardly fair to the witness, and that is that the dividends are the same gross; they are not. *Sir Josiah Stamp*: Are they less, gross? *Sir Arthur Balfour*: Yes. *Sir Josiah Stamp*: That only makes the reconciliation more difficult? (*Witness*): I think the difficulty is got over if you will remove the word "price." I am afraid I have rather different ideas in my mind from what you have. I have started off with the idea that Income Tax has no direct effect on price, but I say it has an indirect effect on price in this way, that it reduces the amount of goods which you sell; does that meet your difficulty?

4868. *Sir Josiah Stamp*: Your view is that it affects price because you have got a much smaller supply of goods?—Yes.

4869. *Sir Charles Addis*: Before we pass from this question, is there any evidence that you have been able to ascertain to show whether, in the case of the published accounts of industrial companies, there has in fact been any diminution in the amount put to reserve in the last five years?—We have not looked at it from that point of view. We have simply taken the personal views of members of the Federation.

4870. You did not investigate the accounts of public companies?—No.

4871. *Sir Arthur Balfour*: With regard to paragraph 62 (5), have the Federation in mind any type of taxation which, while producing sufficient to meet national expenditure, can satisfy the requirements in sub-paragraph (5)? Have you anything to suggest in the way of alterations of taxation which would still produce sufficient to meet the national expenditure?—Our idea was to put the suggestion as one into which this Committee should inquire.

4872. But you have no suggestion to make yourself?—No, we have not at the moment.

4873. *Professor Hall*: There is no detailed criticism of any particular tax other than Income Tax in the statement that has been submitted. I would have liked to have your views with regard to the comparative advantages of the reduction of indirect taxes and direct taxes. We had a reduction of indirect taxation last year?—Yes.

4874. I would like to have your views as to the merits of such a reduction in comparison with a reduction of Income Tax, and as to the effects upon industry?—As I say, it is a question which our Committee did not go into in any detail, but I think it is covered by the answer. It all depends on what the money in the two cases would be spent on. If in one case you are taking money which would be spent in production or capital expenditure, and you are spending it on consumption, then under normal circumstances it would be a bad thing. But I should say in a time of serious depression it is better for the country as a whole that you should reduce Income Tax rather than indirect taxation.

4875. Take a general reduction in expenditure; it may be a reduction in the debt-charge, a reduction in armaments, or a reduction of pensions, or a reduction of any kind; you have a sum of money available; should that be applied to reduce direct or indirect taxes?—My reply would be that it depended on the state of trade at the time. If trade was prosperous you might give it to indirect taxation. If trade was depressed I should be inclined to the view that you should take it off direct taxation.

4876. You cannot always be altering these taxes. Once you have reduced the tax the argument is that you are going to maintain that alteration for a period of years, in accordance with your suggestion?—The only view expressed by the Committee on that subject was that there should be a proper balance between the two; they did not go beyond that.

4877. That is a point I wanted to raise in this connection: why has there to be this balance between direct and indirect taxation? Is it on the ground of equity between various members of the community, or is it on the ground that it is better for industry that there should be such a balance?—I am afraid we are not experts in taxation. The taxation system of this country has grown up along particular lines—I do not know the reasons why it has—and in dealing with that we say, therefore, there ought to be a sort of general balance kept in the alterations you make in the various parts. If any individual tax can be shown to be harmful for any special reasons it ought to be removed, but taking the position broadly, unless there is a good case for doing so, you ought to keep a proper balance between the two.

4878. I can understand that from the point of view of equity of taxation between various members of the community, but I do not see any guidance here as to the effects of the maintenance of this policy upon industry?—Industry is a thing which has developed over a long period of years, and so has your system of taxation; if you are going to take money in the form of indirect taxation it has one effect, and if you are going to take money in the form of direct taxation it has another effect. If at one time you say you want to stimulate the consumption of consumable goods then you might say that you ought to leave direct taxation where it is and reduce indirect taxation, and in another case where you wanted to stimulate capital expenditure then you might take it off direct taxation.

4879. That does not maintain a constant ratio between the two, does it?—I put this forward as the ideas that were in the Committee's mind; they have not gone into any further detailed examination of it. Take a practical example: Last year it probably would have been better to reduce Income Tax, say, than to reduce things like the duties on tea, alcohol, and things of that kind, because they are luxuries.

4880. *Mr. Bell*: And the Entertainments Tax?—Yes. I do not go into the medical question as to whether there is too much tea and too much alcohol drunk, but they are rather in the nature of luxuries. I am just taking a broad view of the situation, you cannot lay down any general rule upon which you should reduce indirect taxation as against direct; it depends on the circumstances.

4881. In that case it becomes impossible to maintain a constant ratio between the two?—I do not say a constant ratio—a proper ratio.

4882. *Mr. Bowen*: Would you not agree that where indirect taxation is relieved there is a bigger purchasing power and a bigger stimulation to industry?—The answer is that it depends what you spend the money on.

4883. Of course, but take the community as a whole: here are 40 millions of people, and you cannot direct their pennies or twopences in any given channel, but you might asume that if they are relieved of taxation on foodstuffs they have more money to spend in other directions, and that must be a stimulation of different kinds of industry?—There again it all depends. I am taking this as an illustration, and I do not want it to be taken as the official view of the Federation. Take the position at the present time: if you reduced Income Tax that would give a greater stimulus to industry than by reducing the duty on tea and alcohol.

4884. That is entirely a matter of opinion, is it not?—Yes.

4885. You refer to tea as a luxury, for example?—I am afraid I am rather impressed by certain medical opinions that have been expressed, that there is too much tea drunk and that it has harmful effects.

4886. They say that about the eating of bread too, do they not?—Yes.

4887. *Sir Arthur Balfour*: On paragraph 68 would the Federation suggest that the Sinking Fund should be altogether suspended in the event of the calculation in paragraph 69 showing that no balance was

available after providing sufficient for increasing trade?—We are assuming that there would be a balance.

4888. Supposing it does not, you would not suspend the Sinking Fund?—No, but the suggestion has been made that there are a very large number of concealed sinking funds in existence which require looking into; but we certainly would not say you have to do away with the Sinking Fund.

4889. What do you regard as the minimum provision for debt repayment which is essential?—What we had in mind was rather the converse proposition, that during the last two years we have budgeted for £26,000,000 deficit, and we got £150,000,000 for debt redemption. We thought that was too high during a period of depression.

4890. You do agree, of course, that there should be some fixed minimum Sinking Fund?—Yes.

4891. *Chairman*: Is there anything further you would like to add?—No, I do not think so.

Chairman: We are much obliged to you for coming.

(*Adjourned for a short time.*)

Mr. A. G. Walkden, Mr. A. Pugh, Mr. W. Kean, Mr. Milne Bailey and Mr. John Turner, representing the Trades Union Congress General Council, re-called and further examined.

[The evidence-in-chief of the Trades Union Congress General Council was handed in at the previous examination and will be found in the Minutes of the Tenth Day, page 228.]

4892. *Chairman*: Gentlemen, the last time we had the pleasure of having you here as witnesses we had reached section III in your paper, and we will proceed from there now. Have you anything to say on section III beyond what is written down here?—(*Mr. Walkden*): That section amplifies the concluding portion of section II, where we indicated that the freeing of £305,000,000, which is now used to pay interest on the debt, would enable us to improve the services of education, old age pensions, mothers' pensions, and things of that kind, and would still leave a large balance available for other purposes. Out of that balance, which we put at approximately £200,000,000, in our view the whole of the remaining food taxes, about £28,000,000 a year, could be comfortably wiped out, and probably some other taxes, too.

4893. *Sir Charles Addis*: I want again to raise a question which we began on the previous occasion you were here, and which I was not able to complete. So far we have considered the question of a Capital Levy from the point of view of whether, upon the whole, it was to the national advantage to discharge a great slice of the debt by a single levy now and so do away with the obligation to pay interest on it in the future, or whether it was better to pay the debt gradually and to face larger interest charges for a long term of years. But as I understood the questions and answers which passed between us the last time you were here, you took a rather different view of the object of a Capital Levy: it was not so much to reduce the burden or the rate of taxation in future years as to set free a larger sum for social expenditure. Have I fairly represented your views on that point?—That was part of what I urged. I also urged that it would have a healthy effect on industry and would liberate capital, which is now locked up in the form of debt, for industrial purposes. If the debt were redeemed through the agency of a Capital Levy the bondholders who were paid out could utilise that money, and undoubtedly would put it into industrial investments to a very great extent, and thus provide more working capital for the active part of the community. We dealt with several aspects of the matter.

4894. Might we take them one by one, if you will allow me?—Yes, with pleasure.

4895. There are two aspects. You may have a Capital Levy with the object of reducing the tax burden in future years or you may have a Capital Levy with the object of continuing the tax burden and setting free a larger amount for Government expenditure on social objects. You would agree with that, would you not?—As I understand it, what you wish to consider is whether the redemption of the debt should permit of complete remission of £305,000,000 of taxes which are now necessary to pay the interest, or whether that money should still be collected as taxes and used for social services.

4896. Yes.—We have suggested that approximately one-third of it might be used for social services, and £200,000,000 of it might very well be used for easement of general taxation.

4897. Let me put it in a concrete form, which will perhaps get us closer down to it. If the whole of the £6,000,000,000 of internal debt were wiped out, and therefore a sum approximating £300,000,000 a year for payment of interest was set free, your object would be, not to apply the whole of that to the reduction of taxation, but to apply, say, two-thirds of it to social expenditure, and one-third of it to reduction of taxation?—We suggest one-third to social expenditure and two-thirds would be available for other purposes; but whatever the proportions might be, I must say that it would be the expectation of the working classes of the country that if the Exchequer were freed from the necessity of paying interest on a great National Debt it would be able and would be expected to provide funds for greater social services of a useful, productive and helpful character.

4898. *Mrs. Wootton*: You do not attach special importance to the particular proportions, two-thirds and one-third, do you?—No, we do not press the figures; we only put them as illustrations. It would be necessarily a matter for extensive consideration as to how the adjustments might best be made to fit the needs of the day when we got free from the tax. I might say, in further answer to the earlier questions put, that in our view it would not be practicable, and it could not really happen that we should clear the whole debt off at one swoop. The raising of the money through the agency of the Capital Levy would take a good deal of time. In our view there might be reasonable time allowed for the payment of the levy, especially to those who had large amounts to find, and the payments might be extended over a very much longer period than is the case with the ordinary Income Tax, where you get from one month to six months' latitude. It might well be desirable and a fair thing to allow two or three years in which people could find the whole of the money required if a Capital Levy were decided upon. That process would take time, and then in the clearing of the debt itself regard would be had necessarily to the dates at which portions of the debt are due to be repaid. So that we do not contemplate at all any very sudden operation that might have a catastrophic effect in any quarter whatever.

4899. *Sir Charles Addis*: Might I put it once more in this form? The supposition is that the reduction of the debt to that extent would free a sum of £305,000,000?—Yes.

4900. Of which it is proposed, according to your scheme, that part should be used in the reduction of taxation and part in expenditure on social services. Is that a fair statement of your position?—Yes.

4901. On that point I want to raise this question, which I began last time. We agreed that a redemption of debt would not involve any change in the amount of real capital in the country?—Yes.

4902. It would be merely passed from one person to another?—Yes.

4903. But the point that I put about that, which I was not able to get quite clear to my own mind, was this: If this amount of £6,000,000,000 of debt, for example, were wiped out the amount of assessable income, which includes the amount derived from interest on the debt, would be reduced by the amount of that interest?—Our view was that there might be some temporary disturbance during the period in which bondholders had their money repaid out of the redemption levy, and for a period they would place that money with banks on deposit and get a relatively small amount for interest; perhaps 2 per cent. as against what they get now from War Loan. But they would ultimately—and I think they would make haste to get on with it—reinvest their money in securities that would yield them approximately the same amount of income as the War Loan had done. Of course the rate of interest given on national securities is rather lower than on any others, even the highest trustee securities. They would get their money reinvested, and they would not be likely to get less interest than they had before; and when that process had been completed—which I do not think would take very many months—there would be as much income received by people, including the bondholding classes, as before, and that income would be available for taxation if Income Tax had to be levied on it, as it is now.

4904. The first point I wish to make clear is that the tax on income derived from War debt, is assessed in the same way as the tax on income from real capital?—Yes.

4905. Therefore if you wipe out this debt which has yielded an income of £300,000,000 a year, that income has disappeared—temporarily if you like, momentarily if you like, but it has disappeared?—It is not a disappearance or wiping out; it is a transformation.

4906. Take the way in which Income Tax is levied. Here are people who hold £6,000,000,000 of War Bonds. Those bonds, on the hypothesis, are destroyed; the income derived from those bonds on which the State formerly levied Income Tax, would no longer exist?—But the £6,000,000,000 exists, and most of it goes into the banks on deposit.

4907. You are not answering my question. Does it exist in the form of an income assessable to Income Tax?—Yes; it does not disappear. You see, we are not going in for repudiation or cancellation; we are going for redemption.

4908. From those coupons, as they were paid, Income Tax was deducted?—Yes.

4909. The State has no longer that source of revenue?—Not that source of revenue, but if a man has £100,000 of War Bonds, and they are redeemed, he is paid his £100,000 by the State from the War Debt Redemption Fund. That money is not going to lie idle and have no yield; for a time it may have a less yield.

4910. Again you are getting ahead of me. I am quite prepared to enter upon that point later.—I am sorry if I am answering your question differently from what you desire, but if I gave you the short answer that you want, it would, I am afraid, lead to the assumption that we are destroying something.

4911. I ask you to believe that I have no other object except to clear my own mind on this?—Certainly.

4912. *Sir Josiah Stamp*: Can I put to you the distinction which I think Sir Charles Addis has in mind? You are dealing with real income; he is dealing with assessable income. He is asking you whether the assessable income has not disappeared?—That is where the real income came from.

4913. I am only trying to show the distinction between the two things. I did not want to interrupt.—For the time being that real capital might yield to the individuals who held it rather less than it did while it was in the shape of War Loan, because it would be on deposit in the banks instead of being held as an investment.

4914. *Sir Charles Addis*: Will you look at it from the point of view of the State? If that £6,000,000,000 no longer exists this year, then clearly Income Tax will not be levied upon the income from that amount of nominal capital?—Not on that particular capital, but if the persons owning it do as they certainly would do, that is, utilise it to secure other income, that would be assessable and available for taxation.

4915. The question is a perfectly simple one. Would the assessable income of the country be reduced by £300,000,000 if the debt were wiped out to-morrow?—For a short time it would be reduced.

4916. Then the next stage would be this. The amount of real capital, we have agreed, is the same as before?—Yes.

4917. Before a new assessable income could be produced to take the place of the old assessable income there would have to be a creation of more real capital, would there not? I am assuming that there is no more inflation, and that the State does not produce new forms of indebtedness; if no new form of indebtedness were produced, is there any other way by which that void could be made good except by the creation of real capital?—There would not be any void; you have not destroyed real capital; there would not be any need to create further capital. £6,000,000,000 would have been paid to the people who previously held it in the shape of War Bonds, they would be cancelled admittedly, but the £6,000,000,000 would still be in existence in their hands.

4918. £6,000,000,000 of what? Is it your opinion that the debt represents £6,000,000,000 of real capital? If so, we are talking at cross purposes altogether?—It is difficult to see quite what is at the back of your mind. We are trying to deal with realities, and in my view if civilisation is to continue as it now stands, real capital is credit of the character we are discussing. It may be either in the shape of Government securities or deposits at banks or shares in industrial concerns, or municipal loans; there are a hundred and one good securities that can be mentioned, but I do not want to take up time. These are real things, and we are not proposing to destroy any of them at all, but simply to convert them out of one shape into another or rather, leave the other people to transform them in another sphere after they have been cleared out of the State liability account.

4919. Is it your view that a Capital Levy would produce no effect upon the revenue from Income Tax?—Not ultimately.

4920. Would it do so immediately?—I have said repeatedly there might be a temporary reduction, but the ultimate result of clearing the debt and liberating money for better uses would undoubtedly be fruitful.

4921. Yes, you have said that over and over again, and I quite agree with it, only I take it that it is not relevant to my present question. Have you made any estimate at all of the loss, if any, which would take place in the national revenue on the application of a Capital Levy? Do you consider there would be any loss at all, and if so, how much?—I have not made any precise estimate of it, but it seems to me that it could not be more than the difference between 2 per cent. and 4 per cent. for a period of six months, in interest on the amount of money now standing as capital or credit in War Bonds.

4922. *Mrs. Wootton*: When you say that, have you in mind a levy of any particular amount? I think all through this paper it is not mentioned whether you propose to pay off the whole debt or half of it, or a quarter of it. Is your answer related to some particular size of levy?—I was speaking of

£6,000,000,000. My answer was intended to indicate that we should not expect the whole operation to be done at once; we quite agree it should be extended over a period of years, and in our view it could be so arranged that very little disturbance would take place.

4923. Is the 2 per cent. or 4 per cent. loss for a period, which you referred to just now, based on the repayment of a particular amount of debt, or is it irrespective of the amount paid off?—On whatever amount you happen to be paying at the time, that might be the measure of loss. I should imagine, though, that any well-to-do person having any substantial portion of his income from investments in War Loan, if he got his capital returned to him, would take far less than six months to get a new investment arranged.

4924. *Sir Josiah Stamp*: May I put Sir Charles Addis' point in another way? Supposing the income of the country which is assessable to Income Tax is £3,000,000,000, and then there is a war, and the country has to incur a liability in the shape of debt, on which the interest to be paid is £300,000,000; the income of the country remains the same as before, so that there is the £3,000,000,000 as before assessed, and there is also another £300,000,000 assessed, that is a total of £3,300,000,000 now assessed. The proposition put to you is that if you, by some process, relieve the £300,000,000, halve it if you like, of charge, you cannot still bring into charge £3,300,000,000, but you have to reduce that *pro tanto*. By cutting off the interest you also have to cut off the assessment?—We should find that perhaps for a short time, but we have not destroyed anything.

4925. But have you not destroyed some assessable income? *Sir Charles Addis*: You have destroyed the coupons on which the Income Tax was assessed. They no longer exist.—(*Witness*): Why we feel we are not destroying anything, but are going to be very fruitful in this operation, is that it has been repeatedly suggested at this Committee that there is need for more capital for industrial purposes; and we are here to maintain that the operation that we are recommending would furnish more capital for those purposes. I assume it is felt there is a need for that capital. Therefore the capital that we get converted does not cease to be fruitful from the point of view of interest. There might be a temporary disturbance, but very trivial.

4926. *Sir Josiah Stamp*: I do not think we can carry the evidence beyond this point. Is your view that, with a large repayment of debt by a Capital Levy, the expenditure being reduced, the Chancellor of the Exchequer's receipt side of his Budget would be unaffected in the long run?—Yes.

4927. That nothing has been annihilated, even assessable income?—Yes.

4928. *Sir Charles Addis*: Are you acquainted with the views expressed by Dr. Dalton, for example, in his book on the Capital Levy?—I cannot say that the Committee did consider Dr. Dalton's book in the preparation of this evidence. I know there is such a book, but I could not answer any question on it, because I am not familiar with it.

4929. He stated that, with a levy of £3,000,000,000, there would be a saving in interest of £142,000,000, and that £72,000,000 of that amount would be swallowed up by the loss of Income Tax, Super-tax and Death Duties. In any case you do not agree with that?—I am not familiar with it. Therefore it is rather difficult for me to answer it.

4930. The question is what the amount of the saving would be. In your view I understand it would be the full amount of £300,000,000?—Ultimately.

4931. You disagree with those who think it would be a less amount?—I do, ultimately.

4932. *Mr. Bell*: If I have £100,000 War Loan and the State takes, say, one-third of that from me, that is £30,000 War Loan, where does that go?—We are not taking it from you; we are redeeming it. We are raising a lot of money by a special method.

4933. I am asking you as to the process of raising it. If, as part of the Capital Levy, out of my £100,000 War Loan you take £30,000, that is gone; it is cancelled?—If you elected to pay your Capital Levy with that proportion of what you hold in War Loan, yes.

4934. That is gone?—Yes.

4935. Then that profoundly modifies what you have said. *Sir Josiah Stamp*: The assessment on you for Income Tax is less in future. *Mr. Bell*: Yes. *Sir Charles Addis*: It is a very important point, and it is worth while threshing that out. Let me put it in another way. Is what you say this: that if this Capital Levy took place, it would not be necessary to raise the *rate* of taxation in order to produce the same revenue from Income Tax, Super-tax and Death Duties. I hope you believe that we are pressing really for information and not merely for controversy?—(*Witness*): Yes; I am trying to answer you just as you desire.

4936. Let me put it in another way. Would the rate of taxation remain the same in order to produce the same revenue if the £6,000,000,000 debt were paid off, or *pro tanto* a less amount?—I cannot see that there would be any substantial change.

4937. *Mr. Bell*: In the case I put to you, you admitted there would.—That is not all. The money that you pay—the credit that you pay to the State—when it makes this special levy, becomes a State credit itself.

4938. No, they simply tear up my £30,000 War Loan. *Sir Josiah Stamp*: And Mr. Bell never gets any more interest on that. His income is reduced from £5,000 to £3,600, if that is his only source of income; and that is all that he is assessable on in future. You get less Income Tax from him in future?—(*Witness*): It is not expected that everyone would pay his levy in that way.

4939. *Mr. Bell*: But suppose they did?—It would remain to be seen what proportion was redeemed in that way.

4940. You see, this is probably the most readily available method for paying a large levy. It would leave me assessable to much less Income Tax afterwards?—You would be relieved to that extent.

4941. *Mrs. Wootton*: I think you have not seen the distinction between real capital and nominal capital which was involved in Sir Charles Addis' question. If Mr. Bell has £100,000 and he paid £30,000 in War Loan as Capital Levy, is it your view that that £30,000 is cancelled by the Government?—Of course, the man who has paid his levy in the manner suggested by Mr. Bell, has cleared his obligation to the Exchequer, and the State no longer has to pay interest on that amount of money, £30,000, whatever it might be, and to that extent a real saving has been effected by the State.

4942. The State no longer has to pay interest, because that amount of bonds is cancelled?—Yes.

4943. That is the point I want to get at; it is your view that it is cancelled on receipt?—Yes.

4944. Therefore the State saves whatever was the interest on Mr. Bell's bonds?—Yes.

4945. Now does the State make the whole of that saving? Is that the net saving? I think that what Sir Charles Addis was trying to get from you, was whether it was your view that against that saving, which is clearly the gross saving of the whole amount of the interest, any deduction has to be made which will give you a smaller net saving?—Of course, there is the amount of Income Tax that he would pay on the income of the £30,000. If that is what you are tracing down, I see where you are. The State loses that.

4946. *Sir Charles Addis*: That is quite clear?—Yes.

4947. And you have formed no estimate as to what that deduction ought to be?—No, because we do not know; we have no idea how many people would pay their debt in that way.

4948. You are not acquainted with the estimates, for example, of Dr. Dalton?—No, I am not. I may say frankly that we approached this matter *de novo*

as a representative body of working people. We did not study anybody else's theories at all; we came straight to it ourselves in our own way.

4949. Perhaps it would be interesting to you to know that Dr. Dalton estimates the deduction at £72,000,000, and that Sir Josiah Stamp estimates it at nearly £100,000,000, I think.—On our estimate, which is admittedly very rough, there is a margin of £200,000,000. Whatever deficiency might arise from the operations would certainly be far more than covered in that large margin, and we feel justified in suggesting that the easement of other taxation might well be arranged for with ease.

4950. There are many other considerations very important to consider. First of all there is this one. Sir Josiah Stamp estimates the net saving would be from £42,000,000 to £50,000,000 on a levy of £3,000,000,000. *Sir Josiah Stamp*: Yes, it is a refinement of the methods of Dr. Dalton and of other people.—(*Witness*): It would have to be worked out.

4951. *Sir Charles Addis*: I only wanted to try to get it clear that it would be very considerable, and it must not be taken that the saving would be a net saving?—I follow your point, but it must still be taken to be the case, I think, that in our estimate the saving is such that if that loss arose it would be fully covered in the freeing from obligation to pay interest.

4952. *Sir Josiah Stamp*: You start off with your gross figure of interest saved, and then see what the holes, such as that instanced by Mr. Bell, are. You get less Income Tax and less Super-tax, and, later on, less Death Duties. You make your calculation and you arrive at the figure representing that loss. That has been variously calculated, but I do not know that any writer has made it less than £72,000,000?—I quite follow; I agree that there would be holes in it, but we do not think that they are sufficient to invalidate the general proposition or to make it impracticable in the light of our own figures in section II of our evidence.

4953. Supposing the net saving out of £140,000,000 were £70,000,000, and you had this to dispose of in your new Budget, the question what proportion of that you would allow to go to reduction of future taxation and the proportion that you would apply to social expenditure, becomes important. You have your eye on a certain amount of expenditure that you would like. If it is £50,000,000, that is a very large proportion out of a saving of £70,000,000, but it is a comparatively small proportion out of a saving of £140,000,000. That is where the question of proportions becomes important?—All those are matters of detail or practical working that would come out in the operation, but I do suggest that there is nothing which has been put in any of the questions that invalidates the desirability of the main operation which we recommend, or the practicability of it all.

4954. *Sir Charles Addis*: I did not mean that; I merely meant that the difference would not be so great as you suggest—that the amount available for social services would be very much less than was indicated in your evidence. That is the only point I wish to make now.—It seems to us that there would be first the £305,000,000, which is the gross figure, less the taxes on interest on such parts of the debt as were paid in the manner proposed by Mr. Bell, which are definitely and finally cancelled.

4955. *Sir Josiah Stamp*: Is your view that the only loss of assessable income would be in those direct cases like Mr. Bell's? It has been made clear by Mrs. Wootton now that there would be a hole in the Budget in that way. Do you not think there would be a hole in the Budget in the same way if the levy were paid by railway securities?—No, because railway securities would continue to yield interest.

4956. Let me trace it through. Take the case of A and B. A is Mr. Bell, who has got £100,000 railway securities, and he pays his levy with £30,000 of them. B is the holder of War Loan after he has paid his levy. Then the Government come along and say to him." "We are going to take £30,000 of your War Loan and we will give you this railway scrip in its place." B therefore would be exactly where he was after he has paid his levy. Instead of £30,000 War Loan which has been redeemed, he now holds in its place £30,000 railway stock which came from Mr. Bell, so that there is no loss of Income Tax from B; he is paying as much as ever. But Mr. Bell is minus £30,000, just the same, and he has not got to pay Income Tax on that. So the fact that you have transferred the railway stock results in this, that at the end of it you have to remember that you have transferred it in place of some War Loan that you have cancelled, and you have left the person who has received it with an undiminished income, but you have always diminished the income of the payer, whether he pays in War Loan or railway stock. Is not that so?—I do not think it is unfair to the one or to the other.

4957. *Mrs. Wootton*: If you redeem the debt in any way you lose the Income Tax on the interest of the debt that is redeemed?—Yes.

4958. However you get the money?—Yes, that is agreed.

4959. Do not you lose the Income Tax on the whole of the interest on the debt which is in fact redeemed no matter how the levy is paid? You are going to lose the Income Tax on the interest on the debt because the interest on the debt expires with the debt; is not that so?—Yes, I think it is pretty plain that you would.

4960. But you cannot, of course, lose the whole amount unless the Income Tax on the interest on the debt is 20s. in the £?—Quite so. It is not 20s., or anything like it, in a very large number of cases.

4961. But you do lose the whole of the Income Tax regardless of the method of payment?—Yes, quite so, and following that I think I see where the calculation comes from that Sir Charles Addis mentioned. With the Income Tax at 5s. in the £ on the interest on the debt it would be one-fourth of £300,000,000, or something like that.

4962. *Sir Arthur Balfour*: Do you appreciate that a sudden writing down of the National Debt by £3,000,000,000 would mean deflation?—Of course, it depends how sudden. We have suggested a steady and reasonable period for carrying out this very large transaction somewhere approximating to the dates at which the vaious War Loan issues are due for redemption.

4963. How would you in that case value anybody's estate for the payment of Capital Levy? To-day you might take a man's estate and value it at £500,000; when the time came for him to pay, the thing which you had valued at £500,000 might be worth £200,000, or it might be worth £1,000,000. If it was worth £1,000,000 he would pay more easily, but if it was worth £200,000 he would not be able to pay?—There would have to be a valuation on statements furnished as in the case of Death Duties, and the tax should be assessed and raised on an adequate value.

4964. On a fixed date?—At a given date. We suggest that the State should make an arrangement which would give the parties liable to pay adequate and reasonable time to pay.

4965. You appreciate that an operation like that would reduce the value of all shares immediately; it would create a want of confidence in the country which would reduce the value of all shares?—No. Our view is that it would create confidence; that it would set our country at the head of the world straight away and give it a credit which could not be given in any other way. Our view is that it would be of enormous advantage from the point of view of confidence and credit in the national sense.

4966. Do you think other people would want to come here and leave their deposits and their finance in a country which was liable to a Capital Levy?—I do not think we derive very much from foreigners coming here and leaving us a number of good things;

it is rather derived from our exertions in trading with the world.

4967. That means trading with the foreigner?—This country, I suggest, would be greatly benefited from the standpoint of confidence and credit; it would be the country that paid its debts. The very payment of the American Debt has raised our credit in that country, and it is having a beneficial effect for us, although it is a bit hard to find the money, but ultimately the effect is going to be very good, indeed.

4968. That is an external debt?—I suggest the effect would be the same with internal debt.

4969. If it could be shown to you that this operation would dislocate manufacturing and cause unemployment, would that alter your views?—I think you put a question something like that to me on the previous occasion; we do not think that it would.

4970. You think if a man owns a business and has to sell part of his business, or has to dispose of his assets, he would have enough liquid capital to carry on?—I suggest that those who come within the range of this levy are people who are quite capable of finding ways and means and expedients for paying a reasonable levy tax.

4971. And without damaging their manufacturing concerns and their productive capacity and causing unemployment?—Not to any serious extent.

4972. *Mr. Bowen*: You are really advocating, I take it, that we should do nationally what we are urged to do individually?—Yes; that is really the basis of our whole contention—that it is everyone's duty to pay his debts. If you harbour debts, keep them round your neck and keep paying interest on them, you are approximately in the position of someone who has gone to a moneylender and never cleared himself.

4973. *Mr. Bell*: Is every member of the nation then going to take part in it?—To the extent of their ability. Those who are best able to help would be expected to help the most, of course.

4974. But I thought it was only people who had £5,000 and upwards?—We suggest £5,000 as a suitable line below which it would not be advisable to attempt to impose a levy.

4975. *Sir Arthur Balfour*: You admit that this debt is the debt of everybody in the country, do you not?—No; we do not take that view. I am here very seriously to remind you that the working classes of this country gave more largely in life in the terrific service that was rendered during the War. Their families are larger than those of the more comfortable persons, and their sons and their fathers suffered in every possible way, including the extreme penalty of death, in a greater degree than did the property-owning classes. On the other hand, the property-owning classes, whilst we admit they had losses too, have benefited far more than the working classes in the security that was established and renewed in this country through the winning of the War. I am here to say that that service ought to be paid for by those who benefited most and are best able to pay.

4976. You assume, therefore, that if the War had been lost the working classes would have been just as well off?—I do not assume; I know that they are no better off now after the War on the whole than they were before the War; but I do know that the property-owning classes are very substantially better off.

4977. Do you say that the working classes to-day, in view of the very high rates of wages that have obtained during the War, are not in a better position?—I say in view of the very high cost of living, which is now up to 81 (it was lower when I was here a few months ago), the workers are not better off.

4978. In spite of the wages they are now getting?—The wages have been cut down in a most drastic fashion from the miners all through the skilled engineering trades, the cotton trades and all the main trades in the country. The wages have been broken down very heavily indeed, and the money received by the workers now is of less value than what they received before the War.

4979. Your statement that when people owe money they should pay it does not apply to anybody in this country except those with £5,000 and over?—We were speaking in the communal sense of endeavouring to assist the State to formulate policies for the good of the country as a whole. You can only apply taxation of any kind to those who are in a position to pay.

4980. You said that when people owed debts they ought to pay; now you say the country as a whole does not owe the debt, but only the people owning £5,000 and over owe the debt and ought to pay it?—I say that the working classes paid their share of winning the War in the sacrifices they made in the War.

4981. Do you think it is fair to make comparisons in that way? Do you not think every family in this country contributed to winning the War from the human point of view? Do you not think they shared that pretty equally to the extent that they could of their numbers?—I repeat that the working classes are larger in number and larger per family than the other classes, and the toll of life on the working class was heavier.

4982. So that my proposition still holds good, that all people ought to pay their debt, but this debt belongs to people with £5,000 and over, and to nobody else in this country?—Those people should pay that debt because they alone are able to pay. They have got the major advantage; indeed they have got the whole advantage of winning the War. The working people are worse off than they were before the War.

4983. Do you really mean that very seriously? Do you say that the working people of this country are not better off than ever they have been?—I do very seriously.

4984. I admit the unemployment, which is serious?—There are 2,000,000 of them with their dependents. There are over a million of them to-day.

4985. They are maintained on the dole?—Maintained on a miserable amount. You call it a dole, but allow me to say that the working people resent that word very much. The money is raised from wages and from a quota paid by the employers, and only a minor portion from the State and the general community.

4986. The payment of course is a tax on the production of the rest of the people who are working?—That portion of it which is paid by the State.

4987. It must be a tax on the rest of the people who are working?—But the payment of what is called the dole does not make the working people anything like they were before the War took place. They were far better off when they were receiving regular wages, which were not depreciated by the terrible rise in the cost of living.

4988. But you do not deny my statement that you are suggesting that this debt is the debt of a certain class of this country?—I do not say that.

4989. That is what you are doing in advocating this system?—I am here to try and minimise the inequality and to suggest a patriotic duty to those who are able to perform it. It is no use suggesting it to a starving man or a man on the dole; it is no use suggesting it to a working man with 40s. or 50s. a week who has got a family to keep.

4990. *Mr. Bowen*: There were certain heavy profits made during the War; can you say whether the working classes got a fair proportion of those profits, and can you say what records there are of where those profits went—I refer to munition profits and other things?—My information is that the profits ran into thousands of millions of pounds, and that they are held in the main almost entirely by the well-to-do classes of the country, who, we suggest, should help to redeem this very heavy National Debt.

4991. Would you agree that as there was conscription of life, if there had been conscription of wealth, the payment back of all those moneys should be an

individual responsibility?—Yes, I will agree, and say at once very seriously that that was emphatically the view of the working classes of this country; that when conscription of life was imposed upon them there should have been simultaneously, or as early afterwards as might be practicable, conscription of sufficient wealth to pay the cost of the War.

4992. *Mrs. Wootton*: Did I understand you to say your proposal was to pay off about £3,000,000,000 of the debt by the Capital Levy? I am still not quite clear whether your levy proposes to pay off the whole debt or part of the debt. In Section II you quote the figure of £305,000,000 as the interest on the debt, and you say that if we had no debt interest to pay we could make certain increases in expenditure and still have £200,000,000 to the good. What I want to get from you is this: Is that simply a measure of the cost of interest of the debt or is it an estimate of the gross saving that your levy is designed to effect?—It is a statement of the present cost of interest payable on the debt.

4993. Simply a measure of the cost?—Yes.

4994. A way of estimating what the burden is?—Yes.

4995. Is the Capital Levy scheme which you have in mind designed to make a saving of the whole of the gross interest on the debt or only of part of the interest? You do not give any figures of the sum you propose to raise by the levy?—No. Our intention is that the whole of the debt should be redeemed by a Capital Levy.

4996. *Sir Arthur Balfour*: £7,700,000,000?—You will have to deal with the internal debt. We have left the American Debt, which is external, to be dealt with on the method already provided for by legislation.

4997. *Mrs. Wootton*: You are proposing to deal with the whole of the internal debt?—Yes.

4998. *Sir Arthur Balfour*: You raised the question of profits made during the War. Have you considered the case of the man who has spent all his profits one way or the other, as against the case of the man, who has saved his money and put it into industry again—that he should not be penalised as against the man who spent it perhaps carelessly?—That is rather the old question about whether the thrifty person should be required to pay. I think last time I put it that you cannot very well chase down the spendthrift; his money has gone.

4999. Are you not inducing people to become spendthrifts by your system?—Not at all.

5000. What inducement would there be to save if people expected a Capital Levy?—As much inducement as ever, and more. When the country is free from National Debt it will have a psychological effect which would be beneficial, especially in the sense you are speaking of.

5001. What steps would you take to guarantee that it would not happen again?—The impulse to save is a natural one. The common sense of saving is obvious to everyone, and most people do what they can in that direction in accordance with their resources.

5002. It has been in the past owing to security of tenure and because people knew that confiscation did not enter into the politics of this country; but once confiscation does enter into the politics of the country what guarantee would you propose that it should not keep on happening again?—You introduce rather a strange word. It has often been asserted, and I think it is true, that all taxation is confiscation, but you cannot live in a community and have a stake in it and have order instead of anarchy without this taxation.

5003. Taxation of income?—Taxation of anything—Death Duties, for example. I do not think the word "confiscation" is the right one to apply. You say: If you clear all this debt off what guarantee can you give that it will not be done again? If gentlemen like yourself can help the Governments of this country and other countries to prevent any more wars arising I think it is fair to say there will be no more sudden debts of this character arising and no more exceptional methods needed to liquidate them. If all nations were to support the League of Nations and the idea and the spirit of the League of Nations, that, I think, would be the best method of prevention.

5004. *Chairman*: I think now that this interlude (and it is an interlude) on the Capital Levy can be postponed until you come to give evidence on that point by itself. You will get a questionnaire on the Capital Levy which will put into concrete form the questions which you will have to answer.

5005. *Sir Charles Addis*: You object to indirect taxation as being inequitable to the workers?—Yes.

5006. Do you regard the taxes on alcohol and tobacco as inequitable?—They fall very heavily on the working classes. You see our proposal is that the food taxes should first be cleared away. In our opinion the taxes on all tobacco should certainly be reduced, and might be reduced out of the saving that would arise if the National Debt interest had not to be provided for.

5007. If direct taxation were removed would you favour the graduation of Income Tax downwards on smaller incomes?—I think you have come down as far as it is practicable to gather the taxes.

5008. Further than it is at present?—I do not think you would get anything worth collecting if you come down much further.

5009. The result of that would be that the whole burden of taxation would fall on the 2,500,000 members of the community who pay direct taxes?—The most fortunate people; they ought to be glad to help the country seeing that the other people helped the country by doing all this work.

5010. You would not regard it as inequitable that 2,500,000 out of 45,000,000 should bear the burden of direct taxation?—We want to see a state of things where the whole of the working classes of this country will have their standard of life so raised that they will not be in the lowly position in which they are now.

5011. You do not answer my question; it is a fair question, I think, and admits of a perfectly direct answer?—I can give you a direct answer. So long as things stand as they are now and only 2,500,000 people take the larger part of the wealth of the country, certainly it is fair that they should be taxed, but I do not want to put it quite in that sharp way.

5012. *Sir Arthur Balfour*: In spite of the fact that 22,000,000 people vote?—Yes, certainly, on the basis of human rights.

5013. *Mr. Bowen*: Have you any views as to the passing off of Income Tax to the consumer through an increase of prices?—That happens to a very great extent.

5014. If it does happen, would it be correct to say that all classes of the community bear their fair weight of Income Tax, directly or indirectly?—Ultimately if one could trace the ramifications the burdens of the community have come down upon the working classes in the way you suggest, and they bear their share in that way.

5015. *Sir Charles Addis*: Including Income Tax?—Very often. I do not say that a pure rentier, a person of any kind living exclusively on interest, paying tax on that interest passes it on, but other people who have to pay Income Tax if they get a chance will increase their prices sufficiently to recover that out of the people.

5016. The question was whether Income Tax enters into prices; in your view it does, or may?—It may.

5017. *Sir William McLintock*: Can you pursue in detail the method by which the trader who deals in commodities passes on Income Tax? Take a small grocer, for example, who sells his goods at competitive prices with a dozen other grocers' shops; what rate of tax does that man pass on to the consumer?—Among the class of people that the grocer, large or small, belongs to, they reach a common understanding

as to prices, and they have a way amongst themselves of getting a sufficient price for what they are selling to cover their working and living expenses, including their Income Tax.

5018. Personally, I doubt that common understanding, but assuming it exists, what is the rate of tax which you suggest a small grocer passes on to the consumer? I suppose it is reasonable to assume that he is probably making a net profit of, say, £400 or £500 a year if he is a grocer in business by himself; what rate of tax does he pass on to his consumers?—Of course, it depends on what he is paying. If he has got a family of five or six children he would not have any tax to pay.

5019. Assuming you have two grocers in two streets, one of whom is paying probably, with his abatements, an all-in rate of something like 1s. 6d.——?—Of course, everyone cannot pass the tax on; I think I indicated that in my earlier replies.

5020. I doubt very much if any of them pass the tax on, but could you indicate to us how they pass it on, and how they arrive at the amount to be passed on?—They pass it on and arrive at the amount to be passed on by their common understandings about prices, and I think it would be within the knowledge of the business gentleman on this Committee that there are organisations of tradesmen, milk vendors, grocers, drapers, and all manner of people, who do get together in their own way. They do not have public mass meetings; they do not go in for propaganda like the working classes; but they have their own ways and means, usually in a very quiet way—I will not say in the dark—of getting together and deciding round about what prices are to be. That is how they cover their working and living expenses.

5021. Can you tell me how much tax is reflected in the prices of co-operative societies?—In the co-operative societies whatever margin comes out at the end of the year's operations is distributed amongst the purchasers.

5022. Exactly; and their prices relatively with the other people always preserve a certain percentage below—1s. in the £, or 2s. in the £, as the case may be?—Yes. They vary a lot as to their rate of distribution; it has been very light in recent years.

5023. But their prices regularly follow the prices of the other sellers of the same commodities?—Oh, yes; they are conditioned by the same things. *Sir William McLintock*: Subject to the rebate which is given back in the way of bonus or dividend.

5024. *Mr. Bowen*: Is it not a fact that their prices are sometimes higher?—Their prices are conditioned by the terms on which they can procure their supplies; sometimes they are higher. They do, in fact, charge more where they are maintaining good rates of wages for the production or distributing of these goods, but in other instances they charge less. I agree that, generally speaking, their prices are lower.

5025. *Sir William McLintock*: Generally speaking the co-operative prices are higher and a reduction is made by way of dividend?—I cannot agree that generally speaking their prices are higher at all; I can only agree that they do distribute amongst their purchasers whatever margin of money they have available after they have balanced up all their year's working.

5026. *Mrs. Wootton*: It has been put to us that salaried workers are able to pass on their Income Tax because they get higher salaries on the ground that they have higher Income Tax to pay. Is it your view that speaking generally Income Tax on salaries is shifted in that way?—No. I happen myself to represent an organisation in the Trade Union Congress which consists of salaried workers who are on moderate salaries, and they have to pay their Income Tax in any case; but I have no doubt it is one of the considerations in making arrangements for salaries as between salaried employees and their employers that if the Income Tax is high a man wants and needs and tries to get a higher salary than he can do if his Income Tax were low.

5027. *Sir William McLintock*: Did you ever have a case where you were submitting a claim for an increase in salaries of that particular type, where you put forward Income Tax as a reason for asking the increase?—We should enter that in any budget of the cost of living of the particular group of people we might be applying for if they paid Income Tax

5028. How would you arrive at it? Did you ever know it done? You must have put forward many claims in the particular section which you represent for increases in salaries; did you ever in the putting forward of these claims put forward a reasoned statement for a certain increase because of the Income Tax these people have to pay?—We have put forward in support of the claims we have made for the class I am associated with household budgets, family budgets, prepared by individuals in that class, including every item of expenditure that they have to meet, whatever it may be, and in those cases where Income Tax was paid they would enter the Income Tax.

5029. Is Income Tax a part of the household budget?—Part of a man's family expenses which his income has got to meet. He cannot pay his tax out of any other source but his own income.

5030. *Sir William McLintock*: It must be a very minute calculation under the present tax system on, say, a married man with two children unless his salary is getting well above £500 a year. *Mr. Bowen*: Is it not quite an ordinary procedure in the preparation of these budgets, not only to put in Income Tax, but to put in rent and rates? *Sir William McLintock*: I agree at once that rates would come in. *Mr. Bowen*: And the same point arises on Income Tax. *Sir William McLintock*: I differ from you. The burden of rates is imposed on everyone who keeps a house. I have dealt with many increases to fixed salary earners and I have never yet known an increase being given because of high Income Tax. *Mr. Bowen*: That is not the point. The point is, Has that item been in fact included in budgets? I am in the same position as Mr. Walkden; I have to deal with salary earners too, and I suggest that it is no uncommon thing for Income Tax, however small, to be taken in conjunction with rates.—(*Witness*): That is so, and in reply to Sir William I can only repeat that where that charge has come on the income of a salaried employee he has entered it in his family expenses, and these budgets have been submitted to the people considering the claims as illustrations of the burdens men have to bear.

5031. *Sir William McLintock*: I suggest to you that if you take the class of salaried people, some married with families, others married with no families, and the salary of every one in a given group were to be increased by reason of this taxation charge, you would be bound to get very great inequalities?—Your suggestion rather was that we did not ever plead this. My answer is that we have pleaded it, and the last time we did plead it, it was quite a simple thing, because everyone with an income over £160 had to pay a tax.

5032. That is a long time ago. In the case of a married man with two children you have to knock off a good deal more than £160 now?—That was the old Income Tax limit; the abatements for children and wives, and so on, are a relatively recent arrangement. It might complicate the statistics to-day, but that would not hinder us from entering it in as a charge which has to be met, or amongst the things that have to be met.

5033. *Mr. Bell*: You say here that whereas in 1912-13 the total revenue from indirect taxation was £1 8s. 10d. per head, by 1923-24 the corresponding amount was £5 16s. 8d., or four times as much; but you do not go on to say what is the same comparison as regards direct taxation; can you give us that?—No, I have not that available at the moment.

5034. Would it not have been fairer to show the two in comparison?—I am not dealing with direct taxation. We agree with the principle of direct taxation, but we are objecting here to the principle of indirect taxation and showing how it has grown.

5035. But I think it would have been fair to make the comparison to show how much the direct taxation on the other hand has grown?—That does not affect us, because it affects a class of people whom we are not representing. We rather gather that you would have plenty of people pleading the grievances of the direct taxpayer. I think we are the only people who come to plead the case of the more lowly folk on whom the burden of these indirect taxes falls pretty heavily.

5036. In paragraph 3 of your paper you refer to the food taxes for 1924-25 as being £28,500,000 out of the total of indirect taxation of £237,000,000. Sir Charles Addis put to you a question about the taxes on alcohol and tobacco. Would it be reasonable in your view to get rid of the food taxes by transferring them to, say, beer and tobacco?—We are not proposing that, and I do not think it would be a good operation, but we are suggesting in this evidence that out of the large balance of advantage we would have by easement from the necessity of paying interest on the National Debt, food taxation should come first and be cancelled first. We do not suggest here, and I do not think you can find anything in our print which would suggest that you should cancel the £28,000,000 of food and transfer it to other things.

5037. I am asking if it would be reasonable?—I do not think so. I think food is the first necessity of existence, and to tax the food of poor people is a thing which ought never to be done.

5038. But to preserve some relation between indirect taxation and direct—I am not disputing the point as to the desirability of abolishing the tax on food—would it be reasonable to transfer it from food to these articles of consumption which are not classed by you as food, namely, alcohol and tobacco?—No; we are not proposing that, and we do not think that should be necessary. I do not see any necessity for it.

5039. And you do not think it would be reasonable?—We are not here to say that there should be further taxes on the poor man's tobacco and beer, or anybody else's.

5040. *Chairman*: You do not want to reduce taxation on alcohol probably on moral grounds?—We have not exactly come here to advocate any particular temperance question.

5041. I was only wondering whether in this indirect taxation question that would be an element. Some witnesses have stated that a definitely better result to the nation would be obtained by a reduction of Income Tax rather than a reduction on these articles which you have mentioned; you do not agree with them, do you?—No; we have not put them alternatively at all.

5042. *Sir William McLintock*: With regard to this suggestion for the abolition of the food taxes amounting to £28,500,000, I assume from the other part of your evidence that is to be made good out of some fund, namely, the saving of the interest on the National Debt?—Yes; I think we have made that plain.

5043. That is your point, is it not?—Yes.

5044. In paragraph 5 the £200,000,000 a year to the good which is shown is the balance of the interest on the debt, which is presently put at £305,000,000 a year, after deducting your estimate of roughly £105,000,000 as required for education, old age pensions, and provisions for mothers' pensions?—Yes, in round figures.

5045. The £105,000,000 you are going to spend?—At present there is no provision whatever for mothers' pensions; our estimate is that that would cost probably £50,000,000 a year.

5046. I was not concerned with the details, but you intended the sum of £105,000,000 to cover these items that you have narrated there?—Yes.

5047. And out of the £200,000,000 there should come that relief of food taxes of £28,500,000?—Yes.

5048. I do not think it has been made quite clear yet, but assuming the National Debt to be paid off by means of a Capital Levy, or whatever other means it may be, there will be no such sum available as you have dealt with here?—I think that is the ground we have just been traversing pretty extensively on Sir Charles Addis's questions.

5049. Surely it is very important, in connection with this suggestion, to know whether the money would be available or not. Assuming that the present National Debt is wholly discharged as you suggest, and the interest charge is got rid of, what is the net sum of money that the State is going to save as the result of that operation? Suppose I suggest to you it is no more than £100,000,000 out of the £350,000,000?—Well, we can all make estimates; we can make all sorts of allowances and work all sorts of hypotheses, but the first fact is that you would not require the £305,000,000 a year to pay interest on the debt if the debt no longer existed, and out of that large sum in our view there would be a good deal of money available for such social purposes as improved education, better Old Age Pensions at an earlier age, and the provision of pensions for widowed mothers.

5050. What I want really to get at is, assuming that what you want done in relation to the National Debt is done, what is the actual net balance that is going to be available to the State afterwards for any purpose?—A very large sum of money running into hundreds of millions of pounds—between £200,000,000 and £300,000,000.

5051. As I read paragraph 5, you suggest that there will be £305,000,000 available, £105,000,000 of which you will spend on these social schemes roughly, and there will be £200,000,000 left. Part of that you deal with in this other paragraph by suggesting the abolition of the food taxes, £28,500,000?—Yes.

5052. You have accounted for a total of £133,000,000 already. I suggest to you that it is worthy of your consideration that if you carry out this operation the State will only have £133,000,000 to work with?—That may be your view, but our view is that there would be a great deal more.

5053. *Chairman*: That is a very important point which comes in our Questionnaire, and you can deal with it on that?—The point being as to how much real saving would be effected.

5054. *Chairman*: You say £305,000,000. *Sir William McLintock*: Sir Josiah Stamp says roughly two-thirds of the interest saved will be used up in other directions. *Chairman*: That is the point; perhaps you will deal with that, because the figures are very striking in relation to what you have to say?—(*Witness*): Very well, we will deal with that on the Questionnaire.

5055. *Sir Charles Addis*: In paragraph 5 of section IV you make the statement that the internal debt service aggravates the inequality of incomes. Does not your whole criticism amount to this, that the present graduation of taxation is unfair, or, in other words, that the poorer sections of the community pay more than their fair share of the War Debt? Does it really add to the strength of your argument to talk about the transfer of wealth from the poorer section of the community to the richer section?—It is part of our position that we live in a world where the poorer section feel very keenly their poverty, and they resent, as I think I indicated last time, the perpetuation of an arrangement under which a relatively small proportion of the community hold these bonds and through the agency of the State levy from the community this large amount of interest every year and do not render any active service for it. The continuance of it accentuates this feeling.

5056. The point is this, that if it is admitted that the present graduation is fair generally, then if the richer section of the community advanced money for war purposes on behalf of the rest of the community, then the repayment of those advances must necessarily involve a transfer from the poorer to the richer, but it will only be in discharge of the poorer taxpayer's proper share of the liability; have I made my point clear?—I am sorry; I cannot quite follow.

5057. Let me put it in another way. Supposing that the reverse operation had taken place, and that it had been the poorer section of the community who made the original advance, let us say, in the shape of Savings Certificates; then the repayment of that advance must necessarily be a transfer from the richer to the poorer. Is there any real difference in the transfer, or is it fair to describe it in the way you have in paragraph 5? Is it not simply a question of the fairness or unfairness of the tax graduation?—You are really taking paragraphs 4 and 5 together. We say in paragraph 4: "If each individual citizen were a bondholder, and his payments for debt taxation equalled his receipts from the interest on his War Bonds, there would be no burden, but we believe, although we have no means of ascertaining by whom the debt is held, that so far as the vast majority of those we represent are concerned, they pay considerably more in debt taxation than they receive as bondholders." I stand by that certainly.

5058. I am not questioning that. I am asking you, I submit, a very simple question, and a very simple answer is required.—With great respect, it seemed to me rather a lengthy question and rather involved. We go on: "In so far as this statement is correct, the net result is that the internal debt does involve a transference of wealth from the poorer sections of the community to the richer sections, and by this means aggravates the inequality of incomes," that is, by the taxation they have to pay largely in this indirect figure we have mentioned previously.

5059. *Mr. Bell*: Let us be precise and get things to a practical point. Suppose I have 1,000 india rubber shares; I sell those india rubber shares because I am going to buy £5,000 War Loan; if I had kept my rubber shares I should not require to be repaid, but if I buy the War Loan I do require to be repaid. My point is that I am singled out because I have War Loan as being rather a bad man, and being a rich man I ought not to have any of the wealth of the community, the poorer included, paid to me in the shape of interest; but if I had kept my rubber shares that question would never have arisen. Would I have been right to keep my rubber shares or should I have done what I was asked to do—put it into War Loan?—Of course, if there had been no war there would be no question of War Loan, and your rubber share consideration would not have arisen; and equally if none of the rich people having these amounts of money available had taken up the War Loan the war could not have been fought, or, alternatively, the State would have had to have commandeered the money.

5060. *Mrs. Wootton*: Is not the distinction this: if Mr. Bell had kept his rubber shares his capital would have been used to develop rubber plantations, and there would have been additional rubber, the property of a British citizen, an addition to our national income out of which his interest would have been paid. If he put it into War Loan he put it in no doubt for patriotic motives, but there are no revenue producing assets behind that War Loan now, because we have destroyed them, and consequently his interest is paid not out of additional income created by his capital, but out of taxaton on the incomes of the rest of us?—Yes.

5061. He may have performed valuable service to the nation; I do not know that that is a question for us to discuss; but the difference from the point of view of the distribution of wealth is surely the one which you were making here, that is, that, if he is receiving interest drawn from the taxation of other people, that has a quite different effect on the distribution of wealth from that of receiving interest on his rubber shares out of fresh production?—Yes. There is less popular resentment of people receiving interest on capital that is employed actively in the way suggested in the question than there is a resentment of people who are merely drawing the money from the National Exchequer.

5062. *Mr. Bell*: Then I should have been right to have kept the rubber shares; there would have been less resentment against me?—I cannot discuss the ethics of the war here now.

5063. No, that is not it.—Well, it is involved in your question.

5064. No, it is not at all. Apart from popular resentment, is it not simply the effect of the distribution of wealth which would have been different in the two cases?—Yes.

5065. I am putting a much simpler proposition. I am saying you have singled me out as a holder of War Loan as rather a bad man, to whom the poor do not like to pay interest. I say if I had only kept my investments in rubber I should have had none of this?—I do not think you would have had the rubber investment probably; if the country had not been able to win the war you might have lost all.

5066. *Mr. Bell*: I am only giving that as an example.—*Mrs. Wootton*: Could we have the actual words of paragraph 5 of section IV again. When I read it I took it to refer simply to inequality of incomes?—*Witness*: The words are: "In so far as this statement is correct, the net result is that the internal debt does involve a transference of wealth from the poorer sections of the community to the richer sections, and by this means aggravates the inequality of incomes."

5067. That states that there is inequality arising, because in the case of the debt the interest is provided by taxation, and in the case of the rubber shares it is provided by fresh production?—Yes.

5068. It does not say anything about the merits or demerits of the debt holder as a person?—No, it does not discuss that at all.

5069. *Mr. Bell*: No; but you added to it. You said there was a feeling of resentment because the poorer classes were paying me interest on my War Bonds; then I say I ought not to have invested in War Bonds, but I ought to have kept my original investment.—We do not say that at all. We say the War Debt incurred should be paid off by the special method of raising the money in the way we propose.

5070. But you said there was a feeling of resentment against the holder of War Loan?—There is a feeling of resentment, if you like, against the postulation that that is to go on indefinitely; that this debt is to be maintained as it stands and kept going; and that the fortunate people who hold it and their heirs are to continue to receive from the National Exchequer this very large sum of money amounting to about £1,000,000 every working day in perpetuity.

5071. I was very unwise, therefore, to put it into that particular investment?—We are here to urge on your behalf and on behalf of all other people similarly circumstanced that it is advisable to get that state of things changed, to get the national costs cleared up, and make us a debt-free country.

5072. I only want to see the distinction between one debt and another?—I hope you will excuse me from expressing an opinion as to whether you were wise or unwise with regard to rubber as distinguished from War Bonds.

5073. *Sir Charles Addis*: My suggestion amounts to this, that it confuses the issue to talk about inequality being due to the transfer from the poor to the rich; it really is not so. The point of it lies in the graduation of taxation, and there lies the remedy.

If you contend that the graduation is unfair, I can understand your position perfectly, and that seems to me, if I may say so, a rather stronger ground for you to take up?—That was rather raised last time, and we expressed the view that a clearance of this debt by special measures that would get it down within a reasonable period was better than the steeper graduation of other taxation and extending it over a very long period of years, the reason being that the longer you extend the more money the country has got to keep on finding for interest.

5074. In paragraph 6 of Section IV you say that the proportion of State revenue absorbed by debt interest is materially increasing. Would you develop that? Is your argument that interest is becoming more onerous because expenditure is less?—We think it is perfectly plain that the proportion of State revenue absorbed by debt interest is materially increasing. The proportion is brought out in the table we give, which shows that from 30 per cent. in 1919 and 24 per cent. in 1920, it has worked up steadily until it has now got to 36·5, and is 38·4 for the current year.

5075. And that change in proportion is due to a decrease in expenditure. I want to know how it is becoming more onerous?—There is a decrease in expenditure, but the value of the money raised in 1925, for instance, is not so diminished as it would appear at first sight, because you will remember that in 1920, 1921 and 1922 the inflation of prices and so on diminished the value of money.

5076. *Mr. Bell*: Would not the percentages of expenditure on education or any other thing vary in exactly the same way?—But the country gets the benefit from any expenditure on education; it makes the people more productive.

5077. It does not depend on percentages. The percentages here would apply to any expenditure?—They apply here specifically to the proportion of the national revenue that has to be utilised to pay debt interest. We are not running over every item; we are dealing specifically with the debt and the proportion of charge it incurs. It has risen now to 38·4.

5078. *Mrs. Wootton*: May I put it that the debt charge is more or less fixed, and therefore so long as debt is not repaid on a big scale, if your national revenue is decreasing, the percentage of the debt charge must increase?—Yes.

5079. Does it not become more onerous in this way: in so far as the debt charge is fixed and your revenue is contracting, your economy is forced on to other things; the presence of a large fixed charge, which perhaps absorbs 30 per cent. of your revenue, contracts the area over which you can economise? I think that is possibly what the table is intended to show?—Yes, that is so.

5080. *Sir William McLintock*: You agree also that of this £800,000 of interest paid daily anything from 25 to 50 per cent. is reflected in your total revenue figures as coming back?—That proportion of it which is payable as Income Tax comes into the Exchequer again; I recognise that.

5081. *Mr. Bell*: On section VI do you suggest that our present policy may be described as "doing nothing"?—Leaving the debt as it is with only the trivial reduction that is allowed from the services—the provision made for Sinking Fund.

5082. Would you call those trivial over the last two or three years?—What we are settling down to now is nothing like it was in the earlier part just following the War.

5083. I am asking you, is our present policy correctly described as "doing nothing"?—Well, £40,000,000 or £50,000,000 a year.

5084. Plus the Old Sinking Fund?—I cannot recall at the moment what our calculation was as to the length of time it would take to clear the National Debt on that basis, but it was a very lengthy period—over 100 years; and that is not sufficient in our view.

5085. I only ask is it quite fair to say "doing nothing"?—Well—relatively nothing. We put it in inverted commas. We mean *laissez-faire*—just carrying on with the small reduction now made.

5086. Do you support the quotation of the views of the Board of Inland Revenue in section VI in its entirety? You quote it with entire approval.—Subject to that deduction which would arise on the interest question we were discussing.

5087. *Chairman*: Was that written in regard to the examination of the possibility of taxing War Wealth?—Yes. It is in the appendix to the Report from the Select Committee on the Increase of War Wealth, 1920. I think it had special reference to War profits.

5088. The circumstances there were very exceptional, and I was wondering whether you wanted to apply this as a principle to deal with existing circumstances?—We support the principle. You would have to adopt perhaps modified methods in applying that principle to-day as compared with what might have been adopted in 1920.

5089. *Professor Hall*: In default of a Capital Levy what suggestions have you to make in regard to the reduction of the debt? You protested against the "doing nothing" policy; would you suggest an increased annual provision for debt repayment if there were no Capital Levy?—If you want us to consider alternative suggestions and give our views upon them we will be prepared to do that. We came here prepared to support the proposition of a Capital Levy.

5090. *Chairman*: You will see the Questionnaire on the levy; it is a pretty full one; and I think you will see that all relevant points are raised there?—Yes.

Chairman: We are very much obliged to you for your attendance here this afternoon.

(The Witnesses withdrew.)

(Adjourned to to-morrow morning at 10.30.)

SIXTEENTH DAY.

Wednesday, 7th January, 1925.

Present:

The Rt. Hon. LORD COLWYN, *Chairman.*
Sir CHARLES ADDIS, K.C.M.G.
Mr. HENRY BELL.
Mr. J. W. BOWEN.
Professor FRED HALL.
Sir WILLIAM McLINTOCK, K.B.E., C.V.O.
Sir JOSIAH STAMP, G.B.E.
Mrs. BARBARA WOOTTON.
Mr. G. R. HAMILTON, *Secretary.*
Mr. G. ISMAY, *Assistant Secretary.*

Mr. William Worship Paine, called and examined.

Evidence-in-chief handed in by Mr. Paine (in reply to the Committee's questions regarding a Capital Levy printed on page 683).

Answer to Question 1 (*as to the case for a large and early repayment of debt*).

1. In my opinion it is neither essential nor especially desirable that any large repayment of National Debt should be made at an early date, unless such repayment could be made out of reparations or debts due to this country by other countries. The situation is such that any heroic measures in this direction, involving a large increase of taxation in any form, would do much more harm than good and would most prejudicially affect trade and employment.

2. The situation can in my judgment only be met by a policy of enforcing the utmost economy consistent with national efficiency and security, and the steady reduction of the debt by a liberal sinking fund, and taking all opportunities that may arise to fund short-term debts at a lower rate of interest.

3. With wages at their present level (and I see no prospect of their reduction) I do not anticipate any considerable reduction in price levels of commodities.

Answer to Question 2 (*as to form of levy*).

4. (Section 1).—Being strongly opposed to any form of Capital Levy for the reasons which I shall give in my evidence, I can make no suggestions which would remove the principal objections to such a levy. But, assuming that a Capital Levy were to come into force, I should accept paragraphs (a) and (b) of the question as inevitable. It would in my opinion be absolutely impossible to extend the levy to companies or to "brain capital."

5. On the same assumption I think the limit of £5,000 referred to in paragraph (c), is far too high, and that it should be reduced to £1,000 at most, which I believe was the figure originally proposed, but I think the proper plan would be to assimilate the exemption limit and graduation as far as possible to those in force in relation to Death Duties. My reason for this is that the burden of the debt which was created not for the benefit of any one class but for the preservation of the liberties of the whole community, in which each one of us, whatever his station in life, had the most vital interest, should be spread as nearly as possible over the whole community, subject, of course, to reasonable graduation.

6. Moreover, such a departure from the accepted principles of taxation ought only in any case to be adopted with as wide a consent of the members of the community as is possible, and a tax of this character, forced exclusively upon about 340,000 persons, by the votes of some 22 millions who would not be contributories to it, would leave a deep feeling of injustice and unfairness. Moreover such an exemption limit as £5,000 would offer great facilities to misleading appeals to the supposed self-interest of the mass of voters, the great majority of whom are wholly unable to form any judgment as to the economic effect upon themselves of such a levy. It has in fact already been used in this way.

7. As to paragraph (d) I have no remarks to offer. As to paragraph (e) I would point to the strong probability that so far from effecting any permanent saving in taxation, the reduction of the National Debt by a Capital Levy of this magnitude would be a direct incentive to impose a fresh burden of taxation for purposes which, however laudable in themselves, are not economic, and that the levy will not, therefore, ultimately result in any relief in the burden of taxation upon industry.

8. (Section 2) (*as to reduction of Sinking Fund after levy*).—No, as this would to a considerable extent nullify the advantages which its advocates claim from the early repayment of the debt.

9. (Section 3) (*as to changes in taxation after levy*).—To prevent injustice the payers of the levy should be compensated for their loss of capital by relief in the taxation of their income roughly proportionate to the amount contributed to the levy. But even this would not, in my opinion, avoid the greatest objection to the levy, which, as I shall endeavour to show in my evidence, is the disastrous effect which so sudden and great a measure of reduction of available capital (or deflation) will have upon trade and employment.

Answer to Question 3 (*as to equity, etc., of levy, as compared with income taxation*).

10. As mentioned in the preliminary observations in my evidence, I draw a vital distinction between an Income Tax, graduated according to ability to pay which is now the accepted principle of direct taxation, and depriving a citizen for all time of a large portion of his capital, which in many, perhaps most, cases represents his savings and self denial. The former principle leaves him with his capital, and the purchasing power thereby represented, intact; he can still use that capital for the purposes of his business or any other purpose, and he or his descendants may hope for a gradual reduction of taxation of which he or they will reap the benefit. But the effect of a Capital Levy is wholly different. It deprives the citizen not only of the whole of the income but of the corpus of his savings, and I cannot but think it must carry with it a feeling that he is the victim of a measure of confiscation

11. One must also bear in mind that, whereas an Income Tax graduated accordingly to ability to pay is on the whole fair to all classes, and is assented to without any sense of injustice, a Capital Levy can never be imposed with the assent of the citizen by whom it will be payable. It can only be forced upon them by the votes of those who will be exempt from any payment under it.

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

12. If it had been practicable immediately after the War (which Inland Revenue authorities advised it was not), to get at War Wealth, *i.e.*, Wealth due to the War, by any special form of taxation, I should, in sentiment at all events, have been prepared to support it, and I certainly think that such a tax, confined to war wealth, would have commanded much greater assent than any form of general Capital Levy.

13. In my opinion no form of guarantee against the repetition of a Capital Levy would be either practicable, convincing, or effective. No Parliament can, under our Constitution, bind its successors. As I take this view it is useless for me to consider whether it would be desirable.

ANSWERS TO QUESTIONS 5, 6 AND 7 (*as to effects on trade, industry, &c.*).

14. The answer to these questions is the subject to which the principal part of my evidence-in-chief will be directed, and I could not deal with them in writing within any reasonable length, as so many aspects of the question have to be considered. I would prefer, therefore, with the assent of the Committee, to reserve the full answer to these questions to my evidence-in-chief, merely stating for the present that for the reasons which I am prepared to give, I think the levy would have a disastrous effect upon trade and industry, and upon employment, and would result in friction and dislocation far greater than that caused by present taxation. I do not think that the arguments for and against the levy would bear any close relation to the actual state of trade at the time it happened to be made, beyond the fact that its consequences to trade and employment would probably be more conspicuous at a time of slack trade.

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

15. Holding, as I do, the view that the levy must result in a reduction, and not in an increase of wealth to be derived from production, I am unable to say that it will effect any real redistribution of wealth. By throwing the burden of a large portion of the National Debt upon (relatively) a very small number of the richer citizens, it will, of course, make them poorer and therefore will partly remove the inequality in the present distribution of wealth. But it can add nothing to the wealth of the poorer classes, except to the extent of any net saving of taxation at present borne by them. And in my opinion that net saving will be more than offset by the reduction in trade and employment which the levy would cause.

16. As a means for the redistribution of wealth it seems to me to begin at the wrong end, viz.: by seeking to make the rich poorer instead of trying to make the poor better off.

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

17. The answer to this question seems to me to depend almost entirely upon whether or not the Capital Levy would result in any considerable reduction in the taxation of those whose savings are in contemplation. If I am right in my view that, taking into account all the consequences of the levy, it will not result in any permanent reduction in taxation, then it can have no beneficial effect in increasing the amount of savings.

18. On the other hand it must in any case, in my view, have the opposite effect very strongly in the case of (a) those who have to pay the levy and, less strongly, in the case of (b) those who do not have to pay the levy.

19. One of the greatest objections, in my mind, to the levy (apart from its effect on trade and commerce) is the disastrous effect which it will have upon national habits of thrift. In the case of class (a) this will operate in two ways. The heavy payments which they will be called upon to make under the levy will, to a large extent, deprive them of the means of saving, and may, indeed, compel them in many cases to resort for purposes of income to their remaining capital. But, besides this, people who have lived carefully and saved money, part of which will be taken from them under the levy, will naturally compare their position with that of their fellows who have spent the whole of equal or greater incomes, and who, under the levy, will go scot free. Their whole sense of security, and confidence, which is essential to thrift, will be destroyed. There will be no security that the levy may not be repeated by some future extreme party in the State, and, whether that is likely to happen or not, that fact, and the deep sense of injustice which the consideration I have mentioned will engender, is bound to have a most prejudicial effect upon habits of thrift. Those effects will, in my opinion, be a far greater deterrent to thrift than is occasioned by the present taxation upon income.

20. As regards class (*b*) the same consideration will probably operate, though less strongly than in the case of class (*a*).

21. Of course, if a really effective guarantee against a repetition of the levy could be devised, that would to some extent, at all events, allay doubts and fears as to the future, but I have already said that in my opinion there cannot be any such guarantee.

22. As regards collective savings, (*c*) these would only be affected indirectly by the general shock to credit and loss of confidence and security which the levy, in my opinion, would cause. Aggregate savings would in my opinion be largely reduced.

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

23. I do not feel quite certain as to the sense in which the words "national credit" are used. If they apply exclusively to the terms upon which the nation, through its Government, can raise loans, then I do not think that a Capital Levy would have any marked effect in either direction.

24. The credit of Great Britain stands sufficiently high at present, both at home and abroad, to admit of no doubt as to its meeting the obligations of the State, and any benefit which would result from the fact of the State's indebtedness being reduced by £3,000 millions must be counter-balanced by the knowledge that that reduction has only been effected at the expense of the citizens who form part of the community, and has not in any way added to the wealth of the nation or to the taxable capacity of the citizens, upon which, ultimately, the credit of the State must depend.

25. In so far as, according to the view which I have expressed, the imposition of a Capital Levy would reduce the earning power of the citizens, and consequently their taxable capacity, the effect of the levy would be to diminish rather than to increase the credit of the State, but for the reason I have already given I do not think that that would have any

marked effect upon the "national credit," using those words in the sense I have indicated.

26. If, on the other hand, the words "national credit" are intended to refer to the credit reposed by foreign governments or citizens in this country, as being the country in which rights of property are strictly observed in connection with the investment of capital or the deposit of balances or securities for safe custody by British institutions, then I think that the Capital Levy would have a very marked effect, both immediate and ultimate, in prejudicing the national credit, using those words in the secondary sense which I am attributing to them.

27. This country has for many years occupied a unique position, in Europe at all events, as a country in which it is safe to invest money or to deposit foreign balances both governmental and institutional, and the country has derived great benefit therefrom. It is, I know, the intention of the advocates of a Capital Levy to make it perfectly clear that that levy will only be imposed upon nationals of Great Britain, and not upon any foreign property of which institutions or individuals in Great Britain may be the custodians or depositories. The domestic concerns of one country, however, are always liable to be misunderstood by foreigners, who can hardly be expected to appreciate the exact terms of English Acts of Parliament, and I anticipate that the imposition of such a levy would give rise to very serious misgivings on the part of foreign investors and depositors who, at the first intimation of such a levy being likely to be imposed, and before its terms were finally settled, would probably remove their investments and deposits in the fear that they might in some way be affected.

28. The mere suggestion of the imposition of a levy in Switzerland is stated to have had this effect, and to have resulted in the withdrawal of large amounts of deposits in that country, but I have no means of ascertaining as to how far those withdrawals were made by Swiss nationals or by the nationals of other countries.

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

29. The answer to this question depends to a great extent upon how the levy is to be paid—whether in cash and by the surrender of War Loan, or by the transfer to the Government of other securities; and, in the latter case, upon what kinds of securities would be accepted in payment of the levy.

30. But, unless the Government is prepared under the levy to accept securities of almost every class, the levy must, I think, lead to large sales and to consequent depreciation in prices. Take, for example, a number of private companies, where the whole of the shares are in a few hands, or the analogous case of public companies where the junior securities—whether ordinary or deferred shares—are held by the managing owners of the business. These shares have as a rule no quotation, and are not saleable or dealt in in the ordinary way on any Stock Exchange. In many cases, e.g., those of shipping companies, they represent very large sums, and in not a few they also represent the whole or a very large proportion of the private fortunes of the owners. Unless the Government is prepared to take such shares at a valuation in payment of the levy they will be extremely difficult to sell, and will probably only be saleable at all at greatly depreciated prices.

31. Indeed it will be extremely difficult to effect sales of any securities except possibly those of the trustee class, because the people who are usually buyers will at the same time be under the necessity of providing their own contributions to the levy, and will themselves therefore be sellers.

32. To some extent no doubt the demand for investments by holders of debt which is paid off will counteract this difficulty, but not, I think, to any great extent, because investors in War Loan are not likely to invest in a class of security which, *ex hypothesi*, the Government refuses to accept in payment of the levy. Besides, it is extremely difficult to see how the sales of the securities and their repurchase by the holders of War Loan who are to be paid off can be "married." I do not say that a scheme, under which this might be done, is wholly impracticable, but I think it would involve very great difficulties, and for the reason I have given I doubt if it would be of much practical value.

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

33. As I shall show in my answers to Questions 6, 7, and 8, I regard the Capital Levy as a gigantic measure of sudden deflation in the sense that it would destroy 3,000 million pounds of "instruments of credit," which, although they may not be represented by material or physical assets, are supported by the whole credit of the nation, and are available in the hands of the citizens for trade and commerce and as purchasing power. I am afraid I do not sufficiently understand the purport of the second paragraph of this question to give it an intelligent answer, and must therefore leave it to be cleared up by verbal question and answer.

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

34. I regard the Capital Levy, at its best, as a very grave and hazardous experiment, untried anywhere on anything like the scale proposed. In considering, therefore, whether, from the point of view of its advocates, the experiment is worth the great risks it entails, it is of primary importance to arrive at the net saving in interest which, if successful, it will effect. Obviously an experiment which might be worth the risks involved to save 150 millions a year might not be worth them to save 50.

35. My own estimate, made in a very rough and ready way, happened almost exactly to coincide with the estimate subsequently made, by much more scientific methods, by Sir Josiah Stamp. It was, that apart from the indirect effects of the levy, which would probably entirely offset any net saving at all, there would be a net saving of from 40 to 50 millions a year. I have had neither the time nor the means to go more closely into this matter, and have been content to rely on Sir Josiah's work in that respect. If the estimate is at all correct, then it is obvious that, to the extent of about two-thirds, the Capital Levy would be a sterile operation, for in eliminating 3,000 millions of debt, it would only save the interest on 1,000 millions.

ANSWER TO QUESTION 14.

36. (Section *a*) (*as to methods of valuation*).—The levy will involve the valuation of every conceivable class of property—amongst others, lands, buildings, plant and machinery, stocks and shares, furniture, pictures, objets d'art, patents, copyrights, policies of insurance, reversionary interests under wills and settlements, the capital value of life interests, pensions and annuities, and property abroad, and goodwills of every kind.

37. For these valuations, if they are to be at all reliable, every class of expert will be required. I do not think it possible that such valuations can be dispensed with. They ought, moreover, to extend to all cases which are near the line of the exemption limit. The fixing of the date upon which the valuations should take effect would be a very important question. The imposition of the levy will in my opinion cause a great slump in the prices of all kinds of property affected by the levy, and it would therefore be unfair to fix a date prior to the passing of the Act.

38. Another difficulty will arise in a considerable class of cases in which property is held upon trust under wills and settlements for a life or lives in being, and for ultimate division amongst a class of which the members would only be ascertainable on the falling in of the life interests.

39. (Section *b*) (*as to finality of valuations*).—I think the valuations would have to be made on the same basis as those for Death Duties. I do not see how it would be reasonably possible to have corrective valuations in the light of subsequent events. The levy in the meantime would have been paid, and the damage accruing from it to the tax payers would in many cases be irreparable. It would surely be impossible to allow some people, years afterwards, to be making reclamations, which in other cases would be impossible.

40. (Section *c*) (*as to extent of payment in cash, securities and other forms*).—This answer again depends upon what kinds of securities the Government might be prepared to accept in payment of the levy. Without knowledge of that, I do not see how it is possible to give any estimate. But, assuming that the levy had to be paid either in cash or War Loan, or in securities of the trustee class, then, basing my estimate upon the evidence of Sir Richard Hopkins before the Select Committee on War Wealth, I should think that a fair estimate would be that one half of the levy would be payable in cash and the other half in War Loan, and other securities. If other securities were accepted the cash payment would be reduced proportionately to the area covered by such acceptance.

41. (Section *d*) (*as to payment by private businesses*).—The difficulties in the case of private businesses would in my opinion be very great and the effects very prejudicial to trade. I believe I am right in saying that, according to Board of Trade estimates, only about 9 per cent. of the total national wealth is employed in private businesses, but the percentage of the total trade done by private individuals and firms must be very much larger, probably more like 30 per cent. This aspect of the effect of the levy is very important and needs examination from so many points of view that I would rather defer dealing fully with it, to the evidence which I shall give in regard to questions 5, 6 and 7.

42. (Section *e*) (*as to extent of payment by instalments*).—It seems to me to be impracticable in the case of taxation to differentiate the mode of collection in different cases, because of the hardships it might cause to a particular class. If the tax is of such a nature that it requires such differentiation—beyond the exercise of a reasonable latitude by Inland Revenue officials in its collection—in order to prevent hardship and injustice to whole classes of the population, then to my mind it is a bad and impracticable tax, and one which should never be imposed. One of the great objections to the Capital Levy is the extraordinary inequality with which, owing to its nature, it will work. It will press much more heavily upon some individuals than upon others, owing to the nature of their property and to the particular circumstances of the case. If any attempt is to be made to rectify this inequality in a particular class of cases, *e.g.*, private businesses, the claim of individuals in other classes to which the rectification does not apply will be just as strong, and a grave injustice will be created if any class is given an exceptional position.

43. If such exceptions are extensively introduced the whole thing will be in danger of degenerating into a system which is alien to British ideas, but which, I am told, has extensively prevailed in the collection of the Capital Levy both in Czecho-Slovakia and in Italy, under which the amount to be paid by each person becomes a matter of bargaining between him and the officials of Inland Revenue.

For the answer to the second paragraph of (*e*) I refer to my answer to paragraph (*b*).

44. (Section *f*) (*as to cases where resources are locked up in private businesses*).—It has often been suggested—by Mr. Pethick Lawrence for example (see pp. 65 and 66 of his book, "A Levy on Capital," 3rd Edition)—that in certain classes of cases (including, as I understand, private businesses) the levy, instead of being paid in a lump sum, will be made payable by cash instalments over a period of years. He somewhat airily says that though "persons who elect to pay in this way will undoubtedly suffer some embarrassment for several years to come, there will be no question of crippling their business, for they will in effect pay the levy out of income."

45. But what if there be no steady income out of which such levy can be paid? Not all businesses show an unbroken series of profits over the period (30 years) which he contemplates. Besides if, as the advocates of the levy insist, industry is at present crippled by the burden of existing taxation, how is it possible that these businesses can survive under the burden of a Capital Levy imposed as an annual charge which will certainly involve a large net addition to that burden? I do not, therefore, regard this proposal as being by any means a remedy for the great injury (in many cases probably reaching to extinction) which the levy must involve to private businesses, though in some cases payment by instalments might be a palliative of that injury.

I have no other alternative to suggest.

46. (Section *g*) (*as to order of debt repayment, etc.*).—I have no strong views upon this point, except that I think it might be desirable first to reduce the Floating Debt to such an amount as might, under present conditions, be considered normal, and next to redeem the shorter dated securities. If a Capital Levy were imposed, I do not consider that any great additional hardship would be involved by powers being taken to redeem compulsorily the appropriate part of the War debts by drawings or otherwise.

ANSWER TO QUESTION 15 (*additional points*).

47. I wish to make a few general observations. Apart from any question of the justice or fairness of the levy, there is no doubt but that, if certain vital considerations are ignored or kept in the background, an attractive theoretical case can be made for it. But the more closely it is looked into from a practical point of view the greater and more formidable become the objections to it. It has to be borne in mind that never has anything of the kind been attempted on a similar scale, and it is quite impossible to foresee all the reactions that it may have.

48. It should also not be forgotten that as a country dependent for our existence upon trade instead of the produce of our soil, and upon our position as the money market of the world, we are the last country which can afford to run the risk of a hazardous experiment of this kind. The consequences of a false step of this magnitude, which in other countries might only be temporary, might easily, in our case, be irreparable.

49. The object of the levy is stated to be to remove the burden of taxation upon industry. That must refer to the Income Tax and Super-tax; but even if, contrary to the view I have expressed, any considerable saving results from the levy, there is not and cannot be any guarantee that, over a period of years, there will be any reduction of those taxes, especially in the case of those upon whom the burden of the levy will mainly fall, and who are the source to which the country must chiefly look for the supply of capital for new industries and the extension of existing ones.

50. I must apologise to the Committee for the somewhat rough and crude form of my replies to their Questionnaire, but they have been prepared under considerable pressure, as the only time I have had available for the work has been two days of the Christmas holidays.

5091. *Chairman*: Perhaps you will read your paper and at a convenient place the Committee will examine you upon it?—Thank you. First of all, I state who I am: (1) From 1888 to 1918 I practised as a solicitor in the City of London, and was largely concerned with commercial and financial business. In 1918 I was appointed one of the Joint General Managers of Lloyds Bank, Limited, and still occupy that position. Ever since the question of a Capital Levy became a serious political issue, I have given some study to the subject, and have both written and spoken a good deal upon it. I do not want to come under any false pretences or misrepresentations of any kind. I claim no expert knowledge as a political economist or anything of the kind. You will see from my record that most of my time has been spent as a lawyer; only for the last six years have I been a banker; and I cannot claim to be any more than an ordinary business man lending his mind to these questions.

(2) Before taking up the summary of the evidence which I have prepared for the Committee, and following the various points therein set out, I wish to make one or two observations of a general character.

It is, I think, clear that the Capital Levy is regarded by its advocates—I allude especially to Mr. Pethick Lawrence and Dr. Hugh Dalton—not only as a measure of taxation for lightening the burden of the National Debt, but also as a means for the redistribution of wealth. Abundant evidence of this will be found in their treatises on the subject.

I assume that the question of the desirability of a redistribution of wealth or the means by which this may be accomplished are not within the scope of this Committee's reference, and that I shall be excused from dealing with that branch of the subject, and I therefore propose to deal with the subject only from the former aspect, that is, treating the levy as a means of dealing with the National Debt. There is a question in the Committee's Questionnaire with regard to the redistribution of wealth which I deal with in my answers to those questions.

(3) In the next place I want to say that, in giving evidence upon this question, one is met with the difficulty that one has no official concrete proposal to which one's evidence can be directed. There are many important points to be filled in in any actual scheme for a levy upon which the views of the advocates of the Capital Levy appear to differ. Take, for instance, the mode of payment of the levy. In one of his speeches at Blaenavon during the 1923 Election the late Prime Minister clearly assumed that the levy would be paid in cash or by the surrender of War Loan Stock. Both Mr. Pethick Lawrence and Dr. Hugh Dalton, however, appear to assume that, where neither cash nor War Loan stock can conveniently be made available, the levy will be payable in almost any class of security—even ordinary shares—which the taxpayer might possess. The manner in which this was settled might, of course, have an important bearing upon one branch of the subject, namely, the amount of the disturbance which the levy would cause owing to the sales of property which it would be necessary to bring into the market.

(4) But on the other hand, to the extent to which the levy would be paid, not in cash or in War Loan stocks, but in other securities, it would not bring about any immediate reduction in the amount of the National Debt, and one would have to consider what would be the effects, direct and indirect, of the Government holding an enormous mass of securities, which Mr. Pethick Lawrence contemplates would be gradually realised and turned into cash for the purpose of paying off the National Debt. Or it might be decided that the Government should permanently hold these securities and acquire a very large share or interest in the industries of the country. That has been contemplated by some of the advocates of the Capital Levy.

(5) Again, the economic consequences of the levy might be very much affected by the manner in which any relief resulting therefrom might be utilised. Would it be applied in any special reduction of Income Tax or Super-tax to those by whom the levy was contributed, or any reduction in the rate of Income Tax generally, or would it, as at one time at all events, was contemplated by the Labour Party when it adopted the Capital Levy as part of its programme, be accompanied by the imposition of even higher rates of Death Duties and Super-tax? These are questions which, though they may have an important bearing upon the economic effect of the levy, are entirely "at large," and it is, therefore, quite impossible to assume in what way they would ultimately be settled or to take them into account for the purposes of evidence at this stage. Perhaps Dr. Dalton's pamphlet on the subject of the Capital Levy is the one which one must take as having, I will not call it official sanction, but more official sanction, on behalf of the Labour Party than any other treatise on the same subject, and he quite frankly says in his treatise that it is perfectly impossible to guarantee even any reduction of Income Tax out of the expected savings of the Capital Levy. He does, and so does Mr. Pethick Lawrence, suggest that it would be a wise application of such savings as might be effected to reduce the Income Tax by 1s. 6d. in the £, but that is left quite open, and until we have the proposal in a Bill, I do not know that anybody could say what would happen to any savings that might be effected in consequence of the Capital Levy.

(6) Thirdly, an argument one sees so constantly used by the advocates of the levy, but which by my evidence I hope to satisfy the Committee is entirely erroneous, is that it will *simply* involve the transfer of property from one set of pockets to another, and will not involve any diminution of effective capital. But even if that were true, it is equally true that the levy, the principal object of which is stated to be to remove an intolerable burden from industry, would really result in transferring that burden from the present shoulders to those of a more limited class, though in a different form. The burden itself is there and cannot be got rid of by any financial conjuring and the nation, through some of its citizens at least, must still bear that burden.

On that supposition, and looking at the matter merely from the point of view of its effect upon trade, the point ultimately to be considered in this connection may prove to be whether the £3,000,000,000 of capital to be transferred from the pockets of the 340,000 who will have to pay this levy, to the 6,000,000 odd people who may ultimately receive repayment of their War Loan stock, will be more beneficially employed in the hands of the latter in the interests of trade and commerce and of employment than it is at present.

(7) One other preliminary observation I wish also to make, and that is that the advocates of the levy do not appear to have at all adequately discussed its effect upon credit. You may read Mr. Pethick Lawrence's book, and also that of Dr. Hugh Dalton, from cover to cover, but you will hardly find anything more than a most perfunctory reference to the relation between capital and credit, or to the immense part which the latter plays in the trade of the country, or to the effect upon credit which the Capital Levy would have. I shall give an example later on of the extent to which, in a specific class of trade, credit and the capacity to trade might be affected by this measure.

(8) I do not know whether the Committee desire me to deal with the question of the fairness or justice of a proposal, the effect of which would be to transfer the burden of a very large proportion of the National Debt, which was incurred in the interest not of any one class but of the whole community, from the shoulders of the community to those of about 340,000 persons—who represent considerably less than 1 per cent. of the population. With all respect to the great authority of those who have expressed a contrary opinion—amongst others the late Mr. Bonar

Law and, I think, even the present Prime Minister—I consider that there is a vital distinction between taxation of income in proportion to the citizens' ability to bear it, and a Capital Levy which, in respect of the portion of the capital taken under the levy destroys the purchasing power of the owners of that capital and excludes them from any direct participation in any future improvement in the financial position of the country; and which singles out for special taxation a particular class at a particular date, which, as we saw in 1920, may not be a fair index of the real facts.

Apart from this, the main point of view from which, as it appears to me, the question should be approached, is in regard to its probable effect upon trade and commerce, and, through trade, upon the employment of the working classes in this country, and it is to that aspect of the case that I propose to direct the chief part of my evidence. There, if I may, I will pass away from the general observations I desired to make and come to the questionnaire.

5092. Now will you take the answers to the Committee's questions?—(*Answer to Question* 1 *read*).

5093. *Mr. Bell*: There is rather a confusion, I think, sometimes as to the desire of everybody to pay off the National Debt. Sometimes it is almost indicated that some people do not attach very much importance to this National Debt and it can go on. I think really the simple issue between the parties is not as to the desirability of getting rid of the National Debt at all; everybody is at one upon that; but it is the pure question of method. On the question of the method, I understand your view is that it would be very much better that this National Debt should be paid off as quickly as possible, but gradually by an annual Sinking Fund, and by the alteration of the rate of interest on loans when opportunity occurs, rather than by a great disturbing effort at one time?—That is my view. In my opinion the whole thing is really a question of balance between the present and the future, if one can put it in that way. You have no doubt to consider the future of this country and the future welfare of the people of this country, but you have also to consider the present. Will you do better for them, and for the present generation too, by a great effort to repay the National Debt, or will you do better by going along in the old-fashioned way and gradually repaying your debts. The whole question is which of those two is to the greater advantage ultimately. It is no use to hand down to future generations a country freed from the burden of debt, but so exhausted by the effort that in the meantime you have destroyed your trade, or have caused people to live under such conditions that they are no longer a healthy and vigorous race. So that you have to be careful on the one hand not to starve the present generation mentally or physically by trying to do too much, and on the other you have gradually, but as quickly as is reasonable and can be done without injuring trade, to repay the National Debt; those are my views.

5094. *Professor Hall*: Would you say that the amount at present applied for debt redemption is sufficient, having regard to all the circumstances that you have mentioned?—I think it is as much as we can reasonably afford at the present time. I am taking it at about £50,000,000 a year. Other circumstances might arise such as greater prosperity in trade which might enable that to be increased.

5095. By increase, do you mean an increase in the rate of taxation or merely an increased yield due to development of trade?—An increased yield.

5096. Would you suggest that provision for debt redemption should be increased as the interest charge falls?—I think that is a thing that might be very seriously considered.

5097. You suggested that it is desirable that the debt should be redeemed as early as possible?—Undoubtedly. You see, regarding the thing as a question of balance, as I have just shown you, if you could make a saving in the rate of interest and at the same time produce more income to be taxed, then I think, keeping the question of balance in view, it is quite worthy of consideration whether the Sinking Fund should not in such cases be increased.

5098. You are conscious that at the present rate it is going to take us a long time to pay off the debt?—Oh, a very long time.

5099. I suggest to you that we really need some alternative suggestions from witnesses who criticise the Capital Levy—some suggestion as to the way in which the debt can be more quickly redeemed than it is being redeemed at present?—I have so often been asked to reply to that question, and I have to reply that there are a great many things, like death, for example, to which there are no alternatives. A debtor who has of necessity got into this position has no alternative but to pay his debt in such way as is in the best interests of all parties. There is no alternative, in my judgment, except the steady redemption of the debt.

5100. But you would not consider that the maintenance of the present rate of redeeming debt was in the best interests of the country?—I do indeed—the best course that is open to the country.

5101. Even if it is going to take us so long to redeem the debt?—I think that is my view. The present situation is an exceptional one. We have not created it; it has been forced upon us.

5102. I am rather wanting to find out whether you contemplate the desirability of increasing the provision for the Sinking Fund as the interest charge falls?—I really think that would be well worth consideration.

5103. But you do not commit yourself to that?—Off-hand I am inclined to favour that view.

5104. *Mrs. Wootton*: Have you formed any estimate of the probable savings that might be effected by conversions, say, in the next three or four years?—Of course, it depends very much on the course of the money market. I should think that the gradual tendency will be for the rate of interest upon money to come down, but I have not formed any estimate that would be worth putting before the Committee of what the actual saving would be. One would think that in the course of a few years the Government debt ought to get down to a 4 per cent. basis.

5105. Could you give us your reasons for holding that view? We have had witnesses who have suggested to us that conversion is rather a speculative possibility since interest rates are as likely to go up as they are to go down; can we know on what grounds you think it is probable that interest rates will fall?—The normal accumulation of savings that we have in periods of peace and reasonable prosperity of the country would tend to reduce the rate of interest. The increased credit of the country, in the sense that it would survive a period of intense strain which would promote confidence, would again, I think, tend to reduce the rate of interest. Those, I think, are factors, though not the only factors. Looking back at my early business time, gilt-edged securities carried little more than 3 per cent. in 1892 or thereabouts, and I think it is the teaching of history that in the absence of an immense disturbance, such as we have been through in recent years, the tendency of capital is to accumulate and to get cheaper.

5106. Is not that rather what you may call a long run tendency?—Yes, a long run tendency undoubtedly.

5107. I was wondering about the immediate future, and whether, if there were to be a revival of trade, that would not probably be accompanied by some increase in interest rates?—Well, it will operate both ways, I think. The increased demand for capital will to a certain extent send up the rates for capital, but then I think the other thing will begin to operate—the accumulation of savings; and that will gradually tend to reduce the rate.

5108. It does make the prospect of saving by conversion rather speculative in the immediate future?—There cannot be any certainty about it in the immediate future; still we have done something in that direction already.

5109. *Professor Hall*: If we entered upon a cycle of falling prices such as that from the 'seventies to the end of the 19th century, would your views regarding the policy of debt redemption be affected at all?—No, I do not think they would. I am of course alive to that point very much, and I have always considered that as one of the strongest arguments in support of a Capital Levy, namely, that the money was raised at a certain purchasing power, and it may have to be repaid at a different purchasing power. That has always been an argument which has appealed to me more strongly than any other for the Capital Levy.

5110. And, of course, the interest charge becomes a heavier burden as prices fall?—Naturally, but I thought for a long time that that was due to the depreciation of the gold value of the pound sterling. To-day, of course, the situation is very different. The pound sterling is almost at parity with gold value, and yet prices do not fall; so that that is not due to that cause to-day.

5111. *Sir Josiah Stamp*: Supposing we got rid altogether of the difficulty that there is in the difference between sterling and gold, that we were all back on a gold standard, and we had only to look at the appreciated value of gold, have you any views as to the future value of gold? For instance, you say: "With wages at their present level (and I see no prospect of their reduction) I do not anticipate any considerable reduction in price levels of commodities," almost as though you regarded the level of wages which had to be fixed as being able to hold up the price level very much as a man might try to lift himself up by his beard. Would you not agree that the future value of gold is a much more important factor?—It does depend on the future value of gold.

5112. Have you any views as to the future value of gold?—I reminded you at my opening that I made no claim to be a political economist in any shape or way, and I doubt therefore whether my opinion on that point, of which I have made no special study, is of any value.

5113. Still, you are a banker?—Well, I am a banker of six years' experience, but I will try to answer your question. I should say that it depended very largely on the question of the demand for gold, and it would depend therefore upon whether European countries were seeking to get back to a gold standard.

5114. We will assume that on the demand side the most important factor is whether the world generally wants gold as a standard, and if it does not, then the prospects of gold values are rather bad; you would expect prices to rise. But I would like you to look at the other thing, if you would not mind, on the supply side. You have got, as I say, at the present time—perhaps you will check me if you do not agree—instead of the pre-war conditions of a single supply, really three supplies. You have the supplies from the mines following the ordinary economic laws; they will get less or more according as the value of gold goes up or down. Then you have an immense special block of useless gold which may be free at any moment under American conditions hanging over the gold market at all times. Thirdly, you have got what the bankers may do in the way of creation of credit on that basis. For the future purchasing power of gold and the credit based thereon you have three supplies instead of one. Have you as a banker formed any impression as to how those tendencies will operate in the future?—Honestly I have not, and I find it very difficult.

5115. Would you agree that it would dominate the whole economic destiny of the next generation?—To dominate it entirely?

5116. Yes. Would you agree that fluctuations in the value of gold will have a very important accelerating or depressing power on industry?—Well, I think I would go as far as that.

5117. That fluctuations in the value of gold purchasing power are at the bottom of industrial unrest as to the fixed amount of money wages?—They have an important bearing, no doubt.

5118. Would you agree that those two together really form the most important things that we have to face?—I do not think I want to go further than to say this, that they are extremely important elements.

5119. I suggest to you that everything else hangs on them or is merely superimposed on them; that those are fundamental?—I think they are fundamental.

5120. That being so, I would like to get from you, if I can, as a banker, any help you could give us as to whether you think gold prices will rise in the future seriously?—I frankly do not think my opinion would be of much value; I have not studied that question.

5121. Supposing after study you came to the conclusion that on the whole the forces of the next 20 years were going to make for a considerable increase in gold prices, what would be your attitude then towards the Capital Levy?—That I am prepared to answer. I should still be of the same opinion; that is to say, I admit the force of the point you put and do not want to shirk it a bit, for it has always appealed to me as the one argument upon which a Capital Levy could be, not justified, but supported; but I should remain of opinion that, even if we were to see a substantial reduction in price levels in the immediate future, the Capital Levy would still do more harm than good.

5122. I put the converse case to you. You still think that the Capital Levy would be inadvisable if the price level were to fall seriously?—Yes.

5123. I am now asking what your attitude towards a Capital Levy is if you come to the conclusion that the price level is going to rise?—Well, I think the same.

5124. Would you think so still more strongly?—I think so. I have answered that really by saying I take it both ways. Whatever the price levels may be, whether they tend to rise or tend to fall I still think the Capital Levy is a bad way of dealing with the National Debt in the common interests of the whole nation.

5125. Would you think still more it was bad if for other reasons you came to the conclusion that the price level was not likely to fall but was likely to rise?—Naturally.

5126. *Professor Hall*: My question was not merely on the subject of the Capital Levy, but on the question of accelerating or retarding the rate of debt redemption by ordinary taxation?—Yes.

5127. *Sir Charles Addis*: One remark of yours rather struck me, as it seemed to indicate that you thought there was a close analogy between a public debt and a private one. I refer to your remark where you said that the debt had to be paid. Would you not admit that there is a very strong distinction between a debt owed by a private person, which he may not be able to pay, and a debt owed by one section of the community to the other, which in any circumstances can be paid? A man may be so poor that he may not be able to discharge his debt, but it is inconceivable that the community can ever be in such a poor state that debts between the members of the community cannot be discharged?—There is no doubt a distinction, but I doubt whether it is really a distinction that goes to the root of the things or to the principles involved.

5128. But as a practical question, I wish to have your answer?—I am not quite sure which remark of mine you are alluding to.

5129. I am alluding to a remark which you made in the course of reading your evidence-in-chief, in which you said that the way in which you regarded debt was as a thing that could not be altered and must be paid?—Yes.

5130. I wish to put to you in order to clear the ground for the consideration of a Capital Levy that that is not quite a fair analogy; the debt owing to this country by another country, for example, or by one individual to another individual, is exactly as you say, but is it true in your opinion of the internal

debt of this country, which is owed by one section of the community to another?—It is, and as I understand it the advocates of a Capital Levy themselves affirm that, because they say: "No; we will not have any repudiation whatever; we will pay our debts." The other limb of the thing is that they have to find the money to pay it. They are not suggesting any difference between the obligation to pay a public debt and the obligation to pay a private debt. They are going to fulfil that obligation, and they make a great point of that.

5131. That was not my point. My point was as to the practical question. It may not be possible for a private debtor to discharge his debt, but it is inconceivable that there could be any circumstances in which a country could not discharge its own internal debt, because it is merely a transfer from one part of the community to another?—That may be, but I do not at present admit that there is any distinction between the two.

5132. There is another question I would like to put which I think is fundamental with regard to a Capital Levy: is there any real distinction, or is there not some confusion on the point, between the object on which a tax is assessed and the source from which it is paid? Income Tax, for example, may be paid out of capital, or a tax on capital may be paid out of income; is there any such distinction as would appear from your remarks?—You are alluding to the fact that I draw a vital distinction here between taking a proportion of a man's income in the shape of taxation and taking his capital and wiping out the whole of that income and the whole of the purchasing power of that capital; that is the remark you are referring to?

5133. Yes. I suggest to you, that a Capital Levy is really a form of assessment, and whether you assess upon capital or whether you assess upon income does not really determine the source from which the payment of the tax is made?—I think the answer to that is that it ought to determine the source from which the payment is made on the assumption that the subject is a reasonably prudent person. We know there are exceptions, and I am going to deal with those, but assuming that the Income Tax is fairly levied it ought to be possible to pay it out of income. By the imprudence of the taxed subject he may have to pay it out of capital, but that is neither here nor there. As far as the principle of the thing goes he has the opportunity of paying it out of income. In the case of a Capital Levy in my judgment he has no such power.

5134. But why?—Because so large a sum is demanded of him within a short period.

5135. But supposing the Capital Levy were a very small amount?—Then I agree. I am not dealing with the name; you may call it a Capital Levy, or you may call it Income Tax based on assessment of capital; it is a question of nomenclature. But when you come to a Capital Levy of a magnitude such as this it is perfectly impossible, in my judgment, to pay that out of income.

5136. I understood that you had paid no regard to the amount of the Capital Levy?—Yes, I have.

5137. I thought you disclaimed that and said that would have to be determined; there was no concrete case?—Oh, no; there is the very concrete case of £3,000,000,000.

5138. Are your arguments based on £3,000,000,000?—Yes, all my answers are based on a levy of £3,000,000,000.

5139. Your argument is that if it were £3,000,000,000, it would necessarily have to come largely out of capital?—Yes.

5140. *Chairman*: Will you now deal with Question 2?—(*Answer to Question* 2 *read*).

With regard to my answer to section 2 of this question I do not feel very strongly. I say in answer: "No, as this would to a considerable extent nullify the advantages which its advocates claim from the early repayment of the debt." Of course, it will be claimed that as the result of the reduction of the National Debt which will ensue from the payment of the Capital Levy, it will be possible to reduce the Sinking Fund, and it will therefore be claimed that you have got to add to that saving an amount which you might also save in respect of the Sinking Fund. I do not think that that is a sound argument, but I do not feel very strongly about it. If there is to be such a great advantage derived from the reduction of the National Debt by a levy, which its strenuous advocates at first wanted to extend to the whole War Debt and not merely to £3,000,000,000, then it is a little nullifying those advantages if, because they have got half way or not quite half way, they break off the redemption of the rest by reducing the Sinking Fund. At the same time I do not feel very strongly on that point.

5141. *Sir Josiah Stamp*: You have in mind in this question a levy of £3,000,000,000 raised from a relatively small number of people with a £5,000 minimum, and that in your judgment is likely to have certain economic effects—deflation and other effects?—Yes.

5142. You postulate here the possibility of raising that £3,000,000,000 from a larger number of people with a minimum of £1,000. Would that kind of levy and that number of people with a minimum of £1,000 differ in its economic effects?—Not in my judgment. You have to approach it from so many different angles at different times. The reasons I am giving in this answer are not economic; they are rather based on equity and fairness.

5143. I agree, but supposing on those grounds of equity and fairness you adopted a minimum of £1,000 instead of £5,000, and you raised the same sum by a spread over that area instead of the smaller area, I will put two or three ways in which it might be urged that the effects would be quite different. It might be urged that the holding of securities in the smaller class of people was different in proportion to their liability; that the people with only £1,000 were more often people in private businesses who had their money locked up and with less free surplus to pay their levy, and there might be a dozen ways in which the two classes differed and in which the final results of the levy might be worse for industry or better; have you formed any judgment upon that?—I should think that it would have an even more disturbing effect, subject always to this, that of course down to the £1,000 (or, as I suggest, £500) level, your tax would be very small. It is £50 on this basis of £5,000; perhaps it would be £10 on the basis of £1,000; so that while I am saying—what I think is probably right—that the disturbing effect would be greater, you must bear in mind that it would be a very small amount that these people would have to raise.

5144. Do you not get into a very considerable area where the tax could be paid by giving up a portion of War Loan, for example, that is not used for collateral? Are you not amongst a class of people who are not using War Loan for collateral?—When you get to the small people, I think so.

5145. There are various things like that which may possibly have to be taken into account?—Yes.

5146. But it would be possible that it would not have such heavy deflationary effects?—Possibly—well, no, I do not think it would make any difference; I shall come to that later.

5147. Do you think that people with a total fortune of £1,000 to £5,000 are using it to the same extent as a basis of credit as people with over £5,000?—I should think not—not to the same extent.

5148. There is a second point. Do you think that if the exemption limit were reduced there would be any difference in the final pressure of the people whose War Loan had been redeemed to purchase similar gilt-edged securities in a much smaller gilt-edged market?—I do not quite follow. The amount of War Loan to be redeemed would be the same in either case.

5149. Yes, but would there be in your judgment any difference in the final pressure on the restricted

gilt-edged market for new securities?—By reason of the fact that the exemption limit was reduced?

5150. Yes.—I do not quite follow how that would operate.

5151. I want to know whether you consider that there would?—I do not think it would make any difference.

5152. You agree that in any case that is going to be an important feature of a levy?—Yes. I shall deal with that later in answer to one of these questions.

5153. *Chairman*: What number of people would be brought in, do you think, if the £1,000 limit were adopted?—I am afraid I am not prepared to answer that definitely. I think it could be easily ascertained, as an estimate, from the Inland Revenue Department. I should think it would multiply them very largely; I should imagine it would bring in something like 1,000,000 people, or perhaps more. *Sir Josiah Stamp*: It brings in a large class of widows who are exempt from Income Tax, the class of people who have £50 a year from War Loan. It is difficult to make an estimate without very careful research.

5154. *Chairman*: What is the exact number that have to pay Income Tax now?—About 2,500,000, I think, but I am not sure of the figure.

5155. *Chairman*: Would the number of people who have £1,000 approximate to that number? *Sir Josiah Stamp*: You cannot reason from one to the other because the bulk of Income Tax payers are wage earners. You have to look not at the Income Tax statistics so much as the Death Duty statistics; you have to look at the estates over £1,000 to get the proper multiplier.

5156. *Professor Hall*: Do you think that there is great justification for your statement that there would not be any permanent saving in taxation as the result of a levy?—I am going to develop that: that is one of the principal points of the whole thing.

5157. Dr. Dalton, for example, suggests a reduction of taxation?—1s. 6d. off the Income Tax.

5158. Do you think that although he makes that suggestion it is not likely to materialise; the money would be spent on other things?—I put it in this way, and I do not think there is any concealment about it in any way: the advocates of the Capital Levy have expressly said that one of the things they want to do with the saving is to spend it on social benefits to the poorer classes, an object with which I am in entire sympathy from other than economic points of view. They based their original ideas on a saving of £150,000,000; that is quite clear. They forgot that you have to consider two sides of an account here. I am going to try and show, relying upon the estimates that Sir Josiah Stamp has made, that you are only going to save about £45,000,000 at the outside. £45,000,000 is, I believe, only about 1s. in the £ on the Income Tax and there is nothing left for social schemes.

5159. But is it not suggested that the saving might be divided over the two things, reduction of taxation and the provision of social services, some of which may have to be provided in any case?—That is true, but if you have only £45,000,000 to divide, it does not go very far for either. If you save only 6d in the £ on Income Tax, just look what you are doing; you are upsetting the whole country in an untried experiment of this huge magnitude of £3,000,000,000 in order to do what?—to relieve the taxpayer from 6d. in the £ of Income Tax, and perhaps to provide £25,000,000 for social schemes.

5160. The point I want to bring out is your statement that the strong probability is that, so far from effecting any permanent saving in taxation, the reduction of the debt by a Capital Levy of this magnitude would be a direct incentive to impose a fresh burden of taxation for other purposes. You do not accept the view of some of the advocates of the levy that a permanent reduction in taxation would be likely to follow?—No, I do not, for two reasons: first, because I think that the reduction of trade and employment which will follow will reduce the yield of the existing taxes, and secondly, because, if there is any saving, there will be the strongest possible incentive to the advocates of the levy to reimpose that taxation for social purposes, and therefore in my judgment it will not result in any permanent saving to the taxpayer at all.

5161. Of course, these are matters of personal opinion?—Matters of opinion obviously, and perhaps also of future policy which neither you nor I can control.

5162. *Sir Charles Addis*: That objection, in your opinion, would be removed if the proceeds of the levy were applied to the reduction of debt?—Exclusively. It would be removed subject to this point, that I do not think the saving in any case is worth the experiment.

5163. But *pro tanto* it would be?—*Pro tanto*, I agree.

5164. And to that extent there would be an incentive to saving and production?—Yes.

5165. Where you say that there would be no relief in the permanent taxation of industry, and that the bulk of the money would be spent upon purposes—social purposes I assume you mean—which though they may be desirable are not economic, would that objection be removed if the social purposes were economic—education, for example?—Yes.

5166. And matters of that sort?—If they are done on economic lines.

5167. It is not an objection inherent in a Capital Levy but in the application of it?—Yes, quite.

5168. *Chairman*: Now I think we may go to your answer to Question No. 3. (*Answer to Question 3 read.*)

5169. *Sir Charles Addis*: I still feel the difficulty of the distinction between a private individual and the community as a whole. It is quite true that capital may be taken from the individual, but you do not suggest that there would be any change in the amount of the real capital of the country, however large the Capital Levy?—No, not in the capital of the country, but I am going to suggest that there would be a very material change in the amount of the capital of the citizens and in their trading capacity and power.

5170. I agree, but in your view would that result in any change either greater or less in the amount of real capital looked at from the national point of view?—No, but I want to expand that presently. I will keep that point in reserve; I have something to suggest to the Committee there which may or may not be right, but which I think is at least worth your consideration.

5171. Do you go so far as to say that the Capital Levy would be a confiscatory measure in itself?—It depends largely upon the view which you take. In my judgment—I cannot get away from it—it does have that aspect.

5172. You think it is a different principle, for example, from the Sinking Fund; nobody would call that a confiscatory measure?—No.

5173. Is there a distinction in principle?—I think there is a great distinction in principle in that respect, because the Sinking Fund, so far as not derived from ordinary taxation, is at present derived from Death Duties, and I shall be able presently to differentiate Death Duties from the Capital Levy in many respects.

5174. Do you go so far as to say that a tax which is assessed upon capital and not upon income is in itself a confiscatory measure?—No, I should not. It entirely depends on whether it has to be paid out of capital or whether it is of such amount that it is reasonably possible for the taxpayer to pay it out of income.

5175. So that whether a Capital Levy means confiscation or not depends entirely on the amount?—Yes, largely so.

5176. *Sir Josiah Stamp*: I rather understood you to make it depend also on the range or number of people who had to pay in relation to the total number of voters?—Yes, that is so; and also upon a particular class at a particular date, because a Capital Levy must be made at some fixed date. You are fixing that particular class by reference to a particular date which

the next day may not represent the position at all. Take the example, for instance, of a man who has a large investment in a particular mine and it is standing in the market on the day fixed for the levy to operate at 25s. 0d. a share. The next day comes a telegram to say that the whole thing has petered out; his investment has gone, but he has got to pay the levy on the market value of his shares at the fixed date. I am putting an extreme case. You must fix a date, or you never can work it at all.

5177. *Sir Charles Addis*: I am only anxious that we should discuss this question on equitable grounds?—That is my anxiety too; I want to get at the truth.

5178. It seems a pity to introduce the word "confiscation"?—Of course I did it deliberately.

5179. Unless you really hold that it is a question of principle. If you mean that a tax may be confiscatory if it is unduly large I think we should all agree; but if you merely mean that a tax which is levied on capital as opposed to a tax levied on income is therefore confiscatory I beg to differ.—I beg you to look at the form, which is carefully settled, in which I have used that word. I did not say that I myself regarded that as confiscation. I said that in my view it must carry with it a feeling (as I know it will with a large proportion of people who have to pay) that they are the victims of a measure of confiscation; I am speaking of the impression on the mind.

5180. I quite agree, but I want to find out whether you think that feeling would be justified or not, and you do not?—I think it depends on the amount to a very large extent.

5181. *Mrs. Wootton*: The distinction that you draw in the last paragraph of your answer to Question 3 is again a distinction of principle. You say that the Income Tax is assented to by all classes without any sense of injustice, and a Capital Levy cannot be imposed with the assent of the citizen by whom it will be payable. Is it not rather a matter of degree? The Income Tax is regulated and changed by the votes of a very much larger number of people than the Income Tax payers?—That is perfectly true, but yet the distinction to my mind remains. To begin with, this is a new class of tax altogether. I think it has been absent from our fiscal system since the times of the Tudor Kings when they used to take Capital Levies just as they wanted them regardless of economic considerations. Apart from Death Duties, which I think can be distinguished, I do not think we have had such a thing as a Capital Tax in this country for a great number of years; it is not part of our fiscal system.

5182. You think this is a distinction of principle because the tax is new?—Because the tax is entirely new in its nature. I suppose in a democratic country the actual taxation must always be controlled by votes of people who do not directly pay that taxation; that I should agree, but I draw a great distinction between the settled habits of the community with regard to Income Tax and the imposition of a new tax like this by the votes of the majority upon a very small minority—less than 1 per cent. of the population.

5183. Would you apply this principle of new taxes requiring the assent of the taxpayer, and thus being governed by the votes of the majority, to other taxes as well as to a Capital Levy, or is there something peculiarly new in a Capital Levy?—I think there is something new. I should not consider it to apply to variations of the Income Tax or of Customs and Excise duties, for instance, without such a revolution as the Capital Levy involves in our previous fiscal system.

5184. I want to get at the exact distinction which makes it necessary to obtain the consent of the taxpayer in the case of the Capital Levy, but unnecessary in the case of other taxes such as the Corporation Profits Tax?—Those reasons are pretty complex; they are partly historical, partly the fact that the change is a revolutionary one, and partly due to the nature of the tax itself. I discriminate between a tax on capital and a tax on income in this way. All taxes under our present system have, or ought to have, the fund ready at hand with which to pay them. The man is earning income; he ought to have in hand the money to pay his tax, the proportion of the income which he has earned. Again, if you take Customs and Excise duties, the man does not withdraw the dutiable article out of bond before he is ready to sell it. It is circulating capital and the money is there ready to pay. In the case of a tax upon capital, it is totally different. Unless you happen to be the owner of War Loan or other securities which the Government may be willing to accept in payment of the levy, you have to realise some of the capital which you own in order to pay your tax.

5185. *Professor Hall*: A tax paid out of capital?—Yes.

5186. Not a tax on capital?—I am dealing with the levy of £3,000,000,000, which obviously must be paid out of capital. That is a vital distinction, to my mind; it produces all the troubles because the thing itself has to be realised before you can get the money to pay.

5187. *Sir Josiah Stamp*: I would like to take up the question Mrs. Wootton started on, the nature of taxation. At present we have a very highly graduated and stiff scheme of Super-tax. Suppose we had had no Super-tax till this year, and then suddenly, by a great number of voters, it was proposed to put such a tax upon a small number of taxpayers, would you regard that as confiscatory?—No, I should not regard it as confiscatory to the same extent as a Capital Levy. Because, after all, Super-tax takes away from your and my incomes for the year a certain amount, but it leaves us with our capital; we can still buy a house with it, we can carry on our business, we can do a hundred and one things with the money with which we are left; but the other thing takes away everything that we have got, to that extent.

5188. But surely the only use of capital is the income that comes from it?—I hardly agree. I do not think, with all respect, that the *only* benefit a capitalist derives is the income on his capital. If I want a very interesting book or picture which would cost me £200 or £300 to buy, I can buy it out of my capital and sink the income. I do not pay Income Tax any longer upon that.

5189. I am not on the point of whether the Income Tax applies to profits of enjoyment as well as profits of money; that is leading it rather far, and it is not quite my point. My point is this: that if you were face to face with the present dilemma, and you had no Super-tax, you might have two alternatives for getting a large sum out of the rich man: either a Capital Levy of 30 per cent. of his capital, or to impose a very heavy Super-tax which had the same result upon his annual fortune. Why should one be confiscatory and the other not simply because it is imposed by a large number of voters?—I think it is all a question of degree. If Parliament said that nobody should have any income beyond, we will say, £2,000 a year, and all the rest should go to the State, I should regard that as almost equally confiscatory with a Capital Levy. I am referring to a tax imposed upon a very limited section of the public. But even in that case they would be left with their capital.

5190. *Mr. Bell*: Surely if the man is only taxed on his income, whether by way of Income Tax or Super-tax, it would be a great difference in kind, because it would be leaving him with the capital which he could give to his sons when he died. *Sir Josiah Stamp*: The sons, or whoever inherited, also coming into this high system of taxation. *Mr. Bell*: No, not necessarily; they might live in America. *Sir Josiah Stamp*: There is considerable difference there. I am only testing how far we can put any weight upon this argument that the Capital Levy is confiscatory because it is imposed by a large number of voters on a small number of payers, and whether that is really a sound distinction, compared with having a high rate of Income Tax. Suppose that the House of Commons, representing all these voters, were to say:

"We will double the rate of Estate Duty on all fortunes over £50,000," that surely would be something approaching it?—*Witness*: There a new set of circumstances come in, directly you deal with Estate Duties, because you are not taxing the dead man, you are taxing an estate which is coming as additional property to new people, and you are saying that as a condition of their inheriting that property, they shall inherit so much less. It is a totally different thing from saying to a man who is in existence: "I am going to take from you half the capital that you possess."

5191. All these reasons that you are giving for the thing being confiscatory are different from the reason that it is imposed by a large number of people on a small number of payers. I want to see whether we can rule that out and get at our definition of "confiscatory" on some other ground?—I do not want to go too far with this. I drew this very carefully. I want, at all events, to make as my first point that it is desirable that all taxation should be in accordance with the general principle that it should be imposed with the assent of the governed. Now I am not too strongly expressing my own opinion about confiscation. I am saying definitely here that a great number of people, the great majority of the people, upon whom the levy will be imposed, will regard it in that way, and it will create a rankling and a sense of injustice in their minds, which is undesirable, and the feeling that it it being forced upon them as a new form of taxation by the votes of people who have been led to believe that the tax will not affect them.

5192. I suggest to you that they would have exactly the same sense of injustice or rankling if you suddenly imposed the present high Super-tax or the present high Estate Duty?—Up to a point I should agree with you; it is a question of degree. If Parliament, by a democratic majority, said that nobody shall earn over £5,000 a year and everything you earn over £5,000 a year shall go to the State, I agree that that would be felt as a confiscatory measure.

5193. You would agree that what is confiscatory and what is not, depends on the psychology of the nation?—Partly, yes.

5194. And if we had a Capital Tax on a small percentage of capital as part of our regular scheme, and then we proceeded to increase that year by year until, instead of being 1 or 2 per cent. on the capital value, it became 10 per cent., the same feeling of confiscation might not exist?—I said that the reason was partly historical, in answer to a previous question.

5195. *Sir William McLintock*: Do you not think there are many possessors of income who, if they could be assured that by means of a Capital Levy they were going ultimately to effect savings in their annual burden corresponding to the income derived from that capital, would not be unfavourable to it?—Of course that is a possibility. I myself should still be of opinion, for reasons which I will give later, that it would not be a good thing for the State. I think it would still reduce the volume of business.

5196. Possibly, but that was not the point?—I agree, on the question of the sense of injustice, that if you could compensate a man *pro rata* for what he paid under the levy, by giving him a certificate which would exempt him from a proportionate part of his future Income Tax and Super-tax, that would be a totally different proposition.

5197. *Sir Josiah Stamp*: Was not that the original form in which the Capital Levy came up?—I do not think it was ever proposed in that form.

5198. Was not that Professor Pigou's original conception of it?—I do not know; it may have been.

5199: *Sir Josiah Stamp*: It was supposed to be a composition for one's Income Tax. *Sir William McLintock*: And it appealed to many possessors of capital when it took that form, because after all, they looked on capital as merely producing an annual income?—(*Witness*): That is a very narrow view of capital. Some people regard capital as a trust possession which they are bound to turn to the best advantage of the community, and I question whether they could do that on the same basis.

5200. That is a psychological effect on another set of possessors of capital as distinct from those who look upon it as mere confiscation?—Yes.

5201. *Sir Josiah Stamp*: I suggest to you that if prices were to fall very seriously, say to a half or a third of their present level in ten years' time, we should find business men and the Income Tax payers of the country getting together and saying: "This is intolerable: we must compound in some way for our Income Tax burden by redeeming the National Debt on a large scale, but we must not call it 'Capital Levy,' we must call it something quite different." They would be driven, by sheer force of circumstances, to come to this composition arrangement?—But, you know, we are getting a very long way from the proposal which is before us. I have studied these books on Capital Levy and I have studied the speeches, and there is not a single one which begins to suggest that people who pay the levy shall be proportionately compensated by exemption from any Income Tax that they have to pay.

5202. Did not Mr. Pethick-Lawrence make some such suggestions?—No. He did make some curious suggestions which I am afraid are not based on facts any longer; but nowhere is it suggested that there shall be special compensation at all proportionate to the contribution of the individual taxpayer. All Mr. Pethick-Lawrence's illustrations, which are very fascinating in the sense that they are even better than "Ninepence for Fourpence"—we are all going to be richer as the result of the Capital Levy—are based on the assumption that both Income Tax and Super-tax will be reduced by one-third. Well, anything further from the probabilities as a concomitant of the introduction of a Capital Levy, I cannot imagine. I do not believe for a single moment that Super-tax would be reduced one penny by the people who introduced the Capital Levy.

5203. I am wondering if your phrase here that Capital Levy should never be imposed except with the assent of the payers is necessarily correct. For instance, supposing that the Government were to give an option to Income Tax payers to make an immediate large capital payment for debt redemption with the certainty that their future tax over a period of time would be reduced by a certain amount, and supposing that that option were popular and that the operations were successful and the Government were then to say: "Let us make this universal; we have experimented with it and its operation is beneficial"?—I answer that by saying that all my answers to these questions are directed to the Capital Levy which is before us; that is, a compulsory imposition of a Capital Levy of £3,000,000,000 upon some 340,000 persons, and that I am entirely open to consider as a different proposition altogether such a one as you put before me; but that answer was not intended to relate to that.

5204. It was the generality of the answer that rather struck me?—Quite.

5205. *Chairman*: Now will you go on to Question 4?—(*Answer to Question 4 read.*)

5206. *Sir Charles Addis*: How far do you think the existing fear of a Capital Levy acted detrimentally on trade?—I can give many instances of my own personal friends who have hesitated to embark upon expenditure, the extension of their house, or the purchase of a new house, because they have said (this was more especially 12 months ago, when there was a real fear that a levy might be imposed): "I am not going to incur any expenditure, because I do not know that I shall be able to afford to continue where I am living, or on the same scale; therefore it is useless for me to incur expenditure."

5207. On the other hand, the uncertainty of the possible repetition of a Capital Levy must be weighed against the advantage of the certainty of reduced

expenditure on the part of the State for interest payments. The whole of the interest would be saved?—No, with all respect.

5208. I do not think you have quite followed what I said. Whatever amount of the capital debt is reduced, the amount which was formerly required to be provided in the Budget for the interest on that debt, would be eliminated?—You have to set off the other side of the account, also.

5209. But the point is this, that it will not be required. The Government may get increased revenue for other purposes, but if you reduce the amount of your debt, you reduce the amount of the interest which is payable?—Undoubtedly; but if on the other hand you reduce the proceeds of taxation, which will happen, according to my view—I may be right or I may be wrong—you reduce the fund out of which that interest is paid. Then it may result in no net saving at all.

5210. I follow that, but just take it point by point. You must set off the one against the other?—Yes.

5211. There would be a reduction, and that is a very important point which ought not to be obscured by the possibility of other claims arising?—I agree that any actual reduction must be set off against the other question.

5212. And it is beyond question, I think you would agree, that the present certainty of long continued high taxation might act even more detrimentally to the interests of trade than the possibility of a Capital Levy?—It is a question to be considered, undoubtedly, but it is wonderful how we get used to a thing.

5213. *Sir Josiah Stamp*: You have probably canvassed in your mind many possible different ways of guaranteeing the non-repetition of a Capital Levy, and you have come to the conclusion that none of them would be practicable or convincing or effective. Could you tell us, if it is not revealing any secrets, what form would come nearest, even within miles, to the practicable and convincing and effective?—I thought at one time that the best form to do it, if it had been practicable, would be by a section in the Act of Parliament by which the levy was introduced—a section which I should think would be certainly strange to our Constitution—to the effect that that Act of Parliament could be altered only by the votes of a certain majority (say three-fourths) of the members of the Legislature.

5214. One is a little disinclined to be too emphatic upon this, because, after all, the conditions upon which the War Loans are issued are very faithfully observed and are thoroughly reliable. Why should we not find something which would have the same degree of acceptability?—Because the one is political and the other is not.

5215. Supposing the receipt for the levy were to contain a schedule of the property on which it was imposed and an undertaking that for a period of 25 years, or whatever it might be, the State would not impose a levy of that character upon that identical property; do you not think that would be pretty well as sacred as is scrip for War Loan in the conditions under which it is issued, and would remove the fear of a repetition of the levy?—No; I confess that I do not, because in the meantime all the other people who were beginning to accumulate property would be still subject to the fear that on their particular items of property a Capital Levy would be made.

5216. I am not on that; can you give any greater sanctity than that undertaking that existing property that has been taxed shall not be re-taxed?—I do not think you can, and I do not think it would accomplish very much if you did. I think you would still have the other people who were accumulating fortunes in the same difficulty over again, and that the general feeling of uncertainty and want of confidence would remain.

5217. *Chairman*: Then we come to question 5?—Nos. 5, 6 and 7 are the main points, and, if you like, I will deal with them together.

5218. If you please?—There are a great many points that one has to consider. The two greatest points, in my mind, on the subject of this Capital Levy are these. One is the disturbance point, which is a very vital one and has many aspects, and the other is the deflation point. Perhaps I had better deal with the deflation point first, because to my mind it is much the most difficult. And may I say that I am speaking with reserve. I do not wish to appear didactic. Many Members of the Committee are probably much more competent than I am to speak on this point, but I can only give them the benefit of my thoughts on the matter. What happened when the War Loan was subscribed, as you will all remember, at the very urgent invitation of the Government? To a very large extent—and I want to deal with it broadly, not to complicate it by going into exceptional points—that was money which was diverted from normal uses of capital. But for the War, it would have been available for the creation of new wealth, factories, plant, machinery, new enterprises. It was diverted under circumstances of urgent stress and necessity, from those purposes to almost wholly unproductive purposes. The Government took it; if we had not subscribed it, it would have had to take it compulsorily. It took it and had to blow the greater part of it into thin air. It went to these people who gave that money and said: "In consideration of the transfer of this money from the normal purposes of your trade and employment and from purchasing power, we will give you an obligation of the State which will replace to you your capital, which I want, and enable you to carry on your business." So far that is the view which Adam Smith takes of the effect of the Government borrowing. He says that the scrip for the loan replaces to the citizen, in the shape of the Government debt, the capital which the Government borrows from the citizen, and enables him to carry on his business with it. Then most of that money was lost; Gretna Green is an example of it. But the individual who was carrying on his trade, instead of the capital which he would have had, has got an obligation of the State; and I suggest this to the Members of the Committee: that a new fund of capital has been brought into play. Adam Smith says that part of the fixed capital of every nation is the acquired abilities and industry of its people—present and future, that is. I suggest that what the Government did when it borrowed this money was to pledge that fund of capital, spread over a larger number of years and a very much larger number of citizens than it would have been spread over if it had all had to be raised at once. Whenever a Government, therefore, raises money in excess of the capacity of the citizens at a particular moment to pay by annual taxation, it pledges this fund of capital and, if I may use the word, brings it into play or "mobilises" it by issuing against it instruments of credit in the shape of Government debt which it gives to the person who finds the real capital, in exchange for that capital, to enable him to carry on his business. When, therefore, by the operation of a Capital Levy £3,000,000,000 of those instruments of credit which were issued in that way to fill the place of the real capital lent to the Government, are repaid, that fund of capital is demobilised and goes back into reserve for the Government to draw upon in some future emergency. The citizens cannot utilise that fund of capital at all for the purposes of their trade. When I say "at all," I am going to qualify that in a moment. It is only the Government who can use it, by issuing against it instruments of credit which we can use in our business, charged upon the future industry and earning power of the people over a period of years. Now, when that capital liability is repaid by the Capital Levy, all that is freed is the annual produce of that acquired ability and industry spoken of by Adam Smith. Year by year you get it back; but the capital value of it, capitalised in the form of Government debt, for a period, it may be, of 40 or 50 years

ahead, ceases to be available for the purposes of trade and commerce. Upon that I found the view that the people who hold the War Loan in place of their real capital which was diverted do really hold, from their point of view, capital. I, of course, agree that the State as a community was no richer when it issued that War Loan, because it took in exchange for that War Loan real capital from the citizen, but the citizen himself to-day is justified in treating that War Loan as capital, because it takes the place of real capital which he contributed. By the loss of these instruments of credit under the Capital Levy you reduce the citizens' capital by £3,000,000,000. That you do so seems to me to be clear from the illustrations that I will give. That leads to this, that there is a great deal more involved in this question of Capital Levy than the mere question of disturbance created by the transfer of £3,000,000,000 from one set of pockets to another. The simplest illustration of what happens is the case of a man whose entire fortune of £100,000 is invested in War Loan stock. He will have to pay £32,800 under the suggested levy. He would certainly say: "My capital is reduced by £32,800," and I think you or I should say that he was a capitalist holding £100,000 of War Loan stock and that after the levy he will be a less wealthy man by £32,800 than he was before; and I think we as bankers should say to him: "Hitherto you have appeared in the indexes as having a capital of £100,000 and as being entitled to credit on that footing. We have now to rate you anew and put you down at £67,200, and you will be entitled to proportionately less credit." Now you will find that however the Capital Levy is paid makes not the slightest difference to that argument. In the net result you will have £3,000,000,000 less instruments of credit. I cannot put it in clearer form than this. The members of this Committee on the right of the Chairman are body "A" of citizens who are the people who are going to be taxed to find this £3,000,000,000. The members on his left are body "B" of the citizens who hold £3,000,000,000 of War Loan. Therefore there is to be a transfer from the pockets of the members on the right of the Chairman to the pockets of the members on his left. It does not make the slightest difference that a great number are members of both bodies "A" and "B." At present they hold between them £6,000,000,000 of what I call "capital" in the popular sense of the word available for trade or as purchasing power, for I am not suggesting that the whole of that sum is employed in trade. As the result of the levy there will only be £3,000,000,000 left in place of the £6,000,000,000, for the £3,000,000,000 War Loan will be torn up and cease to exist. £3,000,000,000 has gone out of the pockets of body "A" into the pockets of body "B," and the War Loan has disappeared. Therefore I call, and I have always called, this a great measure of deflation. I believe that that great and sudden measure of deflation must inevitably result, for a time at all events—how long I should not like to say—in a great reduction in the volume of trade and a consequent reduction in employment, which is the principal point to which I am directing attention. Now that is the deflation point. I do not know whether I had better stop there for the moment before I get on to the dislocation point.

5219. *Chairman*: There may be some questions on that before you go on. *Professor Hall*: On a question of fact, is the sum that you mentioned, £3,000,000,000, used at the present time as a basis for credit in the way that you have indicated? *Witness*: The only way to get at that would be to see what proportion of the total wealth of the country, which I believe Sir Josiah Stamp has estimated at somewhere between £12,000,000,000 and £15,000,000,000, is at present employed in trade. It would be fair to assume that a similar proportion of the £3,000,000,000 was employed in trade. I do not think one can get at it. I have no notion of what the amount of capital employed in trade is.

5220. *Sir Josiah Stamp*: Do you think the amount held by limited companies affects the situation?—I think it affects it undoubtedly. According to the Board of Trade, the amount of capital held by private firms is only about 9 per cent.

5221. I am thinking of the reduction in the capital of the payers of the levy so far as it reduces their securities, whether War Loan or other securities. Are those securities used as the basis of credit? I want to know whether you think there is anything corresponding with the deflation which undoubtedly exists there, in the case of a limited company holding War Loan security?—The limited company, so far as it held War Loan and was paid off, would get cash for its War Loan. There would be no deflation there.

5222. As the limited company does not pay the Capital Levy like an individual, is not this deflationary measure confined to the reduction of the amount of securities held by the payers of the levy?—Yes, I think so.

5223. Did you see an article in the "Contemporary Review" in which I went into some of the figures which you referred to?—I am afraid I did not see that.

5224. I examined the question of deflation. I should like to know how far you agree with the results that I arrived at. I tried to dissect the whole £3,000,000,000 into the part that would have a deflationary effect following the questions which have been put to you, and the part that was really acting as the basis of credit, and I want to see how far you would agree.—I am afraid I did not see it; I unfortunately missed that article. I think you have to consider not only trade but purchasing power generally. There is a great deal more, to my mind, in purchasing power spread over the whole £3,000,000,000 than the actual extent to which a portion of that may be used as collateral in trade.

5225. I am not specially wedded to the views which I then expressed; I may be quite wrong; but I would like you, if you would, to look at that article and let us know later by letter whether you disagree with it or how far you agree with it?—Yes.

5226. *Professor Hall*: What are the securities that actually go out of existence as the result of the payment of this levy?—The only securities that can actually go out of existence are the War Loan, which would be redeemed. You have a very curious state of facts to remember there. So much depends, as I have said in my opening remarks, upon the various ways in which the lacunæ in this Capital Levy will ultimately be filled in. Supposing the way in which the levy can be paid is confined to War Loan and cash, then £3,000,000,000 of War Loan will be redeemed and cancelled. That is clear. Supposing, on the other hand, that it is partly cash, partly War Loan and partly other securities, then you have a different principle coming in altogether. The cash and the War Loan, let us assume for the moment, have provided half of it. That will result in half of the War Loan being redeemed and cancelled. The other half, which is in securities, will have a totally different effect. The Government will hold those securities; the War Loan will not be redeemed. Up to that point the Government has taken out of the pockets of the taxpayers real capital as represented by actual assets, £1,500,000,000, and it is going to hold that; the War Loan is not redeemed; it cannot be redeemed until those securities are sold. One of the things I do not know, and that nobody does know, is whether the Government would sell them or would hold them indefinitely. If it is going to sell them, what effect is that going to have on the whole business community—£1,500,000,000 of securities to be sold? On the other hand, if the Government hold them indefinitely the Government become interested directly in the industries of this country. I cannot answer; I do not know, none of us know, what would happen. Therefore my answer to your question is that the only securities that will actually be redeemed must in any case be War Loan, but

others go out of effective operation because they get into the hands of the Government and cease to be available for credit purposes or for purchasing power to the individual.

5227. *Sir Josiah Stamp*: Is your argument altered at all supposing the Government succeed in exchanging the securities they hold for War Loan, say, by some method of redeeming War Loan with, for example, railway securities. If the War Loan was a basis of credit, equally would the railway securities be. Cannot you skip that difficulty and assume that by some process or other the full £3,000,000,000 of War Loan does get redeemed?—I do not think you can. I cannot tell at all what class of securities the Government would be willing to accept in payment. But if there was any class which they refused to accept, such as mining shares, to take an extreme case, it is not the least likely that the holders of the War Loan who redeemed would accept mining shares which the Government have already refused to take. Therefore, I think you have to contemplate a large amount of War Loan, which would remain unredeemed.

5228. *Professor Hall*: Supposing that the portion of the debt redeemed was an external loan?—That raises a very different question.

5229. Having regard to the distribution of the holding of the debt, I really wanted to find out from you how far this £3,000,000,000 is an exact representation of the reduction in the basis of credit. You seem to be so confident regarding the reduction extending to £3,000,000,000?—I think there is no sort of question that out of the £3,000,000,000 a proportion —I cannot tell you what proportion—is employed in trade or used as a basis of credit. I am not suggesting the whole of it or anything like it is so used, but the whole of it is purchasing power.

5230. I thought you were rather suggesting that there is to be a reduction of £3,000,000,000 of credit as the result of this?—Oh, no. I would not have the Committee understand me to go so far as that. I am not suggesting that the whole of the £3,000,000,000 is employed in trade.

5231. *Sir Josiah Stamp*: Or as a basis of credit?—Or as a basis of credit; but I do suggest that the whole of it is purchasing power.

5232. In what way can it be purchasing power if no credit for purchasing is raised upon it? If that is so, then one would not alter the amount of purchasing power at all if you took securities out of a deed box to the bank and get a large advance on them, because the basis of security according to your theory was already there. Now if everybody who held securities were to go to the bank and raise credits on them and start producing commodities, you would have a most striking increase in bank loans and in purchasing power?—I was trying to distinguish between cases in which the possession of this £3,000,000,000—whether it is in War Loan or not does not matter—was being utilised by traders where it would, either from their financial standing or from the fact of their being able to deposit collateral, affect the credit which would be given them, and the ordinary case in which you or I might have to pay up under the levy and our purchasing power would be correspondingly reduced in respect of casual transactions such as the purchase of a house or the purchase of a curio or anything else. Before the levy we could have gone into the market and sold our securities to provide the purchase price, but after the levy that power to the extent of the amount paid under the levy will no longer remain. It is in that sense that I am using "purchasing power."

5233. Surely it is nothing more than sleeping purchasing power?—I agree it is.

5234. Supposing that everybody who held securities were to decide to go into business or extend their business and were to go to the bank with their securities and demand an advance of 90 per cent. of those securities and immediately use that as purchasing power?—Then we should have to modify our banking system if everybody came at once.

5235. It would be a tremendous increase of purchasing power?—It would.

5236. That makes one say that in so far as securities are in a strong box and are not functioning at all, they are not purchasing power in the ordinary acceptation of the word?—But it is very difficult to draw the line, because we bankers have a register of all our customers, and whether they deposit securities or not they are assessed at a certain value from a capital point of view. That includes securities in a strong box just as much as it includes securities which are put over the counter into our hands.

5237. That is really your credit register?—Yes, but this is the foundation for the credit.

5238. There is nothing functioning for the purchase of goods there?—Let me give you an illustration. A merchant comes along in Liverpool who wants to import a cargo of cotton. We know him to be worth £100,000, whether in cash, War Loan or any other securities does not matter. He says: "I want £300,000 to import a cargo of cotton." It is granted readily, because we get the documents and we rely upon his capital as the margin for that loan, which is quite sufficient to cover fluctuations in the value of cotton. That is a case where he has got credit for three times the amount of his capital. He turns over that amount three times in the same year. In the course of the year he gets nine times the amount of his capital in credit. Therefore for the £30,000 you dock off that man's £100,000 under the levy you are taking £270,000 off his credit for the purposes of his business.

5239. But there must be an enormous mass of absolutely non-functioning security?—I agree with you; I think there is.

5240. *Professor Hall*: I am rather anxious to find out from you what proportion of this type of debt is likely to be redeemed, and what effect that is going to have upon the volume of credit. I thought the inference from your remarks was that the total credit basis was to be reduced by this £3,000,000,000, but I understand now that you do not wish us to draw that inference. Can you suggest any proportion of the £3,000,000,000?—I am afraid I cannot. Sir Josiah would know, but I do not think that any statistics exist. For instance, I tried to find out very hard and I made inquiries in various directions what was the number of private firms employed in the import of what are called staple commodities on which the whole of our trade depends—food, metals, cotton, wool, and the like, and what was their average capital. I cannot get any information on the subject. Everybody tells me that if I put it at 500 firms with an average capital of £50,000 I am far understating it; but that is all I can get. On that basis alone, if you work out the figures that I just now gave you the opportunity of working out, you will find what an enormous deflation of credit would result. Bear in mind that it is quite reasonable in those particular trades to obtain financial facilities for three times the amount of capital. It is quite reasonable to take a turn-over of at least three times in the year on the average—wool from Australia perhaps a little less, because it is a long voyage; cotton from U.S.A. or Egypt much more, because it is a short voyage.

5241. *Sir Josiah Stamp*: You have got the goods as your primary security?—Yes.

5242. The other is only functioning as the margin? —It is quite reasonable to take nine times the amount. Very often that capital is also functioning in the same way. Our margin may be represented by cash or by other shipments of wool; it need not necessarily be by War Loan or by capital other than goods in the hands of the customer. At a shot—and it is a pure shot—I should attribute about £1,000,000,000 out of the £3,000,000,000 as capital which may be utilised from time to time for credit facilities.

Then I come to the disturbance point, which also is one, to my mind, of very great importance. I contributed some time ago a series of articles to the "Times" on this subject, and they were alluded to in the House of Commons, and one of my points was

received with a great deal of ridicule by certain members of the Labour Party, but I am not going to be ridiculed out of putting facts before such a tribunal as this, which I think should be present to your mind.

The first point, not one to which I attach so much importance as I attach to others, but I think you ought to have it before you, is this. I think not one of us sitting round this table will doubt that as the result of this levy to be paid by 340,000 persons a great many people will be put out of employment. How many is a matter of estimate. My own estimate is that 100,000 payers of the levy will each have to put an average of at least two people out of employment by reason of their altered circumstances, temporarily at all events; and "temporary" has a knack of becoming "permanent" nowadays in unemployment if you are not careful. That would be to put straight away 200,000 people out of employment. To give you a single instance, in my own knowledge there is a gentleman who has been engaged in trying to make productive a very large farm. The land is very poor, and none but a large capitalist could possibly hope to bring it round. It is a regular hobby with him. He employs 200 men. He has built I do not know how many cottages. If this Capital Levy went through, most if not all of those men would have to be dismissed; he would have to stop altogether. He has no other funds than those derived from his business, and those would be very largely reduced if a levy were imposed. I think most of those men would go straight out of employment, because the land being poor, I do not think small farmers could hope, even by breaking it up into smaller holdings, to make it pay. That is only an instance. I therefore give you my estimate that 200,000 people straight away would be thrown out of employment.

Then we come to the indirect effects. I imagine the first thing that would happen would be this. You know we talk about £3,000,000,000, and we talk about it pretty glibly, and familiarity breeds contempt; but has any one of us any conception of the amount that is involved? £3,000,000,000 is a terrifically big sum of money, and we must not get so familiar with it that we forget what it means. It means a great deal more than the whole of the banking deposits in this country, which I think are in the neighbourhood of £2,000,000,000. The first thing I think that would happen would be that there would be very great recourse to credits at the banks. I imagine that the people who could, would wish to pay their levy in cash rather than disturb their securities. They would probably, therefore, draw very largely from their banking accounts in the first instance. Money would have to pass through a good many processes before it arrived back again through the repayment of the War Loan, and meantime there would be a very great deal of disturbance. I imagine the banks would probably have to call in advances right and left in order to meet the demand for money made upon them. That is the first thing that I suggest would happen. The next would be as affecting securities. The next natural thing with which to pay the Capital Levy would be securities, if any, that were readily realisable. A lot of people would sell their securities, and everybody would be doing the same thing at the same time, and the net result would be that there would be few buyers and that those securities would be enormously depreciated. As I have already pointed out, the extent to which that cause would operate would be very much affected by the "area" of the securities which the Government would be prepared to take in payment of the levy, because in so far as you could hand those securities to the Government in payment of the levy there would be no object in selling them. Still I should anticipate a very considerable amount of disturbance and fall of market values of securities.

Then I come to a much more difficult point. There are a great number of people of the smaller private business class—people owning anything from, say, £5,000 to £50,000—very largely shopkeepers. There are two principles upon which people do business, and I am never quite sure which is the right one. Some say, do not put all your eggs into one basket, and invest their savings outside their businesses, but there is a large class who say that the right method is to put every sixpence you can earn back into the business. That is how big businesses are made, and it is the principle which has been adopted with great success by men like Lord Leverhulme, Henry Ford and others. A great many of those people, I imagine, have got all their worldly goods in their business and nothing outside at all. Now, what is it represented by? By buildings, leasehold or freehold, plant and machinery, stock and book debts. How are they going to pay the levy? It has been suggested that they are going to pay it out of income, that you are going to make a special arrangement for them to pay it out of income, out of profits. But that introduces an exception which I am going to deal with in the answers to the questionnaire, and I see great difficulties in introducing exceptions of this kind, because if there are going to be exceptions in one class I can make just as strong a case for exceptions in other classes too. Therefore I very much doubt whether you will find it is practicable to allow these people to pay out of profits. But even if it were, there is no certainty of their being able to pay. Not all businesses continuously make profits; at least, unfortunately, in recent years that has been the experience; they very often make losses. I doubt, therefore, very much whether these people could pay this huge levy out of profits. If present taxation is a heavy burden, much more so would the Capital Levy be. If they could not, there is obviously only one way of paying; that is, by reducing their stocks and calling in their book debts. That means reducing their business; it means reducing their orders on the manufacturers; that in turn means the manufacturers reducing employment; not only will the shopkeeper have to get rid of an employee or two, but the manufacturer will be getting fewer orders all round and he, too, will have to reduce his output, and will have to turn off men because he cannot employ them. That is the next effect which I think would happen.

Then, on the same disturbance point, I come to the landowners and farmers. It is within the knowledge of the Committee, I expect, that a great many farmers during the boom period of three or four years ago bought their farms from their landowners, with the assistance of mortgages. It seems to me they are going to be in a great difficulty in respect of the valuation of the equity on their farms. How are they going to raise the money? They have not got readily realisable stocks. They cannot sell their implements. You may say: "You must go and raise a mortgage on the farm." You may tell them to raise a mortgage, but it is easier said than done if they have already got a mortgage upon it. I conceive that as a class they would have very great difficulties in paying this levy. Then besides farmers, you get people who are landowners with settled estates, very often subject to rent charges in various directions, mortgages, and so on. How is a big landowner to pay? Some of them, I dare say, may be nominally worth huge sums, but even the wealthiest of them, I should say, might have difficulty in raising the huge sums they would be required to pay under this levy; but those are exceptional instances, and they need not concern us very much. The ordinary landowner with a settled estate would have very great difficulty, it seems to me. Very often his property is already subject to mortgages and rent charges in various directions. How is he to raise the large sum that would be required of him?

Then we come to another class which is important, though small. I come to the great private firms, the merchant adventurers they used to be called; they are more commonly called merchant bankers or finance houses now. They are people who, in my judgment, are of the very greatest importance to our industry, pioneers of industry. All great industries

pass through a period of experiment and trial, where great risks have to be taken which the average man cannot afford to take. It is only the merchant princes who can possibly afford to risk and lose the money that it is often requisite to risk and lose before a new venture becomes established. I will give you an instance of that. The Atlantic Cable, the story of which is probably familiar to most of you, was laid down by Cyrus Field and his associates only after numerous disappointments. He lost thousands and thousands of pounds of money before it became an accomplished fact. Now, particularly at the present time, in the money market in London it is very difficult to get public money for new enterprises. People have learnt caution, I think, greater wisdom, and you can get plenty of money from the public for an issue which will show a steady rate of profit covering your investments two or three times over, and that sort of thing, but it is extremely difficult to get money from the public for a new venture. Nor is it right to do so, in my judgment. The public is not in a position to form a judgment upon something that a few individuals may know all about, and it is their business, before they present that to the public for investment, to work it up to a certain point beyond the purely speculative stage, and to prove it at their own risk. That class of business is largely done by these big private firms, and to the extent to which you are going to disable them by this Capital Levy—and they are already hit very hard by Death Duties—you are going to reduce their activities, and I think consequently to reduce trade and employment in this country, particularly in the region of new enterprises. After all, a country like this has to have a certain amount of enterprise and speculation to keep things up to the mark and to take its place in competition with the world; and to the extent to which you blunt that spearhead of commence, as it has been called, you may be doing a very great injury to trade and ultimately to employment of our working classes which is the point I constantly have before me in this question. For instance, if a Capital Levy of this kind were introduced, how could the City of Sydney, or any other city, come on to this market for a loan immediately after a levy or within months or years after it? Yet that loan might have produced perhaps to the British working man a very large order, it may be for tramcars or for engines or for plant of some sort or other. Surely there would be a great shortage of capital for investment of that kind as the result of taking £3,000,000,000 away from the people—the rich people I agree—who are the class of people who supply most of that money. You may say that companies—insurance companies and the like—will still be there and that their funds will not be affected. True, but companies after all are only aggregates of individuals, and are dependent ultimately upon individuals for the additional capital that almost every successful company wants from time to time.

Those are some of the principal points in regard to disturbance. I perhaps might include in the disturbance point, although I have got it as a separate answer here, the general shock to credit. London is the place of custody of very large foreign balances, governmental, institutional and private. I should think I should probably be within the mark if I said that these foreign balances at any given moment amount to anything between £50,000,000 and £100,000,000. I have no doubt that in a Capital Levy it would be made clear as far as it could be made clear that foreigners are not to be affected by it. But you may make these things as clear as you possibly can, and yet you will not prevent foreigners taking fright as soon as they hear a levy really mooted. I can tell you that our City Office Manager told me the other day that during the General Election of 1923, foreign balances were removed to a very considerable extent from London to New York, and he had no doubt from what he had heard that this was due to the talk that was going on about a levy. If that occurred on such a rather remote fear of an actual imposition of the levy as existed in 1923, it would occur to a very much greater extent if this ever reached the stage of a Bill in Parliament and of being discussed as a serious proposition. I should anticipate a great deal of shock to credit here and withdrawal of foreign balances, which are very useful to this country. If they were withdrawn they might never come back again. I think that really covers all I have to say on the disturbance point. It is a point which is fairly obvious, and I dare say in many cases you will be able yourselves to suggest other effects that it will have, but I have only attempted to pick out some of the principal ones.

(*Adjourned for a short time.*)

5243. *Sir Charles Addis*: Perhaps you would explain one point in your evidence this morning. It seems to me that in giving your illustrations as to the effect produced upon the individual by a Capital Levy, as for example, the destruction of a proportion of his financial credit, there was an assumption that the sum of those individual differences would constitute the sum of the loss to the nation?—In production.

5244. Was that your assumption?—Yes—not a capital loss, but a loss in production.

5245. I wonder if you could develop that a little more. I do feel a difficulty about the distinction between the individual and the community?—Let me try and give an illustration. Supposing I am a merchant importing some essential commodity—let us say, wool or cotton. Supposing my facilities for importation, on the lines that I have already given you, based on a capital of £100,000, are £900,000 or £1,000,000 a year, I can do trade to that extent on my present capital. If, on the other hand, you cut me down, as I should be cut down under the Capital Levy, by £32,800, then (I am not saying that this is mathematically exact), broadly speaking my facilities for trade are reduced by nine times on that illustration, say in the neighbourhood of £300,000. I merely state that as endeavouring to answer your question and illustrating the effect upon production, which after all is the all important thing to this country. Remember that we are not a producing nation at all in the sense that we produce wealth from the soil as other countries do—Canada, for example. Our wealth comes from production as middlemen dependent on the importation of staple commodities and the export of the manufactured article. Coal is practically the only thing to any extent of which we produce a large exportable surplus. To that extent, therefore, that this levy would result in reducing capital and credit facilities for production, it will in my judgment reduce the national wealth. I agree that from the *national* point of view the levy will not reduce capital. Paying your debts cannot reduce your capital.

5246. *Sir Charles Addis*: I would rather you put it in that way, because I find a difficulty with regard to it. *Sir Josiah Stamp*: My feeling is that this lies more on the employment side than on the capital side. You aggregated a series of disturbances which look a very formidable total. It seems to me that you must have exaggerated the effect of those as a whole for this reason: you take a given business which you rightly say has to drop a certain amount of its capital, and therefore a certain amount of its employment. In the process of debt redemption funds are freed, and even if the whole of them do not get back into that class of trade a very considerable sum gets back by way of mortgages and loans. Surely a man can keep as many people in employment on £100,000 of capital, of which £70,000 belongs to him and £30,000 is borrowed, as on the original £100,000 which all belongs to him. When you have carried through the process for a little time, need there be

all this disturbance in employment which you have referred to?—*Witness*: Are we not getting back to what I hoped I had made plain to the Committee, that the net result of the Capital Levy is the absolute disappearance for all purposes of £3,000,000,000, whether you call it capital or instruments of credit?

5247. Let me take that. We agree there would be deflationary effects to the extent of a considerable proportion of the £3,000,000,000, but that is not quite the point we are on now. You were dealing with the question of disturbance, and you took the loss to a business in the payment of a levy as indicative of the shrinkage of that business. My point is that somehow or other there will come back into that business through the ordinary channels of banking, subscriptions to debentures, and so on, a lot of that capital as loan capital, no longer the proprietor's own capital. A part of his income will have to be paid away in future as debenture and mortgage interest. But the employment of the capital and the use it will carry and the number of people it will employ is surely undiminished. Or let us take the case of the farmer. I agree there is very great difficulty where he is mortgaged up to the hilt already in the purchase of his farm. Take the case where he is not mortgaged already, where he really has a fortune of over £5,000 in the equity of the land. Suppose the land is worth £20,000 and he has to give up £2,000. He sells his land and pays £2,000 to the State, and the State redeems £2,000 of debt. The individual who has had the debt redeemed wants to find something for his investment. There are no gilt-edged securities about; he takes a mortgage of real property; and the money finds its way back into that farmer's hands. The farmer has an undiminished amount of capital, but he does not own as much himself.—Wait a moment; is there not a fallacy there?

5248. I want you to tell me.—Well, I am thinking. You say the fund is the same; he has his farm and the other people have the proceeds of the Capital Levy to reduce the War Loan Stock. You say the fund is not diminished by £2,000; I should have thought that the total fund available is diminished.

5249. No. What happens is that instead of being the sole owner of £20,000 on his farm himself, he is now the owner of only £18,000, and somebody else owns a £2,000 mortgage, instead of, as previously, War Loan. Now instead of getting £1,000 a year to spend on himself, after paying all the expenses of the farm he only has £900, because he has to give £100 away every year to this other person. Why should that contract employment? Have I made myself clear? *Sir Charles Addis*: That is the point I wanted to make. It is arguing from the particular to the general. Assuming there is no reactive effect, it mitigates the detrimental effect of the levy. *Chairman*: Supposing the man invests the money abroad on account of the disturbance in this country, then what happens? *Sir Josiah Stamp*: Then you get a permanent diminution of capital in the country, I agree. *Sir Charles Addis*: We agree that there is no change in the capital itself; there is only a transfer of purchasing power from one to another. What I questioned was the assumption that the sum of all these differences to the individual constituted the sum of the loss to the nation?—*Witness*: I am inclined to think that, viewed from the point of view of production, it is not quite so. I instanced, and it has not been criticised, but I am not necessarily taking it as accepted, that the operation of this creation of the loan capital in the sense of War Loan was that an unseen fund which exists in every nation, according to Adam Smith, as part of its capital, is brought into play and mobilised for the purpose of trade and for the purpose of purchasing power. Directly you repay the debt by a levy, you demobilise that capital for the purposes of trading in this country, and your fund is actually reduced. The possible fund is reduced by the elimination of these £3,000,000,000. Take the illustration that I put of the smallish shopkeeper with perhaps £20,000 in stock and book debts. It is perfectly true that he might be able to get reinstated by way of loan what he loses in the shape of capital, but that is highly problematical and anyhow that loan has to be withdrawn from some other productive employment. The facilities for loaning have been reduced by £3,000,000,000 because, remember, that when a banker makes an advance against War Loan he creates a credit in the hands of his customer as well as a debit. He gives him a bank balance at once upon which he can draw and utilise for the purpose of the creation of real capital. The customer can spend it in a factory and create real wealth by means of that extra credit which is afforded against the War Loan. If you eliminate that War Loan to the extent of £3,000,000,000, those credit facilities will no longer be available, and you must not, therefore, as it seems to me, treat the same amount of credit facilities as being available after this operation as were available before.

5250. *Sir Josiah Stamp*: Is not the distinction this: this morning we were discussing the extent to which securities and so on, that would be paid over to the Government for the levy, would actually function as a basis of credit. Supposing we came to the conclusion that £1,000,000,000 out of the £3,000,000,000 was so, then you would get a deflationary effect measured by the full £1,000,000,000 that disappears. I suggest to you that for the remaining £2,000,000,000 somehow or other the great demand for mortgages would be satisfied by the people whose War Loan had been redeemed with the £2,000,000,000 and that the dislocation and disturbance due to the redistribution of capital is confined to the £1,000,000,000 out of the £3,000,000,000, and as to the other £2,000,000,000, except for such as goes abroad, you have the same amount of capital in your business under different ownership?—That is also complicated, is it not, by the fact that the people who invest in War Loan are not at all the type of people who are prepared to put their money at risk in a business.

5251. I quite agree there is going to be a tremendous shortage in business, but on the other hand there is going to be a tremendous pressure for gilt-edged holdings?—Yes.

5252. Therefore the vent will be found in the next type, namely, debentures and mortgages?—I am speaking of private firms.

5253. It may be taken that private firms will find it very hard to get money?—Those are the people I was dealing with.

5254. But need it be so in the case of the farmers?—I do not think the amount of disturbance will be so great in the case of farmers from the point of view of employment. I was putting it rather in the case of the farmers from the point of view of their extreme difficulty in finding means of paying the levy. The land has to be cultivated in some way or another.

5255. We put this point to an earlier witness, and I think the result of our discussion was that, in view of the unknown character of private business and its difficulty of mobilising its power of individual credit, the levy would set up a tendency to make it easier for large limited companies to get money and to make it harder for private businesses; therefore you tend to increase the amount of business done by limited companies and decrease the amount of business done by the Yorkshire, Leicestershire and Lancashire private concerns. But it does not follow that you have depleted the whole of your employment by the measure of £3,000,000,000; you have diverted it from one class of proprietor to another?—Yes. I do not think I should go so far as to say that you had depleted employment to anything like the whole £3,000,000,000.

5256. That is really what we are aiming at?—I do not think I should say that. I gave an illustration of the immediate dismissal of 200,000 employees. That is not trade at all; that is ordinary domestic employment of some kind or another. I am not

wishing to put to the Committee that the whole £3,000,000,000 will react in reduction of trade and employment.

5257. You find a complete disturbance, so far as domestic employment is concerned, because there is no corresponding credit?—Yes.

5258. *Chairman*: Now I think we may pass to Question 8?—(*Answer to Question* 8 *read.*) I want to expand that answer a little in reply to a question from Professor Hall, who said in effect: "I wish you would give us an alternative to the levy, because it seems to us that all your answers are tending in the direction that there is no hope for us in the future but for the rich to become richer and the poor to become poorer, a very serious problem, and one which I think we should all direct our minds to trying to solve if we can." As far as my poor brain goes the answer is this: The only source from which you can hope to improve the condition of the working classes in this country is by increasing wealth through production; that is your only source of wealth. If you look at what would be the effect of a redistribution of existing wealth either from the point of view of capital or income (I think it is worth while just for a moment), see what the effect of it will be. I am going to take a fancy figure; it is as near as anybody, I suppose, has got. We will call the total wealth of this country £15,000,000,000, as expressed in real things. If you divide it out amongst 45,000,000 people you will find the net result will be that each person will have about £333, which of course will have to bear the whole weight and burden of the taxation of the country. Looking at it from an income point of view, the estimated amount of taxable income for the year 1922-23 was according to the report of the Board of Inland Revenue, £1,320,000,000. That results in a sum of less than £30 a head and when you have deducted all the taxation from it it will be almost negligible. I think it was Dr. Bowley who estimated that it would add 4s. or 5s. a week per family of four persons to the income of the poorer classes. My point is that you cannot make the working classes any better off by raids on the richer classes. That is the wrong end to begin. What you have to do is to increase the production fund, which is your source of wealth in the future. My idea has always been that you have to get to the root of things with regard to this redistribution of wealth—not try to remedy things when they have gone past remedy by violent measures and try to transfer existing wealth from one class to another, or anything of that kind, but get at the more equitable distribution of the fund at its source. I have preached this doctrine for months and years now. I want to see greater production, greater wealth produced from production, and a more equitable distribution of that wealth at its source between employers and employed—as I have always put it, between brains, labour and capital. That is what I want, and I see no help towards it in a Capital Levy which does not make anybody any richer. If my view is right, it will make them poorer in the future.

5259. *Professor Hall*: But you would agree, I suppose, that alterations in taxation that transfer the burden from one section of the community to another would affect the power of the different sections to accumulate capital?—To a small extent—to the extent of the saving, yes.

5260. And that from the point of view of production the capital saved by the workers might be just as effective as capital saved by the rentier class?—There you are asking me a very difficult question. I should like to answer it "Yes," but I cannot truthfully do so. One man's capital is as good as the capital of another, but you have to reflect that if you have a small fund of capital, say £500, which you are looking to as a nest egg for your old age you cannot afford surely to take the risks with that by putting it into enterprise or industry to anything like the same extent as the richer man can; consequently, I doubt whether a whole series of small funds of that kind could be as usefully employed for the purposes of employment and industry in this country as the bigger funds.

5261. Are they not so employed at the present time to some extent?—To some extent, undoubtedly, but whether to the full extent is another question.

5262. Would you take the case of Lancashire, where there is a great deal of workers' capital employed in the cotton industry?—Yes. I believe a great number of companies accept deposits from their employees and employ those deposits in their trade, but it is a very bad principle, in my judgment, because if anything goes wrong those deposits go and the poor people are deprived of their money. It does not do to mix up banking and trade.

5263. Lord Colwyn knows better than I do, but I believe it to be a fact that a very large number of the employees in cotton mills in Lancashire do hold shares both in the companies that employ them and in other companies. (*Sir Josiah Stamp*): Very big deposits; not so much shares as deposits.—(*Witness*): I can assure you from my experience, both as solicitor and banker, that there are large numbers of cases in which both companies and individuals have been ruined by the practice of placing money on deposit in trading concerns.

5264. Following on that point, is that a final way of looking at it? I have often thought that if you had £50,000,000 of savings made up of small individual sums for which security is essential you have a less progressive amount of capital to be put into some new enterprise with some slightly speculative element of progress—the spearhead of progress—than you would have if it was made up of £50,000,000 from a number of rich men. But supposing your savings are £200,000,000; the order of priority in which they have to be employed is through the secure and recognised things first of all, going on, if you have a surplus, to the more speculative and progressive new things. Surely, if you put £50,000,000 into the secure things, you free to that extent £50,000,000 of the savings of the other people to be put further up the scale of risk. You are not really getting rid of £50,000,000 which are put into the more speculative things, but you are filling up the first £50,000,000 of security from those particular concerns, and you are freeing the main savings of the wealthier people for that particular thing for which they are so fitted?—That is true, no doubt, to the extent to which the other people are willing to be relegated to the junior securities and to take a greater element of risk. Lancashire, of course, is a very progressive county, and the people are very intelligent, but as a rule I should say the small investor with £500 has not the same opportunities of knowledge or of advice in regard to his investment. He is much more apt to keep his money, therefore, in a stocking than to invest it, or to put it into some wretched local club, or something of that kind, where it cannot be said to be reproductive. and anyhow he cannot afford to invest it in anything of a speculative character.

5265. *Professor Hall*: Or buy his house?— I should like that.

5266. *Sir Josiah Stamp*: Surely that is advantageous?—Yes.

5267. There is a sum of £120,000,000 in building societies?—That is excellent.

5268. *Professor Hall*: And £80,000,000 to £100,000,000 in co-operative societies?—But you, gentlemen, must be as familiar as I am with the case of many a local club where somebody is the treasurer.

5269. *Sir Josiah Stamp*: They are only a ripple on the surface.—I agree, they are only a ripple.

5270. *Professor Hall*: You find those in high finance too, I take it?—I agree; but they can afford to bear it.

5271. I am really leading up to a further question arising out of your remarks in regard to the distribution of the annual income. Do you think that the worker *qua* wage-earner is able to increase substantially the proportion that he now draws from industry in the annual stream of goods produced?—I believe

I am thought to be unpractical, shall I say, but I am a tremendous advocate of profit-sharing. I want to see everybody interested, if it is possible, in some form or another in the results, using the words in their widest sense; that the wage-earners should, in addition to their standard wage, get a share in the results. There are many forms of profit-sharing. I am fully aware of the difficulties. It all wants to be worked out. But I do want to see the wage-earner get a bigger share of the produce of the work to which he contributes. Brains, labour and capital all contribute to every class of commercial production, and I want to see the results fairly divided between those three. The wage-earner has, of course, a first charge on the proceeds of production.

5272. That does not quite answer my question whether you think that as a wage-earner he can substantially increase the proportion that he now gets from industry?—I should say that it is possible in many cases.

5273. And by what means—simply by this profit-sharing, or by Trade Union pressure?—Oh, no! I sincerely hope it is not a matter of pressure. It ought not to be. I believe it would result in benefit to employers and men alike. If that is not the source, what possible source is there? After all, you have to derive your wealth from production. Unless we are going to produce more, and unless that produce is capable of being distributed so as to improve the wage-earner's position, from what source is this improvement to come?

5274. I can quite see that by increased production he can get absolutely more than he gets now, but I wanted your views really as to his ability to increase his proportion of the total produce, which is rather a different thing?—I am not a manufacturer or an employer of labour, and I have not therefore the knowledge to say how the thing can be done, but is it not possible by various forms to increase the remuneration of the working man, the wage-earner, in proportion to the work that he does? One has heard of so many cases, for instance, where piecework is adopted, of men being able to earn quite handsome wages far beyond the standard wage if they are allowed to work unrestricted according to their own inclination.

5275. That may be true in individual cases, but it cannot be true generally.—I should have said it was true in a very large number of cases, the electrical trade, for example.

5276. Well, take some of the machine industries where a man's work is determined by the speed of the machinery; you cannot secure very much increase of output in those cases even if you do put the workers on piecework. Take the Lancashire cotton industry where the workers are engaged on piecework very largely, and they have this inducement; how would you deal with that very case?—Cannot this be dealt with on the basis of profit-sharing? That is rather a question than an answer, because you know more of the subject than I do.

5277. I think the attitude of organised labour towards profit-sharing is that the increase coming from the profit-sharing is really comparatively small?—But you have only the same fund to divide. We cannot increase the fund except by production, and the method in which you divide that, whether by taxation or by some such system as I am advocating, is surely only a question of method.

5278. But supposing the persons who are engaged in providing labour were also part owners of the capital of the business and that they received part of their income as interest upon capital as well as in the form of wages, would not that be a way in which their total income might be increased?—Certainly, and I should be delighted to see it.

5279. That, you see, led me to my previous question regarding the incidence of taxation, leaving the working classes with a margin that they might save and accumulate as capital, thus securing themselves a supplement to the money wage they received for the labour they gave?—I quite agree, and I am in entire sympathy with that.

5280. So I come back to this question, that the incidence of taxation on various sections has an important effect on the future distribution of wealth?—Yes.

5281. And it also has to be considered in relation to the question of capital available for industry. If the workers are as thrifty as other sections of the community, the allocation to them of an increasing proportion of the wealth produced annually would not diminish the capital fund of the country?—I quite agree, and it comes back to the question that Sir Charles Addis put to me earlier in the morning, I think, that there is a certain compensation for any reduction that you get in taxation out of this levy; we shall come presently to what the amount would be. But there is this compensation that you set free a certain proportion, whatever it may be, in the year out of taxation which would gradually accumulate as capital. The whole question to my mind on that part of the case is this: Is that adequate compensation for the destruction of the capitalised purchasing power up to the total of £3,000,000,000, or whatever proportion of that is in trade? As I illustrated to you this morning, we are really utilising a fund in the shape of reserve capital of the nation—future earning power—spreading that over a period of 60 years, and utilising that fund as the foundation of credit for this amount, and thereby, I might almost use the expression, putting in a "potted" form the benefit of the future earning power of the country for trade at the present time. The only benefit you get by sacrificing that is the annual saving in your taxation.

5282. I only wanted to deal with that general question of the value of the argument of the incidence of taxation as affecting various classes, and the relation of that to the supply of capital and the distribution of future wealth; that was really the purpose of my question, which was not particularly on the Capital Levy?—I agree that to the extent to which you save taxation that is a benefit, because it does enable a gradual accumulation as capital of a similar amount.

5283. *Chairman*: Perhaps we can go on to question 9.—(*Answer to Question 9 read.*) I think those of us who have spoken on or thought of this subject have used the argument that under a Capital Levy the policy would be: "Let us eat and drink and be merry for to-morrow we die." That is a very infectious policy. People spend money very readily, and other people have to follow them, and the general habits of thrift of the nation will be seriously affected.

5284. *Mr. Bowen*: Does not the same argument apply to, and was it not also used against Death Duties?—I am coming to Death Duties in a minute.

5285. *Mr. Bell*: The witness discriminated this morning and pointed out that the burden fell on the heirs in the one case and on the possessor in the other. (*Mr. Bowen*): That does not affect the Death Duties as such. When they were imposed by the then extreme Party they were not regarded with any sense of satisfaction, and we were told then that the country was going to perdition, and all the rest of it. This is the same kind of argument as is used against the Capital Levy, and I rather wondered whether the witness had been a little too critical of the levy in the sense that it was put forward as an idea which would operate unfairly; that it was to be a conscription; that it was to be prejudicial and generally unjust. Could we not assume that a Capital Levy is put forward with the idea that it is in the interest of the nation and not necessarily unjust upon a particular class? If we can look at it from that point of view, and if we can remember that this same kind of argument was used against Death Duties, and has been used against every other form of high taxation that we have ever had, could we not then get near the perspective of what a Capital

Levy intends to do?—(*Witness*): I think the Chairman and the Committee will bear me out when I say I have been trying to look at this thing from the point of view of the interest of the nation and not of any particular class, and nearly the whole of my arguments have been directed to that. When it is said that the same sort of argument has been used before, that is not an argument which appeals to me at all. The question is, is it right or wrong; that is what we are here to try to find out. It may have been used wrongly before, or it may have been used rightly before. It does not help us, if I may say so with respect, merely to say: "Oh, we have heard all that before." The question is, is it right or is it wrong? I want to distinguish, if I can, between Death Duties and Capital Levy as I did this morning. Two distinctions may be drawn between Death Duties and a Capital Levy; the one is that in the case of Death Duties you are not taxing the man himself, but you are taxing people who come anew into his inheritance. You cannot tax a dead man, obviously. The State imposes a condition upon inheritance that the inheritor shall pay to the State a certain proportion of what he inherits; thereby the inheritor gets something which he had not got before; there is a breach in continuity by virtue of the fact of the death. The other way in which a Death Duty is distinguished form a Capital Levy is this—and it is common in the case of partnerships and in the case of private estates—that Death Duties have been provided for out of income; they have been provided for by insurance, which is the proper method. If a man is keen on leaving a certain amount of money in his business, or his partners are anxious about what will happen on his death, they insure his life, and upon his death the capital remains in the business, because it has been provided for out of income. There is no possibility of doing that with a Capital Levy.

5286. *Mr. Bowen*: On the question as to whether it is right or wrong, surely, when we are talking about taxation, nobody would admit that high taxation is right, especially if he has to pay it; that is the difficulty we have to experience. I think this Committee has to find out to what extent a Capital Levy is practicable and reasonable rather than that we should be expected to say or declaim that it is wrong simply because it attacks one set of direct taxpayers. But I think this argument was the same type of argument that was levelled against the Death Duties; I think I was perfectly accurate. I wanted to ask the witness if he really believes that any kind of high taxation would receive approbation?—I am bound to say I think the British people have responded extremely well. You have in the course of this enquiry heard much more than I have of its effect on trade, and so on, but I do not think there is any sense of individual injustice anywhere in the country at the present time, because people have to pay huge amounts in Super-tax. I think we all are cheerfully bearing our share of the burden.

5287. In so far as the National Debt is a national responsibility not only for the present generation, but, unless something is done, for several other generations, what is the difference between taxing posterity for the Capital Levy, as will be the case, and taxing it under a Death Duty?—Largely a difference of extent; that is to say, people do not all die at once, and therefore Death Duties have not anything like the same effect as the Capital Levy.

5288. But in principle and morally there is no difference?—Well, I have tried to explain that. I think there is, but it is largely a question of degree.

5289. *Chairman*: We will now go on to Question 10?—(*Answer to Question* 10 *read.*)

5290. *Professor Hall*: You agree, I take it, that we should be able to borrow more readily and at a lower rate of interest if our debt were £3,000,000,000 less than it is to-day should we unfortunately have to embark upon another war in the next few years, and that that would be of substantial advantage to the country. There may be arguments which would outweigh that I know, but you would agree that was a very important point?—In the event of another war calling upon us to make anything like the sacrifices we have made in the Great War I do not know what would happen; I cannot visualise it. I do not think we must arrange our finances in view of the fact that we are going to have another war—of that magnitude at all events. I do not think we can make any progress in that direction.

5291. You do not think there is any need then, in considering the National Debt, to take into account the possible future necessities of the State as a borrower?—I do not think so. I think the British State can raise all the money it wants from its citizens upon the terms which are in force at the time according to the measure of the necessity of that loan.

5292. Of course, that is almost a truism—to borrow at the prevailing rate of the day?—I do not think it would materially affect the rate at which you could borrow. The credit of the British Government is quite good enough at the present moment to borrow on the best possible terms.

5293. *Chairman*: Now Question 11?—(*Answer to Question* 11 *read.*) There is a suggestion—I have forgotten whether it is made by Mr. Pethick Lawrence or Dr. Hugh Dalton—that some scheme might be provided under which the proceeds of the levy can go straight back without any interval into the repurchase of securities which other people would be wanting to sell, but I have not been able to work that out, and I think it would be extremely difficult. I think there would be an intervening period which would be the cause of great disturbance. It is just possible that the thing could be worked out, but it is in the air at present.

5294. *Sir William McLintock*: On this question of the sale of securities of shipping companies and such like, I suppose it is within your knowledge that almost every week or month, in the case of certain types of securities not having a very active market, or without a good market, the price is depressed because one particular trust estate happens to be selling?—Yes.

5295. *Mr. Bowen*: You apparently suggest that you can see some practical means of paying the levy if the Government were prepared to accept securities of almost every class. The previous paragraph suggests that the Government should be paid in cash or the surrender of War Loan, but you would regard that as difficult if it were insisted upon in its entirety?—I should say the measure of disturbance on this particular point would be largely gauged by the "area" of the securities which the Government was willing to accept in payment of the levy, but then you are up against this difficulty that, having got those securities, what are they going to do with them?

5296. And what do you say they ought to do with them, if they have them?—I think it might have a very serious effect if they were kept hanging over the market for years and years before they could be realised, and if the Government keep them, then their War Loan is not redeemed, and the thing fails in its ultimate purpose.

5297. *Sir William McLintock*: But as against the non-redemption the Government would hold an asset which it does not hold to-day?—It would hold an asset; it would become a partner in all the ventures and enterprises of this country.

5298. *Sir Josiah Stamp*: And presumably peddle out the shares as and when opportunity occured?—I think that would be a very long process, and would be a very depreciating process.

5299. *Sir William McLintock*: And generally depress similar securities wherever held?—To the point of extinction almost, I should think.

5300. *Mr. Bell*: At what price would they peddle them out when the concern went into liquidation?—That is the difficulty. If you can see your way to paying cash the thing is a clean transaction, but if you are paying in securities you are up against a dilemma.

5301. *Chairman*: Now read your next answer?—(*Answer to Question* 12 *read.*) I am afraid I did not sufficiently understand the purport of the second paragraph of this question to give it an intelligent

answer, and left it to be cleared up by verbal question and answer. That is: "Would deflation be intensified or prolonged by the psychological effect of a levy?"

5302. *Sir Josiah Stamp*: As this question probably originates from some words that I used, may I say this: One gets recovery from depression and general deflationary conditions by optimism as to the future and readiness to recover—people ready to embark on new enterprise and to go to the bank and deposit their collateral and get advances and generally to recover from a period of deflation. Would the psychology of the people as the result of a levy be such as to make recovery from any automatic deflation such as we have been discussing a matter of considerable difficulty and time?—In my judgment it would be to that generation, just as I hope that a terrible war, such as we have been through, is a very strong deterrent to anybody else in this generation to embark upon a war; but when you come to a new generation which has grown up without knowing of the difficulties, the psychological effect will not remain.

5303. *Chairman*: Then Question 13.—(*Answer to Question* 13 *read.*) I should like to amplify my answer a little. In the earlier stages of the Capital Levy it was rather rashly assumed that it was going to save £150,000,000 of interest. People had forgotten that you had to look at both sides of the account. That £3,000,000,000 at present contributes very largely to taxation both in the shape of Income Tax and Super-tax on the interest of the £3,000,000,000 and in many other directions, including Death Duties, and on net balance I arrived very roughly in my articles in the "Times" published just before Sir Josiah Stamp's lecture, at the estimate that it would effect a net saving of only £40,000,000 to £50,000,000. That almost exactly coincided with his own estimate, which was made in much greater detail and after much more scientific examination than I could possibly give to the question. But it is all-important, in my judgment, in considering the question of this huge experiment, to consider what you are going to gain by it if it is successful, as against what you may possibly lose by it in reactions which no one can foresee.

5304. *Mrs. Wootton*: I take it that it looks to you rather like this. You have a Capital Levy involving great hardships and dislocation and so on, and at the end of it we emerge rather better than before. A question which I think naturally occurs to anybody is the point that you mentioned earlier in your evidence, that the result would be approximately the same as that which could be obtained by adding 1s. to the Income Tax. Now I should like to get your views on the merits, strictly as an alternative to Capital Levy, of a special Income Tax of approximately 1s. in the £?—I think that would be infinitely fairer and better than a Capital Levy, for the obvious reason that it would hit a very much larger class of people who are perfectly well able to pay, and it would operate much more fairly and justly, than a Capital Levy. If I am earning an income of £2,000 a year and I spend the whole of it, I am just as able to pay Income Tax as the man who has had £2,000 a year and has saved half of it for 20 years; and with a Capital Levy one would go absolutely scot free, while under your suggestion they would both have to contribute.

5305. *Sir Josiah Stamp*: You would include earned income?—Yes.

5306. *Mrs. Wootton*: May I also have your opinion on the second proposal, simply on its merits. Supposing that we came to the conclusion that it is very desirable to raise a certain amount, one method is by a Capital Levy and the other method is by an increase in the Income Tax. What do you think about the latter suggestion on its merits?—If you put it to me as an alternative between a Capital Levy and an extra Income Tax, I plump for the extra Income Tax. Then I think we come back to the original proposition that I put before you this morning, that it is all a question of balance between now and the future: Is it better in the interests of the country in the long run to put an extra 1s. in the £ on the Income Tax now, at the expense, possibly, of trade, and with a view to lightening the burden for future generations; is that going to operate better than leaving the burden to be worked out over a long series of years?

5307. I quite see that, but we have to decide one way or the other at some time, and we should very much appreciate it if we could have your own opinion about that?—For what my opinion is worth, I should think that, on the whole, it would be better to go on as we are. I think it would do less damage in the long run to the whole nation.

5308. *Sir Charles Addis*: Have you considered that the alternative of an extra 1s. on the Income Tax might work inequitably in view of the great disproportion between the capital employed in industry and the income derived from industry, as compared with other classes of capital? At present, if you take income as a basis, it results in industry bearing a considerably larger share of the national burden of debt than other sections of the community, because the capital employed in industry is very much less, relative to the income, than in the case of fund holders. That is brought out in the distinction I made between earned and unearned income. Would your answer be modified from a consideration of this kind, that if capital were taken as the basis of assessment, it would to some extent remedy the inequity of the burden that is placed upon industry at present?—When you come to consider the whole thing broadly, is not the great bulk of all savings to-day really invested in industry through the joint stock system? What do I do with my money when I make it? I may buy an expensive house, but that is becoming less so than it used to be; expensive possessions are things which people do not appreciate so much as they used to, I think. Do they not invest their money, broadly, in industry, by putting it into some company or venture? Is it not being employed for the common good to the extent of nine-tenths or some large proportion of it?

5309. If you take the case of a fund-holder who has £100,000 of War Loan from which he derives an income of £5,000 a year, and the case of a manufacturer who may be deriving a similar income from a very much smaller amount of capital, the burden of taxation would appear to press inequitably upon those two classes, and it is, I suggest, one argument in favour of the Capital Levy that it would help to redress the inequity?—Of course, the distribution of War Loan must have enormously changed during the course of the last four or five years, but if you take the original holder of that War Loan and have followed, as I have no doubt you did, what I said this morning, he was asked to divert his capital from his industry into War Loan. It would be extremely hard to the original holder if, because he did that, he was to be taxed more heavily than somebody else who, since that time, has not been asked to divert his capital from industry to War Loan. I fully appreciate your point, but I am afraid you could not take that into consideration.

5310. I cannot quite accept the answer that you could not do it. Obviously you could do it, but it may not be right to do it. In your opinion, it would be wrong to do it?—Yes.

5311. I take it that in industry as a whole the relation of income to capital is very much larger than in the case of unearned income?—Suppose you put your money into a very successful mine and earn 50 per cent.

5312. Of course there would be individual cases like that, but taking the thing as a whole the income earned by industry, I should take it, is greater than in the case of other classes in proportion to capital?—Yes, it certainly ought to be so.

5313. *Sir Josiah Stamp*: Surely a large part of them are bound to have a high return of income, but the return is a reward for risk. That return for risk is to a very large extent part of the capital pool that meets the risk when it matures. If you tax

that as though it were pure interest or income you are cutting into the pool of insurance. It is really unsound to tax for this purpose surely by way of Income Tax the full market yield of a highly speculative venture.—(*Sir Charles Addis*): Would there be that effect if you took capital as the basis of assessment?—(*Sir Josiah Stamp*): No; I think you tend to crystallise out that element of special yield when you take capital.—(*Sir Charles Addis*): It is a very difficult point. I was wondering whether Mr. Paine had considered it and whether it was worth the consideration of this Committee.

(*Witness*): It seems to me so very difficult. There are so many different classes of industry, some of which are highly remunerative and some of which are not, and some where the ratio of profit is very high and others where it is very low, and I do not quite know how you could distinguish.

5314. *Sir Josiah Stamp*: Sir William McLintock suggests to me this, which meets the point I was trying to make. He says how would it do if you tax a level rate of interest on all these capital valuations, say 5 per cent., leaving the rest to cover risks and wasting assets, and so on. You would then get something much more approximately equal.—(*Sir Charles Addis*): The question to my mind is whether there is any practical means or whether you think it is worth exploring that point by some such means as that.—(*Mr. Bell*): In the city a firm of brokers importing raw material, with a capital of £100,000, sometimes makes £3,000 or £4,000 a year. I found when I went through the industrial towns that a man with £5,000 of capital was making at least that sum in manufacturing articles. So if you assess a man according to the proportion of what he makes you will get into great difficulties.

5315. *Chairman*: Perhaps we can now go on to Question 14—(*Answer to Section (a) of Question* 14 *read*). Perhaps I had better pause there for a moment. I have enumerated only some, and doubtless the members of the Committee can name many other kinds of property. Some of these seem to me to raise very great difficulties, particularly pensions and annuities. I imagine that where, for instance, a civil servant or a bank clerk has earned a pension, the actuarial value of that pension must be capital in his hands—otherwise there would be an extraordinary injustice. I as a professional man have had to set aside so much of my income every year as capital to provide for my old age. A civil servant in the employment of the Government, or a clerk in the employment of a bank, has not had to do that, because he knows that after a certain number of years he will have earned a certain pension. Therefore, to tax the one without taxing the other would involve extraordinary injustice; they have both done exactly the same thing. Pension is deferred pay which in fact I as a professional man or an ordinary business man have saved. Why should I be put in a worse position that the man who, instead of saving it, takes it as part of his salary?

5316. *Sir William McLintock*: The civil servant would suggest that he has had reduced pay by reason of the pension as against your making the actual provision yourself?—I think the principle of the two things is the same. He has had a proper reward for his services in some form or other, and in effect he has saved his pension out of his pay. I have done it in concrete form. I am to be taxed, and therefore the other fellow must be taxed too, it seems to me clear, and he must pay, and therefore you would have to have valuations of that kind. Then take the case of good will; take a medical practitioner. Is the good will of his business to be assessed as capital value? I should think it must; it is part of his assets. All those, of course, will involve very complicated valuations.

5317. *Sir Charles Addis*: He might get a certain number of years' purchase?—Yes, but that would vary according to his age. As you know, a good will which is appropriate to one business is by no means appropriate to another; you get all sorts of valuations. Then you come to a very difficult class of case, property under settlements, and under wills, is frequently settled upon a life or lives in being, with remainder to a class to be ascertained when the life interests fall in. What is going to happen when the life or lives in being come to an end? The ultimate class is not ascertainable; it may consist of one person or it may consist of 20. How are you going to value the future part of that for a Capital Levy? You can value the life interest on an actuarial basis, but you do not know who the class entitled in remainder are going to be, and the value of the levy upon those would entirely depend upon whether it was going to be divided amongst two or amongst 20 people.

5318. *Mr. Bowen*: Does not the Inland Revenue have to do similar valuations now?—No, the Inland Revenue does not do it. Everybody has to send in a valuation of his own and employ accountants and valuers to make valuations for probate, and the Inland Revenue accepts that unless it has reason to be dissatisfied with it.

5319. I mean that it is being done?—It is being done in the case of a number of people who die every year.

5320. The Inland Revenue sees that it is done?—Yes, but you would have to do it in the case of 340,000 people all at once.

5321. So there is nothing new about this valuation idea?—In principle there is nothing new, but in extent and in application there is something that is entirely new. Every valuer and every accountant in the country I should think would have three or four years' work in fixing up the valuations. A suggestion was made by Dr. Dalton that you might get over it by doing what I believe was done, or he suggests was done, in the case of one country; that is, assume that every person who had to pay a Capital Levy had a certain proportion of his wealth—I think it was 3 per cent. that was suggested—in the shape of domestic articles, furniture, and so on. That would be extraordinarily unfair, because some connoisseur or collector might have hundreds of thousands of pounds' worth of valuable objects in his house: a very laudable object, but, from the point of view of trade the worst form of investment that there can possibly be, because it is totally unproductive. Now a man with a couple of hundred thousand pounds might get off paying any levy on £100,000 on that principle, and he is the man who from one point of view has been the most selfish person in the world, because instead of employing his wealth for the benefit of the community he has employed it for things to look at himself.

5322. *Chairman*: Supposing the object of the levy was to raise £3,000,000,000, have you any idea what proportion of that would come from industry?—I thought this morning it would be about one-third, about £1,000,000,000.

5323. Suppose, for the sake of argument, that £100,000 is taken from someone engaged in industry. That is making, say, 10 per cent. in industry, or £10,000 in the year. Of that the Government take in Super-tax and Income Tax pretty nearly 10s. in the £, and later they will take perhaps 20 or 25 or 30 per cent. of the balance in Death Duties. Would it pay the Government, looking at it purely as a paying proposition, to take that £100,000 in levy in view of the fact that the money could not immediately be put back into something else bringing 10 per cent., because the experience of perhaps 15 or 20 years is needed to enable an industry to make that 10 per cent.?—I could almost answer that by reading one paragraph from an article I wrote some time ago: "I do not wish to overstate the case, but I think it is fair to estimate that at least 2,000 millions of the amount (perhaps 1,000 millions may be a fairer estimate) which will have to be found to pay the levy is invested in trade and ought, in normal times at any rate, to be earning 10 per cent. It is also, I think, fair to assume that that money, being largely in the hands of Super-tax payers, is at present paying Income Tax and Super-tax at an average rate of 7s. in the £. Taking, then, 200 millions as the income of

this amount, it is probably contributing not less than 70 millions a year to direct taxation in Income and Super-tax."

5324. *Professor Hall*: On this question of valuation, you do not think it is impossible, but you think it is difficult, and perhaps expensive, since it would have to be carried out all at one time?—I am not putting this as a question of principle. It is on a totally different plane from the other questions which I have been asked. It is a question not of principle but of administrative difficulty only.

5325. It is possible but difficult?—It is possible at an enormous expense both to the State and to the taxpayer, and with a great expenditure of time. I think it would take many years to work out. Then I say, in reply to Section (*b*): "I think the valuations would have to be made on the same basis as those for Death Duties. I do not see how it would be reasonably possible to have corrective valuations in the light of subsequent events. The levy in the meantime would have been paid, and the damage accruing from it to the taxpayers would in many cases be irreparable. It would surely be impossible to allow some people, years afterwards, to be making reclamations, which in other cases would be impossible." Suppose some life tenant, whose expectation of life was 10 years and whose property has been valued and who has paid the levy on that basis, dies within two or three years, can his relatives be heard to go back and say: "This poor man only lived for three years; we want back seven-tenths of what he paid"? I cannot think that can be possible, consistently with any certainty in the national finances at all. In other words, your expectation of life gives you the actuarial valuation of a certain amount, and that has to be abided by, whether it results rightly or not.

5326. *Sir William McLintock*: And if the life renter does not live, then there may be a claim against him far in excess of his real capital?—Quite. I can give you many examples of hardships arising in other cases, and really if you had exceptions of that kind, you would get no certainty at all; you would have to go on delaying final settlement for years and years.

5327. *Chairman*: Now Section (*c*), of Question 14—(*Answer to Section* (*c*) *read.*) In his evidence before the Select Committee, Sir Richard Hopkins, I think, estimated that, out of the proposed levy of £1,000,000,000, three-tenths would be paid in War Stocks; another three-tenths in other securities; and the remaining four-tenths in cash. I think if we take half in War Loan and stocks of the trustee class and half in cash it would be about a fair estimate, but of course the cash portion would be considerably reduced if heterogeneous securities and assets of any kind were accepted.

5328. *Chairman*: Now Section (*d*).—(*Answer to Section* (*d*) *read.*) Now just let me give an illustration of what I have said. If we have War Loan to the amount of our Capital Levy it is as easy as A, B, C for us to pay our Capital Levy; we have just got to hand in our War Loan. But take the farmer or landowner who has got a mortgage on his land of £30,000 and an equitable interest which is valued at £50,000. He has to try to find somebody who will lend him the proportion of tax on £20,000, which is £2,000 or £3,000. That is not an easy task. He has to have a valuation. Every mortgagee requires a valuation. He has to go to the expense of negotiating fees with some solicitor to help him to get the money. He has to go to a very large expense relatively to raise that £2,000 or £3,000, whereas you or I have to go to no expense at all. That is one illustration to show how unfairly and how unequally this will operate on different classes of property.

5329. *Mr. Bell*: There is a further point. Suppose two men who have the same amount of capital tender War Loan, and that one has no children and the other has five, for whose benefit he has saved in order to leave them some little money when he dies; are those two men going to be both taxed alike?—I imagine so; they must be.

5330. *Mr. Bowen*: Assuming they were not?—For Death Duties they are taxed alike.

5331. But for Income Tax they are not?—For Income Tax they are very nearly taxed alike. The taxpayer gets allowances for children under 16, but he gets no allowance for any grown-up children at all.

5332. There are allowances for mortgages?—Yes; if you borrow from the bank £5,000 to invest in War Loan, you are allowed to deduct the bank interest before you return your income, but your case of children is hard to-day. If a man leaves £100,000 to one child, he pays exactly the same rate of Death Duty as if he leaves it to ten children.

5333. *Professor Hall*: Do you think there would be any attempt at evasion of a levy by transferring shares or War Loan to children, in order to reduce the amount held by the parent?—If a levy became imminent, I should imagine everybody would be trying to do that.

5334. Do you think it is possible to prevent it?—I think inevitably if a levy were imposed you would have to go back and treat all those transactions as bad.

5335. You think that is possible?—I think it is possible.

5336. *Sir William McLintock*: It is done to-day a little, with Death Duties?—It is.

5337. *Mr. Bowen*: You are assuming, of course, that exceptional treatment will have to be allowed in certain cases when you draw a comparison with what happened in Czecho-Slovakia and in Italy?—I say that if you get into allowing one man to be differentiated from another, on the ground of individual hardship, you will get so many exceptions, owing to the nature of your tax that what you are going to pay will become a question of bargain.

5338. You speak about such a system as being alien to British ideas. Can you really imagine that our permanent officials would come down to that at all? Has it been our experience up to now?—No, I really do not think they could. Therefore I say you could not introduce these exceptions, because there would be so many; you would have to impose an admitted injustice upon whole classes of people because of the impossibility of admitting exceptions.

5339. Have you any information as to what really happened in Czecho-Slovakia? Some reports I have seen suggest that the Capital Levy there was very successful?—I am going to suggest that you should get the Consular Reports from His Majesty's Representatives in all these foreign countries which have tried a Capital Levy. They have been reported in our papers at various times; they could easily be collected; and I think it would well repay your perusal to read them. I think you will find that in the case of Czecho-Slovakia the whole thing has been very unsatisfactory, indeed the President himself said so, when he came over here. My information came from a gentleman who for three years since the war had been managing a very large estate in Czecho-Slovakia. He was an Englishman who had gone over there and been naturalised there, and he told me that the whole thing was simply a question of "What can you pay?"

5340. *Mrs. Wootton*: The Capital Levy in Czecho-Slovakia was on a different scale, was it not?—It was simply to preserve the currency. It was relatively very much smaller. Then I think I might almost pass over the next part of my paper, because I have dealt with private businesses, I should think almost *ad nauseam*. Then I say in section (*g*) that I have no strong views upon the order of debt repayment, except that I think it might be desirable first to reduce the Floating Debt to such an amount as might, under present conditions, be considered

normal, and next to redeem the shorter dated securities. I want to get rid of the impression which I think has crept into some of our friends' minds, that a Floating Debt is an altogether objectionable thing. No doubt the Floating Debt during the War was a source of danger, because of its very large extent, but really we could not get along without a Floating Debt. It seems a strange thing to say, but a Floating Debt is a most useful thing from the point of view of the community and of the banking interest, and while one would like to see it confined to a proper limit, in the neighbourhood of £500,000,000 to £750,000,000, I do not want to see it swept away at all.

5341. *Sir Charles Addis*: What is in your mind when you talk about a normal amount? Do you mean what prevailed before the War, as modified by the existing state of affairs?—Yes, that is what I should take it to be.

5342. Or would you regard it as having some relation to the amount of commercial bills?—That would be a variable quantity; it would depend so much on the state of trade at a particular time.

5343. Therefore, I suggest that the amount of Treasury Bills, for example, might vary in proportion to the amount of commercial bills?—Yes, I should think that would be right.

5344. So that the total of Treasury Bills and commercial bills together might remain approximately what it was in normal times?—Yes, for banking purposes.

5345. That is what you mean by normal?—Yes.

5346. I take it your reference therefore is rather to Treasury Bills than to the Floating Debt as a whole?—Yes. If a Capital Levy were imposed, I do not consider that any great additional hardship would be involved by powers being taken to redeem compulsorily the appropriate part of the War debts by drawings or otherwise. I really do not attach very much importance to that. Then I have only a word or two to add. Apart from any question of the justice or fairness of the levy, there is no doubt but that, if certain vital considerations are ignored or kept in the background, an attractive theoretical case can be made for it. But the more closely it is looked into from a practical point of view the greater and more formidable become the objections to it. It has to be borne in mind that never has anything of the kind been attempted on a similar scale, and it is quite impossible to foresee all the reactions that it may have. It should also not be forgotten that as a country dependent for our existence upon trade instead of the produce of our soil, and upon our position as the money market of the world, we are the last country which can afford to run the risk of a hazardous experiment of this kind.

As it has been suggested more than once, I do not know with what justification, that the great majority at all events of political economists are in favour of a Capital Levy, I wish to put formally in evidence the report, of which I produce a copy (*copy handed in*), of various eminent professors in the U.S.A. (whose names are annexed thereto) who were appointed by the American Economic Association in 1918 to consider and report upon the proposal for a Capital Levy in that country. The whole report is instructive, but I quote the following final paragraph:

> "It is realised that the foregoing analysis is far from exhaustive, but it reveals so many serious objections to the Capital Levy that we do not hesitate to report that, in our opinion, such a measure has no proper place in a financial plan for a country in the present position of the United States. As an alternative to repudiation in a country on the verge of bankruptcy something can be said for the plan. For a nation, solvent and unembarrassed, it possesses no attraction."

I should like to finish by saying this. If by a Capital Levy the burden on industry can be removed only to the extent of 1s. or 1s. 6d. in the £, is the experiment worth the result? I do not think I have anything else that I can usefully add.

5347. *Mrs. Wootton*: You say near the end of your paper that "the object of the levy is stated to be to remove the burden of taxation upon industry." Can you refer me to any specific statements of that kind in the various books which have been published on the levy?—In many speeches, reports of which I have read, and in several of the debates which I have personally attended, that has been put forward by the advocates of the levy as one of its principal objectives and justifications. I will, however, send in later a note of some of the references which are made in the pamphlets published by Mr. Pethick Lawrence and Dr. Hugh Dalton.*

5348. *Chairman*: I am sure the Committee will all agree with me in expressing our obligation for your interesting paper and evidence. Thank you very much.—I am much obliged to you; I have done my best, and that is all I can do.

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* Extract from letter dated the 16th January, 1925, received from Mr. Paine:—

In Mr. Pethick-Lawrence's pamphlet: "A Levy on Capital" a great many passages might be found which imply that one of the objects of a Capital Levy is to remove the burden of present taxation on industry, but the principal passages occur on page 49 (where, however, he was dealing with Excess Profits Duty and Corporation Profits Tax, which have since been removed), and on page 85, where he says that the Capital Levy will "free the industry of the future from the crushing burden of debt."

The passages in Dr. Dalton's pamphlet: "The Capital Levy Explained" occur at the foot of page 19, where he speaks of the "growing exasperation of public opinion at the stranglehold of Debt on our financial life," and on page 28, where he quotes, apparently with approval, the doctrine of Heine in 1828, that "The whole of England has become one vast treadmill in which the people have to work night and day in order to feed their creditors."

I have no doubt that the instances could be multiplied of other passages which point to the Capital Levy as being the means of removing the burden of taxation on industry.

It would be pertinent for me perhaps to refer to the amendment to the following question moved by Mr. Pethick-Lawrence on behalf of the Labour Party in the House of Commons on the 2nd April, 1924:

> "That this House is of opinion that what is needed is not the destruction of enterprise but its encouragement, not the frightening away of capital but its fruitful use, and that a Capital Levy would therefore prove disastrous to employment."

Mr. Pethick-Lawrence said: "I beg to move to leave out the words

> "would therefore prove disastrous to employment".

and to insert instead thereof the words:

> "by reducing the disastrous burden of the National Debt and thereby relieving the load of annual taxation, would stimulate industry and promote employment."

(*The Witness withdrew.*)

(*The Committee adjourned.*)

SEVENTEENTH DAY.

Tuesday, 3rd February, 1925.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman.*
SIR CHARLES ADDIS, K.C.M.G.
SIR ALAN G. ANDERSON, K.B.E.
MR. HENRY BELL.
PROFESSOR FRED HALL.
MR. W. L. HICHENS.
MR. H. B. LEES-SMITH, M.P.
SIR WILLIAM McLINTOCK, K.B.E., C.V.O.
MRS. BARBARA WOOTTON.

MR. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

DR. HUGH DALTON, M.P. (Sir Ernest Cassel Reader in Commerce in the University of London) called and examined.

EVIDENCE-IN-CHIEF handed in by DR. DALTON.

1. In view of the wide terms of reference of the Committee and the large amount of evidence which has already been taken, I propose to confine myself to certain questions, which appear to me to be of outstanding importance and interest.

THE EXTERNAL DEBT.

2. The service of the debt, internal and external together, absorbs more than half the tax revenue of the country. The burden of the external debt is obvious. It is mainly represented by a tribute from this country to America, the United States Government being our principal external creditor. The service of the American debt also involves a constant pressure on the New York exchange, tending to depreciate sterling in terms of the dollar. This aspect of the matter will become much more serious if, as seems likely, a free gold market is shortly re-established in this country. For there will then be a constant danger of an external drain on the Bank of England's gold reserves. The raising of the Bank Rate, which is the traditional defence against such a danger, may often be inadvisable from the point of view of our internal trade. The arrangements under which the American debt was funded by Mr. Baldwin provided for repayment over a period of 62 years (*i.e.*, until 1985) by means of a cumulative sinking fund. It is very desirable to lighten this burden and to shorten the period of repayment without increasing the pressure on the exchange, and I suggest that all receipts from German Reparations and Inter-Allied debts should be earmarked for reduction of the *principal* of the American debt. This would partially shift the pressure on the New York exchange from this country to Germany and our ex-Allies.

BURDEN OF THE INTERNAL DEBT.

3. The burden of the internal debt is, perhaps, less obvious. It is apt to be obscured for two reasons, first, because the service of the debt appears to involve only a redistribution of income within the country and, second, because War Loan scrip and similar titles to money, being used to some extent as collateral for bank loans, are sometimes mistaken for real wealth. But the burden is, none the less, a very serious one and manifests itself in various forms:—

(*a*) The service of the internal debt involves, on balance, a transfer of wealth from the poor to the rich, since the average taxpayer is poorer than the average recipient of debt interest. The already great inequality of incomes is, therefore, aggravated.

(*b*) It involves a transfer from the young to the old, since the average taxpayer is younger than the average recipient of debt interest. A special burden is, therefore, cast upon the younger generation, including ex-service men, for the benefit of the older generation, including those who stayed at home and made money out of the War.

(*c*) It involves a transfer from the active to the passive elements in the economic life of the community, since much taxation falls upon those who work and undertake productive risks, while much debt interest accrues to persons who are not actively engaged in production. Work and risk taking are, therefore, penalised for the benefit of accumulated wealth. New saving is similarly penalised.

(*d*) It checks investment in human capital, such as improved educational and health services, and encourages false economics in these directions, since it is difficult for Chancellors of the Exchequer to find money for such beneficial enterprises. Production is, therefore, diminished by our failure to make full use of our human resources.

4. It may be added that the continued existence of so large a debt creates a sense of injustice in the minds of a large section of the population. This also acts as a drag upon production. Moreover, so long as the debt remains large, we are running a serious risk of a correspondingly large increase in its real burden and in the rates of taxation required to meet the debt charges. Any considerable fall in the level of prices would create an unpleasant situation of this kind and he would be a rash man, who would rule such a possibility out of account. As a corrective to ill-founded optimism, based on false analogies from history, it is also well to point out that the population of this country is rapidly tending to become stationary and, if there is much emigration, may quite possibly decline within the next thirty years. There is, therefore, no prospect of any appreciable reduction, through growth of numbers, in the burden of the debt per head of the population. I conclude that one of the most pressing tasks of the immediate future is to secure a large reduction in the internal debt.

The Floating Debt.

5. Apart from the general question of debt reduction, the Floating Debt should be rapidly reduced. The present volume of Treasury Bills, and the constant problem of renewing them, are a frequent source of uncertainty to the Treasury and of disturbance to the Money Market and the Bank of England, which is always liable to be faced with a demand at short notice for Ways and Means Advances. Regular weekly sales of Treasury Bonds, on a larger scale than hitherto, would soon bring about the required result, without any necessity for a big Funding Loan. As to whether a reduction of Treasury Bills would have any deflationary effect on the volume of bank credits, I have an open mind. The question seems to turn more on the actual practice of bankers than on strict logic. But, even if it had this effect, it would, within limits, be helpful in the near future, in view of the prospect of rising prices combined with a return to the gold standard. For it would reduce the prospective difficulties of the Bank of England and help to prevent a trade boom from going too far.

Methods of reducing the burden of Debt. The Capital Levy.

6. There are various possible methods of reducing the burden of the internal debt. I believe that much the most satisfactory of these, on balance, is the Capital Levy. I am in agreement with Mr. Keynes that this "is the rational, the deliberate method. But it is difficult to explain, and it provokes violent prejudice by coming into conflict with the deep instincts by which the love of money protects itself. . . . A levy is from the practical view perfectly feasible, and is not open to more objection than any other *new* tax of like magnitude. . . . It is to be regarded as the fairest and most expedient method of adjusting the burden of taxation between past accumulations and the fruits of present efforts, whenever, in the general judgment of the country, the discouragement to the latter is excessive." (*Tract on Monetary Reform*, pp. 65-70.)

7. But I understand that the Committee does not, at this stage, wish to receive evidence concerning this particular solution of the difficulty. If, however, the Capital Levy is not adopted, the debt will require vigorous handling by other means. So, too, would the residue of debt which a Capital Levy would leave unredeemed, though in this case the problem would be much less urgent.

Conversion.

8. The reduction of the annual interest charge which we can hope to achieve in the near future by the conversion of maturing debt is not so large as is often supposed. The amount of internal debt maturing in the next 10 years (including debt which may, but need not, be paid off within this period, but excluding Savings Certificates) is £4,106 millions. Of this total £165 millions bear interest at 5½ per cent., £2,698 millions at 5 per cent., £134 millions at 4½ per cent., £256 millions at 4 per cent., £63 millions at 3½ per cent., £16 millions at 3 per cent., while the remainder is Floating Debt. It is unlikely that there will be any scope for downward conversion, except on the 5½ per cent. and 5 per cent. debt and, in default of straightforward repayment, upward conversion will be necessary on some of the other items. With the national credit, as measured (inversely) by the rate of interest at which the Government can borrow, standing at 4½ per cent., the maximum annual saving in interest would be only £15 millions, and with the national credit at 4 per cent. the maximum annual saving would be £30 millions. But, against any saving in interest charges through conversion, must be set the consequential loss to the Exchequer in Income Tax and Super-tax. At present rates this loss will amount to at least one quarter of the interest saved. This reduces the maximum *net* saving through conversion during the next 10 years to £12 millions or £23 millions a year, respectively, according as we assume a 4½ per cent. or a 4 per cent. rate of interest throughout this period. But at present the Government can barely borrow at 4½ per cent. on long term securities and a trade revival, by diverting funds from gilt-edged stocks to industry, will tend to raise the rate of interest. If we are to exploit to the full the opportunities for conversion, it is essential to create a strong demand for Government securities and thus to raise the national credit. Such a policy involves big Sinking Fund operations during the next few years.

9. Conversions which take the form of issuing new stock below par, or below the price of eventual repayment, are open to strong objection. They may reduce the annual interest charge, but by increasing the ultimate liability of the State they are a thriftless discounting of the future. Mr. Churchill's recent conversion, of 5¾ per cent. Exchequer Bonds into 3½ per cent. Conversion Loan, is the latest example of this unsound policy. In order to facilitate future conversions, which shall be free from this undesirable feature, I suggest that special steps be taken to raise the market value of 4½ per cent. Conversion Loan and of 4 per cent. Victory Bonds, two securities, additional issues of which, at par, might well be made, when national credit reaches a 4½ per cent. and 4 per cent. basis respectively. For the 4½ per cent. Conversion Loan a statutory Sinking Fund of 2 per cent. per annum of the amount outstanding, so long as the price remains below par, might be created, such as is now provided for the 3½ per cent. Conversion Loan. A similar Sinking Fund might be created for Victory Bonds, in addition to the annual drawings at par which now take place, and those Bonds, now amounting to more than £30 millions, which have been tendered in payment of Death Duties and are now held by the Treasury until they are drawn, might be cancelled forthwith, so as to increase the chance of other holders' Bonds being drawn. It is a further argument in favour of attaching specific statutory Sinking Funds to particular sections of the debt that "the raiding of the Sinking Fund" by unprincipled politicians is thereby made more difficult.

Sinking Fund.

10. I regard the present Sinking Fund of £50 millions a year as quite inadequate. If it is to be regarded as non-cumulative, it will take nearly 150 years to pay off the debt. This is an intolerable prospect. I consider it essential that any Sinking Fund should be, at least to some extent, cumulative and that it should start from a higher initial figure. I should regard £100 millions a year as the minimum, which should be provided at the present time. A fully cumulative Sinking Fund, starting at this figure would pay off the whole debt in about thirty years. This would be an achievement well worth aiming at and the period is short enough to appeal to the imagination of many people now living. In default of a Capital Levy, I should support such a scheme, or alternatively, a Sinking Fund not quite so strongly cumulative, supplemented by a plan for the compulsory creation of terminable annuities, which is explained in paragraph 12 below.

The Burden of Taxation for Interest and Sinking Fund.

11. It is idle to speak of the burden of taxation, regardless of the benefit of the corresponding public expenditure. No sensible person speaks of the "burden" of drawing cheques, regardless of the purposes for which they are drawn. Taxation devoted to payment of interest on the debt may,

or may not, diminish capital. The question depends, in the first instance, on how much of the money taken in taxation would have been saved by the taxpayers, and on how much of the money received as interest is actually saved by the recipients. The result is doubtful. But taxation devoted to repayment of debt certainly increases capital. For there can be no doubt that practically all those who are paid off reinvest the money received, whereas much of the money taken in taxation would have been spent, and not saved, if it had remained at the disposal of the taxpayers. It would, therefore, seem clear that vigorous Sinking Fund operations promote the accumulation and cheapening of capital by diverting funds, on balance, from spenders to savers. It is, however, sometimes objected that these operations also divert funds from industrial to gilt-edged securities and thereby damage industry. I am not impressed by this argument. There is no sharp division between investors in industrial and gilt-edged securities respectively. Many people hold some of both and, if the relative attractiveness of industrials rose, as it would do on the hypothesis put forward, a diversion from gilt-edged to industrials would naturally follow and things would correct themselves. It is common knowledge that the recent fall in the yield on gilt-edged securities has driven many previously blameless investors into industrials. Moreover, in as far as the supply of gilt-edged securities is being reduced by Sinking Fund operations, it is difficult to see how a larger supply can be held by the public.

Taxation and the State of Trade and Employment.

12. The effects of taxation on the state of trade and employment are often grossly exaggerated. Cycles of good and bad trade are due to many causes, of which taxation and public expenditure are among the least important. Business men have received large remissions of taxation since 1918, including the reduction of the standard rate of Income Tax from 6s. to 4s. 6d. in the £, and the repeal of the Excess Profits Duty, the Corporation Profits Tax and the Inhabited House Duty. But trade and employment are in a far worse state to-day than they were five or six years ago. When trade is good, a heavy burden of taxation can be carried easily by business men; when trade is bad, even a light burden will seem intolerable. As regards employment, it is a common delusion that taxation curtails it by reducing the taxpayers' purchasing power. For this reduction is exactly balanced, in the aggregate, by the increase in the purchasing power of those who benefit from public expenditure, such as holders of War Loan, old age pensioners and military contractors.

Income and Super-tax.

13. The present annual yield of Income and Super-tax (£336 millions) is only slightly greater than the present annual interest charge on the debt (£305 millions), and falls short of the present annual charge for interest and Sinking Fund combined (£350 millions). In 1913-14 Income and Super-tax, yielding £47 millions, covered the total debt charges, £25 millions, nearly twice over. Now, broadly speaking, it is the Income Tax payers who themselves receive the interest on the debt. Leaving external debt out of account, the collection of Income and Super-tax and the payment of interest resolve themselves into mere transfers of wealth within a comparatively small section of the community. The present situation, therefore, is that Income and Super-tax payers, as such, have practically ceased to make any contribution to the current expenses of the country, as represented by the Supply Services. Having regard to this state of affairs, and to the general distribution of wealth and of the burden of other taxes, it would seem both inequitable and undesirable that any further reduction in the net yield of Income and Super-tax should be permitted until the debt has been substantially diminished.

14. But, subject to the condition that the present aggregate yield of Income and Super-tax should be maintained, certain readjustments might be made, so as to redistribute the burden more satisfactorily and do something to encourage saving. I suggest in particular, the following reliefs: (*a*) an increase in the exemption limit; (*b*) an increase in child allowances, and (*c*) a reduction in the rate of tax on undistributed profits. As regards (*a*), this form of relief gives an equal benefit, in terms of money, to all Income Tax payers, whatever their wealth. This appears to me to be preferable to a reduction in the standard rate, the benefit of which increases with a man's wealth. I do not consider the principle of "to him who hath shall be given" to be a sound one in the distribution of relief from taxation. A further argument for raising the exemption limit is that the cost of collecting small sums from persons just above the present limit is abnormally high and amounts to over 20 per cent. of the revenue obtained, whereas for the Income and Super-tax generally the cost of collection is less than 2 per cent. of the yield. As regards (*b*), the burden of Income Tax falls very unequally upon taxpayers of equal incomes but unequal family responsibilities. An increase in the present child allowance would do a little to diminish this inequality. As regards (*c*), a genuine encouragement to saving would result, though care would need to be taken to prevent fraud through the formation of one-man companies, etc. But the Inland Revenue authorities are already armed with powers to deal with similar attempts to dodge Super-tax. The loss of revenue under (*a*), (*b*) and (*c*) should be made good by a steepening of the rates of Super-tax, by a reduction of the lower limit of liability to Super-tax from £2,000 to £1,500 a year, and by the abolition of the three years' average in assessments to Income Tax Schedule D, which is desirable on other grounds and would benefit the Exchequer in a period of improving trade such as the present.

15. With the debt standing at its present figure, I do not consider that any further reduction in the standard rate of Income Tax should be made Such a reduction would only in part increase saving. In part it would release sums which would be spent, especially by the richer taxpayers, in extravagant consumption, which the country cannot afford. It may be added that plenty of new capital appears to be available, at current rates, to finance new undertakings.

Death Duties.

16. I regard the Death Duties as a source of revenue which should be considerably developed. Inherited wealth is wholly unearned and, in excess of a moderate amount, it encourages idleness and thriftlessness in its recipients. It is, therefore, a peculiarly appropriate object of taxation. The argument that Death Duties are paid out of capital is greatly weakened by the growing habit of insuring against them in advance, and their payment by transfer of government securities (or land) is very convenient and might be further facilitated. I believe that the anticipation of posthumous payment of Death Duties discourages work and saving to a much slighter extent than the anticipation of recurrent payments of Income Tax on this side of the grave. On the other hand, the prospect of heavy Death Duties will stimulate those who are waiting for a windfall of inherited wealth to work harder and to save more than they would otherwise do.

17. I suggest that the Estate Duty should be increased and more steeply graduated, and that the existing Legacy and Succession Duties should be replaced by a single duty, which might be called the Inheritance Duty, graduated, not according to the

relationship of the inheritor to the deceased, but according to the net amount received, after payment of Estate Duty, by the inheritor. Special consideration could be shown to surviving spouses and children of the deceased by giving them an allowance, free of Inheritance Duty, up to, say, £2,000. The period before a person's death, within which gifts *inter vivos* should be liable to Estate Duty, should be increased, as was proposed by Mr. Lloyd George in the first draft of his 1909 Budget. I should look to an increase in the yield of the Death Duties for the greater part of the increase in revenue required in order to raise the initial Sinking Fund for the internal debt to £100 millions a year.

THE RIGNANO PLAN AND THE COMPULSORY CREATION OF TERMINABLE ANNUITIES.

18. The Committee is doubtless familiar with the plan for the taxation of inherited wealth which was first proposed by the Italian economist Rignano. The essence of this plan is to differentiate, for purposes of Death Duties, between that part of the deceased's wealth which had been inherited by him and that part which had been created by his own work and saving. The former part would then be taxed more heavily than the latter. If this plan were administratively feasible—and I suggest that the Committee should take evidence on this point from the Inland Revenue authorities—its effect would be to stimulate work and saving among those who had themselves inherited wealth and who desired to make provision for their families. It would, therefore, stimulate production. The introduction of this principle into the Death Duties would, therefore, go far to remove the current objection that, in their present form, they tend to check production.

19. I suggest for the consideration of the Committee, with special reference to the problem of debt reduction, the following simple scheme, which appears to present very few administrative difficulties and which is equivalent in substance to the Rignano plan. The scheme would operate, in effect, as an additional Death Duty. Let a certain proportion of every estate passing at death be compulsorily exchanged with the Inland Revenue authorities for terminable annuities to be issued by the Treasury. These annuities might either be terminable with the life of the inheritor or, in order to render them more easily negotiable and to secure greater equity as between inheritors, might have a fixed term, say, twenty years from the date of issue. The annual income attaching to these annuities would be equal to the annual value of the wealth surrendered in exchange for them. (The capital value would, of course, generally be less than that of the wealth surrendered.) Only certain forms of wealth would be accepted in exchange for these annuities, such as, e.g., Government securities, other approved securities, and cash. The Government securities would be cancelled on receipt, thus reducing the debt; the other approved securities would be gradually realised and the proceeds applied to debt reduction; cash would be similarly applied to debt reduction. The Government would thus, in effect, issue terminable annuities in exchange for the cancellation of an amount of debt of equal annual value. The proportion of the debt consisting of such annuities would gradually increase and, after a period of twenty years from the inception of the scheme, a quantity of these annuities would be running off annually.

20. Inheritors would receive these annuities as part of their inheritance. They would be stimulated, by the prospect of the annuities running out, to work and save in order to make good the prospective loss of income. The annuities would also be readily negotiable, though their sale would involve an immediate diminution of income and many holders would probably, therefore, prefer not to sell.

TAXATION AND THE DISTRIBUTION OF WEALTH.

21. The effects of taxation upon the distribution of wealth between persons and social classes is not less important than its effects upon production. For a less unequal distribution of wealth is not less important than an increased production. The distribution of the burden of taxation must, therefore, take account of, and be adjusted to, the distribution of wealth. I anticipate that the Committee will already have caused a statistical investigation to be made into the proportions of their income which various sections of the community pay in taxation. The investigations of Sir Herbert Samuel, published in 1919, showed that the British tax system was at that time regressive on the small incomes, that is to say that, below a certain level of income (lying in 1919 between £200 and £500 a year) the poorer a man was, the larger the proportion of his income which was taken in taxation. The existence of taxes on food largely accounts for this state of things which, from the point of view of distribution, cannot be justified. The reduction of food taxes in last year's Budget was a step in the right direction and should be followed up, at the earliest possible moment, by the final repeal of those taxes.

5349. *Chairman*: We will take your evidence-in-chief clause by clause; perhaps you will amplify the points as you go along, and then questions will be asked you on each clause?—Yes. The first point which I deal with is the external debt. The burden of the external debt is so obvious that there is very little to be said about it. It is quite clear that we have to hand over for nothing a large quantity of goods and services annually to the Americans. Incidentally, that is continually tending to depress sterling in terms of the dollar, and this danger on the exchange side will be increased in a sense if we go back to a free gold market, because you will then have the danger of the external drain that you had before the War when export of gold was free. The present arrangement, as is well known, of course, to the Committee, is that under the Baldwin funding plan repayment proceeds at the rate of £35,000,000 a year for a few years, rising to £40,000,000 in 1932 and continuing until 1985, with this constant pressure on the exchange all the time. My practical suggestion is that it is very desirable to shorten the period of repayment if we can do so without increasing the pressure on the exchange. If we endeavour to shorten the period simply by increasing the payment made from our own resources, that would still further tend to depreciate sterling in terms of the dollar. I suggest, however, that anything that we manage to get from our ex-enemies or ex-Allies, be it large or small, should be applied to reduce the principal of the American debt. The effect of that, of course, would be that we should gradually reduce the burden both on our own taxpayers and also on our exchange. At the present time, as you are aware, the £35,000,000 a year that we pay is nearly all interest. There is a cumulative sinking fund, and I think, speaking from memory, it is now about £5,000,000 Sinking Fund and £29,000,000 interest, or something of that order. If we were able to make big repayments of principal in anticipation of repayment under the Baldwin funding plan, we should shorten the period more than might be imagined at first sight, because we should enlist compound interest on our side, and so many millions paid off now would mean a very much larger number of millions not requiring to be paid at the end. Further, if, in effect, we continued to pay the interest on the American debt and turned over the repayment of the principal to the Germans,

the French and the rest, that will mean that the interest charge will dwindle rapidly, and, so far as that happens, the pressure on the New York exchange would be relieved.

5350. Supposing you had been Chancellor of the Exchequer at the time of Mr. Baldwin, how would you have dealt with the American debt?—I am not criticising what was done; I think probably it was the best of a bad job. I am only thinking now of what we should do in the future, taking all that for granted.

5351. *Sir Charles Addis*: Your suggestion is that we should continue to pay the interest?—Yes.

5352. And the sums from reparations should be devoted to paying off the principal; that might be, of course, at a loss of interest?—How so?

5353. The American debt bears interest at 3 per cent., rising to 3½ per cent.; if the rate of interest were higher here your proposal would involve a loss, would it not?—A loss as compared with what? The present situation is that we pay both the capital and the interest.

5354. But we pay on the capital at the rate of 3 per cent. to 3½ per cent.?—Yes.

5355. We might have to borrow money at 4 per cent. in order to pay it off?—I am not suggesting borrowing money. I am suggesting that we should earmark all receipts from German reparations and inter-Allied debts for reducing the principal of the American debt, and thus reducing it more rapidly than it would be reduced under the Baldwin scheme.

5356. I quite understand the suggestion. I am only asking you to consider whether that might not be rather an expensive process; that the money which we receive in the way of reparations might be employed at 4 per cent. or 5 per cent., and that being so, would it not be better than using it to pay off debt which is only costing 3 per cent. to 3½ per cent.?—I suppose it would otherwise be employed in reducing taxation here.

5357. That would be one of the ways?—I had not contemplated that it would be lent in any sense.

5358. *Sir Alan Anderson*: It might be used to reduce debt here.—You mean it might be applied to the internal debt; yes.

5359. *Sir Charles Addis*: There might be a more profitable way of using it than you suggest?—Except that you do not get any exchange advantage from repaying your internal debt as you would on this suggestion of mine, owing to the continual pressure on the New York exchange which is involved in the payment of this large sum.

5360. That can only be true if the balance of payments were insufficient to maintain the parity of exchange?—Yes. I have not gone into it in great detail, but clearly you may have a case arising in which the Bank Rate might be raised after the free gold market has been restored, simply in order to maintain the exchange, and that raising of the Bank Rate may be damaging to our internal trade, although it may be desirable on external grounds.

5361. *Sir Alan Anderson*: This repayment would not be made in dollars, would it; it would be made in sterling or in marks?—Yes.

5362. Would you not have to come on the exchange to get it out to America to repay the debt?—We should in effect receive marks and turn marks into dollars, should we not?

5363. That means coming on the exchange, does it not?—Not our exchange.

5364. *Sir Alan Anderson*: Well, on the dollar exchange. I am not an expert, but is not it impossible to avoid the strain on the exchange. Sir Charles? (*Sir Charles Addis*): You receive gold and pay gold under Dr. Dalton's scheme. (*Witness*): I suggest in the last sentence that the carrying out of my proposal would partially shift the pressure on the New York exchange from this country to Germany and our ex-Allies. In effect you would say, instead of paying these people sterling, that the Germans shall pay them marks.

5365. *Sir Alan Anderson*: If we are going to have gold it is all right?—Yes. If we were simply to pay in gold that would deplete our gold reserves, would it not?

Then in my paragraph 3 I just summarise the burden of the internal debt as I see it. I think the burden of the external debt is so obvious that we probably all agree about that. I suggest that the burden of the internal debt is not always clearly apprehended, because its service appears to involve a mere redistribution of income within the country and also because War Loan scrip and similar titles to money are used to some extent as collateral for bank loans, and that leads to complication and sometimes also, I think, to misunderstandings. The way in which I see the burden of the debt is as follows: In the first place, the existence of the debt and the existence of the taxation necessary to pay for the debt, which are two sides to the same operation, involve a transfer of wealth on the balance from the poor to the rich. On the whole the people who receive interest on the debt are richer than the people who find the money through taxation. On the whole, therefore, striking a balance, the existence of the debt and of the taxation necessary to meet it increases the inequality in the distribution of wealth which in my view is a bad thing.

In the second place, you get a transfer on balance from the younger to the older generation, simply because the average recipient of the debt interest is older than the average taxpayer. We begin to pay taxes at a much earlier age than we accumulate holdings of War Loan. The result of that is that a special burden is cast on the younger generation, including ex-service men, for the benefit of the older people, and in particular for those who remained at home and were richer at the end of the War than at the beginning.

In the third place, you get a transfer from the active to the passive elements in the economic life of the community. That is very familiar in the form of an objection to high taxation. It is said that taxation penalises work, penalises new savings, penalises the taking of risks, many of which are remunerative and desirable to be taken. That is quite true. On the other hand, the benefits of the debt accrue very largely to old people who have retired from active business, or to people who have never been engaged in active business at all. Broadly, and on balance, the active are required to subsidise the passive. That is a bad thing; it penalises the active-minded and the active-bodied people and acts as a drag upon production.

Fourthly, you get as a result of your debt situation, a check to investment in human capital as I have called it; that is to say, you are so busy paying interest on your debt, the Chancellor of the Exchequer is naturally so obsessed by the necessity of balancing his Budget, that there is peculiar difficulty in getting money for education, in getting money for health services, and in getting money for housing, all forms of expenditure, which, if wisely carried out, would increase, even from a commercial point of view, the resources of the community. You would get a healthier, more efficient and better educated people. You would get the results of that in increased production. But there is great difficulty in getting these things done, or even in maintaining the present scale of investment in human beings, owing to this continual squeeze to balance the Budget, and owing to the consciousness in the minds of the people at large of the heavy burden of taxation.

Further, the existence and the magnitude of the debt is now getting well known. Of course, so long as nobody realised it, the argument that I am now using did not apply. But now that politicians and journalists have taken to talking about it, the continued existence of the debt generates a sense of injustice in the minds of many people, who feel that they are paying for the War two or three times over. Quite clearly to my mind this means an additional drag on production, since you have the opinion widely

diffused among your workers that a great part of the wealth which they produce is merely handed over to holders of War Loan.

Finally, the mere continuance of debt involves you in a big risk connected with the movements of the price level. I am not prepared to prophesy what is going to happen to prices in the future; it depends on many factors which cannot be forecasted, but what is quite clear is, that if prices should move the wrong way from this point of view, that is to say, if they should move down, if there should be a big fall—or a big rise in the value of money which is the same thing—that is going to increase enormously the real burden of your debt, and it is going to make it a practical impossibility to balance your Budget without resort to means that we should probably all agree were very undesirable. That is a risk that we shall go on carrying so long as we go on carrying a big debt; the only way to lessen that risk is to reduce the debt.

I refer in paragraph 4 to the population question. Many people take the view that, because we muddled through after the Napoleonic Wars without making any real effort to reduce the debt, we shall be able to do the same again. In so far as the muddling through was then assisted by a growth of population, I am quite clear that we shall not be able to do the same again, because the figures which I think have been given in evidence before you by Professor Bowley show that we are not going to have much more increase of population in this country. That may be a bad or good thing, but it is the perfectly clear trend of events, and if there is much emigration, if, in particular, Empire settlement succeeds on a large scale, we should very soon get a decrease in population. Therefore, there is no help in carrying the burden of the debt to be anticipated from a growth of numbers. There will not, in my estimation, be any appreciable growth of numbers. My conclusion is that one of the most pressing tasks before us is to get a very large reduction in the debt in the shortest time we can. I think it is exceedingly dangerous to sit down with folded hands and to say that that situation will solve itself.

5366. *Mr. Hichens*: Do not these objections that you have raised apply practically to all forms of capital?—Objections to the difficulties of investment, do you mean?

5367. If you take your paragraphs (*a*), (*b*), (*c*) and (*d*), are they not more or less applicable to any form of investment?—You have a choice as to how you will invest your available funds, and if you have a great squeeze on your available funds for other purposes, there is clearly less scope for saving.

5368. Take the second, for example; in any form of investment it is probable that it involves, as you say here, a transfer from the young to the old for precisely the reasons you have given?—But surely there is not necessarily a transfer involved. If you induce new savings and thereby increase production, you do not take anything out of the pockets of the young. Here you take taxes out of the pockets of the young, you do not do that in ordinary industry.

5369. Supposing you invest your money in a railway security which is in existence to-day, that is pretty well analogous, is it not?—Yes, in some respects.

5370. It seems to me that what is at the back of your mind rather is that the War Loan represents no asset?—Yes, that is so.

5371. Whereas the railway does?—Yes.

5372. There are people who think that what we won from the War, namely, our liberty, is an asset which is almost priceless?—Certainly, but it is not an economic asset.

5373. Very likely, but an asset which was worth paying for just as much as a railway is worth paying for in a different category?—Yes; I should not disagree with that general view.

5374. Therefore, if it is to be paid for, the people who found the money to do that are deserving of the interest that they get on their money. It is just as much a right as in the case of a man who has put up money to pay for a railway, is it not?—It is a legal right, but a very much weaker moral right in my view.

5375. Why?—Because the people who are paying for the debt are largely the people who risked their lives, and the people who are drawing the interest are largely the people who stayed at home and were protected. I think you should distinguish clearly between the economic and the moral considerations. I agree that people are entitled to interest on War Loan and should go on getting it until they are paid off; in other words, I am not advocating any repudiation. But if the thing is to be shifted to a moral ground, I should have a good deal more to say than I have said here. I was keeping my evidence on the economic ground. If it were to be shifted to the moral ground, I should say that all the sacrifice and blood and misery that had been borne by the young was a very much stronger argument than the mere economic argument against their continually having to pay this tribute. So long as the present generation of ex-service men is below 60 years of age, shall we say, they are having to pay tribute to people who have not suffered in their own persons during the War at all, who remained at home in comfort and were defended by the others.

5376. That is a totally different point?—I did not want to introduce that line of argument, but it arises from the point that you raised.

5377. Taking the point that you have here and substituting railway debt for internal debt, do not every one of these arguments apply equally? Your first argument is that the service of the debt involves a transfer of wealth from the poor to the rich. Would not that be equally true in the case of railways, the banks, or any other service which is rendered?—I should have thought not. Perhaps I ought to have made clearer the point that you raised just now, that economically speaking there is no asset behind the debt; while the payments that are made to railway shareholders come out of the price of the services rendered by the railways, which are economic services Here there is nothing of that kind.

5378. Even so, it is quite true that it would be better for the individuals concerned if they had nothing to pay?—Yes.

5379. Does not the payment of interest on the railway debt involve on the whole the transfer of wealth from the poor to the rich?—To some extent possibly. But the transfer is from the consumer, from the persons who ride in railways and send goods by railway; it is they who find the money and they have a *quid pro quo*. They get the service of transport facilities in return.

5380. Yes, but on the whole the largest number of people who travel, namely, the working classes, are poor?—Yes.

5381. Therefore your argument really applies, does it not, to the railways very nearly as much as to the National Debt?—With this great difference, that the payments that are made to the railway shareholders are payments for present services rendered; the payments that are made to the holders of debt are not payments for present services rendered at all.

5382. Unless you regard your immediate liberty as a service rendered to you?—But it is not a service being immediately rendered to me by the people who subscribed to the War Loan.

5383. If you had lost the War you would find yourself in a very different economic position from what you are in to-day?—Certainly; so would the holders of War Loan.

5384. Very likely they would, but the point is, it is a service which you are immediately enjoying just as much as you can enjoy the railway service. You may not appreciate your liberty as much as you appreciate travel by train, but you have got it, and you have to pay for it?—Yes.

5385. Do you grudge paying for what you receive in the form of your liberty more than in the case of travelling in the railway?—I am afraid I shall have

again to distinguish economic and non-economic considerations. Liberty is not an economic commodity, and I do not regard the people who at present hold War Loan as having given me my liberty. I regard myself as having done, perhaps, more than they, in so far as I served in the Army, and when I am now asked to pay the people who own War Loan because they stayed at home and lent the money at a good rate of interest which was used to provide me with shells to fire from 6-inch howitzers, it seems to me to be a different proposition from paying for a railway ticket when I travel from Cambridge to London, and knowing that some old ladies get the interest on that.

5386. That may be an argument for saying that all that was required for the War should have been immediately recovered by a compulsory issue, but when you go to somebody and say: "If you will give me £100 I will undertake to pay you back on certain terms" then you have an obligation, have you not, which you have to fulfil?—Quite.

5387. And it is a question for you at the time whether it is worth paying it or not. It was considered to be worth while; that what you would get if you won, namely your liberty, was worth paying for, just as much as a railway is worth paying for?—Quite.

5388. It looks to me if one has to apply this category of reasoning that you have here, not to one form of debt merely, but to all forms. It rather looks as if the railway services, for instance, involve a transfer from the active to the passive elements in the economic life of the community just as much as the debt does. It is an argument really against any form of capital, which may be your view. I only want to make it clear that you would not apply that?—No: I should distinguish it on the ground that you get a present economic *quid pro quo* on the railways.

5389. *Sir Alan Anderson*: When you pay your fare from London to Cambridge part of that fare is for the present economic service, giving you the coal, the stoker, the driver, the guard, and everything else, but a part of it does not seem to me to be for a present economic service at all; it is to pay this old lady who has put her money into the railway company. This charge on the capital of the railway company is not a present economic service in the same sense as the coal that you are burning on the journey?—No.

5390. I should have thought the question of the debt was exactly the same. The service of the internal debt involves all these things which the existence of capital involves, I should have thought?—In reply to Mr. Hichens, I feel that if we do not agree that there is a distinction between reproductive and unproductive debt, as the common phrase goes, we shall remain at cross purposes. I should have thought it was a very important distinction. The point is really, is there a present existing economic asset or not? In the case of the railway there is; in the case of the War debt there is not. The War debt is a relic of a certain method of financing the War; other methods were possible.

5391. Would you say there was an asset in the education of this country, for example, where the schools might conceivably be paid for out of capital? Would you complain that there is no justification for paying interest on that money on the ground that there is no economic asset?—No; I should say there was an asset there. You are continually getting what I call here an increase of human capital; you are getting more efficient more healthy and more capable citizens.

5392. Is it no asset that you have liberty then in the same sense? Supposing you found yourself with a very heavy debt of reparations due to Germany, with all the German officials here running the railways, and taking any profit there might be out of them, with no interest going to the shareholders—every penny of money possible being sent out of this country into Germany—would it not be an economic disadvantage to this country?—Clearly.

5393. Is it not an advantage to have avoided that?—Yes.

5394. Therefore, there is an economic asset in your liberty in the same sense?—Yes; there is an economic advantage in not having lost the War.

5395. Exactly; that is the whole point?—I should never have denied that at all, and I do not think I have.

5396. The real point is this: if the thing that we have got, namely our liberty, is worth something it is worth paying for. It is no use, it seems to me, saying that now we have won the War we can ignore the people who lent the money to do it. They perform a service, not only of moral but of economic value just as much as the people who put up big schools, or who put up railways or factories, or anything else?—I do not suggest that we can ignore these people; I suggest that we should pay them off.

5397. You may pay people off for a different reason. It may be desirable that all capital should be paid off for the matter of that. You were making the point rather that there was some distinction, as I understood, between capital which is raised in the ordinary way, and this capital, and you made the point that there was a feeling of injustice in regard to this capital?—There is, certainly.

5398. Which does not exist in regard to other capital?—Yes, I think that is so.

5399. What I wanted to find out was whether there was any valid reason for that, or whether it was not merely a sort of prejudice which has been inculcated by people with ulterior motives?—I think there is a reason. I do not want to waste the time of the Committee by continually repeating the same thing, but the reason is, I think, that in the case of this War debt the greater part of the winning of the War, so far as labour in a broad sense was concerned, was done by the young people who fought; the greater part of the taking of interest is done by the old people who stayed at home.

5400. And the greater part of the work in a factory, if I may intervene, is done by the young and active people, but the greater part of the interest is very often taken by the old ladies and others who somehow manage to invest money in it; it is the savings of their life which they put into the factory which enables the young to work?—But not at the risk of their lives.

5401. Not in a coal mine?—No. The risk of death is not so great in a coal mine.

5402. But there is some risk to health?—Yes, and there is some risk in crossing a street; you may be knocked down. I think, so far as I can interpret the popular view of the matter, a very sharp distinction is drawn because it is felt that the War was an unusual event. It is felt that the risks to life, and so on, were abnormal and the misery, apart from risk to life, was abnormal. Now we have the situation that the people who carried this human risk, those who survived and returned, are expected in addition to carry a large burden of taxation in order to pay people who stayed at home and did not take this risk. The common view, which I share, is that this situation is somewhat unjust.

5403. Therefore your view would be that the unpatriotic man who invested his money in schemes, or in some reproductive work in this country, or in another country, and did not invest in War Loan, was entitled honourably to receive all the interest he could get, but the public spirited man who invested his money in War Loan was somehow doing a thing which does not entitle him to any interest at all but to a certain amount of opprobium?—No; I do not say anything of the kind at all. I repeat that I am not proposing in any way that people who have invested money in War Loans should be penalised, or that the debt should be repudiated; what I am suggesting is that it is high time they were paid off.

5404. *Mr. Lees-Smith*: I gather that what Dr. Dalton means is that there is a general impression that in the War, although it might not have been realised at the time, capital got off a good deal more lightly

than life, and that therefore there is a general impression that if any sacrifice has now to be made in order to remedy that injustice it would be better that it should be made by capital than by young men; that is, I gather, the broad point?—That is so.

5405. When you come to the economic argument, may I put this: that the question we are now considering is, what are the actual disadvantages of this heavy capital levy which we have incurred as a consequence of the War debt, and in considering that, it is very important for us to have them set out in categorical order. Your view is that it is not a valid reply to say that there may be disadvantages in other forms of debt capital in this country. As a matter of fact, that is so; all of what one would call debt capital does involve certain disadvantages to the actual holders of wealth in the community. Is not your argument with regard to the railways this: Suppose the railways were a national asset and we had this enormous debt capital liability and we were appointed as a Committee here to consider what we should do about it, and we were to ask a witness to tell us what were the disadvantages of it, he might prove that the disadvantages were much the same as the disadvantages here. (*Mr. Hichens*): That is precisely the point I asked. (*Mr. Lees-Smith*): I know, but surely the conclusion is not that any of this is incorrect but that quite possibly, having dealt with the liability to War debt, some future Committee may be appointed to deal with the liabilities of other forms of debt capital. (*Sir Alan Anderson*): That is not what Dr. Dalton said; he said the opposite. (*Mr. Hichens*): He said exactly the opposite; that is exactly what I asked him did he mean?—(*Witness*): I was primarily giving evidence on the debt, not on what is roughly called the capitalist system. I was endeavouring to work out here the disadvantages of this dual system, the large debt and the large taxation required to pay for it. Mr. Hichens asked me whether I would not extend that argument to various other things like railway shares, and so on. I confess I had not thought about the larger extensions of it, and I do not think it was strictly necessary for me to do so in preparing this evidence, as I was preparing to deal with the National Debt. At first sight I did reply to him, and I should be still inclined to reply to him, that there was the difference that I have stated several times. It may be that several of the considerations which I have suggested here, if they are valid, would lead us rather further than to a mere consideration of the debt, but the fact that they might lead us further is no argument, either for or against, their validity. We have to consider their validity on the merits, it seems to me.

5406. *Mrs. Wootton*: I should like to get your view on the statement that another witness has put before us, and that is, that the distribution of wealth is not made more unequal by the debt because the fund holder if he had not invested in the debt would have invested in something else; what is your view on that statement?—I should think that what he might have done if he had not invested in the debt has no bearing on the effects of his having invested in the debt. In other words, it appears to me that what we have to consider is not what he might have done, but what he has done; what is the effect on the one hand of certain payments being made in interest, and on the other, certain money being collected in taxation; the other seems to me to be irrelevant.

5407. The fact is that the distribution of wealth is made more unequal by the existence of the debt than it would be had you had no debt and other things were equal?—Yes.

5408. But not than it might be if you had no debt and other things were not equal?—Quite. You have to consider what would be the position if you got rid of the whole of the debt and that part of the taxation required to pay the interest; if, for instance, everybody followed the example of Mr. Baldwin during the War of deliberately giving up their share without claiming any compensation.

5409. In your statement that the debt involves this redistribution, have you taken into account any estimates of the proportions in which the debt is held by private persons, by the monetary system of the country, and by joint stock companies?—I have seen such estimates, of course. I think that the general trend of such estimates is that a very large part of the debt is held by joint stock companies, banks, and so on; but I do not think that invalidates my previous argument, because a joint stock company is not a real person, nor is a bank; and the interest on the holdings of joint stock companies and banks are transferred to their shareholders, who fall into these same categories, and are on the whole wealthier, older and less active than the average.

5410. In fact, perhaps, as Mr. Hichens has suggested, if the debt is held by these companies, transference to the shareholders of the companies produces very much the same effect on the distribution of wealth. (*Mr. Bell*): Are you aware that the average holding in a bank is £500?—(*Witness*): Yes; when I say I am aware of it, I will take it from you that it is so.

5411. *Mrs. Wootton*: But that does not represent an investor's total wealth?—Do you mean his balance at the bank?

5412. *Mr. Bell*: No, his holding in shares.—In bank shares?

5413. Yes.—That might well be; I am not at all surprised to hear that.

5414. You assume that the holders of those shares are in the same position as the men who are rich?—Some people only hold a small quantity of capital; we know that. Other people hold very large amounts of capital.

5415. But that is not the same thing?—No, clearly not.

5416. You cannot say because they are shareholders in joint stock companies they therefore belong to the wealthier classes—Oh no; only very broadly. All my remarks in this section are intended to be taken very broadly.

5417. The fact is quite the opposite way?—May I put it in a different way: a very large fraction of the capital is held by a comparatively small fraction of the population. It may also be true, as you say, that a fairly large fraction of the public holds quite small amounts of capital. I do not think there is any contradiction, is there, between that and what you have said?

5418. You make that explanation now, but you connoted really that the holders of the joint stock companies' capital were the wealthier people, and that the effect would be the same in dealing with the joint stock companies as the individual?—I am sorry; I did not make that clear. I did not mean to suggest that at all. What I meant was that the poorer people among the holders of capital, the people who hold small amounts, probably have to pay as much in taxation in order to keep the debt going as they get in interest on their holding. It is people who hold very much larger amounts of capital that get much more out of the debt than they have to pay in taxation, so that you get on the whole a transfer from the poorer to the richer people.

5419. Everybody has to judge these things by his own experience. If I hold £1,000 in War Loan, for example, and if that is a very small proportion of my own total wealth, how is the question affected? Is there some sort of feeling that because a man has, say, £10,000 he has got most of that in War Loan?—I do not know whether this Committee has had any figures indicating the distribution of War Loan between the different classes of people. I do not think there are any published figures about it, and it would be very interesting to know how it worked out.

5420. There is an immense amount in small sums, you know?—Yes.

5421. I think it would be well to determine the facts before we come to a conclusion?—This Committee is in a better position to determine facts than any

outside witness, because you can get official information. It would be a very interesting piece of research, I think, if that could be done.

5422. I was going to ask you about the Prudential Insurance Company, to take an instance; would their great holding in War Loan be held by a number of rich proprietors?—I do not know how the shares in the Prudential Company are distributed, and I do not know whether it is known if they are held in large blocks by relatively rich people; if so, those people get the incidental advantage of the War Loan holdings, but that question could only be answered if you knew how the Prudential capital was distributed among the shareholders.

5423. *Sir Alan Anderson*: I am sorry, but I am in a complete fog. It seems to me that the whole of the witness's argument was that there was something inherently different between the debt and other forms of capital. It was put to him first by Mr. Hichens, and then more persuasively on my left, that these two things were the same, and I gather he was rather inclined to agree that they were; was that so?—Could you restate the question?

5424. I am taking really your paragraph 3 where you say that the service of the internal debt involves certain effects; you might have said that the existence of capital involves all these effects only you were directing your mind to debt, and you put in debt there?—Yes.

5425. Is that correct?—I was directing my mind to the debt, it is true, and I was not thinking when I was drawing this up about the other aspects. With regard to the other aspects I think there is a difference such as I have mentioned several times already in so far as in the case of railways you are paying for an immediate present service, and in the case of debt, with all respect to Mr. Hichens, I do not think you are paying for any immediate economic service at all.

5426. So that the way in which the money is spent has some bearing upon the obligation of the debtor to repay?—No; I am only talking here about the economic effects. We have an obligation to repay, and I am suggesting that we should take it seriously and repay quickly. Nothing that I say here has any bearing upon obligation to repay; that is generally admitted as common ground, I should think.

5427. I am not quite sure; you mentioned the moral aspects, or something of that sort?—Mr. Hichens raised it, but I was careful to explain that I tried to be quite non-moral in the evidence which I gave this Committee.

5428. It seemed to me that you did not elaborate those moral or immoral theories, but you said they existed, and they seemed to be one of your reasons?—I said that there was a certain state of opinion to the effect that the existence of the debt was unjust and I drew the economic deduction that this tended to make people work less well; it acted as a drag upon production.

5429. You do not yourself support the view that if money has been wasted and not put to economical use, that relieves the borrower from the same obligation to repay that he would have if he put it to economical use?—No, I have not advanced any such proposition.

5430. I thought you implied it?—Oh no.

5431. I thought that your argument would not hold unless you did advance it?—Oh, I think it would.

5432. *Mrs. Wootton*: I want to ask a question on subsection (*d*) of paragraph 3. We have had a good deal of evidence on the effect of the debt on investment in what you call human capital, and I would like to get your view on two particular points that have been put to us. The first is that as the internal debt involves purely redistribution it has no effect on the funds available for what are called social services, the argument being that the amount spent on social services must depend on our total national income; can you give us your view on that?—In a sense clearly what we can spend depends on what we have got. We cannot spend more than we have unless we can borrow it. The point I had in mind there was the way the thing acts from the angle of a Chancellor of the Exchequer. He says: "I have to find a lot of money for the debt and the money for armaments, and therefore I shall not be able to find very much for education, and so forth." That is the way in which the thing operates politically, I think. It is true, of course, that in so far as we do have a mere redistribution, our total wealth is not less, and therefore our capacity to spend on these things is not less, and it would be possible, even though we had a debt involving high rates of Income Tax and Death Duties, to spend a lot more on education and health if we were prepared to face high rates of taxation. It is the popular objection to high rates of taxation which makes it difficult to get that sort of taxation carried out, but the possibility is clearly there.

5433. The argument implies that our total taxable production is the sole criterion of our taxable capacity?—I disbelieve in the phrase "taxable capacity"; I think it means nothing.

5434. Does not what you state here imply belief in something of that sort?—No; I think not.

5435. What you have said in paragraph (*d*) is that since the debt involves taxation it checks the outlay of the Chancellor of the Exchequer in certain directions; that seems to me to imply that because you have got to tax for the debt you cannot tax for these other things?—Well, people think you cannot; I think you could. I think if I were Chancellor of the Exchequer and I had to face this debt, I should want to go ahead with educational and other social expenditure, and I should simply, if I could get support for such a policy, be prepared in the last resort to raise taxation to pay for those things. It is a political rather than an economic difficulty that I have in mind there.

5436. You do think that if the debt charge were less heavy it would be easier for the Chancellor of the Exchequer to find the money for these things?—It would be politically easier.

5437. It is in that sense that the debt charge checks this kind of investment?—Yes.

5438. I would like your view also on this point, which is exactly the opposite: We are sometimes told that there is a difficulty in repaying the debt on at all a large scale, and that by so doing we destroy taxable capacity. It is put to us that you have the interest on the debt in the hands of the taxpayer and that the State derives taxes from it. If this redistribution did not take place the argument is that we should not get the taxation that we now get on the debt interest, that is to say, that the debt in a sense increases our taxable capacity?—Yes. The answer to that surely is—and I raise the point elsewhere in connection with conversion—it is quite true that, if you wipe out the debt or some part of it, you wipe out a certain amount of taxable income and super-taxable income, but it is a very much smaller amount. That is merely a book-keeping transaction. It is a question of how you define "taxable income."

5439. Yes. Is our real ability apart from our political ability to pay taxation affected by a transaction of that kind? — Not directly, I should have thought. Indirectly through the energy of people who are taxed and through the effect upon their willingness to work and to save, and so on, but directly I should have thought not.

5440. But psychologically, yes? — Psychologically, yes, when you trace out all the effects of taxation.

5441. But strictly economically?—Well, it is difficult to distinguish there, is it not? When one talks about the redistribution of income and the debt interest involving a redistribution of income one is only taking a sort of flashlight picture of the thing. One is saying that at this moment certain taxpayers are paying certain sums, in effect, to holders of War Debt, but the effect of those payments and the expectation of those payments in the future clearly has a bearing on future productivity. It is a long chain of causes that has to be traced out, but you have really to go into the whole question of the economic effects of taxation in order to answer the question.

5442. I want to get it clear whether it is your view that the debt as such increases our taxable capacity?—No, certainly not. But I think "taxable capacity" is a confused phrase. I have never been able to make sense of it, and I have never seen anybody else who could either.

Perhaps I might put very shortly my point on the Floating Debt. Quite apart from the general question of debt reduction, I think the Floating Debt is inconveniently large, for reasons which I summarise in paragraph 5, and I think it would be worth while to substitute increasingly longer term debt for Floating Debt, even if you are not making any net reduction. If you are making any reduction in debt some part of that reduction would affect the Floating Debt directly. My practical suggestion here is that if we were to put Treasury Bonds on tap by weekly sales or in some other way—10-year bonds, say—and gradually shift a certain amount of the Treasury Bills and Ways and Means Advances over into that, that would be beneficial.

5443. *Mr. Bell*: You realise, of course, it would be more expensive?—It might or might not be, according to the state of trade. At the moment it would, but, on the other hand, if trade revival does come, presumably Treasury Bills will cost a great deal more, funds will be increasingly diverted from Treasury Bills into industry, and even if it were more expensive it would, I think, within limits, be worth while.

The second point I make here is, that if that debt had some deflationary effect, as some people say it would—I have quite an open mind as to whether it would or not—perhaps in the near future that would be beneficial. I am inclined to think so, because it looks to me as if when we do restore the free gold market, if we have that slight deflationary tendency in operation it will be helpful; therefore that argument, if it were held that it would have a deflationary effect, would not alter my view.

5444. You recognise, of course, that the same set of money rates would affect the sale of the Bonds similarly as they do the Bills?—The distinction is as to the term of repayment, is it not?

5445. No?—Short rates and long rates are not always the same.

5446. I say the same money rates will affect the sale of the Bonds and the Bills?—People would perhaps look for a different rate of interest for a 10-year and for a 3-months security. The people who wanted a 10-year security might look for a different rate of interest from the people who would take a 3-months Bill.

5447. They would. But, broadly speaking, the same things affect the money rates for 10 years as for three months?—Broadly, yes, the same conditions. Take the 5 per cent. War Loan, Conversion Loan, and all the rest of them; it is just a question of the length of time appealing to different people differently.

I am coming, at your kind invitation, to give some evidence on the Capital Levy on a later occasion. When I prepared this evidence I gathered that you were not considering the levy, and I have not come specially prepared to-day; I have not looked up certain facts which I should wish to look up before I come to you again on the levy, and I also hope to give further evidence with some relation to the Questionnaire which you have circulated. Therefore this morning I have merely said that I am of the opinion that on the whole the most satisfactory method of reducing the burden of the debt is the Capital Levy, and I have quoted here a statement from Mr. Keynes' latest book, which seems to me to put the case well and shortly.

5448. I have read that book; is there not something else added to this sentence in a contrary direction?—I give the reference to pages 65 to 70, and I have only quoted about three sentences; I have not quoted the whole lot.

5449. But this is not the net result of what Mr. Keynes really thinks now?—What he thinks now? I do not know what he thinks now; he sometimes changes his opinions very quickly; but I think it is a fairly good summary of what he thought then.

5450. Does he not say that notwithstanding this sentence he is not in favour of it?—No, he does not say that.

5451. I think he does?—If you could produce the book we could settle our difference; I was not wanting to go into this in detail now.

Paragraph 7 is just the point that no Capital Levy that has yet been proposed would pay off the whole debt, and therefore you would still have some problem as to the residue of the debt that would need to be repaid. If you do not have a Capital Levy, if the Committee should decide against it, or if the political situation should be adverse, then it seems to me, and the phraseology used here is, that the debt will require vigorous handling by other means, and I go on to suggest some of those other means.

5452. Did we not have an actual proposal by the Trades Union Congress General Council that the whole amount should be dealt with?—That is very gallant; I admire them. I have never been able to see my way quite as far as that, but I should be very glad if I could.

Then I come on to conversion, and the purpose of my argument here is to suggest that there is not very much in conversion as a means of reducing the burden of the debt. I give an estimate here of the amount of internal debt maturing in the next ten years, including debt which may but need not be paid off. The chief item in it is the 5 per cent. War Loan. The total of that debt maturing in the next 10 years, some of which we need not repay, is just over £4,000,000,000. I need not read these figures to the Committee, but I have divided the debt up according to the rate of interest which it bears, and I have suggested that downward conversions from a higher to a lower rate of interest will clearly only be applicable within the next 10 years to the 5½ per cent. and the 5 per cent. War Debt. There is very little at 4½ per cent.; there is only £134,000,000, so you really need not take that into account. But I think we may safely assume that the rate of interest is not going below 4 per cent.—I think that is a very easy assumption—in the next few years. That limits very much the opportunities for conversion. I say: "With national credit, as measured (inversely) by the rate of interest at which the Government can borrow standing at 4½ per cent. the maximum annual saving, in interest would be only £15,000,000, and with the national credit at 4 per cent. the maximum annual saving would be £30,000,000." I then go on to point out that against any saving in interest charges that you get through conversion you have to set the consequential loss to the Exchequer in Income Tax and Super-tax. If you substitute a 4½ per cent. for a 5 per cent. security and assume that they are both at par, then clearly certain people, who have had to convert, or have agreed to convert, are getting less income, and therefore there is less to pay Income Tax and Super-tax on. That is an argument that is very familiar in connection with the Capital Levy, but is equally applicable logically to conversion. At present rates of Income Tax and Super-tax I have estimated that at least a quarter of the interest saved by conversion is mopped up by the consequential losses in the yield of Income Tax and Super-tax. Therefore, if you are thinking of the net saving, you have got to reduce any savings you get through mere reduction of interest by about a quarter in order to arrive at the net saving through conversion. This reduces the maximum net saving through conversion during the next 10 years to £12,000,000 or £23,000,000 a year respectively, according as we assume a 4½ per cent. or a 4 per cent. rate of interest throughout this period. Either of these is a very optimistic assumption, because we are not yet down to 4½ per cent. At the present time the Government can barely borrow at 4½ per cent. on long term securities, and a trade revival would tend to raise the rate of interest by diverting funds from gilt-edged securities to

industry. I am, therefore, not hopeful that conversion, to which some people have attached great importance, is going to lead us very far, but it is clear, I think, that if we are going to exploit to the full such opportunities for conversion as there are, it is essential to create a strong demand for Government securities, and thus to raise the national credit. Such a policy involves big Sinking Fund operations during the next few years.

Then, still on the point of conversion, I have said something of the kind of conversion operation that we have had on several occasions lately, and the latest example in Mr. Churchill's recent conversion of 5½ per cent. Exchequer Bonds into 3½ per. cent. Conversion Loan. One of the features of that conversion and of some of the earlier conversions of two or three years ago was that a very large addition was made to the nominal amount of the debt. By converting maturing debt into a very much larger nominal amount of debt bearing a lower rate of interest, you make a certain saving in interest charges and so far that is good, but you increase the ultimate liability of the State by doing that. The most recent example is the Conversion Loan. A lot of people were tempted to go in for this latest offer of 3½ per cent. Conversion Loan in exchange for 5½ per cent. Exchequer Bonds, because they got the Conversion Loan—I am speaking from memory—at about 78, and they apprehended a large future capital appreciation. It was because they apprehended that that the thing went off so well. I cannot help thinking that it would have been very much better to convert into a 4½ per cent. security, perhaps to have had another issue of 4½ per cent. Conversion Loan, which was first issued while Mr. Snowden was Chancellor, whereby you would have had very nearly the same saving of interest—perhaps not quite so great—but you would have avoided this addition to the ultimate liability of the State. I am inclined to suggest as a principle that you ought not in any of your conversions to increase the State's future capital liability by issuing new stock below par. The line of least resistance at the moment is to do that, but I think it is a short-sighted policy; I think it is a thriftless policy; and I think that in future years more will have to be paid than is really necessary. It is partly for that reason that I suggest in the latter part of paragraph 9 that it would be desirable to extend the principle of ear-marking Sinking Funds for particular sections of the debt. I suggest that special steps should be taken to raise the market value of 4½ per cent. Conversion Loan and of 4 per cent. Victory Bonds, two securities, additional issues of which at par might well be made when national credit reaches a 4½ per cent. and 4 per cent. basis respectively. My suggestion is that you might extend the principle now applied to the 3½ per cent. Conversion Loan, with its specific statutory Sinking Fund. This certainly helps to keep up its price and keep down its yield. You might well do the same with these other securities which you are likely to want to use for conversion at par before very long. In the case of Victory Bonds there is an additional step which I suggest might be taken, that is to say, that those Victory Bonds taken in payment of Death Duties, which now amount to over £30,000,000, and which are now being held by the Treasury until drawn, might be cancelled right away. There would be no objection to such a policy on the part of the other holders of Victory Bonds, because their chance of being drawn would be increased, and there is still some value in being drawn when Victory Bonds stand at 92 and you get paid off at par when drawn. I think that we ought to be preparing the way, if we are to make the most of any conversion opportunities that come along, for conversions at par without any further issues of stock below par, as was done on this last occasion. There is the further argument in favour of attaching these statutory specific Sinking Funds to particular sections of the debt in that you make it rather more difficult for future Chancellors to raid the Sinking Fund, because if you raid a Sinking Fund which is largely attached to particular sections of the debt, then you have to borrow, and incur publicity in that way; whereas if your Sinking Fund is not tied up in that way, you can simply raid the Sinking Fund, slow down the repayment, and yet not be openly convicted of unsound finance by having to borrow new money.

5453. *Sir Charles Addis*: On paragraph 8 have you any definite views as to the future course of general rates of interest?—I think it is exceedingly difficult to estimate; I think we are all rather at sea about that. We hope, I suppose, and we think there is some ground for hoping, that they will be on the whole downward; I do not know whether you will agree.

5454. With regard to a trade revival, would you, taking a long period view, regard that as incompatible with a general lowering of the rates of interest?—No, not taking a long period rate. I am suggesting that you do get a cyclical movement; you do get a temporary rise in rates of interest when you get a trade revival.

5455. With regard to conversion issues below par, would you not agree that up to a point the burden to the State may be adjusted actuarially?—Yes, but I think the difference is that the State ought not to discount the future as much as individuals do. The actuarial adjustment is based on individual discounting of the future.

5456. You might have a 3½ per cent. stock issued at a certain price and redeemable in so many years which would actually cost the same as a 4½ per cent. stock issued at par?—Yes.

5457. It just wants that qualification?—I think that is quite true.

5458. Therefore, the decision with regard to issuing below par would depend really on that calculation. If it were more attractive to the public and not more expensive to the State, there is an advantage?—If it were not more expensive to the State, yes, but I cannot help thinking that some of these more recent conversions have been unduly expensive to the State when account is taken of the probable course of the market. We do not know how far the 3 per cent. Conversion Loan is going up.

5459. But there would be no objection to issuing a conversion loan below par so long as the real cost to the State was not increased?—Yes, there still would. I should still prefer an issue of 4½ per cent. at par to an issue of 3½ per cent. below par, on the ground that in the latter case you do not know how much it is going up, whereas in the case of a 4½ per cent. conversion loan repayable at par it cannot go up; there is no contingent addition to the State's liability. In issues below par you are running an increased risk which is difficult to meet.

5460. Is there not the advantage that you may get the ignorant investor to pay more really for the assumed benefit he is getting in the redemption terms that he would have paid from an actuarial point of view?—If you can be quite sure of hoodwinking the investor and doing a good bargain for the State I should be with you, but I am not sure how far one can; the investors' assumptions may be the other way.

5461. It would depend on the actuary?—Yes.

5462. Would your objection apply equally, for example, to the issue below par of stocks which were irredeemable except at the option of the State?—No, it would not—not to the same extent, clearly.

5463. In fact, there may be a sufficient consideration received by the State in return for the greater prospects of appreciation?—Yes.

5464. With regard to the proposed additional Sinking Fund for Victory Bonds, does not that present a practical difficulty in view of the annual drawings?—The annual drawings would be concentrated on the holdings by private people as distinct from holdings by the Treasury.

5465. How would the special Sinking Fund work when you had an annual drawing?—You would be purchasing in the market during the year as well as drawing at fixed periods. Is there any mechani-

cal difficulty? You would have two operations running side by side. Of course, alternatively you might increase the proportion of annual drawings; that might be a more convenient plan, perhaps. You might say: "We will give them even better terms than originally proposed and draw them faster." Incidentally that would bring it up to par, and the advantage of being drawn would evaporate, but they could not reasonably complain of that.

5466. Would you give them a bonus on redemption?—I would not give them any additional bonus beyond the gap between the current market price and par.

5467. You would not favour any new issues of Victory Bonds with a special Sinking Fund and with a bonus on redemption?—No, I am not favourable to bonuses on redemption generally. I think the precedent set in the case of the 3½ per cent. Conversion Loan was a very good one, and I am sorry it was not followed in the case of the 4½ per cent. Conversion Loan, and I am suggesting it is not yet too late to attach such a Sinking Fund to that.

5468. What would be the results of the proposal to cancel Victory Bonds tendered in payment of Death Duties?—You would increase the chances of other people being drawn. If I hold Victory Bonds I have a chance of being drawn; that chance is dependent on the amount outstanding including the amount held by the Treasury. If you cancel the amount held by the Treasury my chance is increased. I have a certain holding, and my chance is represented by the amount of my holding divided by the total outstanding. If you diminish the total outstanding and my holding remains the same I have a better chance of being drawn, the Bond becomes more attractive, and the market price tends to rise.

5469. You do not attach much importance to the effect on the market price of people being able to use the Bonds at par for the payment of Death Duties; you would lose the one if you gained the other?—Yes, you would. I should expect in the ordinary course of things that Victory Bonds and the 4 per cent. Funding Loan, which is very much the same except that it has not got that particular advantage, would come closer together instead of being separated by three or four points as they are now.

5470. Do you think the attached Sinking Fund would be as good a method of reducing the debt as the general Sinking Fund?—I do not want you to tie yourself up too much. I do not think that the whole Sinking Fund provision should be attached in this way. I think it would be an advantage to get some of the Sinking Fund provision free to use it for cancelling any debt that you may choose, but I think there are other advantages, such as I have indicated here, in favour of the idea that part of the provision should be tied up.

5471. *Professor Hall*: Do you regard it as important to have any particular proportion attached in this way?—That would depend on the total provision you were making. I have not thought out any precise scheme of that sort. I was anxious to suggest to the Committee the possibility of establishing such a Sinking Fund.

5472. *Sir William McLintock*: On the question of conversion, I suppose you agree that the prospect of capital appreciation as distinct from the yield makes a different kind of appeal to an investor according to what his income may be? Yes, it does clearly.

5473. There are a great many who look at it from the point of view that a difference of one per cent. in interest is really only half per cent. to him in the long run?—Yes.

5474. And he is possibly, for that reason, willing to take the lower rate and to pay a little bigger price than he would be justified in doing actually?—Yes, no doubt that is so.

5475. Is not the feeling widespread to-day that the individual investor is out for capital appreciation, not liable to tax, rather than for a higher income and the present high tax, which may be as high as 10s. in the £?—That no doubt is reflected to some extent in the lower yield of the 3½ per cent. Conversion Loan as compared with the 4½ per Cent. Conversion Loan, but there is not very much in it; it is £4 12s. as against £4 9s. per cent.; it does not look as though there is a great deal of difference.

5476. It looks more attractive for that reason. The investor undoubtedly measures the possible capital yield as a greater advantage?—I quite agree many people do.

5477. Although it cannot be so in reality?—Yes; it depends on what is going to happen in the future; you are taking a risk of what happens. Some people say it is going down.

5478. There is always the fear that it might go up?—Yes.

5479. *Sir Charles Addis*: Might not your proposals have the effect of stimulating the demand for a particular Government security without lowering the general rate of interest?—I am anxious to stimulate the demand for those particular Government securities that are going to be used in conversion operations; I would like to stimulate the demand for 4½ per cent. Conversion Loan if there was a chance of having a conversion into it.

5480. Even though it did not affect the general rate?—Yes, because it would result in a relief to the ratepayer. If you were issuing a quantity of that stock and there was a strong demand for it, that would facilitate the conversion.

5481. Would not the specific Sinking Funds have this objection, that it would not be possible to apply them remuneratively under certain conditions; they would be tied up to certain loans?—That was why I said in reply to Professor Hall just now that I am not advocating that the whole of the Sinking Fund provision should be thus tied up. I think that the arguments that I set out here are sufficient to justify some tying up; at the same time I should like to see a considerable part of the Sinking Fund left free and untouched.

5482. *Chairman*: Then will you go to your paragraph 10?—I regard the present Sinking Fund of £50,000,000 a year as quite inadequate. If it is to be regarded as non-cumulative it will take nearly 150 years to pay off the debt. That seems to me intolerably too long.

5483. *Mr. Bell*: That is without taking into account conversions, I suppose?—Yes, without taking into account conversions, and I have given reasons for thinking that conversions will not help you much. Then I suggest that any Sinking Fund should be at least to some extent cumulative, and that it should start from a higher initial figure than the present £50,000,000. I should regard £100,000,000 a year as the minimum which should be provided at the present time. A fully cumulative Sinking Fund starting at this figure would pay off the whole debt in about 30 years. I say "about" because there are a number of possible modifications; there is the possibility of conversion, and so on; but working it out, if you take the present £305,000,000 interest charge and if you add another £100,000,000 Sinking Fund, that takes you to just over £400,000,000, and if you were steadily to maintain a total debt charge of £400,000,000 to make increased Sinking Fund provision, both as you reduced the debt and as you converted the debt you would, according to a short reckoning that I have made, pay off the whole thing in about 30 years. Of course, it would mean that near the end of the 30-year period you would be paying off debt very nearly at the rate of £400,000,000 a year. There are political difficulties about maintaining any scheme of that kind; at the same time it would have the advantage of appealing to the imagination, because many of us would like to see the whole thing worked out in our lifetime. In default of a Capital Levy I should support such a scheme, or alternatively, if you think it is too stiff for human nature to keep a fully cumulative Sinking Fund starting from that figure, then I would suggest

a Sinking Fund not quite so strongly cumulative supplemented by a plan for the creation of terminable annuities, which I discuss later on.

5484. You said "In default." I would like that to be explained?—My view is that a Capital Levy is on the whole the best method of dealing with this, but that if we are not to have a Capital Levy, and if we are to be forced to the consideration of other alternatives, then I should favour either a fully cumulative Sinking Fund starting from £100,000,000 or this other scheme which I may refer to perhaps when I come to the later paragraph.

5485. *Mr. Bell*: I think it is fair to say that everybody is seized of the difficulty of the great debt, but it is not a question with us really of looking solely at the debt as much as of looking at the whole thing in relation to its effects upon the industry of the country. Everybody would like this paid off; I would myself like it paid off by a voluntary levy or voluntary offerings; but the whole evidence of a great number of people who have come here is that, though this great debt is a difficulty, in practical dealing with it if you take too much from a taxpayer to-day you stop employment, you stop development. You do not want merely to rush the process of reducing this great debt. Broadly speaking, it is very much better to have a regular, even if a prolonged, time for paying it off, and leaving the money, in the old phrase, in the hands of the people who have got it. This is really our difficulty. What we want to get at is a broad general view of what this country is to do. We have had very strong evidence that the heavy taxation which is presently going on and which would be increased by these suggestions is really doing great harm to the activities of the country?—I have one or two remarks in my paper further on, which perhaps would bear on that.

5486. *Mrs. Wootton*: I would like to know your view on this. It has been suggested that the Sinking Fund should be combined with a fund for regulating public expenditure as between times of trade depression and times of boom, in order to equalise employment. It been suggested to us that we should have an inclusive figure and allocate that as between expenditure on unemployment works and debt redemption according to the state of trade Have you given your mind to that at all?—I have seen a paper by Professor Bowley along that line, published in the book: "Is Unemployment Inevitable." I think that in theory there is a lot to be said for that, assuming that everybody is always reasonable. My practical difficulty about the scheme is that while you will no doubt be able to reduce your Sinking Fund provision quite easily—people will swallow that if you only give them a good excuse for doing so—on the other hand, when you have to put your Sinking Fund provision up again under the working of the scheme there will be all sorts of reasons put forward why it should not be done. I think a scheme of that kind would have very great political difficulties.

5487. You do not think it could be done by an automatic arrangement?—I think you would find it difficult to keep the automatic arrangement working. I think attempts would be made to upset it when the time came to increase the automatic provision, in the same way that the L.C.C. seems to be trying to avoid repayment of its tramway debt now. There are so few spectacular advantages in debt repayment that there are always plenty of excuses for not doing it.

5488. *Professor Hall*: Would you say there is any argument for linking up the debt charge with war pensions and increasing the provision for debt redemption as the charge for pensions falls?—It does not occur to me as a particularly obvious way of doing it. I do not see any real economic ground for linking the two together. It is true that they are both burdens on the taxpayer.

5489. They are equally war charges?—They are equally war charges in their origin.

5490. And as the burden of pensions falls, the same income would make it possible to repay an additional amount of the war debt?—Yes. I do not think such a linking would give me what I should want; because the total charge for pensions is only £60,000,000 now and it is falling slowly. I think you ought to speed up your debt repayment faster than you speed down your pensions. I think if you linked them up closely like that you would not get sufficiently rapid repayment of debt.

5491. You have already suggested that any saving accruing from reduced interest charges should be applied for debt redemption?—Yes.

5492. I want to see if you would apply the same principle in regard to the fall in pension charges?—My general view is that you want to get the Sinking Fund up and to keep it up, and any pretext that is going to make it easier for the public to swallow that idea I would support, speaking practically. If you were able to say to people: "Now this is a good thing. We ought to devote the saving in pension charges to the payment of debt"—if that were a means of getting the increased debt provision, I should be in favour of it. It would not get the Sinking Fund up as fast as I want, but it would go obviously in the same direction. If it would help public opinion to put the thing on that ground, I would be quite willing to help public opinion so far.

5493. I am not suggesting it as an alternative, but what I want to know is whether you would apply this saving to the reduction of taxation or to the redemption of debt?—At the present moment certainly to the redemption of debt. I would apply all savings to redemption of debt until we got the Sinking Fund up to the height that I suggest; but that is a political rather than an economic argument; it is making things easy for public opinion.

5494. *Chairman*: Will you proceed now with your paper?—I venture next to make some reference to the burden of taxation which one of the Committee raised just now. I want to reinforce what I think has been said by some of your previous witnesses, that taxation devoted to repayment of debt increases capital. If you devote taxation to repayment of debt you pay off certain people, and those people in the vast majority of cases simply reinvest the money somewhere else. On the other hand, a considerable part of the money that you take in taxation would not have been saved; a good deal of the money that you take in taxation, if it had been left in the hands of the taxpayers, would have been spent upon immediate enjoyment and immediate consumption; and therefore the net effect of using taxation to repay debt is to increase capital. I think that is a point which goes a long way to answer the general objection to paying off debt fast, and the idea that you are preventing development. I think you are promoting development; you are diverting funds, on balance, from people who would spend to people who would save. Some taxpayers would spend a lot; by taxing them and using the money for repayment of debt you are transferring wealth from people who would have spent to people who will save. With regard to the payment of interest, it seems to me doubtful whether, if you use taxation to pay interest on the debt, as of course we habitually do, that diminishes capital or not. It is not at all obvious that it diminishes capital. It is quite possible that here again a larger proportion of what is paid out in interest is saved and invested by those who receive it than would have been saved if the money had been left in the hands of the taxpayers. Therefore, my general view is that vigorous sinking fund operations promote the accumulation and cheapening of capital by diverting funds, on balance, from spenders to savers. Then I refer to the argument which is sometimes put forward that these sinking fund operations damage industry by diverting funds from industrial to gilt-edged securities. I cannot say that I am impressed by that argument. I do not think there is any sharp division between people who hold industrials and people who hold gilt-edged securities. Trustees, of course, are tied to the latter, but there are a considerable number of people who are always in

doubt as to whether they shall put the odds and ends of their investments into industrials or into gilt-edged securities, and if in fact you begin to divert funds from industrial to gilt-edged securities then you would get a correction; you would get an increased inducement for people to put money into industrials because they would become cheaper. The next paragraph, No. 12, deals with taxation and the state of trade and employment. One of the Committee just now said that you had had evidence to the effect that taxation increased unemployment. I venture to suggest that there is a good deal of misunderstanding—I do not suggest in the minds of any of the Committee, but in the minds of some people outside—about how this operates. If you take money in taxation it is not put in a stocking; it is spent, and the whole thing resolves itself into a transfer of purchasing power. Heavy taxation I do not believe has much influence on employment one way or the other. I think that unemployment is mainly due to fluctuations of trade, and that the results of taxation and public expenditure in this connection are very unimportant. If you look at what has happened since 1918, if you compare the burden of taxation in 1918 with what it is now, you will see very large reductions which have been made since then in the taxation of industry. There has been a reduction of the Income Tax from 6s. to 4s. 6d., the repeal of the Excess Profits Duty and the Corporation Profits Tax, and even the repeal of the Inhabited House Duty might be brought in there. We have always been told that trade would be revived if taxation on industry were reduced, and yet when taxation on industry has been reduced trade has not revived. I suggest that the reason for that is quite simple; it is that the revival of trade depends in the main on other factors. It depends on the settlement of Europe and other things that I need not go into here, but I do not think that taxation has a very close bearing upon unemployment. After all, it does not cut down the demand for labour. Money is transferred from taxpayers to other people, including those who hold the War debt, and they do something with the money, you simply get a turn round of purchasing power, and there is no obvious reason why that should affect the demand for labour and employment at all.

5495. *Sir William McLintock*: You do not suggest that the repeal of the Excess Profits Duty relieved the taxpayer of a burden, do you? The longer it was kept on, the better it was for him.—He was getting repayment.

5496. There was no relief but rather a hardship when they repealed it?—I think business people asked for it to be repealed none the less.

5497. If it had been repealed a year earlier they would have been even worse off?—I know, of course, that has been a very curious chapter; there are some persons who have gained from it really, I expect.

5498. *Sir Alan Anderson*: You say that it is idle to speak of the burden of taxation regardless of benefits of the corresponding public expenditure?—Yes, I should have thought that was quite clear.

5499. I suppose there comes a point at which taxation is too heavy whatever the benefits may be. Where the tax is 100 per cent. you would not go forward, would you?—No. My suggestion is that you have to balance the two together. When you have got up to that point such a burden of taxation would obviously be much greater than the benefit which was being received.

5500. Even if the whole of that taxation were going to repayment of debt and much of it coming back, the bad part of the burden then would be that it was discouraging people from earning money, would it not?—Yes.

5501. And that bad feature in taxation exists right down the scale, only in varying degrees; it is worse as you get high?—Yes.

5502. And the view expressed to us by many people, contrary to your view here, is that we are already feeling that bad effect, that enterprise is being discouraged because so large a part of the reward is taken away in direct taxation. You do not share that view?—I think it is exaggerated very often. I do not say there is nothing in it; I want to see taxation come down, and it seems to me that this is one of the reasons for repaying debt as fast as we can; the two things are linked together. You will never get taxation down to any appreciable extent if you do not get the debt down.

5503. You are telling us that if you were Chancellor you would do some heroic things in the way of raising money?—Because I believe in education.

5504. That means having to pay direct taxes, does it not?—If we could not get the debt down.

5505. You have to put up direct taxes in order to get the debt down, do you not?—Yes, I agree, unless we can get a voluntary renunciation such as was suggested just now.

5506. Have you in mind a figure up to which you think it prudent to raise the direct taxes?—It depends very much how it is going to be spent. You must take into account the debt redemption and other things all together.

5507. I think the effect is apparent on the industrious person; if you take away 100 per cent. of his profit, he will not work?—I should not suggest doing anything like that.

5508. If you take 75 per cent., he would still be much less likely to work?—Yes; it is a question of degree.

5509. You say you would do something much more heroic than has been done now, and the whole of your argument depends on that heroism?—No, it does not; it was perhaps rather a rash *obiter dictum* on my part. But that was in relation not only to the debt, but to educational and health services as well. I suggest later on that we should get most of the additional revenue for the Sinking Fund out of increased Death Duties.

5510. You talk about putting up Super-tax, too?—May I take that when I come to it later?

5511. *Mrs. Wootton*: With regard to this argument about debt repayment and the diversion from industrials to gilt-edged securities, we have had a very eminent witness who told us the exact contrary to what you have said. He argued that there is such a diversion; I put a question to him on the line of your argument in regard to the marginal investor and he stated categorically that adjustment at the margin is not at all adequate; there is too much friction. Can you suggest to us any way by which we can arrive at a true conclusion in this matter? It seems rather important?—It is very difficult. You really want to cross-examine a few typical investors and get them to tell you how they do decide how much to put into which.

5512. *Sir William McLintock*: We have had one other eminent witness who suggested that the gilt-edged market was the refuge of the most ignorant investors in the community. (*Sir Charles Addis*): Apart from those considerations, would the repayment of debt not have the effect of stimulating demand for British Government and various other gilt-edged investments? Would there not be a diversion of funds into foreign, and particularly Colonial, loans?—Yes, perhaps.

5513. That would be one result?—Yes. Of course, there have been a good number of new Colonial issues lately. I dare say they would be encouraged to float new loans under those circumstances. I am not sure that that would be a bad thing; I do not know whether you are suggesting that it would; it might be a good development.

5514. With regard to what you said about taxation being merely a transfer of purchasing power from the taxpayer to the interest receiver, would you not agree that the aggregate volume of purchasing power may be effected by the statement you previously made, to the effect that the payment was made to a large extent by the poor to the rich?—That would alter the character of the demand.

5515. Would it alter the aggregate effective purchasing power: on this ground, that the rich man may have already used up all the purchasing power required to cover his needs, and that, therefore, the effect may be actually to reduce the aggregate; in other words, to trend towards accumulation rather than towards consumption?—But I was thinking of the general demand for labour, including the demand in connection with constructional goods—the total of employment. If there is accumulation in the form of investment, that involves a demand for labour equally—a demand for labour in shipbuilding or in making blast furnaces or making goods for export in payment of a loan.

The next paragraph follows on, and I think I can explain my view about Income Tax. I think it is well to emphasise that the present annual yield of Income and Super-tax, £326,000,000, is only slightly greater than the present annual interest charge of the debt, £305,000,000, and falls short of the present annual charge for interest and Sinking Fund combined, which is £350,000,000. If you compare that with the pre-war situation, the pre-war Income Tax and Super-tax, which were at much lower rates, yielded £47,000,000, which covered the total debt charge of that date nearly twice over. The total debt charge was only £25,000,000. Therefore, broadly speaking, you have this result, that during and since the War we have increased the yield of Income Tax and Super-tax very greatly, but we have increased still more in proportion the debt charges, and you have less left over for the other expenses of the country. Leaving external debt out of account, the collection of Income and Super-tax and the payment of interest resolve themselves into mere transfers of wealth within a comparatively small section of the community. The present situation, therefore, is that Income and Super-tax payers, as such, have practically ceased to make any contribution to the current expenses of the country. It is nearly all, as it were, allocated to the debt. Now, having regard to that and to the general distribution of wealth in the country and the burden of other taxes, I suggest for the consideration of the Committee that they should not countenance any further reduction in the Income and Super-tax aggregate yield until the debt has begun to be diminished substantially. I suggest that it is not reasonable to reduce the yield of Income and Super-tax to such an extent that the total yield is less than what is required even for the interest on the debt. If you take another 6d. off the Income Tax you will have that situation. Therefore I suggest that for the present, ruling out Capital Levy and other more drastic things, the yield of Income and Super-tax ought to be maintained at its present level. But readjustments might be made, subject to that condition; and, following that line of thought, I make certain suggestions here. I suggest that something might be done to ease the burden in certain directions and to encourage saving. I suggest three reliefs.

5516. *Mr. Bell*: May I ask a question on paragraph 13. You say: "The collection of Income Tax and Super-tax and the payment of interest resolve themselves into mere transfers of wealth within a comparatively small section of the community." I take it we are looking at the taxation of individuals. I want you to think of a man with £10,000 a year income who holds £2,000 War Loan. Does he pay nothing towards the rest of the taxation?—I admit that in the aggregate some individuals will be getting more out of it and others less. But you ought to take a broad group.

5517. But that is surely not fair. We are talking now about how the taxation falls upon individual payers of it. It does not interest me to know that I am in a class when it is further told me that I pay nothing towards the other expenses of the country?—May I put it in this way. If a class in which you are, is making no contribution towards a certain purpose, and if you, being a member of that class, are making a contribution, then it follows that certain other members of the class are not only making no contribution, but are receiving a subsidy from outside.

5518. But I am not interested in my class at all; I am interested as an individual and I want to know, if I get £10,000 salary and hold £2,000 of War Loan, if I make no contribution?—In that case you do no doubt make a contribution, but that does not invalidate what I say here.

5519. You are assuming that we are all one sort of person, that we all pay one another and none of us pays outside a certain class of persons?—Perhaps it would make it easier, or would sound less controversial or less reflecting on anybody, if I do not talk about Income and Super-tax payers as a class, but if I simply concentrate attention on the yield of Income and Super-tax. It does seem to me a notable fact that whereas before the War Income Tax and Super-tax paid the whole of the debt charge nearly twice over, now they barely cover it.

5520. *Sir Alan Anderson*: It does not seem to me to have any bearing on the difficulties at all. You say the Income and Super-tax are not doing any more than paying the debt charges. That may quite likely be true, but it does not make it any easier to collect a higher Income Tax or Super-tax from people without checking their enterprise; and you yourself give the reasons in your paragraph No. 3. What I felt, reading this, was that I should like to introduce the writer of No. 13 to the writer of No. 3 and let them talk it out. It seems to me that what we are all up against is this. We all want to get the thing straight as soon as we can; the easiest way of collecting money is obviously by direct taxation, but if you go too far, it is checking enterprise, and telling Mr. Bell's friend, that he is a member of the idle class is no use to him?—That was not my phrase.

5521. No; you said he was a class. That is no use to him?—The difficulty, no doubt, is very great, and it arises from the existence of the debt. The whole question of policy is a choice between unpleasant alternatives.

5522. *Sir Charles Addis*: In this connection, have you any view as to whether or not Income Tax can be passed on to prices?—I am inclined to think it cannot. I know I cannot pass my Income Tax on to the price of the work I do.

5523. *Sir Alan Anderson*: But have not salaries gone up?—Slightly, but I do not think Income Tax has ever been put forward as a reason for that.

5524. The cost of living has, and that is one of the things. They have to live on a certain scale, and you cannot get the men you want without paying them a bigger fee?—I think it is all very indirect and uncertain. Now shall I run through the rest of my paper briefly? I should like to direct the attention of the Committee to certain suggestions that I make in paragraph 14 about readjusting the Income Tax and Super-tax burden. I suggest that it is desirable to give the following reliefs: (*a*) an increase in the exemption limit, (*b*) an increase in child allowances, and (*c*) a reduction in the rate of tax on undistributed profits. With regard to the first, an increase in the exemption limit, that, of course, benefits all Income Tax payers, even the richest; it means that they will get off so much of their income without having to pay any tax on it, and it will give, roughly speaking, an equal benefit to all Income Tax payers. That appears to me to be preferable to a reduction of the standard rate. The line of least resistance in dealing with Income Tax is always to reduce the standard rate, and the benefit of the reduction of the standard rate increases with a man's wealth. I am not in favour of that principle. I do not consider the principle of "To him who hath shall be given," to be a sound one in the distribution of relief from taxation. I think it is very much better to give

a relief which is equal in terms of money for all Income Tax payers.

5525. *Sir William McLintock*: But is it? Suppose you double the present exemption limit. Does it apply the same all through?—The only people who will get less than the full relief are those who are so near the exemption limit at present that they will be relieved from the tax altogether when the limit is raised. Everybody who is well above your higher exemption limit gets off Income Tax on a certain fixed amount of income.

5526. Would you give him that relief in regard to Super-tax as well?—No. I was not bringing Super-tax in there. Super-tax, of course, now takes no account of these exemptions. His Super-tax would be unchanged by reason of the change in the exemption limit, but he would get off a fixed amount of Income Tax every year. The difference between increasing the exemption limit and reducing the standard rate is that in the former case you give an equal (monetary) benefit to all, while in the latter case you give the largest benefit to the people who are best off, which does not seem to me to be a good principle. A further argument in favour of raising the exemption limit is that the cost of collecting small sums from persons just above the present limit is abnormally high. This figure that I quote, that it amounts to over 20 per cent. of the revenue obtained, is based on a reply to a Parliamentary question given a year or two ago by Mr. Hilton Young. This argument must not be pressed too far, but, as far as it goes, it seems to be very relevant; it is much more economical to collect large sums from a few people rather than small sums from many. Then with regard to the increase in child allowances, I think clearly that is desirable, so as to make the burden falling upon taxpayers with unequal family responsibilities somewhat more equal. With regard to the third point, that I put forward as a genuine encouragement to saving, provided that you can guard against fraud through the formation of one-man companies and so forth. I think if you reduced the rate on undistributed profits, you would get very good value for your money in the encouragement of saving. Practically the whole of that relief would go in increased saving, whereas with the reduction of the standard rate a great deal of the released funds would be used in luxurious spending; it would means more dinners at the Ritz, and so on.

5527. *Sir William McLintock*: In paragraph 11 you say: "Much of the money taken in taxation would have been spent, and not saved, if it had remained at the disposal of the taxpayers"?—Some of it would.

5528. In the case of companies' reserves, 6d. or 1s. off the tax would represent a very large amount. Most of the limited companies pay the tax under Schedule D, and that remark clearly cannot apply to them. At the same time you suggest what is practically the same effect, to reduce the rate of tax on undistributed profits. It would be as good to them as a reduction of the standard rate?—Yes, it would be the same to companies, but it would be different to the individual.

5529. The bulk of the revenue is derived from the trader, and the bulk of trade is carried on by limited companies?—The point is, is it not, that if you reduce the rate on undistributed profits, you are encouraging saving, for that is put on one side and not dissipated; it goes into the extension of the business and presumably it is a form of saving to be encouraged. You give a more definite encouragement to saving by doing that, than by giving a reduction of the standard rate, which would be not merely on the undistributed profits but upon the general run of income; that would not be exclusively encouraging saving. You would also be encouraging spending.

5530. Have you considered what your suggestion (*c*) may mean? Would you limit it by the purpose for which the profits were used?—I am not sure how easy it would be to do that. If I could limit it to the purpose of genuine extensions and development of business, I would like to, but I am not clear whether it would be possible. I have, therefore, proposed a general reduction of the rate on undistributed profits balanced by the proposals at the bottom of the paragraph.

5531. I quite agree, but have you considered the bottom part of the paragraph? There is a clear limit laid down at present; only certain kinds of companies formed after a certain date are entitled to be brought in under the present legislation?—Yes.

5532. But you are opening a very dangerous door by this suggestion, and it would seem necessary to give this very full consideration?—The reason that led me to make the suggestion was that I am impressed, up to a point, with the argument that Sir Alan Anderson and other people have put, that you have this discouragement to saving. Now it seems to me a very expensive way of removing that discouragement, to reduce the standard rate of Income Tax, because we know a lot of the money thus left in the hands of the taxpayers will not be saved at all, it will be spent and frittered away. On the other hand, if we could confine the reduction to certain funds which we know are saved, and give relief there, we should, at a comparatvely small cost to the revenue, be doing valuable service in encouraging saving. There may be more difficulties in it than meet the eye; it may be very difficult practically in practice.

5533. It seems to me that this question would lead to a great deal of evasion of tax that would otherwise be paid. One man might say: "I am going to extend my factory next year," and he would set it aside this year. Another man would say: "I have got a lot of doubtful accounts and I want to make provision for them," and as he is going to save the tax, he makes it ample. Another man would say: "My stock is not very well bought, I want to make provision for falling value," or he would say: "I anticipate market prices will fall and I want to make provision." You may have a hundred different reasons for not distributing profits?—Yes, I quite see there may be difficulties.

5534. And it would entail a tremendous loss of revenue?—Much less tremendous than reducing the standard rate all round. There would be much less loss to revenue in halving the tax on undistributed profits than in halving the standard rate.

5535. But then there would be the unfairness as between one taxpayer and another. Take a man with a salary: he may wish to put a certain amount aside for some future contingencies; there would be no chance of him getting a portion of his undistributed or unspent earnings relieved of tax?—I am afraid there are always inequalities of that kind. It is very difficult to guard against them entirely under any form of taxation.

5536. But they are very real in business?—I quite agree it would need very careful consideration, and it might be that it would turn out not to be practicable. If so, I should be sorry, because I put it forward with a wish to help the business world; I thought it was one of the few points of my evidence that the business man would jump at and grasp with both hands; but I am a little discouraged by your reception of it.

5537. *Mr. Bell*: Would you apply it to a doctor and a solicitor?—No, I did not contemplate applying it to a doctor or a solicitor. I contemplated applying it only to limited companies, in the first instance, at any rate.

5538. You would not let an individual trader, who was in exactly the same business as a limited company, have the same right to put away a reserve?—It was not in mind when I drafted this. I agree it would all need to be looked into carefully. I merely threw it out as a possible way of encouraging saving at low cost to the Exchequer.

5539. *Sir William McLintock*: We have had it before us already.—I go on to suggest that any loss of revenue from these Income Tax reliefs should be

made good by steepening the rates of Super-tax and abolishing the three years' average under schedule D.

5540. *Sir Alan Anderson*: This was the point I was on. You said you were going to make good the loss of revenue by steepening the rates of Income Tax?—Of course if you do not adopt my proposal (*c*) you will not need to steepen so much.

5541. What I was asking about before was not so much with regard to encouraging saving or encouraging earning; what I am afraid of is that if you go on steepening direct taxation you will find that earning is discouraged?—Lord Leverhulme used to maintain that he was stimulated to earn more by the Income Tax being put up.

5542. Up to a point?—It is a question of degree clearly. May I just deal with the last point? The other main point which I should be very glad if the Committee would give some little consideration to, if they think there is anything in it, is this. I deal here with Death Duties. I regard the Death Duties as being a good form of taxation, preferable to Income Tax in some respects, and based on very strong moral grounds in view of the fact that nobody does anything in return for inherited wealth, that it is always a case of "something for nothing." I think also it is important to emphasise the fact that the discouragement involved in the expectation of paying Death Duties some day is undoubtedly less than the discouragement involved in paying Income Tax every year. I will not repeat this; read the whole of this—the Committee will be able to read it; but in my suggestions at the end I refer to the Rignano plan. I dare say the Committee will have considered that.

5543. *Mr. Bell*: Do you feel that it is a hardship in regard to estates where there happen to be rather frequent deaths in the course of a few years?—It is a hardship. I think it is not greater than many other hardships that we cannot really deal with.

5544. We have had representatives of landed proprietors giving evidence of such cases before us.—No doubt there are hard cases from time to time. But it is very much harder if your parents die and leave you nothing, than if they die and leave you an estate on which you have to pay a tax. It is not a grievance that I should put in the first rank of those to be relieved. But I do wish to draw the attention of the Committee to what is now called the Rignano plan. I know that Sir Josiah Stamp, who is not here this morning, has considered this plan and has spoken rather well of it in general terms in one of his books. I do not know whether the Committee have had any other evidence or whether they are thinking of taking any evidence as to practicability from the Inland Revenue authorities. If so I hope it will be published later on.

5545. *Chairman*: Now will you go to paragraph 19?—It appears to me that it might be practicable to introduce this modification into the Death Duties: to say that on the passing of a certain estate there will be certain Death Duties charged as at present, subject to some slight modifications that I have put in the previous paragraph. Then, in addition, the persons inheriting would be required to exchange some part of the wealth that they are receiving—a prescribed part that would be laid down according to some scale—to hand that over to the State and receive in exchange terminable annuities either for life, or, as I think would perhaps be preferable, for a fixed term of years, 20 years or some other period, basing the annual value of the annuity given upon the annual value of the property surrendered in exchange. That would mean that, so far as immediate income was concerned the inheritors would not lose anything, but there would be a time limit set. They would be holding a wasting asset in place of a permanent source of income.

5546. *Sir William McLintock*: They would lose nothing on income?—They would lose nothing on annual income, but there would be a limit of time to their enjoyment of the income. Taking it roughly, the present value of, say, a 20 years' terminable annuity is about two-thirds of the present capital value of an equal perpetual annuity. They would lose nothing immediately, but they would have the prospect of their annuity running out at the end of the period. The advantage of that, from the point of view of the State, would be that provision would be made for a certain amount of debt to be steadily running off as these annuities fell in. It would be a comparatively painless way of extinguishing the debt.

5547. And taking the whole estate?—Not the whole estate necessarily. I put it forward in the most general terms; it may be 20 per cent. or 30 per cent. or 50 per cent.—whatever you choose—of an estate that would be transferred in this way.

5548. How would you deal with an industrial business where a man dies and the whole of his capital is locked up in this business? Assume the percentage was 50, how would the State take possession of that 50 per cent. of his business in exchange for a terminable annuity?—A private business?

5549. Possibly, or a private limited company, say a father and son?—There is no difficulty with a public company where the shares are negotiable.

5550. No, clearly not. It is the same thing in a private limited company. Say that a father and son held all the shares, or a private partnership with the father holding the bulk of the capital?—That is the sort of case that always does give difficulty.

5551. Difficulties are bound to arise, are they not?—They are bound to arise. I would like to see a continuous extension of the public limited company. It is much more satisfactory in many ways, and it is certainly a much more satisfactory thing to tax. These difficulties do not arise there. I am in favour of anything which accelerates the transformation of private into public companies. The private company, I think, gets the best of both worlds at present. I really only wanted to float this idea. I have not yet worked it out in any great detail, but I am very anxious to suggest to the Committee that if the Capital Levy is ruled out in your judgment, or in the judgment of the majority of you, we must search round for alternatives, and this kind of alternative might be valuable. It postpones the time incidence of the thing a bit and it might enable you to get some scheme into operation which would, at no very distant date, have resulted in clearing off a great deal of the debt without anybody being conscious of any very great hardship. I hope, speaking as a member of the public, that we shall get the benefit of some of your investigations as to that, because so many of these things do turn on practicability. One could make lots of schemes in the air, but one wants to see whether they are practicable.

5552. *Professor Hall*: Would there be difficulty also in the case where an estate consists largely of land?—No. I say somewhere that I like the principle introduced into the 1909 Budget of allowing Death Duties to be paid in land in certain cases. I suggest somewhere in my evidence that I think that procedure might be facilitated. It is very little used at present.

5553. It was put before us by a number of witnesses that the breaking up of an estate is rather a bad thing from the point of view of the community?—I am doubtful about that; I should have thought it was generally rather a good thing. It depends no doubt on circumstances.

Chairman: Thank you. We have had very great pleasure in seeing you here this morning.

(The Witness withdrew.)

(Adjourned for a short time.)

The Right Hon. E. G. PRETYMAN, President of the Land Union, and Mr. ERNEST WATSON, F.S.I., Agricultural and Valuation Expert to the Land Union, called and examined.

EVIDENCE-IN-CHIEF handed in by Mr. PRETYMAN.

1. I desire to preface my evidence by saying that I was a member of the Income Tax Commission of 1919-20 and several of the points to which I wish to refer were considered by that Commission, and some of the evidence which I now propose to give does not entirely agree with the recommendations in our Report which I signed.

2. Since that Report was issued I have felt very strongly that I was led at the time to agree to a rate of taxation upon real estate which I then thought it possible to meet, without sacrificing the general interests of the estate and those dependent on it and without serious detriment either to property or to national interests, but I have since realised that I was mistaken.

3. What I think misled me, and possibly other members of the Commission, was, first, the atmosphere at the time in which we were sitting, which was one of absolute sacrifice of all personal and industrial considerations to the national emergency due to the War and secondly, and perhaps mainly, to the fact that at that time, owing to the absence on service of the greater proportion of the workmen required to maintain an estate, or to work a farm, expenses were necessarily reduced to a point which made it possible to meet the heavy load of taxation for the time being. In other words, the wage fund was being diverted to the revenue.

4. Since the return of the men, arrears of maintenance have had to be made good, and an attempt has had to be made to restore the old standard of efficiency. This has been found impossible. There is not enough money both to maintain an estate and to pay the heavy rate of taxation now demanded. In other words, the full combined forces of taxation and increased wages are only now realised.

5. It is submitted that when a substantial part of the revenue raised by taxation is applied in the payment of doles and pensions to non-producers and when the taxation is so heavy as to involve the discharge of workmen engaged in productive labour, there must in consequence be a diminution of production and therefore of national wealth.

6. The argument is frequently used that the recipients of doles and pensions spend the money on necessaries of life and so encourage production and employment; this argument is fallacious. It is certainly true that a demand is thus created, but this demand is no greater than that which would arise from a similar expenditure on the part of productive workers. It follows that where money is diverted by taxation from the wages fund to the fund for doles and pensions, there is a net loss equal to the entire output of the discharged workmen. If our general trade and industry could absorb all our available labour, this condition would not arise as labour discharged by one employer or from one industry would quickly be taken up by others.

7. Our present system of taxation is designed to apply to this latter condition and is well adapted to it. The major part of the burden falls on the direct taxpayer, and the balance paid by the workers in the form of indirect taxation is constantly being reduced. If the revenue expended on different forms of State assistance, such as free education, doles, pensions, national insurance, etc.. is taken into account, the apparent net payment by the working classes is only fractional.

8. When employment is generally good, the workers, as pointed out above, do not suffer materially from the indirect consequences of our heavy direct taxes, and their real share of the burden of taxation approximates to their apparent share.

If, therefore, the conditions which have produced the present phase of widespread unemployment were clearly transitory, there would be no need to revise our system of taxation which is admirably suited to a well-established and prosperous industrial community. But if, on the other hand, the present conditions are due to permanent or, at any rate, to enduring causes, partly arising out of the Great War and partly inherent, but their onset accelerated by the War, then a wholly different situation arises, and our whole basis of taxation is prejudiced.

9. Where, in consequence of widespread unemployment, productive labour discharged by one employer or from one industry cannot be taken up by others, the discharged workers fall to be maintained in idleness by the State, their income is reduced, their efficiency is impaired, and they thus bear a heavy though indirect share of the burden of taxation nominally borne by their past employers. In this case, therefore, the real share of taxation borne by the workers in no way corresponds to their apparent share, nor does this discrepancy depend upon the goodwill or otherwise of employers or employed; it is inherent and due to the pressure of economic laws.

10. It may be further remarked that a national system of taxation must be designed for the community as a whole and cannot be materially modified to fit the requirements of one industry where these differ from those of the majority. It may, however, be useful to the community when it finds itself faced with a general situation parallel to that which has for a considerable period dominated one of its industries, to study the effects produced on that industry as indicating what is likely to happen in the wider area. It happens that for nearly half a century the agricultural industry has been very much in the condition referred to above as unable of itself to reabsorb its discharged labour, when that labour has been discharged owing to the inability of individual farmers, and particularly of those farming second-class arable land, to pay the heavy proportion of national and local taxation allotted to them.

11. It is a well-known fact that under these conditions, and for these reasons, agriculture has declined, both output and employment have been steadily shrinking, and landlords, occupiers and labourers have all been impoverished and forced to adopt a lower standard of living.

12. There seems to be every reason to expect that a considerable period of years must elapse before this country will again be in a position to absorb all its available labour, and it is doubtful if under our present system of taxation it ever would be able to do so. It is surely wiser to be warned in time, and to profit by the example of agricultural experience, rather than to wait until the majority of industries have suffered a like fate.

13. If another example is desired, it can be found in a kindred industry closely connected with the land, viz., the building industry.

It is universally recognised that our present housing shortage originated through the super-taxation imposed by Part I of the Finance Act of 1909-10, and it is only since that Statute was finally repealed in 1921 that the building industry has to some extent revived. The consequences of this super-taxation were identical with those referred to above. Just as the State has been driven to provide unemployment doles out of tax revenue and rates, so it has had to provide building doles and houses from the same sources. Surely it is better and more economical for the State to so adjust its taxation as to enable production to continue rather than to levy taxes which eventually react upon the revenue by involving it in an expenditure many times greater than the tax.

14. It must again be emphasised that this reasoning does not apply with anything like equal force where the tax created deficit in one direction can easily be made good by the community as a whole and is merely the price paid for maintaining a tax basis which suits its general needs. When, however, the reaction becomes general or even widespread, the price becomes prohibitive and the community has no longer the means to pay it.

15. Any form of direct taxation which displaces labour, and deprives it of its opportunity of employment, hits labour in its most vital spot, and is far more injurious to labour interests than indirect taxation, even if it is levied upon the daily necessities of the workers. But it must be again repeated that this condition only arises when the labour available considerably exceeds the demand for it.

16. In view of our recent financial history, and of the natural prejudice of the workers against any reduction of the proportion of the revenue raised from direct taxation, which prejudice would be eagerly exploited by the Socialist Party organisers, it would clearly be very hazardous for any Chancellor of the Exchequer to bring forward proposals of this character, and they would require the strongest justification, but if they are in the end inevitable, and if the Committee think so, it is surely necessary to ventilate them before the present system has further reduced our national output and employment.

17. The problem of the proportion of the revenue which should be raised from direct and indirect taxation would be greatly simplified if it were possible to levy Income Tax upon all grades of income or earnings. This is theoretically a sound proposition, but no practicable means has been found of collecting such a tax.

18. Whilst the Land Union is primarily concerned with the effects of heavy taxation on the ownership, use and development of land and house property, it has always approached tax problems from a national standpoint, and has preferred to seek relief by a general amendment of the law rather than by asking for special privileges for one class of taxpayers.

19. From the general statement just concluded, it will be seen that the agricultural industry is no longer a battered unit in an otherwise well-found fleet breasting a head sea, her consorts have now developed defects of their own, and the course of the whole fleet must be altered to allow defects to be made good. The damage is largely due to an overload through the accumulated weight of Income Tax, Super-tax and Death Duties, which are all levied upon the same interests in property. Owing to the system of graduation adopted, and to the great divergence between real and statutory ability to pay, some of these interests are practically confiscated and serious dislocation of industry follows.

20. The question is asked whether Income Tax, including Super-tax, levied on profits can be passed on in the price charged to the consumer. This seems to depend entirely on the conditions under which the industry is carried on. Where it is exposed to foreign competition, prices cannot be raised, and the tax cannot therefore be passed on. Where, however, the industry is a sheltered one, Income Tax can be treated as an expense, and prices can be increased to restore the balance. This, of course, involves the payment of an increased tax, but an increased balance of profit is left to the taxpayer. In some cases profits are actually increased by taxation as, for instance, in the brewing and tobacco industries where a percentage of profit is taken on the selling price of beer and tabacco, and where the greater part of that price consists of taxation. This, however, is not a direct tax on profits, but a tax on the commodity sold.

21. Something must be done to reduce the overload, and we desire to put forward certain suggestions. We think that Super-tax should not be levied on Income Tax, but that Income Tax should be deducted from the assessment to Super-tax. This course was not recommended by the Income Tax Commission, and the present system is theoretically defensible, but the change presents no administrative difficulties and would have great practical and moral value.

22. Theoretically, Super-tax is merely a means of graduating the Income Tax, and is only necessary to maintain the system of collection of Income Tax at the source. If a graduated Income Tax was assessed on direct individual returns of total income, no Super-tax would be necessary, but this cannot be done without surrendering the advantage of collection at the source, to preserve which the present complicated system of Super-tax and rebates has been adopted at the instance of the Treasury. The practical result is that Super-tax has to be assessed and paid on income which has never been received by the taxpayer, as it has been intercepted at the source and only the balance has been credited to his account.

23. This creates a real though not a theoretical grievance, and one which commands public sympathy. If it is considered desirable to reduce the present-day high rate of Super-tax, it could be done in this way with far less political friction than would be caused by simply reducing the rate of Super-tax. There is another advantage to the revenue in adopting this method, viz., that if and when the rate of Income Tax is reduced, the balance liable to Super-tax will be correspondingly increased and will thus afford some set-off to the loss of revenue on the Income Tax.

24. I will now, in detail, refer to one or two matters which I wish to bring to the notice of the Committee.

Repayment of Income Tax on Account of Excess Maintenance.

(Limitation to Schedule "A.")

There is no doubt that with the heavy increase in the cost of repairs which has taken place during recent years and also with the heavy changes levied on property owners for Income Tax and Super-tax, their position would be well-nigh impossible had it not been for the valuable concession first obtained in the Finance Act, 1910, and extended subsequently by other Finance Acts, which grants to the owner of property the right to reclaim Income Tax, with a subsequent reduction of Super-tax, on account of moneys spent by him on the maintenance of his property in excess of the allowance for repairs, insurance, etc., when the original assessment to Schedule "A" Income Tax is made.

25. The object of this method of reclaim on account of excess maintenance is to place the owner of property as far as possible in a similar position to that of a man carrying on a business for profit, and to assess him for Income Tax upon the actual profits which he may make instead of on an arbitrary assessment without any regard being had to these profits. In other words, to assess the owner of property for Income Tax on lines similar to those adopted when assessing under Schedule "D."

There is, however, a discrepancy which requires amendment and which is due almost entirely to the very complicated nature of the Income Tax Acts themselves, and this no doubt would have been removed had the full effect of the working of the maintenance claim been realised in the first instance.

26. The discrepancy to which I refer is that although an owner can reclaim Income Tax on account of excess expenditure on the maintenance of his property, he is limited as to the amount of repayment of Income Tax to the actual amount of tax paid on his estate or single house under the one Schedule, Schedule "A."

27. The result of this limitation not only places the property owner in a different position from all other persons, but also draws a hard and fast line between

individual property owners, giving benefits to those who are assessed under Schedule "D," yet withholding the same advantages from those who are assessed under Schedule "A." In other words, the mere difference in the alphabetical title of the Schedule under which one is assessed to Income Tax may ultimately affect the sums which the taxpayer is called upon to contribute to the revenue.

28. This discrepancy affects not only the owners of large houses but also very materially the man who has purchased a small house, and there is no doubt that the limitation which at present exists to reclaim under Schedule "A" only, is a hindrance—to a certain extent—to the solution of the housing problem.

29. For example, a house assessed under Schedule "A" at £40 gross, £30 net per annum, is purchased with vacant possession in a bad state of repair. The purchaser spends some £500 upon this property to make it thoroughly habitable and it is let at the same figure of £40 or a very small increase owing to the fact that this is a fair annual value for a property of this nature. £500 taken over an average of five years shows for the purposes of reclaim on account of excess maintenance £100 minus £10, that is, Income Tax should be reclaimable on £90. Owing, however, to the limitation at present imposed by the Income Tax Acts, the owner can only bring into account for the purpose of reclaim the tax paid under Schdule "A" on £30.

30. If, however, the owner were being assessed under Schedule "D" he could take into consideration the full amount of his expenditure, and I therefore suggest that the Income Tax Acts should be so amended that excess maintenance should be dealt with in the same manner as business losses on farming, etc., and provided the taxpayer can show that he has paid Income Tax under any Schedule, he should be allowed to recover, on account of excess maintenance up to the full amount of his proved expenditure Income Tax equivalent to the sum which he is reclaiming, having already been paid to the revenue. In the case of Super-tax payers, the deduction for Super-tax should also be calculated in the same manner.

Super-tax on Life Assurance Premiums.

31. It was formerly the practice to allow when assessing to Super-tax certain deductions on account of sums expended on life assurance premiums, but this was abolished by a recent Finance Act. I suggest, however, that the time has now arrived when the concession should be restored, for the present method undoubtedly weighs inequitably on Super-tax payers, and if it in any way reduces the amount of assurances affected, must in the long run adversely affect the revenue received by the Treasury.

32. Unfortunately, the attitude of the revenue authorities is rather based on the theory that the whole of man's income is taxable by the State and that any exemption or allowance which he is granted is a concession to the individual, but it would be better if the opposite point of view were taken up, namely, what is a reasonable sum to extract from the taxpayer towards his contribution to the public revenue?

33. It is true that as regards Income Tax, certain concessions are allowed on account of the payment of life assurance premiums, but the amount of tax which can be reclaimed is limited, and the actual amount of premium in proportion to the total income is also subject to limitation. As regards the latter item, no possible exception can be taken to the limitation of the proportion of premium paid to income, but as regards the former limitation I submit to the Committee that it is a hardship as regards Super-tax payers that the maximum rate of tax on account of which the concession is granted for Income Tax purposes can, of necessity, only be 4s. 6d. in the £, whereas in the case of many Income Tax payers who are also Super-tax payers, the real rate of tax being borne by them may be well in the neighbourhood of 10s. Now if the concession on account of premiums paid was allowed at a rate which represented the real rate of tax in the £ paid by a Super-tax payer on his income, there would be no cause whatever for complaint, but I quite realise that from an administrative point of view, until Income Tax and Super-tax are combined, it is impossible to make a concession on these lines.

34. I do, however, suggest to the Committee that where certain concessions are made on account of life assurance premiums for Income Tax purposes, similar concessions should be made for Super-tax purposes, and I should like to call attention to the fact that assurances which are generally effected for the purpose of paying Estate Duty are valuable to the revenue, particularly as regards the levying of Estate Duties. This can be clearly shown by the fact that in the case of assurance being effected, valuation for Estate Duty purposes not only includes the amount of the assurance effected so that the duty is levied upon that sum, but the total sum payable on account of such assurance is aggregated with the "principal value" passing at the time, thus raising the whole rate of duty payable on the property which is of immense benefit to the revenue.

35. If the Treasury wishes to encourage this assurance, which I submit is in the interests of the State, nothing could more favourably affect the number of these assurances being carried out than some amendment of the Income Tax Acts which granted to Super-tax payers an allowance on account of the annual premiums paid by them as assurance premiums.

Interest on Estate Duty Instalments.

36. I wish to bring to the notice of the Committee the question of the refusal to allow interest payable on account of Estate Duty instalments outstanding as a deduction from the income assessed to Income Tax. When the rate of interest charged on account of unpaid Estate Duty was at a very low figure one might say that no grievance, in fact, existed, as the taxpayer had he been compelled to borrow the money from his bank or otherwise, would have been called upon to pay a rate of interest which would have represented the rate levied by the revenue to which had been added Income Tax at the rate in the £ existing at the time.

37. The position now, however, is wholly changed, as the rate of interest on unpaid Estate Duty has been raised, and, consequently, if the taxpayer is paying this interest, he is rather more unfavourably placed than the taxpayer who has borrowed money to meet the Estate Duty payment and is allowed by law to deduct or reclaim Income Tax from the payments which he is making from time to time on account of the interest due to the bank or other source from which he has borrowed the money.

38. I submit that the present method is not consistent with the principles of Income Tax, for as long as the taxpayer is not allowed to deduct Income Tax when paying these instalments, he is, in fact, paying Income Tax on an income which he does not possess.

Stamp Duty.

39. I should like also to call the Committee's attention to the fact that the Stamp Duty on the transfer of real estate, particularly on small properties, is at far too high a rate and must adversely affect the housing problem. The duty should be reduced, say, to 10s. in the £ up to a £1,000 limit, as the heavy duty at 20s. comes very hard on purchasers, particularly as such small properties can be purchased for this sum to-day.

40. It may interest the Committee to know that in the case of a sale of a house for £775, the pre-war value of which was £350, the purchaser is called upon

to pay no less a sum than £8 in Stamp Duty alone. This, added to the legal expenses of the sale and other such matters, is undoubtedly a hardship on purchasers of small properties, particularly where an individual is buying for his own occupation, and as the price of these properties has risen considerably, the purchaser is doubly penalised, for not only must he pay a larger sum than in the period prior to 1914 for a similar house as could be purchased at a far lower rate during that period, but he is called upon to discharge an increased Stamp Duty merely because the price of the house has, owing to war conditions, risen.

Evidence-in-chief handed in by Mr. Watson.

1. Your Secretary has directed attention to the evidence given by the Central Landowners' Association, and suggested that it would be useful if the statement submitted by The Land Union should be framed so as chiefly to develop aspects or considerations which the Association has not covered in detail.

2. I am able to confirm (and have already given evidence on the subject before other Government Committees) the general trend of the evidence submitted by the Association, as to the effect of high Death Duties, Income Tax and Super-tax on the forced realisation of agricultural estates and the consequent effect of this on the agricultural industry.

3. Cases have come under my notice when very large areas of land have had to be sold purely to meet the burden of Death Duties. In one case, owing to the decease of two successors within a period of three years, the Estate and Succession Duties have amounted to 53 per cent. of the capital value and in another, where it was decided to pay the Estate Duty by instalments, the annual payment amounted to two and a half times the net income after meeting demands for Income and Super-tax.

4. Enormous areas of land have, during recent years, been forced into the market as the result of these cumulative burdens, the published sales of one firm of auctioneers alone running into from two to three million acres in the last ten years.

It may be argued that a mere change of ownership is not detrimental to the State and the splitting up of large landed estates into comparatively small areas may even be a sound national policy and make for greater security, but its effect on agriculture is certainly detrimental. The general experience of members of my profession is that 80 per cent. of the sales effected, in recent years, are to occupying tenants, and it is generally the case that at least two-thirds of the purchase money is left or borrowed on mortgage. The balance of one-third has to be found somehow by the farmer and in most cases the effect of this is not only that the mortgage interest exceeds the inclusive rent hitherto paid and that the burden of tithe, repairs, insurance and maintenance is thus transferred from the landlord to the owner-farmer, but the latter is crippled for capital. As the result of this, economies have to be effected in labour and in the purchase of feeding stuffs and manures. Consequently there is a falling off in the standard of farming coupled with general deterioration of buildings, equipment and land, and loss of production.

5. It is suggested in the statement submitted by the Central Landowners' Association that this realisation of estates (and the consequences to the agricultural industry which follows) might be stayed by a departure from the present methods of valuation for Estate Duty—under which an estate is assessed for duty at its estimated realisable value in the open market—and a return to the practice in force prior to 1909 by which purely agricultural estates were valued at not more than 25 times the net annual value for Schedule A Income Tax, but apart from obvious objections to putting owners of one form of property in a favoured position as compared with others such a course could only be coupled with a right to the State to acquire land for all national and local purposes (such as small holdings, allotments, arterial roads, etc.) on the same basis of valuation instead of at the realisable open market value, as now obtains.

6. Apart from these objections, I doubt from my experience whether, in practice, the comparatively small saving in Death Duties resulting from this elimination of amenity value could, or would, enable existing owners to retain their estates intact.

It is the combined and cumulative effect of excessive taxation that produces the results which I have deplored.

7. It does appear to me, however, that if the State wishes to stop the flow of capital from agriculture some palliative concessions might advantageously be made in the method of levying the Death Duties now imposed, apart from the general desirability of reducing the burdens of taxation now falling on all classes, and I make the following suggestions:—

(*a*) That the present method of valuation to find the aggregate value of the deceased's estate should continue, but in the case of an agricultural estate the duty at the same rate should be assessed, in the first place, not upon the capital value of the land itself but upon the capitalised value of the net annual income regarded as an annuity for the life of the successor. In other words, the successor to purely agricultural land would pay duty (at the aggregated rate as in the case of all other property) on the value of his life interest only in the income arising from the land unless and until the land is sold, when the full duty would become payable (on the original principal value as ascertained at the death of the predecessor) less the duty already paid on the capitalised life annuity.

(*b*) That the period over which Death Duties may be paid by instalments should be increased from 8 years to one-half the expectation of life of the successor, *e.g.*, successor aged 30, expectation of life 34 years, payment by instalments spread over 17 years.

(*c*) That instalments of Death Duties should be deducted in assessing liability to Income Tax and Super-tax.

(*d*) That interest on unpaid instalments should likewise be a deduction from Income Tax.

5554. *Chairman*: Some of us who sat on the Income Tax Commission had the pleasure of the association of Mr. Pretyman with us as one of the Commissioners; during the whole of that time he rendered excellent service to us in the consideration of those abstruse problems with which we had to deal. We welcome you to-day with very great pleasure?—I did not come here prepared to make an oration on the evidence that I have put before you. I have put my ideas of the broad question of taxation on paper here in these first 24 paragraphs. I think every member of this Committee is fully informed on all the basic theories of taxation, and I cannot instruct them on that subject.

The real underlying question that I have asked the Committee to consider is whether the economic position of this country to-day is such that we can afford to go on with the luxury, because it really is a luxury from the point of view of the population as a whole, of levying all our taxes or the bulk of our taxes by direct taxation, and continually reducing the amount which we levy by indirect taxation. Of course, there is the underlying factor here, which is political rather than fiscal, that that process is

partly due to the fact, or would be considerably furthered by the fact, that the majority of the electors would not be so interested in economy or in the weight of taxation as they would be in receiving benefits out of taxation. Of course, that bears on this question very much. That again is a political question on one side of it; it is a fiscal question on the other; and the question for the Committee to consider seems to me to be whether in our present position our difficulties are temporary.

I have given here the instance of the agricultural industry, which has for 50 years been constantly on the downward path, because the burdens which it has had to bear have exceeded its productive capacity. It has really been the earthen pot among the iron kettles, but there are so many iron kettles that they have naturally guided the policy, and they have to some extent had to help the earthen pot. If they are going to be earthen pots as well, who is going to help them? That is really the broad issue; I will develop any point on which any member of the Committee wishes to question me, though all these things will be in the minds of every one of the Committee in reading these suggestions of mine.

5555. Would you like to go through the paragraphs just indicating the most important points?—The first part of my paper is introductory. You referred just now to my having sat on the Income Tax Commission. I signed that Report as one of the members serving under you, and I would not have signed that Report if I had not agreed with the views expressed in it. I have stated here why I think that I personally—I do not know about any other members of the Commission—was rather misled into believing and hoping that the burden of taxation would not be too great for us to bear. There is one item which is not mentioned, but which I am sure will be in the Committee's mind when I speak of the cost of maintenance; you will all realise that the cost of maintenance has been practically trebled. One of the most vital factors in an agricultural estate is the provision of houses for the workers. Except I think in one or two isolated cases, agriculture is the only industry where it is the general practice for the industry to house its workers. Part of the responsibility of the owner of an agricultural estate is to provide houses for the people who are going to work on the estate, and that responsibility has been unfortunately increased at a time when there is no power to bear it.

I do not know whether it is going outside the scope of the Committee to deal with this side of it, but you you will be aware that the hours of agricultural labourers have recently been shortened by legislation through the Wages Board, and except for overtime, which is very expensive and not liked by either party, the hours are reduced from 60 to 50 per week, not necessarily to an exact hour in every place, but the general result is that the hours on the land are shortened from 60 to 50. The exact mathematical effect of that is that it now takes six men to do the same work as five men did before, assuming the work done to be of equal value in the hours in which they are working, and I have no reason whatever in all my agricultural experience to say that the men to-day are not working just as well as they did before, but I do not think they are working any better. I think one could fairly state that an hour's work from an agricultural worker to-day is equivalent to an hour's work before the change was made. That means that you have to find six men where you had five. Those men cannot be found unless they are housed, and that means building a great many more houses if the same amount of land is to be kept under cultivation. I happened during the early part of the War to have built by contract a pair of cottages for agricultural labourers on a farm in Lincolnshire—excellent 5-roomed cottages with outbuildings and so on; those cottages cost me £400 and a few pounds over.

5556. Each?—No, the pair. It is only fair to say that the sand was dug on the estate and did not have to be paid for and the carting was done by the tenant. I have just completed under stress of urgency another pair of cottages on the same farm that were very particularly required. They are slightly larger in accommodation, but with tiles instead of slates, with no overlap, and everything is done to reduce the expenditure to the utmost degree; so that I think if you took the slightly larger cubic content as against the sacrifice of appearance you might say they are exactly equivalent. They cost £900 as against £400. I shall get a subsidy on them, which of course will reduce my expenditure. I think the subsidy is £140 on the two, but that does not alter the fact of the cost of them. As I have mentioned here, if the State had not burdened us to such an extent as it has, we could build the cottages ourselves. Because we cannot build the cottages ourselves we have to get subsidies from the State to build them. Take the whole wolds of Lancashire; there you have one of the most essentially arable districts in the whole of England, a very large district with which I am very intimately acquainted. I was discussing this very question with the farmers there when I was up there 10 days ago. They all say that they are obliged to put land down to grass, which simply means altering the rotation. People suppose that putting land down to grass means a solemn sort of dedication as between arable and pasture. It does not mean anything of the kind. What it means on this kind of farm is that instead of having one quarter of your farm under temporary pasture, one quarter under roots and one half under corn, you let your land that you lay down for temporary pasture stay down two years or three years instead of one year, thereby bringing a larger proportion of the land under temporary pasture, which requires no tilling and very little labour. That is what is being done all over the district. The consequence is that less land is ploughed, because you must remember that the reduction of the hours of the men means an exactly equivalent reduction in the hours of the horses. Horses cannot work without men. That means that a farmer has got to keep more horses as well as more men to get the same work done, and all that adds to his expenses. Of course, his burdens remain the same, and the burdens on the land owner of paying Income Tax and Super-tax remain the same, and with the Death Duties, when they fall upon an agricultural estate, it is absolutely out of his power to do anything in the way of providing cottages. My experience of a very considerable agricultural estate is that the estate will just about keep itself in proper order and pay its Income Tax, and that the Super-tax has to be found from outside. That is just about what it will do, taking all the necessary outgoings of an estate, the maintenance of the woods, the repairs of the cottages, and so on. Take an estate that I have to manage in Suffolk, which is managed I think on the most economic lines possible. It is a large property; I have to keep a staff of 30 men in the works department, whose whole time practically is taken up in the maintenance of the houses and cottages. There are some hundreds of cottages on the estate and we are, as we can, adding to the cottages to meet this hiatus and building new ones. I am just completing a pair of cottages; they are building them with cement blocks which we cast ourselves out of sand on the estate. Those will cost us probably between £700 and £800 by that means, but it is not everybody who is in a position to do that.

There is another point of view. I think you may say that the agricultural land owner is the only person in industry in this country who is receiving obviously and clearly his pre-war income in gross and no more; everybody knows that rents have not been raised except perhaps in a few isolated cases, so that broadly speaking the rents received by an agricultural land owner remain at pre-war level. Of his expenses his taxation has been enormously increased, his maintenance costs him from double to treble; where is it to come from? He has only got the same income. The farmers are getting more for their produce. They are in a very bad position, but they are not in such

a bad position as the agricultural land owner. No doubt you all know or can easily get a comparative percentage of prices before the War and prices since the War, and although a farmer can clearly show that the percentage increase of his costs considerably exceeds, or has exceeded up to the last two or three months, the percentage increase on the prices which he could obtain, still there was a considerable increase in the prices, and that went some way towards meeting his costs. But the agricultural land owner has got to meet these increased costs and he has no increase of resources at all—I do not know whether that is realised. When you take an estate and in addition to the Income Tax and Super-tax pile on anything from 20 or 30 or more per cent. for Death Duties, which have got to be paid in cash out of land which produces no cash, it is simply a deadlock. Of course, that means from the revenue point of view in the case of owners who are paying Income Tax and Super-tax that the property, on which those taxes were paid, is broken up and passes into the hands of small people who pay neither Income Tax nor Super-tax. The capital sum which is thus taken is so much diminishment of the capital value of the country since it is spent as annual income, except to the extent that it goes in the repayment of debt. Is that a sound economic position? Nobody would say that the labourer is getting too much; he is getting the biggest share, but he is getting the minimum which he can live upon. There is a certain amount of exaggeration as to the hardships of the agricultural labourer. People always talk about the agricultural labourer's minimum wage as if that were all agricultural labourers get. As a matter of fact, I am employing at the moment 80 men on farms in hand, and, out of those 80 men, 20 and no more are receiving the minimum wage. All the other men are special men, that is to say, horse men, stock men, garth men, shepherds, and so on, who are receiving anything in cash from £2 to a minimum of about 34s. 0d., and then they and the minimum men also get 2s. a week extra in the form of harvest money for all the year; that is to say, they get an extra £5 at harvest clear, which means 2s. a week more in definite wage; they get piecework and so on; they get too, a five-roomed house and garden for 1s. 6d a week, which compared to the man in the town is extremely low. I can give you a case in point, not on my own property, but in a village called Brigsley, five miles from Grimsby. There were two agricultural labourer's cottages built for an estate which were let at 1s. 6d. a week to agricultural labourers, the ordinary rent. These cottages were quitted—I do not know why; the farm was given up for some reason—and those cottages fell vacant and came into the hands of the owner; he let them to workmen who came out from Grimsby at 25s. a week each. So when you compare the agricultural labourer and the worker in the town and see what the worker in the town has to pay for very inferior accommodation, and when you see that an agricultural labourer is getting on a well-managed estate a good 5-roomed house with outbuildings, pig-sty, a run for fowls, and a quarter of an acre of land, paying 1s. 6d. a week for it, everything kept in repair and the owner paying rates and taxes, that is a pretty big asset compared with the position of the man in the town. Therefore, when you say the agricultural labourer is a hard-driven oppressed individual I disagree. If you tell me that the agricultural labourer is only receiving just a wage to enable him to keep his wife and family, I do agree; but to say that he is an oppressed serf and receiving a miserable and inadequate wage is quite untrue. Now take the case of the farmer; he struggles along under great difficulties. There are certain cases where the land is specially good, where the farmer has some adjunct to his business, and so on, or where one man is cleverer than another, where he does pretty well, but if you take the average farmer on second class land, which is the bulk of the land in England, he finds the greatest difficulty in keeping his farm going. Everybody follows, in these struggles, the line of least resistance. The farmer has to pay his taxes; he has got to keep his farm going; and the line of least resistance when the bank will not lend him any more money is to discharge a man, He discharges a man and reduces his wages bill. That means, if he had originally no more men than his farm required, that his farm suffers, and therefore unless something happens in the way of a rise in prices or he has some bit of luck somewhere, or his difficulty is temporary, he will get into the same mess again later on, and then he will have to discharge another man, and so it goes on. The farmer is very near the rocks. The owner I have already dealt with. His position is such that with no increase of his pre-war income he has got to meet post-war taxes and post-war claims of every description. I do not know if you would like to ask me any questions on that part of it.

5557. *Professor Hall*: In some of your remarks you are speaking, I presume, as a farmer?—Yes.

5558. That is where you refer to the hours and the number of men engaged?—Yes, certainly.

5559. Then afterwards you are speaking as a land owner?—Yes.

5560. The land owner himself does not feel the impact of the changes in the number of hours?—I explained that he did, because he has to provide more cottages.

5561. Except in that respect?—Yes, he does. Another thing that is not realised in legislation is that there are certain duties that fall on the owner of an agricultural estate, which involve him in very considerable payment of weekly wages. He has to keep the woods up, he has to provide drainers, and in many cases has to maintain river walls. We have to provide 30 men in the works department, as I mentioned just now; we engage some as bricklayers, some as carpenters and some as labourers in the maintenance of the estate. All those men's wages are not necessarily identical, but they all go up and down with the agricultural workers, and their hours do the same. If the wages and the hours of the agricultural workers are altered, the wages and hours of the estate workers alter, not necessarily to the same extent, but in proportion, so that he does feel it in that way.

5562. Those men are not affected by the Trade Union regulations governing their craft?—No; they do not any of them belong to Trade Unions. They are absolutely certainly employed; they never lose an hour. Their employment is for life if they behave themselves, subject to the estate not being broken up. Their sons follow them and they learn their business by apprenticeship in the estate workshops. They are perfectly provided for; they had sick pay and all that sort of thing before Parliament ever enacted anything of that kind.

5563. So their wage is dependent really upon the agricultural labourer's wage?—No, not entirely; it is a sort of mixture. They do have regard to the general wage. Take a bricklayer or a carpenter; if the general wage of all bricklayers and carpenters is raised in the country a proportionate rise is given to them.

5564. If the agricultural labourer's wage is raised they get a further rise?—Possibly; that all depends. The craftsmen, the bricklayers and carpenters, would follow more their crafts; the labourers would follow more on the labourers in the district.

5565. I take it that nothing you have said is in any way a criticism of the reduction of the hours of labour?—Not in the least.

5566. It is simply to explain the burden?—Yes. I have not in any way criticised it; I have always been an advocate for the agricultural labourer having his half-holiday, which is the main difference.

5567. You are merely pointing out the burden it imposes on the estate?—That is all; nothing more than that. I am not criticising it at all.

5568. *Sir Charles Addis*: You do not think it has led to increased efficiency?—No, not at all. You see, the work of an agricultural labourer is not so wearing

as some. It is hard physical work, but they have been brought up to it; if you were to see what a man does in the harvest you would soon know that. There was never any complaint before the shortening of hours that a man was physically incapable of doing his work or that he was overtired; I never heard such a suggestion. I think if he had had these increased hours available to him 10 years ago he would not have known what to do with them, but now in the case of the younger men particularly facilities are so much greater; they can get into the town on a bus or have a bicycle. There are lots of methods of amusement open to them now, which they certainly ought not to be deprived of.

5569. *Professor Hall*: Would you say that the improvement in the conditions is likely to have any effect in retaining men on the land?—There I have a very strong opinion. I do not know if you will agree with me, but I feel very strongly upon that. I have never found the slightest difficulty in retaining young capable men on the land, where you are prepared to provide the man with a good house and garden in the conditions I have mentioned, when he is ready to marry. ' It is a myth to my mind.

5570. It either does not exist or it is due to the action of individual land owners?—I would say this, that in the country districts there are more men bred than the country can take up, and there will be a proportion of those men who will under any circumstances be ambitious and want to get away and do something better. You will not keep those men, but you will be able to keep as many good men as you want, if you are prepared to pay them a decent wage and provide them with a good house and garden—at least I have never found any difficulty. I do not want to dogmatise; I am only speaking generally on the question. I only say that after 36 years' experience of managing a large estate and having to provide cottages, both in Lincolnshire and Suffolk, where the estate is purely agricultural and a very large acreage, I have never come across in any remote degree in any shape or form the difficulty of retaining young men upon the land where you can provide these men with a good house and garden under the conditions I have stated, when they want to marry.

5571. That is rather an important statement?—Well, that is my definite experience.

5572. *Mr. Lees-Smith*: In your statements with regard to Income Tax and Super-tax would you make the point clear where you said that the land owner can afford to pay his Income Tax but cannot afford to pay his Super-tax?—I merely gave that as a rough measure of the burden in my own experience—that the estate will just about pay its maintenance and necessary outgoings to keep it up to the standard that it ought to be kept up at, and the owner can pay the Income Tax out of his rents that he receives, but when he has to pay Super-tax he has to fetch it from outside; he cannot pay it out of the estate.

5573. *Mr. Hichens*: The landlord, the owner, I understand you to say is on the rocks?—Yes, unless he has got outside resources of his own. So many estates have been broken up and sold; it may be for the good of the country, or may not be; I am not arguing that. If I were dependent solely on my estate I could not have stopped there now.

5574. The farmer is very near the rocks, and the agricultural labourer is paid just a bare living wage?—Yes, he is paid just a bare living wage, but he is not starved.

5575. There are, are there not, many industries in this country exposed to foreign competition where the ordinary shareholder is getting no return at all?—That is exactly my point in this Paper.

5576. Where the workman is paid barely a living wage, too?—Absolutely.

5577. Are you suggesting that some special treatment should be given to the agricultural community as opposed to the industrial community?—No. I have said the exact opposite in my Paper. My view is that if the agricultural industry is in a minority it has to submit to the method of taxation which is designed for the interest of the community as a whole, and if that is sound, it is up to the community as a whole, if it wants to maintain agriculture, to do something to temper it. The point of my Paper is this: take, for instance, the shipbuilding industry, I believe as a matter of fact the wages in the shipbuilding industry, so I have been informed, although they are actually higher than those of the agricultural labourer, have risen less as compared with their pre-war wage than the agricultural labourers, so they are in a worse position compared with pre-war than the agricultural labourer himself, together with more unemployment. I am giving you my experience of the agricultural depression which is not a thing of to-day, except as to the increased burden of taxation, but which is a condition that has more or less existed for 50 years, and on which we have tided along somehow or another; but because the increasing wealth of the country as a whole has grown in a much greater proportion the men who could not get work in agriculture are absorbed somewhere else. Now the question, 'not for you to answer but I suggest for the Committee to consider, is, is the country as a whole and all these industries drifting into the same sort of position as agriculture started in in 1879, and is the country going to recover sufficiently under this present system of the working class paying no direct tax and very little indirect tax, and getting out of the taxes, I will not say more than they pay, but getting a large proportion back again in the form of benefits? It is very desirable that a great industrial country should work up to that position, and we had worked up to it before the War, but we must not let it break us now; that is my point.

5578. Your view would be, as I understand it, that it is not merely the agricultural industry but other big and vital industries which are in this difficult situation at the present time, and therefore you have to take a view which includes both?—I only say that inferentially, because I can speak with knowledge of the agricultural industry; the other I only speak of from outside observation.

5579. But at any rate you would accept that point of view as far as you know?—I think if the Committee were going to take evidence upon that they would form their own judgment on it, but from what I see of unemployment generally, and what I hear said and see written about other industries, I am inclined to accept that.

5580. If that were so, what I was interested to know was what would your solution be? I think you said just now it was not for you to give a solution, but I do not quite see how we are to come to a conclusion unless people give us their views?—I beg your pardon. I did not mean to say that it was not for me to suggest a solution; what I meant to say was that you would get evidence from other industries as to their actual condition.

5581. Assuming their condition is as we have depicted it, what do you suggest should be done?—I suggest it is for the Committee to consider if, in the matter of taxation, there should not be at any rate a stop put to continually abolishing indirect taxation in favour of direct taxation. You must keep more money in the wage fund. The money which is taken in taxation is now such a large proportion of the earnings of an industry that it is not only paid out of that excess portion which goes to the employer, the proprietor of the industry as you may call him, the capitalist, but it is actually hitting the industry itself and diminishing the wage fund, which involves unemployment. My point is that you must reduce direct taxation in order to prevent that depletion of the wage fund, whether you increase indirect taxation or not.

5582. But if it is put on to indirect taxation, then assuming your statement to be correct that the agricultural labourer and other labourers are only getting a bare minimum you will have to increase their wages *pro tanto*?—Yes, certainly.

5583. Therefore the only effect you would get would be, would it not, that they might take a more lively interest in economy?—I do not think that would be the only effect.

5584. Would it not?—No, because you see it is not a simple addition and subtraction sum, that so much money goes from wages to taxes or from taxes to wages. It would be perfectly true, if that were the position, but it is not. It is the money which is taken out of the wage fund of an industry which is preventing that industry from going on increasing. That is productive money; that is money which is going to multiply itself, and which is going to produce a great deal more than only wages. The argument is often used that because the money is spent in wages therefore it goes in necessaries of life and therefore increases production to meet that demand.

5585. I was assuming, and I wondered if you would agree with this, that supposing you are paying a bare minimum wage to-day, and supposing you put additional taxation on that class, you will have to increase wages *pro tanto*?—Yes, you will *pro tanto*.

5586. Therefore the effect, apart from any economy which would come from the fact of greater vigilance on their part, would be nil?—No, I do not think so.

5587. Is not that right?—Yes, in this sense; they would not be in a worse position as regards their actual daily receipts and outgoings, but they would be in a better position in that there would be more demand for their labour.

5588. Why should there be more demand?—Because the money being left in the wage fund, as I said just now, would be producing more than mere wages.

5589. You would not suggest that the limit of direct taxation should be lowered?—May I put it in another way, perhaps, that the money going into the wage fund would increase production. Take the exact instance that I gave just now of the farm; it would exactly reverse the process that I shewed just now. You take money out of the wage fund of a farm in order to meet the demands for direct taxation. The farmer discharges a man; that means that his farm is producing less. If you give him back that money, not only will that pay the wages of the man, but it will increase the production of the farm, and that will be to the good.

5590. It may have that effect, but may it not also have this effect: take the shipbuilding industry which you mentioned just now and assume that a man is earning 55s. a week and that as a result of increased indirect taxation you give him another 5s.; that increases his wages to 60s. That increase of cost upon shipbuilding means, as a result of foreign competition, that you get fewer orders than before and not more orders?—I do not know that giving a man more wages necessarily increases the cost of your shipbuilding. You do not increase the cost of your shipbuilding; you must remember, to begin with, that the 5s. you give the man has been knocked off the shipbuilders' taxes.

5591. Has it, if he is making no profit?—But you pay taxes whether you make profits or not.

5592. You do not pay Income Tax, do you?—Well, you may on the three years' average.

5593. The only point I wanted to get at is whether there was not a risk that indirect taxation might really put the cost of living up and put the cost of production up, because if it does, it will have an important effect which will have to be carefully considered?—It depends on what you tax. I would not tax food; I would not tax necessaries of life. I am not suggesting Protection; that is not my point of view at all.

5594. *Mr. Lees-Smith*: Do you suggest tea and sugar?—Yes, well, it might be. I was not considering the question of Tariff Reform; it was not in my mind in the least.

5595. But would it be tea and sugar?—That is a secondary question which is very important, of course.

5596. But we must know what indirect taxes you mean. "Indirect taxation" is rather general; what taxes? It must be tea and sugar presumably?—Yes, but there you come down to very great difficulty, of course. In some countries they tax people on what they buy by stamping things.

5597. You would not do that?—You could not do that here, I suppose.

5598. Would you tax liquor; would you advocate an increase of the beer duty?—No, I would not; I would advocate a decrease of it.

5599. Surely if you want to get revenue by taxation that is the great source open to us?—You will not get any more. The more you put on, the less you will get, like the cigars. You have got to the breaking point there, I am quite sure.

5600. The tax has gone down, you remember; it was reduced two years ago?—Yes.

5601. Would you advocate putting it up again?—No.

5602. *Professor Hall*: Would you not expect that an increase of wages would reduce the farmer's margin of profit probably more than he gained as a result of reduced taxation?—No, I would not think so. These things act and interact and react, and it is absolutely impossible to argue upon them. I look broadly to this, that rich countries like ourselves can afford the luxury of direct taxation. You will find that poorer communities, where there is not a great deal of wealth to tax directly, or where the industries of the country cannot bear it, have indirect taxation, and they have to live upon it somehow.

5603. You are rather suggesting a transfer from direct to indirect taxation?—Yes.

5604. You have just now said that all these things act and interact and it is difficult to say what the result will be?—Yes, in detail.

5605. If you find it difficult to say that, and yet you are so positive that it is desirable to transfer from direct to indirect taxation, are we not, as a Committee, in a very difficult position in making our recommendation?—I do not think so; it depends entirely on whether you look at the wood or the trees. If you look broadly at two sheets of water you can say that one is higher than the other, but if you come to examine exactly how much water passes at one particular moment in one and the other and when it gets backwards and forwards you get into great difficulties. I am only speaking quite broadly, and you will see that the richer the community and the more highly advanced it is, the more it will depend on direct taxation. At any rate, you may put the clock back. The proper proportion for direct taxation to bear to indirect used to be regarded a comparatively short time ago as 50 per cent. of each, and as far as I am aware, there is no particular reason to-day why that should not be so—we were very well off then.

5606. It is your belief that it would be an advantage if there were a transfer from direct to indirect taxation?—No. I do not want to see more indirect taxation if it can be avoided. The best way would be, of course, to reduce direct taxation and leave indirect taxation alone. But the process is continually going on now of reducing indirect taxation and not reducing direct in proportion, and if you follow the years down you will see that indirect taxation is continually bearing a less and less share of the burden.

5607. I understood you to say that you would make a transfer from direct taxation to indirect?—Not quite. I was only arguing the point whether it should be done. I say in my evidence that it would be extraordinarily difficult to do. It would be politically most difficult, and I do not say for a moment if I were Chancellor of the Exchequer I would undertake any such operation. I only say that it is for the Committee to look into all the evidence and consider whether it could go so far as that, and, at any rate, if the Committee pointed out some of these things, if they agreed with them, it might have the effect of preventing it going on any further. What I would a great deal sooner see done is that the burden of direct taxation should be reduced.

5608. Without affecting the indirect?—Certainly: that would be much better. Heaven knows the

political difficulties of increasing indirect taxation are enormous. Whatever the economic results might be you have to get over the political difficulties which would be simply stupendous, as I point out here; and that any Chancellor of the Exchequer could do it, even if he were convinced of the economic success, I would not say for a moment. As Mr. Lees-Smith says, you have to find an indirect tax that you can increase. Of course, tea and sugar could be increased again, and I do say if we are convinced that the finances of the country are drifting into such a position that our unemployment is going to increase, that our output is going to fall, that our employers and our national income are in such parlous state, some drastic step has got to be taken, it may be by an increase of the tax on tea and sugar, in order to leave enough money in industry to enable it to be carried on; but you would have to be convinced of it.

5609. *Mr. Lees-Smith*: You definitely think that all these results which you are putting before us are due to the high rate of taxation?—No.

5610. And not to other much more powerful causes?—Certainly. All those things act and interact on one another.

5611. Do you consider the high rate of taxation the main cause of those results?—It is more under our control than the others.

5612. If you took a shilling off the Income Tax do you think there would be, as a result, a great bound forward in trade?—I think it would make a very great difference, and if the unemployment dole was reduced too, or made a little more difficult to get——

5613. That is not taxation?—That would be the result of reducing the tax.

5614. Did you trace that similar bound forward in trade the last time Income Tax was reduced?—Things might have been worse than they are; and if people had had to pay more tax they would be worse than they are now, clearly.

5615. *Sir William McLintock*: You do not include local rates in your total when you refer to taxes?—I know this Committee does not consider those, but from the farmer's point of view they are very important.

5616. From the point of view of the owner of agricultural land are not rates the main difficulty to-day?—Not the owner, the occupier pays the rates.

5617. They partly fall on the landlord as well?—Indirectly, in that they do affect rent, but he does not pay them except on his own house and what he actually occupies. In Scotland they do; the landlord pays half the rates there.

5618. The complaint there, of course, is the burden of the local rates; that has caused him to have these annual deficits?—Very largely.

5619. Unless he has any other source of income than his land he has to find his Super-tax probably out of his other income?—That is right.

5620. You go on to refer here to the question of the Super-tax being assessed on the Income Tax, in other words, you wish the Super-tax based on the net income. Do you not think that would only have the effect of increasing the Super-tax rate?—If it is necessary for the Super-tax to produce the same sum obviously that would happen, but at any rate, the real rate would be shown, and people would not call it 6s. when they were really paying 8s.

5621. You think they would take it better as a higher rate on net income than a lower rate on gross income?—I do not know that it would make much difference to the payer, but I know the country would see what the rate really was, which they do not know now.

5622. You can always work out the effective rate?—Yes, I know, but it ought to be seen on the face of it.

5623. That would be an undoubted loss of revenue?—Yes.

5624. Apart from your general question of the unduly heavy burden that the tax at present imposes?—Yes. I do not know that it is clearly set out here, but my primary suggestion is that the rate of tax, particularly of Super-tax and Death Duties, ought to be reduced, and will have to be reduced if agriculture is to be carried on.

5625. And that would mean a further reduction in the yield, of course?—Certainly.

5626. *Mr. Lees-Smith*: On the question of Income Tax and Super-tax is your case that the land owner pays Income Tax not on net income, as in the case of an ordinary professional man, but on some assumed income?—Yes.

5627. You say that the land owner, if he has to pay Super-tax, has not the income to meet it, but has to get it from investments or some other source. Is it the fact that what is called income in the case of a land owner is not in fact net income in reality?—Yes; it is statutory income. There is a very considerable improvement now through the maintenance claim. As you are aware, the Land Union has been for years dealing with that very point you have raised—I first started it on the Budget of 1908—that the land owner ought to be charged only on any real income the same as any other business man, or any other enterprise, and that all sums which he had to expend on the maintenance of his property, or the management of his property, ought to be deductible in his assessment. That principle has been gradually extended ever since. It was accepted by the then Chancellor of the Exchequer, Mr. Lloyd George, as a principle, though he only gave effect to it in a very limited way, but the principle has been pressed ever since, and it has now been carried up to the point when a very considerable proportion of the expenditure can be deducted.

5628. *Sir William McLintock*: If your maintenance exceeds your net Schdule A assessment you get no allowance?—No.

5629. Unless you like to form a company and then you save the Super-tax?—Yes. You do not get any further allowance, but even so, the outgoings on an estate are so many, and there are so many things you have to do which you really cannot get deducted as maintenance. You know what it is on an estate. What actually happens is that when the estate has been kept up — I am not including the household expenses of the owner—there is just about enough left to pay the Income Tax.

5630. Your experience is a perfectly common one all over the country?—Yes, quite.

5631. *Sir Alan Anderson*: Do you find very many of the large land owners are turning themselves into companies?—I know of one or two cases in my own experience, but that is mainly to escape Super-tax. You do not escape any Death Duties, or any Income Tax, but you do escape some Super-tax.

5632. And some Death Duties, do you not?—Not necessarily; you may increase them. That is a question upon which so much depends. Perhaps Mr. Watson can answer that better. (*Mr. Watson*): In the case of a land owner forming himself into a company he can put himself actually on a Schedule D basis with regard to actual income payments of every description. The whole of the expenditure on upkeep can then be brought in, and in addition he can be paid, if he is a director of the company, for his services for management, and that sort of thing.

5633. *Sir William McLintock*: I suggest you cannot escape any Super-tax at all if the maintenance exceeds the Schedule A unless you introduce into the company as an asset revenue yielding investments other than the land itself. You must have the additional revenue in the company to meet the extra maintenance. (*Mr. Pretyman*): But the company does not pay Super-tax at all.

5634. They do under the present legislation if it is a one-man company?—Only under special circumstances. (*Mr. Watson*): What is generally done is, instead of other members of the family receiving a voluntary allowance, whatever the amount may be, they have so many shares in the company and receive a dividend, so that the owner of the estate, the company, instead of having a big income which is actually paid away to children receives actually a

much smaller income. The total income is broken up amongst a number of people.

5635. *Sir Alan Anderson*: So that they make it a public company?—Yes. There was one issued to the public a short time ago — the Duke of Rutland, I think. In order to get that effect, it appeared to me that it had been turned into a public company in that way. On the question whether you escape Death Duties, I am not at all clear,—whether the shares would be valued on the basis of share value or revenue or as assets. The share capital based on income might be £200, but the actual market value of the assets might be half a million, and I do not know on what basis those shares would be valued in case of death.

5636. *Sir Alan Anderson*: When Lord Clinton was giving evidence before us the thing he said that sticks in my mind was that it was quite unjust that landowners should be taxed on capital value—he was speaking about Death Duties—because the capital value of land was much higher in relation to the net income from the land than that of any other investment?—(*Mr. Pretyman*): That is quite true.

5637. That is the big point he was making. Do you share that view?—Certainly. Of course, you will remember that that was met in the original scheme of Sir William Harcourt. Land partly escaped, because it only paid once in a settlement. If a man chose to tie up his land for three lives, or whatever the number of lives might be, the duty was paid on the death of the testator in full, and then he made an extra payment, which was at that time 1 per cent., towards Settlement Estate Duty, and then that property did not pay again until the death of somebody else who had been competent to dispose. Supposing a man settled and had, we will say, two brothers, and the second brother had a son, then, the son being the last in the entail and the two brothers taking successively and finally the son, the duty would be paid on the death of the testator, and it would not be paid on the death of either brother, but it would be paid again on the death of the son. With a certain number of quick successions, land, the capital value of which, as Lord Clinton pointed out, is very high in proportion to the income, is practically confiscated, because there is no income available even to pay Super-tax, much less Death Duties.

5638. Why does not the value of these lands sink, if the return is so low?—Because of the amenity.

5639. People are paying for the ownership of land, not so much because of the money return they get, but because of the other things they get?—Yes.

5640. The same as if they bought a pearl necklace?—Yes. Landed property is, in a sense, somewhere between a picture and an investment. If you pay £10,000 for a picture, you do not expect any income from it.

5641. And you do not have to pay Death Duty on it?—You may or may not; it depends on whether it is of historical interest or value. Cases of agricultural land vary very much. Say you buy a farm in the Fens; that has got absolutely no amenity at all; it is purely an investment. But if you buy a pretty piece of poor land in the southern counties, with a nice house on it and some woodlands, and an attractive view, that is all amenity, as much as a picture. Then you have estates which are somewhere between those two points; they vary very much.

5642. Would you argue that you should let a person off Death Duties because he invested the money in amenity values?—No.

5643. That, I think, was rather Lord Clinton's view?—I do not put this forward as a personal matter at all; it is a matter for agriculture. What happens is this, that on account of the amenity, the user of the land for agricultural purposes gets off practically free from interest, because the owner is paying out all he gets in rents for taxes and maintenance, and the farmer is able to farm the land, none of the rent he pays going to the landlord; he gets the land cheap and, as it is in the national interest that the land should be cultivated, that is one of the advantages the nation gets; otherwise how is the land going to be cultivated? It is not a personal matter at all. I do not think a man who invests his money for amenity ought to get off taxes on that account, but only as in the case of works of art and of agricultural land where it is desirable to preserve them in the national interest.

5644. *Chairman*: Do they grow corn in your part?—Mine is a purely arable district. I think you may broadly say that corn growing does not pay as the ultimate end of a farm. It is part of a shift and the less a man depends on corn growing, the less loss he is likely to make; he had much better depend on stock, and use corn as an adjunct to stock farming, particularly breeding stock, instead of using his stock merely as an adjunct to provide manure for his corn, that makes the whole difference.

5645. Is there any connection between the shortage of corn and the heavy Income Tax?—To this extent only, that I have already mentioned, where restriction of corn is due to a shortage of labour because the men cannot have houses. You cannot regard Income Tax or Super-tax or Death Duties as isolated taxes; they are all levied on exactly the same subject and they are all parts of the same burden, and where the owner of the property is liable to instalments of Estate Duty or to Super-tax or to Income Tax or to any two or to all three, they have all got to be found out of the same sum, and he cannot use that money for those purposes and also build cottages with it.

5646. Are you going to address us specifically on the Death Duties?—Yes, I am quite willing to say that I think the Death Duties are an impossible burden on agricultural land. Of course many people hold a perfectly tenable view, that it is desirable to break up large agricultural estates, and that that can be done by Death Duties. But it is quite impossible for an agricultural estate to pay Death Duties in full without being broken up. Where the owner of an estate in the later years of his life genuinely makes it over to his successor, in the particular cases where that can be done and is done, or where he makes a large proportion of it over to his successor, if he has the luck to live the number of years afterwards, there may be some reduction of the amount payable; but where the burden really does fall on the agricultural estate and has to be paid out of the agricultural estate, the estate is done for. If you take Lord Clinton's point of the proportion which the income of an estate bears to its capital value, and you have Death Duties based on capital value and make up a rate of 30 per cent. or even 40 per cent.—probably a man who would have to pay as high as 40 per cent. would have other resources outside his land, but with land you easily get up to 25 or 30 per cent. on a big agricultural estate—then it is an utter break up. I am bound to say that in my experience of second class land, the land that is worst done is land which falls into small hands, where you see the greatest neglect. I certainly do consider that the Death Duties on agricultural land are altogether excessive and absolutely impossible to be paid, unless on the theory that it is desirable to break up agricultural estates.

5647. In regard to the terms of reference that are before us, what alterations do you suggest?—If you were Chancellor of the Exchequer and I was asking you to do something, I should ask you to do what I have suggested in this paper, and also particularly to reduce the rate of Death Duties, and, without increasing the rate of Super-tax, to levy it on actual income received, as long as you follow this present principle that I have referred to here, which you know as well as I do, and I need not go into it again. As long as Super-tax is levied on the present basis as a separate tax, it should be levied on income actually received, and not on income from which tax has been deducted at the source and which the owner has never seen. That I should certainly ask for, because Super-tax is a terrible burden on industry. Then the rate of Death Duties is very high. If you want to relieve agricultural land of Death Duties, the simplest way to do it would be to go back to the system which was perfectly sound, as far as I can see—I can see no conceivable objection to it—of making property pay once

in a settlement, or alternatively, of having a very considerably extended period of years over which the payment of one Death Duty would exempt from the payment of another, or a proportion of it; and also that there should be some relief in regard to the instalments of Income Tax, that are not allowed to be deducted from income. In an agricultural estate, supposing there was an income of £20,000 available and supposing that was liable to 10s. in the £ Income Tax and Super-tax, and then that there are Death Duties to pay of perhaps £100,000. That £100,000 is divided over eight years; that would be £12,000 a year, we will say. Then the owner having got his £20,000, is debited with £10,000 Income Tax and Super-tax, to begin with, and he has got £10,000 left, out of which he has got to pay £12,000, without leaving him even a labourer's wage with which to buy his bread and butter. Not only do they not allow him any deduction, but under a decision they have recently obtained in a Scotch case in the Courts, they charge him interest on his instalments. And remember, there is another point: interest used to be charged on the instalments at a low rate. It has now been put up to 4 per cent.; and the owner is not even allowed to deduct interest on the instalments from his income for Income Tax or Super-tax, although it is clearly a matter of interest. If you borrow money at your bank, you are allowed a deduction of the interest from the assessment for Income Tax and Super-tax purposes, but if you owe the money to the Crown and the Crown add interest and charge you that interest, you are not allowed to deduct that interest from your assessment to Income Tax and Super-tax.

5648. *Sir William McLintock*: The reason being, of course, the theory that the rate he is paying is a net tax-free rate, that he is not being charged upon the commercial rate?—But he is being charged now; he is being charged 4 or 4½ per cent.

5649. That was the suggestion?—Yes, when it was 3 per cent., but it is not so now. The last drop of blood is to be squeezed out.

5650. It is difficult to defend, one admits, except on the ground that you are being charged a lower rate of interest?—Which is entirely fallacious. You know of the wolf and the lamb, do you not; the wolf can always defend himself. (*Mr. Watson*): Why should it be allowed off Super-tax and not off Income Tax? (*Mr. Pretyman*): It is allowed off Super-tax and not off Income Tax.

5651. For that reason: it is a tax-free rate?—I cannot follow it.

5652. *Chairman*: Have you any views about the reduction of the National Debt?—It is not a thing that I could give any opinion upon that would be of the slightest value.

5653. *Professor Hall*: Do you think our present provision for debt redemption is too high or not high enough? You have suggested that some relief in direct taxation is desirable. Would you give that relief at the expense of debt redemption?—That is a tremendous question, which requires a very high financial knowledge to answer. I look at it from one side of the hedge and I might say Yes; but I should want the opinion of the man on the other side of the hedge to have as much weight as mine.

5654. Still, you are recommending that we should take a favourable view on the question of reducing direct taxation, but we have to consider also the question of the debt?—It is to a certain extent a question of inflation and deflation. Another way of putting it is, broadly, this. We have taken the attitude here, which is probably sound, that it is necessary for the National Exchequer to be solvent, whatever may happen to the individual. Other nations, France for instance, take the opposite view: that it does not so much matter about the National Exchequer as it does that the individuals should be able to carry on. I think our view is the right one, but the question is, are we going a little too quickly; and after all, the State is built up by the individual. The individual has to make the money before the State can get it, and although it is highly desirable to pay off the National Debt, really the question is the broad one which I put here, on which no doubt you will form a sound opinion and as to which anything I can say is guesswork as compared with the opinion you will form after taking evidence and concentrating your minds upon it. The only question is, is the present basis of taxation, which is certainly desirable for national solvency on broad lines of national finance and reduction of debt and so on from the financial point of view, absolutely sound? Can the nation bear that strain under the present circumstances, and how long; or is it necessary to go a little more slowly with our financial recovery as a nation, in order to give a little more rope to the industry upon which our national prosperity is founded and give it a little more opportunity of recovering itself after the War? They both have to recover. There has been a terrible shock to industry and a terrible shock to national finance; such a shock has never been received before. Both have to recover, both are interdependent. The financial policy of the nation is governed really by the financial heads, and I have always got a little bit of an uneasy suspicion in my mind, which may be absolutely wrong, as to whether we are not leaning just a little too much to the absolutely financial standpoint and hardly considering enough the industrial standpoint, "that we must maintain our industries, we must maintain our production, and our output on which to build our financial prosperity." I may be quite wrong, but I have that little feeling at the back of my mind, but it is no more than that; that is all it is worth.

5655. You do not care to offer evidence about the rate of debt redemption; you want to state the case for agriculture so that we can consider it side by side together with other things that are brought before our notice?—Yes, it is a factor. I can only speak with real knowledge and authority upon one factor. You have all the factors before you; and of course my opinion is, as I have put it to you, that the agricultural industry is in a parlous condition with the burdensome conditions that it has got to bear.

5656. *Mr. Hichens*: One thing I should like to ask you and that is, how do agricultural wages and rates and hours of work compare with those in other countries, say Denmark, France and Germany?—You know in France they work any hour and everybody works, the woman and the man and the child. You see the cow and the donkey, and I am not sure it is not even the pig, put to work. I am going over to Paris to-morrow, and I know that as long as there is any daylight, if you go along a French railway you can see they are working in the fields.

5657. I was wondering whether in your view that was more important as a cause of the agricultural depression than the high taxation?—I do not know about more important. That is a thing you cannot get over. In this country we have a standard of living and a standard of leisure which the people are determined to have. Of course my objection would be entirely met if workers would work longer hours and work harder. Then we should be able to afford the taxation.

5658. *Professor Hall*: Does not that obtain in this country, to some extent? You get farmers bringing their wives and their sons and their sons' wives into work and working an unlimited number of hours?—Yes, to some extent. They do not count their hours, of course. But on large farms that does not count so much; it is on small farms that that counts.

5659. On the question of the standard of living, we have had some evidence put before us in regard to Scottish conditions. The suggestion has been made that there has been a definite improvement in the standard of living of the agricultural worker in Scotland?—Yes, I think there has.

5660. Would you say that is true of England?—Yes, I think the agricultural labourer, on the whole, is better off than he was. Of course, you must remember there is this difference, that in Scotland there are no agricultural labourers, pure and simple. Every worker on a Scotch farm is a special man. They are

all horsemen and—I think they call them servants in husbandry, or something of that sort. There is no one corresponding to the men who are on the minimum wage in England; they do not exist.

5661. Could you give us some definite information regarding changes that have taken place in agriculture in this country, from data that you have?—What sort of changes?

5662. As to whether or not there has been a definite improvement in the agricultural labourer's status?—One of the tests I always put is this. You go to a country school in a rural place and you see the children come out of school, and you look at the way they are dressed and how healthy they look, and you have a school treat and you see the children who come to the school treat, and you see their physique and you see their general standard of appearance and status of living. Then you go into a town and you see the same there, where the wages are nominally very much higher. The comparison is wholly in favour of the rural area.

5663. That does not show whether the agricultural labourer is better off than he was ten years ago?—Yes, he is better off.

5664. That is the kind of data I was really wondering whether you possess?—That you would get on the figures of wages. The pre-war wage of an agricultural labourer in my district was 16s. That was the minimum. The horsemen got 18s.

5665. Plus a house?—Yes, the house was the same, only there is this to be said, that the house is worth a great deal more now in comparison to other people than it was then.

5666. And it is more costly to the owners to keep up?—That does not hit the labourer. It is more costly for the owner to keep it up, but to the labourer, in proportion to another man's wage, it counts more than it did then, because the other man will have to pay more for his house than he did then, whereas the labourer is only paying the same. It is only fair to say that the farmer has the right now, if he exercises it, where the wages are imposed by the Wages Board, to treat the house as a 3s. house. Of course 1s. 6d. is not a definite rate of rent for houses all over the country; it is the rate in the districts that I know, but it may be in some cases half a crown or it may be less. It is much lower than it is in the towns; I am only speaking of the districts within my own knowledge, and an agricultural labourer can now be asked to pay 3s. He cannot be asked to pay more, but he can be asked to pay 3s. But in my district, in view of the increased cost of bread and food and the feeling that the wage imposed is one now by agreement, and on the whole although it has to be paid, it is a minimum, it is not being asked for.

5667. And there was a 60 hours week in pre-war days?—Yes, and the less hours he works affects the farmer, but they do not affect him.

5668. I was wanting to compare the position?—He has got 10 hours less work and he is getting an average now about 32s. as against 16s., so he has gone up 100 per cent.

5669. That is the labourer and the horseman?—I am putting them all in a lump. The horseman is getting 34s. or 35s. but I am putting them all on an average.

5670. Practically their wages have doubled and their hours are ten hours a week less?—Yes, and, as you know, the cost of living is now up between 70 and 80; so that does give him a 20 per cent. advantage in that case, and a little more, because where you take the other workman he has got to pay more rent; and also you may take it that the labourer is getting not only a cheap house but his garden.

5671. I was going to ask you whether there was any advantage gained in regard to food?—Yes, very considerable advantage in regard to food; not in every case, but in a very large number of cases. They may have chickens, and they have fruit trees in their gardens and they grow their own potatoes. The custom varies very curiously in different parts of the country. Take Suffolk and Lincolnshire. In Suffolk they like to have a quarter of an acre of garden, which they cultivate themselves, and they grow a considerable amount of produce in them, and they actually make money by selling the produce in addition to what they have for themselves. When their fruit trees are bearing they sometimes sell the fruit. But in Lincolnshire they will not have more than 20 rods and there the farmer puts in a stetch of potatoes for the labourers. Nearly every farmer grows a field of potatoes, and then a row of potatoes of a certain length is told off to each labourer. They are put in at the farmer's expense and the labourer has to go and raise them and take them away himself when he wants them; and they do not want so much garden, and it is no use giving them a quarter of an acre; they will not take it.

5672. You say then they are definitely better off than in pre-war days?—Yes, they are; you can say they are better off and they have more leisure.

5673. *Mr. Bell*: I just want to ask one question on the broad issue. I understand you to say you do not want any exceptional treatment for agriculture *qua* agriculture?—No, not if you can avoid it.

5674. You do not feel that the particular position of the farmer is any different from that of the man who is living in a street in London and has a small amount of capital which is taken away from him or his heirs at death?—The farmer and the land owner are in quite a different position as regards Imperial taxation. As I said, I quite agree the small farmer is in a favourable position as to that.

5675. I am talking now of the proprietor of capital invested in land as against the proprietor of capital invested in something else. Do you make any differentiation between the treatment that those two people should receive as to Death Duties; if so, how do you put it? I was not quite sure whether you wanted to put them exactly upon the same footing as to Death Duties?—I think that he would be really not given any advantage if we went back to the system of duties once in a settlement. He would be given a nominal advantage, but that would not be more than putting him more or less on a level in view of the extreme burden which Death Duties place upon agricultural property.

5676. This is the point which introduces a difficulty; you begin to differentiate between the quality of the holding of capital, which holding is at the option of the man?—I quite agree.

5677. One man says: "I opt to hold agricultural land." The other man says: "I opt to hold a certain amount of War Loan." They bring the same amount of savings to the two categories of possession. Now do you want, or do you not want, to put a man who has opted to take one sort of capital, in a more favourable position than the other man who has opted to take the other sort of capital?—The way I put it is as I have put it here: If this country were an agricultural community you would not have the system of taxation that we have got at all. It is because we are an industrial community that we have got this system of taxation.

5678. I just want to get at what you really feel. If there is some differentiation, although you have put yourself into that position by your own voluntary act, you still want different treatment as to Death Duties?—Yes. It really arises from the weight of the tax. The injustice was equally great, if it is an injustice, or the disparity was equally great, before the War, but the rate of taxation was so comparatively low that although there may have been a theoretical injustice it could be borne without crushing.

5679. I cannot quite follow the question of justice. You have opted to invest your £10,000 in a farm. How are you being worse treated when you are taxed the same way as a man who has opted to buy War Loan?—For this reason. I have put my £10,000 into a farm and you put your £10,000 into Consols. There is £3,000 duty to pay at each of our deaths. Your executors pay £3,000 out of the Consols and so £7,000 remains unaffected.

5680. But you could have done the same thing if you had wanted to. That is my point. You knew what was going to happen?—Yes, you could have done the same thing if you had wanted to, but if everybody went into Consols there would be no land cultivated at all. Somebody has got to have the land.

5681. The logic of that is that if somebody wants the land he must pay less than somebody who wants the same amount of money dealt with in another way? —Does it not depend on what you mean by different treatment? You may have very different treatment with an identical method of taxation; the method of levying the tax, which is convenient in one case, is very inconvenient in the other.

5682. I see the inconvenience of it, because one man has to sell some of his War Loan?—He can sell, and the other man has got a piece of land which he cannot parcel out.

5683. But all this is his voluntary act. It is a little difficult to see how you can justify it to a town dweller?—Is it his voluntary act? A man may inherit land.

5684. He finds himself in that position, but he has an opportunity of changing the investment and holding the same investment as the other man?—That means to say that it is a luxury to hold land.

5685. If he opts to put his possessions into that shape it is difficult for ordinary minds to see why he is therefore to be saved some of the duty that another man has to pay?—I agree from the personal point of view, but I am not putting it from the personal point of view; I am putting it from the national point of view.

5686. Taxation is levied personally?—Yes.

5687. You rely on the ground of the different circumstances of the people in different walks of life; you do want some special treatment for agriculture? —In the matter of Death Duties, certainly, I think you do.

5688. For these particular people who have opted to put their money into a farm?—Yes; unless the rate of tax can be reduced. As long as the rate of taxation remains as it is, it is impossible for it to be paid by the owner of an agricultural estate.

5689. He knew when he was buying the farm the year before last?—If a man has bought a farm and dies, the taxation which falls upon his successor at his death, unless he has got other resources out of which to pay, will force a sale.

5690. And he knew that when he bought the farm? —Yes.

5691. *Sir William McLintock*: He can sell the farm and reinvest the money in Consols?—It is like paying a quarter of a china plate.

5692. *Mr. Bell*: I can quite see the practical difficulty, but you see the difficulty between the town man and the country man?—Yes.

5693. *Sir Alan Anderson*: I gather that what you say is that this rate of taxation, particularly the Death Duties, does make it impossible to get continuity of the ownership of land?—If you want to break up estates and make people all put their money into Consols this is the way to do it.

5694. *Mr. Bell*: I do not want to.—I was not in the least meaning to be personal, but I mean if it is considered that it is a good thing to break up agricultural estate, Death Duties are an excellent way of doing it. If some continuity is desired, as Sir Alan Anderson points out, and if the nation does not think it is desirable to break up all the agricultural estates, some reduction in Death Duties in some form ought to be made.

5695. That is what I want to get. You think that because of the circumstances of this particular industry you would like some special treatment?—Yes, I should like to see it done, but I do not say that that ought to be the policy of the State. It depends entirely on whether they think that it is in the national interest that something should be done to relieve the burden or to alter its incidence in some way. At present it is impossible for agriculture to meet it.

5696. *Chairman*: Mr. Watson, towards the close of your paper you have some suggestions which you wish to mention to the Committee. Perhaps you will deal with them now. (*Mr. Watson*): I am not in favour of having any alteration in the present method of valuation for Estate Duty for agricultural estates. I think that ought to remain. For one thing, to a very great extent the difficulty has been got over now that the boom in land has passed. After the War, of course, there was a great demand for land, and people were very anxious to buy farms. The farmers had money and the price of agricultural land had gone up to a very big figure. The consequence of that was that on anyone dying at that date the valuation was made on the basis of the value in the market, and the value obtained in that way was entirely out of proportion to the annual income. That has been righted by the fact that the boom in land is over to a great extent, and I do not suppose that agricultural land at this moment is being valued at probably more than 4½ per cent., probably about 22½ years' purchase. The result is that you are getting down to the fact that agricultural estates will probably be valued very shortly, I think, just like any other ordinary investment, the boom being over. So I do not think we should gain very much by altering the method of valuation. What I do suggest is, if it is in the national interest not to break up estates, and to keep capital in agriculture, whether the payment of the duty should not be spread over a much longer period. I had a case myself where there were two deaths within three years, and the duties amounted to about £450,000. The result is that a very large area of the estate had to be disposed of and a great many of the tenants had either to buy or make room for other people who could buy. That meant that probably on that one estate alone 100 farmers have had to become owners, and capital which they formerly used in farming was to a very considerable extent put into land producing a very small return. Moreover the price at which they bought had the effect of greatly increasing their rent equivalent compared with what they stood at when renting the farm. I have a particular case in my mind of a farm of 200 acres where the tenant paid £250 before, and interest and tithes and repairs now come out at about £380, which means an additional £130.

5697. *Sir Charles Addis*: Why was that?—That was because when he bought during the boom in land he paid not on so many years' purchase of the net annual income which the owner got, but upon a rate per acre, that is to say £25 or £30 per acre that the land was said to be worth, and which it would fetch in the open market.

5698. Was it a competitive price?—A competitive price. It was practically an amenity value; the man had to pay that in order to retain his home, or other people had to pay it, not purely as an investment, but from the point of view of ownership, and that kind of thing. In that particular case the man had to find an additional £130 a year, and the only way to find that £130 a year in the way of interest and tithe and so on is to knock off labour. That means a man and a boy have to go; either that or the buildings and the house and everything have to be neglected, and you get general depreciation and loss of production. It did appear to me that if we could spread the payment over a much longer period and give relief with regard to interest on instalments of Income Tax (it has already been given with regard to Super-tax) it might help.

5699. Would not that raise the purchase price?—I do not know that competition at the moment makes very much difference. It did in the time of the boom, no doubt. There were an enormous number of men who came back from the War with capital, and in many cases men who had intended to go in for professions or business thought they never would be able to go back to office work, and that kind of thing. If their parents were in a good position, they said: "We must buy him a farm," and then

people were prepared to pay more than the real economic value. The result was a great boom, and instead of the value being 22½ years' purchase of the net income probably the price paid was 28 years' purchase.

5700. *Sir William McLintock*: I see you say that the instalments of Death Duties should be deducted in assessing liability to Income Tax and Super-tax?—I do.

5701. Then if there happens to be a very small balance of income left over, you will ask for the interest on instalments of Income Tax?—I do ask that the interest on instalments should be allowed.

5702. You do not suggest any hardship where there is a living sufficient to meet these instalments. There does not seem to me to be any particular hardship if there is sufficient?—Not if you have an income sufficient to maintain the estate and find the instalments of Death Duty and interest; but my point is that you have not got that. I know a particular case and I can show you how it worked. It was a case I had to deal with. The net income after paying everything was £12,000 a year. The death of the owner occurred during the War, right at the height of the boom, and the valuation for Estate Duty was half a million on which the duty came to £135,000. That could be spread over eight instalments and the instalments and interest came to £16,625 a year. That was about £3,000 more than the actual net income of the estate, and in addition to that instalment of over £15,000 a year there was Income and Super-tax to pay on £12,000 on the statutory income. So that you got altogether about £21,000 a year to pay out of a net income of £12,000.

5703. But even in that case, if you got this conceded, you would have had probably about one-third to a half of the Death Duties themselves paid by the State, from giving you this deduction, and then you would be left with the whole of the capital which you started with at the date of the death, at the end of eight years, except for the small amount of Death Duty that you had paid?—I suggest extending the period, spreading it over a much longer period.

5704. And the deductions to run over a longer period as well?—Yes, the interest on instalments. (*Mr. Pretyman*): If there are any unpaid instalments when there is another death, they ought to be wiped out.

5705. *Mr. Hichens*: Supposing you got all these concessions in regard to Death Duties and instalments of Super-tax and the rest—everything that you asked for—would you then be able to stand up against foreign competition? Would that help you enough to do that, bearing in mind, as I understand from you, that longer hours are worked and lower wages are paid, in competitive countries?—I think it would be a great help.

5706. Would it be enough for one to be able to feel that it would enable you to hold your own against foreign competition?—In all these cases everybody is not going to be affected exactly alike. Some people are very near the rocks and they are so near the rocks that it is too late to save them at all. Other people are in such smooth water and so well found that they can carry on even as things are now; but I think if you take the average estate and the average owner, such reliefs as those which we have suggested would not only give him the minimum relief necessary to enable him to carry on, but would give him tremendous encouragement as well.

5707. In fact, this is a solution of the agricultural problem. Well, I am relieved to hear it.—It would put the landowner in a very much better position and would be a great deal of encouragement to spending money on the land. At present there is such a feeling that it is doomed and that the owner of the land is threatened politically and he is threatened economically, that people feel: What is the use of throwing good money after bad?

5708. *Chairman*: If the burden of rates were considerably reduced, how far would it help agricultural estates to bear the present taxation? Would the Super-tax or the Death Duties still involve the break up of all estates?—No doubt in Scotland the position is different. In Scotland the owner would be actually relieved if the rates were reduced, but in England the rates are paid by the occupier, and the only way in which the owner could get any advantage out of that would be by raising his rents, to which there would be very great objection, and which would be extraordinarily difficult. I do not see how the owner of agricultural land in England is going to get any direct advantage out of the reduction of rates. On the other hand, he might be hit by it, because he would not get any more rent, and if the money which is now paid in rates has got to be found from somewhere, it would have to be found out of taxation, which might fall upon him in increased Income Tax, Super-tax or Death Duties, and he would be worse off than before.

Chairman: Thank you very much.

(*The Witnesses withdrew.*)

(*Adjourned to to-morrow morning.*)

EIGHTEENTH DAY.

Wednesday, 4th February, 1925.

Present:

The Rt. Hon. LORD COLWYN, *Chairman.*
Mr. HENRY BELL.
Professor FRED HALL.
Sir WILLIAM McLINTOCK, K.B.E., C.V.O.
Sir JOSIAH STAMP, G.B.E.
Mrs. BARBARA WOOTTON.

Mr. G. R. HAMILTON, *Secretary.*
Mr. G. ISMAY, *Assistant Secretary.*

Professor D. H. Macgregor, M.C., called and examined.

Evidence-in-chief handed in by Professor Macgregor.

The National Debt.

1. Apart from the taxation which it necessitates, the debt represents (*a*) historically, the diversion to consumption of resources which would otherwise have become industrial capital, and (*b*) for the present and future, a relatively large supply of safe forms of investment and security. The former has obviously affected the existing amount, and the sources of fresh supply, of material capital; but this would also have obtained, had the War been financed by taxation, and refers rather to what is behind the debt, than to the fact of debt itself. The latter probably means that many more people have become investors than before; and this, combined with high rates of interest, and such special conditions as apply to Savings Certificates, may have somewhat increased

the motives for saving among poorer people. It is also possible that, as in France, the public funds have had a pioneer influence on other forms of investment by such people.

2. On the other hand, the disengagement for investment in industry of money invested in the funds under war influences, may, because of the size of the debt and its turnover, take place on worse terms, and require the prospect of a higher industrial return, if new motives for saving are not sufficient to support the market. Redemption of debt is a support through a form of compulsory saving.

3. Apart from this consideration the terms obtainable on the debt and on industrial capital both refer back to the thing which the debt represents in loss of capital, rather than to the debt itself.

4. The direction of industrial investment is influenced by the external debt, which makes the conditions relatively more favourable to exporting industries, so far as its obligations are met by bills, and not by the realisation of foreign securities.

5. The supply of credit is assisted by the availability of gilt-edged securities, but this consideration is of the nature of salvage, and applies to only a part of the great increase caused by the War.

The Floating Debt.

6. That some part of the whole debt should be Floating Debt is expedient for credit operations, because special persons seek special forms of credit, and the Floating Debt is specially useful to banks and financial houses. If its size increases with that of the whole debt, the general considerations apply which have been stated above. There is the additional fact that the Government is placed in the hands of the market at times of renewal, with a consequent liability of an inflation which, being temporary, is disturbing to industry.

7. The Funded Debt has more to do with saving, the Floating Debt with credit. When there is an abnormal amount of public debt of all kinds, it is therefore most advantageous to reduce the Floating Debt.

Repayment of Debt.

8. Some annual provision should be made for repayment of debt, because a future generation may have to create new debt, and the accumulated burden cannot be foreseen, the debt carried forward from the present being a sum fixed in money, and the future level of prices being unknown.

9. The burden, apart from the considerations already mentioned, consists of (*a*) the impediment to enterprise and saving as a whole, because of high rates of taxation, since the "transfer" argument does not affect the motives of individuals, and (*b*) the use of the time of money in making the annual settlements, which lessens its efficiency for transactions which increase material wealth.

10. A fixed charge means an increasing Sinking Fund; a fixed Sinking Fund means a diminishing charge. As a single principle, a fixed charge would result in a sudden slump in national expenditure as between some future year and the next; and this is not advisable, or equitable between persons. It would seem that any permanent plan should, in its last stages, involve a return to a fixed Sinking Fund, and therefore a gradually diminishing charge.

11. The method of a fixed Sinking Fund is suitable to times of depression or special difficulty, and therefore to the period immediately succeeding the creation of a large debt. There is an intermediate period, when recovery has taken place, to which the method of a fixed charge is applicable. On its duration depends the amount to which the Sinking Fund would increase, and this should not exceed a figure which, then stabilised, will spread the final discharge gradually over an equitable period of time.

12. A large part of the debt cannot be converted for five years. For that reason, and because of the present industrial position, it would be reasonable to retain the Sinking Fund at the present figure for that period. The total charge being then stabilised, the Sinking Fund would double itself at 4 per cent. in about 18 years. The result would be that at the end of 23 years, the Sinking Fund would reach 100 millions, and the amount applied about 1,500 millions. The Sinking Fund being then stabilised, the remainder would require, at most, 60 years, plus a few years to allow for final scaling down. If windfalls from the Old Sinking Fund are neglected, or are appropriated in relief of bad times, from 85 to 90 years would be the maximum period involved. It is assumed that the efficiency of the Sinking Fund is not diminished by changes in the rate of interest.

13. As between good and bad times, it would be reasonable, and would not be an undue complication, if Budget surpluses realised in good times were reckoned in relief of repayments in bad times.

14. An alternative procedure is possible. It is not the amount of the charge imposed on account of the debt, but the Budget as a whole, which determines whether and how far debt is reducible. The reconciliation between the different principles of Sinking Fund administration which have been argued in the history of the question would be made by budgeting for the Fund as a surplus, and paying over the surplus actually realised. This would not affect taxation, but would throw all the Sinking Fund together, and make a clear account without reborrowing. The process of repayment might then be based on the method of aiming at definite sums every 10 years.

15. Repayment of debt means (*a*) certain transfers of money from taxpayers to fundholders through the hands of the Government, (*b*) the cancellation in that process of securities which are saleable articles, or a basis of loans.

16. So far as (*a*) is concerned, normal operations do not affect prices. If the debt repaid was held by private persons, the repayment is represented by transfers in bank deposits, which do not affect the bank ratio, or its ability to lend. If it was held by banks, the repayment is represented by cancellation of securities on the side of assets, and of equal deposits on the side of liabilities. The ratio of cash to deposits being increased, the banks can lend up to the previous amount. If the banks buy new securities, the money appears again as an addition to deposits and is replaced in cash assets. The same ratio will be restored.

17. If the repayment is of an advance from the Bank of England, which has required new money to support it, repayment deflates the prices so inflated.

18. As regards (*b*), cancellation of securities has some effect on remaining security prices, and a faint effect on general prices. Normal transactions, implying willing sellers, will not, for the reason that securities can be pledged for loans, materially affect prices. The seller gets money in full, instead of the loan of money minus a margin.

19. The effect on prices of a large and sudden repayment depends on the possible encroachment on the supply of securities as a basis of advances, and the extent to which industry after the War has come to depend on them. The nominal value of public securities is about five times as great as before the War, in the same currency. There would seem to be room for some reduction, but the advantages of such an operation depend on its being large, as well as the risks. The progression of taxation would have to be increased, if large and small incomes were to bear the same proportionate share of remaining or new taxation; or, with the same progression, larger incomes would contribute a less proportion. The ultimate influence on prices of the sudden redistribution of taxation, when the operation was over, is doubtful.

Burden of the Debt.

20. If the variation of productivity, prices, and debt charge are represented by the fractions r, x and n then the burden of the debt has increased, or diminished according as

$(1 + r)(1 + x)$ is less or greater than $(1 + n)$.

If the reduction of n is so rapid as itself to affect prices, the condition is that
$(1 + r)(1 + x_1 + x_2)$ is less or greater than $(1 + n)$, where x_1 and x_2 are the effects on prices of changes in r and n respectively. As a rule, x_1 is negative when r is positive, and x_2 varies with n if n is large in relation to the time considered. The degree in which the burden changes varies directly with the difference between $(1 + r)(1 + x)$ and $(1 + n)$.

Death Duties.

21. At the time when they are paid, the Death Duties convert some capital into expenditure; because the Government spends part of the proceeds, while those who take up the securities realised put into an old investment savings which would otherwise have had to find a new one. Since the public revenue will be spent in the same way, however obtained, the question is whether what the Government spends is, through effects on private saving, covered to a greater extent when Death Duties are imposed rather than any other tax. The whole of the public expenditure is not a loss to capital, but only the excess over what heirs would have employed as expenditure.

22. In the case of those who do not discount the future, but desire to make a foreseen provision for posterity, the Death Duties will cause them to create a more or less regular sinking fund for the purpose of paying them. Any annual tax imposed instead of the Death Duties would, in such cases, be taken to a greater extent than has been customary out of expenditure, and to a less extent out of savings. The progression of the Death Duties may intensify the motives to save in order to meet them. In other words, the Sinking Fund of the first case would be represented by the tax in the second case, and would come out of expenditure.

23. In the case—which is probably the more usual one—of those who do discount the future, and whose provision for posterity is simply their life's savings, the Death Duties do not affect the customary rate of savings; while an equivalent annual tax would also come out of savings and expenditure in some customary ratio.

24. It is also to be noted that the purpose of savings is not only to provide for posterity, but also to maintain and increase the personal standards of life, power, and reputation, of those who save; Death Duties miss these motives, while any form of alternative taxation will to some extent hit them.

25. Death Duties may hit small businesses at awkward times, and they borrow at worse rates than joint stock companies. This is a normal risk of such businesses. A special case is owning cultivators of land, whose remedy is in mutual credit.

Taxation and Employment.

26. As a general question, the amount of employment is not specially determined by the fact that there is taxation. Given that the services paid for in this way are necessarily incurred, and economically administered, taxation is the method of paying for them, and the way in which a part of the community obtains its income. The fact that such services have to be paid for of course affects buying power over other things, or the power to save; but this would be true of any other group of things—*e.g.*, bread, tea and sugar—which was isolated for special consideration. The mediation of the Government in certain forms of purchase is not the essential fact.

27. The things paid for by taxation are not, however, charged to individuals, as things bought directly are, in proportion to the use they voluntarily make of them, but in proportion to their wealth as a whole. Hence the cost of taxation is regarded as a special burden, even if it represents the advantages accruing to individuals from it. That high taxation might lead to harder work is a consideration less applicable when the work possible for individuals depends on organisations to which they belong. Its effect on employment depends on its reaction on saving, which depends on individual choice.

28. The sums raised by taxation become the income, and demand for goods, of certain consumers, so that the amount of employment is not through taxation affected by under-consumption. The amount of employment is not a question of the size or nature of particular industries, but of the steadiness of industry; the employment, and demand for goods, created by taxation is steadier than in most private industries.

29. It has been proposed to use taxation, in the form of protection or subsidy, to assist industries in which the amount of labour is great in relation to other factors; unless other reasons than employment are involved, this policy is likely to lessen national resources as a whole; and it could not be shown to increase general employment.

Taxation and Prices.

30. So far as the cost of the public services is met by income taxation, it is distributed in what is economically the desirable way of simultaneous diffusion over the prices of goods and services. This tax cannot then be made a further charge by the payers of it on the prices of their services, since the amount of money would not support an indefinite increase of prices so caused. Economic friction may enable persons who render direct personal services to charge the tax forward; but then they could have done this apart from the tax. Prices are now largely determined by joint stock companies.

31. So far as the cost is met by taxes on particular commodities, the supply of the articles primarily taxed is adjusted to cover the whole tax. If these articles are fundamental to production, the volume of production as a whole is affected, and therefore general prices; if they are articles of final consumption, the arrangement of prices depends on the elasticity of demand for the taxed articles, since this affects the quantity of money applied to other things. The cost to the consumer is in real income through the arrangement of expenditure caused by the charge.

32. When both forms of taxation are thought desirable, the direct tax causes less loss of real income through the arrangement of expenditure, but a point is reached where its obtrusiveness has a greater effect on saving than an extra cost imposed on commodities; especially since it is mainly paid by the classes who save. A point is reached where indirect taxation becomes regressive on the lowest incomes. No ratio can be generally determined; it is a constructive problem in both political finance and ethics. Specific indirect taxation has the advantage of supporting the revenue in times of low prices.

33. It is possible to consider specially the effects of commodity taxation on external trade, but it is trade as a whole that is affected. It implies an import duty, which affects foreign trade once; it may enter into the cost of exports, and so affect foreign trade again. As only the world's prices can be obtained for exports, higher taxation of industrial commodities will imply either lower profits in that market, or the cessation of the least remunerative part of the trade. The extension of trade through the economy of a large scale of production may be the aim of commodity taxation which is protective; but in established industries the most economical

scale of production, depending on the size of establishments rather than on the volume of production, is sought by producers in any case.

Taxation and Distribution of Wealth.

34. The aspects of taxation which have most to do with distribution of wealth are (*a*) progression, (*b*) the creation at the cost of the community of social services whose direct advantages mainly accrue to a section of it.

35. Progression can be regarded as a method of equalising wealth, but the theory that it ought to be so regarded implies a special argument which is not necessary to its practical application. The amount of progression which is expedient will in any case depend on consideration of its reactions on wealth as a whole; and the justification up to that point of any rates of progression on the ground that social order and national defence are indefinitely valuable.

36. The social services restore, under modern conditions, a support to individual earnings which existed in another form before the Industrial Revolution. It is at least as much in the interests of the country now as it was then to maintain them; especially since it has been shown that the system of taxation obtaining before and after the War is still regressive on the lowest incomes.

37. The distribution of wealth is not made more unequal by the fact that fund-holders may receive more in interest on the debt than they pay in taxation on account of it. This means that they hold more public securities than in proportion to their taxable capacity, and to that extent less of other securities.

5709. *Chairman*: Will you take your points, one by one?—I will take the paragraphs as you request, and explain where any further explanation seems necessary. (*Paragraph* **1** *read, down to the words*, "than to the fact of debt itself.") I have said that, because if the question is specifically about the effect of the debt, then the fact that the destruction of material capital is behind the debt, does not seem to me to be a relevant fact. If we had entirely financed the War by taxation, capital would have been destroyed in the same way, and there would have been no debt. Therefore it is not the effect of the debt. (*Remainder of paragraph* **1** *read.*) I cannot add anything to that.

5710. *Mr. Bell*: You speak of the poorer people; you mean, rather, the working classes, I take it?—Yes.

5711. Do you think that the holding of War debt among the working classes is considerable?—I do not know how the debt is held. I would require to have some statistical evidence as to how the debt is held.

5712. You are taking Savings Certificates as part of the War debt?—Yes. (*Paragraph* **2** *read.*) I am not sure whether the size of the debt is not against the seller in relation to the sources of saving, and therefore that method of sending capital into industry which depends on its disengagement from the debt, does mean that you want relatively high terms from industry before it pays you to disengage. I do not know whether this point may seem rather ingenious. There is a certain amount of new savings, and there is a certain amount of capital locked up in the debt, some of which will want to disengage itself.. The terms seem to me probably to be against the investor, because the sources of new savings are not, I think, materially increased, and the size of the debt worsens the terms on which any large part of it could be realised. For example, at present you can only get par for a 5 per cent. investment in the debt, although trade is so bad, or, free from taxation, 4 per cent. Before the War, I think about 3 per cent. was the figure.

5713. *Sir Josiah Stamp*: Would it be the same point expressed in this way: that, if the whole of the debt were like the old Consols and could move up and down independently of market rates of interest and savings, free from any kind of tie on the parity of redemption, it would not have so much effect, but here you have got large blocks of debt in regard to which the movement of purchase price (and therefore the yield of income) is blocked or controlled by redemptions at a particular price of a particular debt; it can never get far away from it, and such large blocks set a kind of psychological fashion in the mind of the saver as to what he is entitled to, and that rather militates against him saving at any different rates that industry may be prepared to offer?—You are putting more than was in my mind. The rates obtainable on the debt and on industry are related to each other, but you must start somewhere in the circle. The price of the debt depends on the rate obtainable in industry; on the other hand, the rate obtainable in industry and on debt are related to each other so far as capital goes into them both. But I think probably there is an amount of capital which will only get into industry by being disengaged from investments made during the War, and that the size of the debt in relation to the sources of savings has been against the seller, as regards the terms on which that can be disengaged. Would it not require now 7½ per cent. in industry to make it worth while to disengage?

5714. You are speaking now of a person who had already got his money in War Loan and, having regard to the price at which he put it in, is now getting a yield of 5 per cent.?—Yes.

5715. He is not prepared to sell at present prices unless he can see a yield of 7½ per cent. in ordinary stock?—Yes.

5716. Would you say that as distinct from preference stock?—Ordinary stock.

5717. In other words, you would say that you cannot raise money at the present time for industry unless at 7½ per cent.?—I think not.

5718. And that is probably due to the levels set by past savings and the debt?—I think so. I am guarding myself by saying that these are related to each other; but in the general circle you must begin to argue from some point; you must take something as given: that the rate on the debt is so and so.

5719. Is it not doubtful whether, even before the War, you could have raised new money for ordinary stock promising less than 7½ per cent.?—Before the War the average rate of ordinary stock, I would say, was 7½ per cent.

5720. There is this distinction in my mind. It is one thing to offer ordinary stock at 7½ per cent. as a new investment and new savings; it is quite another for the investor to take an established ordinary stock which has been paying for some time that rate, and try to get in that at 7½ per cent. In the case of quite good ordinary stocks to-day you cannot get in at much higher than 6 or 6½ per cent. If, however, you were issuing a new prospectus with an offer for new saving, you would probably have to offer 7½ per cent. You are dealing with the dynamics of new savings, are you not?—Yes.

5721. I should like to ask you whether there is any material difference, whether the rate of 7½ per cent. was not necessary before the War? — It was not necessary before the War; more would be necessary now.

5722. There is a difference?—Yes.

5723. *Chairman*: Do you mean ordinary shares or preference shares? *Sir Josiah Stamp*: Supposing you were coming out with a very good industrial offer or expansion of a business attracting new savings, what is the lowest figure that you would offer on an ordinary share? *Chairman*: Can you offer a definite rate on an ordinary share? *Sir Josiah Stamp*: Not in the literal sense, but the prospect must be made clear. I do not think you would get your money for the prospect of 7½ per cent. On the other hand, if you try to buy ordinary well-known industrial shares now, you have to pay a

price which only yields 6½ per cent. *Chairman*: Nearly all the bank shares are at 5 per cent. and the big industrials are, as you say, ranging from 5 to 6 per cent. *Sir Josiah Stamp*: I fancy there is a considerable distinction between the attraction of new savings, and existing ordinary stocks which have become almost preference in their character because they have got a long and steady record.

5724. *Mr. Bell*: Do you suggest in any way that when industry becomes more prosperous, debt holders cannot be relied upon to re-invest the whole of their money when debt is paid off? Do you think they would be inclined to spend part of it?—I had not that in my mind. I merely had in my mind the comparatively greater difficulty of disengaging large sums now with the debt at its present figure than when it was £650,000,000.

5725. Have you any opinion as to how far the repaid debt will be spent and how far it will be re-invested? It is sometimes put to us that it will be spent rather than invested?—I do not see how I could give a general answer to that question. (*Paragraphs 3, 4 and 5 read.*) I thought possibly the existence of a large debt might be held to have lubricated industrial credit, but it was a very poor excuse for the existence of a large debt. I mean by that, that the argument is not very important, that when you have a debt ten times as great as it was before the War, industry can be said to require lubrication to that extent.

5726. Prices, of course, have also risen largely?—Allowing for that, the amount of the debt would still be five times as much, as I say later.

5727. Both things have to be taken into account?—Yes.

5728. We find War Loan of great use in banking?—Supposing that the income of this country in the same currency is about the same as it was before the War; in the same currency our securities are five times as much. I cannot see that anything more than a small part of that increase can really be material.

5729. A part of it must be, but what part it is difficult to say?—Yes.

5730. *Sir Josiah Stamp*: Would not the part of the debt that is used for credit be similarly larger in its real size than the corresponding part before the War? If the whole debt is five times as much, would not the part that is used in this way also be five times? The point has been put to us by witnesses that this has given a very convenient form on which industry can work, much more convenient than the investigation of balance sheets and general business credit?—That was always so. There was a certain amount of it before the War for a national income of a certain size. Would anyone say that we require five times as much credit in relation to a national income of the same size?

5731. No, I do not think the argument is that it is equally useful for the whole of the increased amount, but that it has added to the ease with which business can raise money?—I agree with that, but I say that the consideration is rather that it is a salvage. It is not much of a set-off against the disadvantages of a large debt.

5732. *Mr. Bell*: The curious thing is that one saw very little of it before the War; it was not so much a question of proportion, but we saw before the War practically nothing, and now it is largely used. It might be twenty times as much, for all I know. *Sir Josiah Stamp*: I take it Mr. Bell means that it was comparatively unusual for a trader to come along and ask for credit and to hand the bank this amount of collateral. *Mr. Bell*: But to-day it is very common: it may be twenty times as much, for all I know?—(*Witness*): Is that because trade is bad and other collateral is not so good?

5733. *Mr. Bell*: No, I do not think so at all. It was not proffered before. *Sir Josiah Stamp*: I think Mr. Bell would agree that it was necessary before the War to go more into personal and business credit?—(*Witness*): Of course, I would entirely accept a statement upon the facts, that it is more used.

5734. *Mr. Bell*: Your point might be perfectly good, none the less, because it would be a question of practice then and of practice now, but we see an overwhelming proportion more in securities of that kind now?—It is some off-set, but there are the disadvantages of the debt. I use the word "salvage" to indicate that it might be a small off-set. (*Paragraphs 6 and 7 read.*)

5735. Do you not feel that the conduct of the Floating Debt has been very skilful and very economical to the country? It has been of very great saving to the country that this convenient form of investment for short holding at a very cheap rate should carry on as far as possible, unless it is a real danger. I do not know what the saving is; it must be very great. Up to the present there has not been any difficulty, nor have we ever had a set of circumstances, such as might force us to pay off the Bills when trade revives. We have had figures given us, but some people think that £100,000,000 would be quite a safe amount which we could get down to, and it would be perfectly safe to carry. Have you any idea of the figure? Do you feel that the present figure is a dangerous one in practice?—No, I would rather you got bankers' evidence on that.

5736. *Sir Josiah Stamp*: Would you not recall the early months of 1920, when something like the condition of things reflected in your paragraph seemed to be upon us? You got the continual struggle by the Government to renew these Bills, against the almost insatiable demand by the market for money; and the rate going up to a very high figure; there was talk before the Committee on War-time Increases of Wealth expressing a specific desire to lower the amount from what it was, £1,200,000,000 to £1,300,000,000, to something like what we have now. Was not that the kind of thing you contemplated?—Yes.

5737. Could you tell us whether you think the present level is a natural level as regards quantity? Supposing you had a great outburst of business activity and a great demand for money, and the Treasury found they could not get their Bills renewed, even the existing quantity, except on a rapidly increasing rate, would you then say, as we said in 1920: We must get the Floating Debt down to smaller dimensions at any cost?—I am afraid I should have to say that is a question of which I should need to have notice. I should not like to answer it off-hand at all.

5738. We must admit it is a very difficult question?—Yes.

5739. *Professor Hall*: Would you think there is any virtue at all in having a ratio between the Floating Debt and the total debt? *Sir Josiah Stamp*: That is almost the same question in another form?—(*Witness*): I would want to work that out on statistical figures. I think the answer would be no, but I would not like to commit myself to an answer without statistical figures before me.

5740. It works round to the question as to whether we could in times of depression have a larger Floating Debt than in times of trade activity, when more assistance is wanted by the traders?—Yes. Obviously the danger is less, and besides, a little inflation is not so bad then. I think that what I have said in paragraph 7 in the absence of statistics indicated what I thought: that, if they are both abnormal, the balance of advantage is in reducing the Floating Debt. Then I come to a rather long statement about repayment of debt. (*Paragraph 8 read.*)

5741. *Mr. Bell*: You speak of the future level of prices; I suppose you do not want to be a prophet there at all? *Sir Josiah Stamp*: Do you want to prophesy whether it will be up or down?—(*Witness*): I do not think anyone can say.

5742. Do you see more tendency ahead for prices rising or falling?—No, I should not wonder if we remained about as we are. I thought that the chance of prices falling a year ago was much greater; I think it is a completely unknown thing just now. Arguments regarding the debt are considerably affected by the probability of falling prices, and now

prices for a time have been comparatively stable. (*Paragraph 9 read.*) That is how I regard the burden of debt generally from the point of view of taxation and in reference to what is known as the transfer argument.

5743. Just as big a burden as even the external debt as far as the individual is concerned?—I think from the point of view of someone regarding the country from outside entirely, there is a transfer, but the individual regards his holding in the debt as a source of income, and he is affected by taxation of it as much as by taxation of anything else. I think in any case the transfer argument is on every ground open to a great deal of question.

5744. *Mrs. Wootton*: In what you say, you would tend to make a difference between the external and internal debt in their effect on industry?—I think my views on the transfer argument would tend in that way.

5745. We had one witness who argued that there was very little difference. Would that be your view?—I have said that the external debt may give a fillip to certain trades; that is all. I think if the rendering of a service is separated by a long interval of time from the settlement for the service, there is a tendency to regard the settlement as a pure transfer, because of the separation. That is the case of the War service rendered by the fund-holder, and the settlement for that service, and the transfer argument is partly due to that separation in time. On the other hand, if you take any transaction in itself, it is a transfer; A had the money and B had the goods; now A has the goods and B has the money. If you do not look further than that, almost anything is a transfer. It is by such changes that wealth is increased, and you have to look at the relation of things transferred, to the people to whom they are transferred, and in this case to the maintenance of the credit of the nation.

5746. *Sir Josiah Stamp*: Would your adhesion to the validity of the transfer argument be greater if you found as a fact that the holding of the debt was distributed very much in the proportion of liability to pay tax?—I think even then, although the person holding the debt was holding a security against himself, a bond against himself, he would still regard the taxation of it.

5747. The psychological effect on industry is the same?—Yes.

5748. Even though in his books or in his deed box he may have scrip which is assisting him to pay his taxes?—Exactly. I think the individual regards his investment in the debt as a source of income, but he does not make in his mind a separation between the taxes he pays for the debt and the taxes he pays for other things. Economic arguments do make that separation, and therefore you can get a transfer argument which is true in a certain economic sense, but it is disturbed by the psychology of business.

5749. Would it be true to say that its real validity lies in the sphere of thought when you are thinking of the taxpaying capacity or the reparation-paying capacity of a country viewed as a whole *vis-à-vis* another country?—I do not quite understand your point.

5750. So long as you are considering the National Debt, as we are, as a matter for adjustment among ourselves, the transfer argument is a dangerous one?—Yes.

5751. But if you were considering the ability of France to pay an inter-allied debt, or the ability of Germany to pay reparations, you would tend to minimise the internal transfers and look upon the wealth of the country as a whole. In that sphere it would have considerable effect?—Yes, I agree it would have considerable effect. In paragraph 9 I use the phrase "the use of the time of money". I do not know if that is the best way to put it.

5752. I wish you would expound that phrase?—I think nearly half our taxation is for debt. Money has to be saved for that. Money that gets into the hands of the Government is not circulated so immediately as it is circulated when it gets into anybody else's hands; it is sticky in the hands of the Government; and a great deal of the time of money, in being saved against taxation for that debt, and so forth, and being handed over to the Government, is taken up, which might be taken up with business transactions.

5753. With regard to the phrase "the use of the time of money", I think it would help us if you would give us your meaning a little more in extenso?—I mean that against the annual settlement money has often to be borrowed for tax charges, or money has to be saved for it but when it gets into the hands of the Government, the re-issue of money is quarterly, and therefore there is a limitation on the circulation of money which, in the case of taxes for debt, is not doing anything economically.

5754. You mean it is robbed of its full economic potency by being held up in stages?—Yes, that is what I mean. With regard to the phrase "the use of the time of money," there is an economic phrase "the efficiency of money." I thought I would not use that; I think it is the use of the time of money.

5755. It is quite a good phrase; it has really been defined by its author?—There is a slowness of re-issue of money when it gets into the hands of Government. If it is for wages in Government Departments, it does go out quickly, but the part of it which is for debt is very sticky in the hands of the Government.

5756. *Mrs. Wootton*: You are thinking of the stickiness of it after it gets into the hands of the Government?—I am thinking of the fact that preparation has to be made in respect of those charges. It is not free for industrial purposes.

5757. *Mr. Bell*: Are you sure that in fact it is not used? *Sir Josiah Stamp*: A large part of it gets into industry, but not all. Supposing we all of us round this table know that we have a large amount to pay in Super-tax in January and Income Tax in February, we will say, each month we will put aside large deposits in the bank as something towards that. The banks do not keep that idle; it is functioning, for the larger part of it. Then we take it out in January or February and pay it over to the Government in a lump. I do not know that you check the amount which is used very much. *Mr. Bell*: Even when it gets into the hands of the Government it is used. If you put it into a safe in the form of bullion and it is held there till a particular date, what you say may be so, but if it gets into the hands of Government, it may be used. *Sir Josiah Stamp*: What does happen in the bank, if the Government have a surplus that they are holding over for future use, is that it reduces their liability to the Bank of England. *Mr. Bell*: I fancy there is not quite the drag that you have in mind; it is all employed as much as it can be, in all sorts of directions, pending payment?—(*Witness*): I have a certain amount of authority for the fact of the stickiness of money; I could find it.

5758. There is a little drag, but it is really all being used. There is a lag, but I think nothing like so much as you suggest. However, it is a small point?—I will leave that point to the Committee.

5759. On your point (*a*) we have had a good deal of evidence on each side. You say that the burden consists of the impediment to enterprise and saving as a whole because of high rates of taxation. You come down quite flat-footedly there; you have no doubt in your own mind that high taxation does, as a matter of fact, impede enterprise and saving. You state that. Then you are asked what is high taxation? I only want to get from you that your strong feeling is that there is an impediment to enterprise and saving on the whole as the result of taxation. *Sir Josiah Stamp*: Shall we help the witness by giving him two or three points that have been raised? For instance, one argument is that so large a part of industry is in the hands of joint stock companies which are not affected by the amount of

taxation, or only to a very small extent, that the enterprise of their officials and management is not in the least altered by the high rates; they are just out to make a profit if they can, though they may be taxed afterwards. The second point is that for a private individual a high rate of taxation means the necessity of maintaining his income as far as possible undiminished in amount, and therefore he has to do greater work, and even for the saver of money, if he wants to have a good result from his saving he has to save more vigorously; and that has the tendency to offset the psychological tendency?—(*Witness*): I think I say later that I regard the influence on saving as the more important of these. With regard to what Sir Josiah Stamp says about people working harder, and so forth, to offset this, on consideration I thought it difficult to give a realistic meaning to that. I see where individuals are working for themselves and in private businesses what it may mean, but where people are members of large organisations, I am not so clear what is meant by the old phrases used by McCulloch and others, as to everybody working harder to offset high taxation. Put yourself in the position of someone who is a member of an organisation; what more does it mean that he would do?

5760. It is not suggested that members of an organisation work harder; it is suggested that they more or less stand aloof from high and low taxation; they get all the profits they can and if the tax is high it is passed on, and if it is low it is passed on. The workers in a public company are not affected, but it is the private individuals of whom it is suggested that they work harder?—That would really be the sphere of working harder. I do not think it is practicable in the case of joint stock companies. As regards enterprise, will there not be an effect through the taxing of their reserves?

5761. Yes, that is acknowledged. It is admitted even by the holders of that argument that, to the extent to which their reserves are diminished by the high rate of taxation, there is an influence. *Professor Hall*: Is it the high rate of taxation, or is it the net return that affects their will to save, do you think?—*Witness*: A high rate of taxation, I say, diminishes the will to save.

5762. Even though the net return, after that high taxation has been deducted, is fairly good? Take the present day compared with pre-war days. There is a higher rate of interest and a higher rate of taxation; the net return is slightly higher than in pre-war days. How would a man be affected as compared with pre-war days? Would the fact that the tax is so high be likely to offset the advantage of the higher return that he gets? What would be the psychological effect upon him as a saver?—I think that a high rate of taxation always will have that psychological effect on him as a saver.

5763. And the fact that the tax rate is higher will be an offset against the fact that he gets a bigger net return than formerly?—So far as the tax rate is concerned, if it is a rate of taxation which you would call a high rate of taxation, I think that the influence on saving is obvious. There is an old argument that there is a certain area within which a high rate of taxation—or a less low rate—may make people save more. I am thinking here of the present position of our debt and rates of taxation, to which the word "high" is particularly applicable, rates of taxation quite different from those before the War, for example.

5764. It has been suggested to us by at least one witness that we get accustomed even to the high rates of taxation?—Well, I do not.

5765. You can get used to anything, really. You would not think that that was a very valid argument?—I think that the argument that an old tax is no tax takes a lot to accept now.

5766. *Mr. Bell*: There may be a greater influence on enterprise than on saving. We have had evidence that enterprise is seriously checked?—Is not that through saving?

5767. I am thinking of mercantile transactions, where a man takes a risk and he feels that the amount to be taken from him if he is successful is too much, and he prefers not to go into it?—Is not that in the field of personal service?

5768. Yes, I am with you here, but I only want to say that there is a great difference between a trader and a pure rentier. In the two cases the effects are different?—You mean that the effect on enterprise is much greater than in the case of the rentier. I put that forward later. I said what I thought about McCulloch's argument and these early arguments that we really did not lose money in the wars against Napoleon, because they made us work so hard. That does not apply so much now under the régime of joint stock companies, where people cannot keep longer hours and work harder at their own will; they are members of organisations. Then I come to the question of debt repayment. (*Paragraph* 10 *read.*) I think that is part of a larger argument.

5769. *Professor Hall*: That "future year" is some distance ahead?—If you are going to make it apply at all, it must be reasonable. If you try to chart what you are going to do with the debt, it comes to a perpendicular line at a certain time and there is nobody paying any debt at all. If you are going to make a plan at all, you must allow for scaling down. (*Paragraph* 11 *read.*) That is the same thing. I distinguish three periods, if you are going to make a long plan of it. (*Paragraph* 12 *read.*)

5770. *Chairman*: You have not discussed the Capital Levy, have you?—Yes, later. I thought that you wished it kept out, but I could not help referring to it.

5771. We are having special sessions for that purpose, but it is quite competent for you to refer to it now. If you wish to address the members of the Committee on the Capital Levy, we shall be quite glad to hear what you have to say about it?— You asked, I thought, what was the effect on prices of the reduction of the debt, and so on.

5772. I was only wondering whether you wanted to mention that?—The Secretary's letter said that you were not on the present occasion discussing it, so I did not put in much about it.

5773. There has been evidence before us about conversion. One witness said yesterday that with a reasonable method of conversion of the debt fairly rapidly, the necessity for a Capital Levy might not be so great?—I shall come to that presently, if I may.

5774. *Mr. Bell*: Your programme here is for a small annual reduction of a large debt, and a larger annual reduction when the debt is reduced. It seems to be the wrong way round, does it not, in view of the contingencies and the possibilities before us?—I would be inclined to keep the present figure for a period of time and then to let it increase to some figure, say, £100,000,000.

5775. That is setting aside less when the debt is big and more when the debt is small?—That is partly because of the present industrial position. What I call the first period you can wipe out altogether, if you like.

5776. You contemplated 23 years, did you not?—Five years.

5777. The first five years only?—I am not tied to five years.

5778. You say that in the first 23 years the amount repaid would be £1,500,000,000, that is, an average of £65,000,000 a year. In the last 67 years you would repay £6,000,000,000 at the rate of £90,000,000 a year; so that during the first 23 years, when the amount is large, you put away a less annual amount than you do in the last 67 years when the debt is a great deal less. Have you done that with any view as to that 23 years' provision? In fact, are you not leaving to posterity a great deal more burden when the debt becomes smaller?—I am putting on posterity a declining total charge.

5779. *Professor Hall*: Including interest?—Yes. If you look at the graph, it is a declining charge in the last period.

5780. *Mr. Bell*: Although a larger Sinking Fund?—Yes, the real trouble being to taper it off. If the Committee will contemplate the distant period, when that problem will arise—perhaps 85 years—you would have £100,000,000 to scale down. It is not very serious.

5781. *Sir Josiah Stamp*: We are trying to set an example to posterity?—This is the idea, as it seems to me. Supposing you are contemplating a plan for 90 years ahead, let us see what it would mean. Simply making the graphs of the burdens, I came to the conclusion that this was the fairest way to distribute it.

5782. You mean that the payment of that £100,000,000 a year will be in those days far less burden on the people?—Yes; there is the possibility of change of prices and of expansion of income.

5783. I was not thinking of prices; I was thinking entirely of larger population?—Yes, but even taking that into consideration, it seems so.

5784. *Chairman*: What evidence have we got of the increase of population? We could not rely upon that. *Professor Hall*: Are we to understand that you recommend this as a policy?—(*Witness*): I come down later to an alternative, but I say if you are going to think out a long plan, and if you think that anything said now can bind people 50 years hence, and you are going to make a recommendation as to a long plan, then what is equitable as between the taxation now and in future years appears to me to be on these lines. (*Paragraph* **13** *read.*) I do not think that complicates things very much. Then paragraph **14** is an alternative idea. (*Paragraph* **14** *read.*) That is a different proposal altogether. That means that you are going to proceed as far as you can by ten-yearly periods. I do not myself see the use of maintaining indefinitely the difference between the Old and the New Sinking Funds. Further, I do not see the use of charging the New Sinking Fund against revenue and then having to borrow at the end of the year to square up accounts. Between the principles of Hamilton and the principles of Northcote, for instance, and the principles of Pitt, it appears to me there is only one reconciliation and that is to budget for the whole Sinking Fund as a surplus. Hamilton's principle was that there is no repayment of debt except surplus, and alternatively, therefore, one might throw all the Sinking Funds together and, in presenting accounts, budget for a surplus which is the debt surplus—you would have all the Sinking Funds together—and then work by ten-yearly periods to see what you can do. Set yourself an amount in ten-yearly periods to aim at, for debt to be redeemed by that surplus.

5785. *Mr. Bell*: The most skilful budgeting does not necessarily bring the desired result?—No; as I say, it would make no difference in taxation. You would raise the amount of taxation you thought necessary to create this surplus. It does not matter whether the surplus is put inside your revenue or regarded as the difference between revenue and expenditure; only you would not borrow at the end of the year; you would not repay inside the fixed charge, and then perhaps borrow for three months at the end of the year.

5786. *Sir Josiah Stamp*: You would throw your Old Sinking Fund in with the New and call it one provision, and as you would have a ten-yearly programme the good and bad years will all go together?—Yes.

5787. *Mr. Bell*: But I take it there must be windfalls?—Windfalls must all go into the surplus. As I say, you pay over the surplus actually realised.

5788. You say: "Our programme for ten years ahead is the repayment of so much *en bloc;* we are going to budget for that, and if we get less there is more for the remainder of the programme, and if we get more there is less for the remainder of the programme"?—There is so much for the bad year, so to speak. It is also a means, I think, of simplifying the national accounts. The Old Sinking Fund was not scrapped when the New Sinking Fund was invented, because Gladstone objected to the New Sinking Fund, and although it was carried through the House, I think without a division, there were very strong criticisms in regard to introducing the New Sinking Fund at all.

5789. Would your surplus be big enough?—But surely the surplus would always be big enough to cover the fixed Sinking Fund, the charges already made. This is simply a method of "One step enough for me," instead of the long view which really tries to frame a policy for a time very far ahead, and also a proposal to simplify considerably the methods on which we work.

5790. You still would not shackle your politician on a change of Government. He might say: "We do not agree at all with the programme laid down by the late Chancellar; we are going to lay down a new programme." You could not stereotype it?—No; I think it would depend on the consent with which the scheme was received in any case.

5791. *Professor Hall*: Do you think any Government would be likely to take a view of this programme which would lead them to make comparatively little provision themselves, and leave it to the Government in office during the remaining years to shoulder the burden?—I think if you budgeted the surplus for the debt, they would be shown up at once if they tried to do that; because everybody would see what they were doing for the debt.

5792. I can see the advantage from that point of view, but if you take 6d. off the Income Tax, the Income Taxpayer is not going to blame the Government very much because they are trying to postpone the repayment that you suggest they should make till later years of the period.—I can only say that, if you adopted the logical plan of Hamilton's argument, and budgeted the surplus for the debt, any Government which tried to make itself popular by reducing debt repayment would be at once shown up. The national accounts would show it up.

5793. I agree, but I am only suggesting how far the public would be inclined to criticise the Government?—I cannot answer that.

5794. *Mrs. Wootton*: The public has rather a prejudice against surpluses?—The public has a prejudice against surpluses because they are not intended for anything just now.

5795. *Sir Josiah Stamp*: Whereas under your proposal, having a definite programme for ten years, the Government might say: "We are a bit ahead of our time" (like what may happen in a race, going round the laps) "and we have less to do in the remainder," and therefore they might be more cheerful about it?—Yes. The public would have to appreciate that a surplus now meant something, that it was not due to a mistake in the Chancellor's estimations, that it was a debt repayment.

5796. You would still get those mistakes. The Chancellor would have to say in his Budget what his expenditure was expected to be, and there would be a difference at the end of the year?—Yes. As I say, it is only the realised surplus that he would pay over, whatever he budgeted for.

5797. *Mrs Wootton*: You mean he would have to budget so as to make sure of covering it?—I can see no difference in that respect from what happens now. The Sinking Fund is a fixed charge; he has to budget for that now out of the taxes. But at the end of the year, after having nominally repaid so much out of the New Sinking Fund, he often has to borrow, and you see it in the Finance Accounts in italics. The account is muddled because of the extra sum which has to be borrowed. If Hamilton had gone into that principle, I think he would have said that you should have budgeted for a surplus and only the realised surplus should be paid over.

5798. *Sir Josiah Stamp*: It is not really a different thing, but it is a better presentation which may have a more striking appeal to the public?—And

might enable you, I think, to work on a programme by stages.

5799. *Professor Hall*: There are two points there. One is the question of a ten years' programme, and the other is the presentation of the accounts?—Yes. Of course these are independent of each other. I do not see the use of maintaining two sinking funds now. I think it is a pure accident that they were maintained in 1875.

5800. I think the two points can be considered separately each on its merits?—Yes. Then I come to repayment of debt. (*Paragraphs* **15**, **16** *and* **17** *read.*)

5801. *Mrs. Wootton*: We had a witness who told us that repayment of debt would normally deflate prices because it reduces Bank of England loans. If you could have repayment of debt without any effect on the Bank of England, then deflation would not occur; but in practice you do not have that. Is that your view?—I have used the word "normal" here—"normal operations." I am not talking of a Capital Levy here; I am thinking of the normal repayment of the debt. I think there was a question in your questionnaire: "Does repayment of debt affect prices?"

5802. Is it your view that, if it affects prices, it affects prices through the effect on the Bank of England?—So far as repayment of debt affects prices, I should say generally it affects prices so far as you withdraw certain saleable articles from the market, namely, securities. But the banking side of it does not seem to me to affect prices.

5803. Simply the withdrawal of the existing War Loan securities?—Yes.

5804. They cannot be used as a basis of credit?—There are plenty of them; I am sure they are not all used for that.

5805. Is the deflation in consequence of their being withdrawn, and does deflation arise from that?—I think that may result from a very large operation; and there is the question of how gilt-edged securities are held in relation to the second line of securities. I felt I wanted to know how the debt was distributed, to be sure about that; but it would be through that cause, I think—the sudden withdrawal of a basis on which we do in fact work. It is a voluntary repayment, willing sellers, that I am talking about here.

5806. We have had it put to us that the cancellation of securities on which money is borrowed does not affect the volume of credit, but the direction of credit?—I do not see why it should.

5807. You do not think it does affect the total volume of credit?—No. Remember again, I am speaking about willing sellers here. (*Paragraph* **18** *read.*) Then paragraph **19** is really on the Capital Levy, but it is a very compressed statement. (*Paragraph* **19** *read.*) I put it in that paragraph only because there was a general question as to the effect on prices of repayment of the debt; and I am afraid that the statement here depends on the effect of the progression of taxation, and on the working out and on the proof of the second last sentence in paragraph **19**. I am quite willing to hand in the formula on which I worked.

5808. *Chairman*: Could you give us a paper on the Capital Levy?—I am quite willing to do that. The statement here is one which argues to the effect on prices through the effects of taxation and its distribution. The second last sentence, as to the progression of taxation and the increase and distribution of the burden, depends on a formula, and it would be difficult to explain here. Sir Josiah Stamp has worked this out in one way, and this paragraph depends on a rather different way of doing it. What I come to is, I think, somewhat different from what he comes to in his last book.

5809. *Chairman*: Perhaps Sir Josiah Stamp is prepared to put some questions on this? *Sir Josiah Stamp*: I am not prepared to question the witness on this paragraph without doing a good deal of work on the formula myself, to see what it means.—(*Witness*): When I say "progression" there, I do not mean anything else except the ratio of the rates of taxation; I do not mean to say that the highest rates are higher.

5810. You mean the relative steepness of the rates of tax?—Yes. I proved this merely by taking a miniature, by taking £100,000 of taxation, of which half was for the debt, and supposing that £100,000 was raised on £510,000 of income which consisted of 30 fundholders' incomes of £7,000 and 3,000 small incomes averaging £100, and then taking rates that would give £100,000, and then cutting out £50,000 for the debt and finding the rates which would give the same amount from rich and poor people for the remaining purposes.

5811. Could you put in at the conclusion of the paragraph whether it is in the interest of the country or against it?—Do you mean a Capital Levy of £3,000,000,000 or of £1,000,000,000?

5812. *Mr. Bell*: Or of the whole amount of the debt, as has been proposed here? £3,000,000,000 has been the figure mostly under discussion?—I suppose that this Committee knows how the debt is held, and how this would affect the second line of securities; certainly I do not. I would be disposed to allow something to that argument, and to think that a transaction for £1,000,000,000 was reasonable, but there would be the danger that it would be thought subject to repetition. But, looking to the amount of securities in relation to the national income and the amount of trade, I cannot think that five times the pre-war amount is really necessary.

5813. *Sir Josiah Stamp*: You think a very considerable bloc repayment could be made without serious deflation?—Yes, I think so.

5814. But when you get into the region of £3,000,000,000, or half the debt, what is your view?—Then I do not know where I am. I really do not know. I do not see how anyone can know, who has not information before him as to how the debt is held.

5815. *Mrs. Wootton*: Do you think £1,000,000,000 would be reasonable?—I was inclined to think that £1,000,000,000 would be a reasonable proposal. If you look back to what I say about redemption of the debt you see it is going to take 23 years to make a reduction of £1,500,000,000.

5816. *Sir Josiah Stamp*: You are not committing yourself, I take it, to other effects of a psychological character; you are on the point that the ill-effect of deflation through the repayment would not be apparent until you get into figures of some magnitude?—Yes.

5817. That £1,000,000,000 would not have any bad effect?—I would not say that. I would say that £1,000,000,000 ought to be examined as a reasonable proposal. I am afraid of £3,000,000,000; and the whole thing has got attached to an estimation of £3,000,000,000.

5818. Supposing that the £1,000,000,000 were not an outright repayment at all, but only a portion of it were outright, and the remainder were done by instalments to make it administratively feasible, would not that still further lessen the danger?—On the other hand, you would approximate the Capital Levy then to taxation spread over a number of years. You would gradually increase the danger of having it again; you are approximating it to taxation.

5819. *Chairman*: Perhaps you will let us have a paper on this later?—Yes. I ought to say that I think the argument depends entirely on expediency and not on equity. Speaking as an ex-officer, I do attach a great deal of importance to the fact that people's lives were conscripted. It is not a question of equity; I think it is mainly a question of expediency.

5820. *Mr. Bell*: With regard to the conscription of life, what puzzles me is this. Take the case of the man who has some money and who would be liable to a levy; if he had served in the War would he be exempt from the levy?—As you are

getting further and further away from the War, that difficulty is getting greater—the difficulty that you will levy on people who were also conscripted for military service.

5821. But you make a difference between the man who found the money and the man who risked his life. Suppose he were one and the same person; are you going to carry your principle to that?—I think the Capital Levy really is a question of sharing taxation between rich people and poor people.

5822. You are going away from the point on this question of the burden of the conscription of life?—That is exactly what I mean to say. The burden of the conscription of life was mainly borne by the common soldiers.

5823. But I am talking about the man who did both. *Sir Josiah Stamp*: Take the case of an officer who had a lot of money at the time. *Mr. Bell*: Or a business man such as I know, who came back poorer for his absence and lost money in that way. I know a solicitor, who is a barrister now, whose business had disappeared when he returned, and he was in the forefront of the fighting. Are you going to make him an allowance because he suffered both?—(*Witness*): If we had financed the War by taxation—of course the money was there, and could have been got by taxation—he would certainly, because he was at the front, have been taxed less, as we were when we were at the front; that is, if it had been done at the time.

5824. You are getting away from the point. He did both services; are you going to exempt him at all?—It would be very difficult to do it, I admit, now, when you are getting away from the War. I adhere to the point that I mainly put this on the ground of expediency.

5825. *Sir Josiah Stamp*: You are not urging it on the ground of equity?—No. I am not against a Capital Levy on the ground of its inequity. Then I go on to deal with the burden of the debt. This is merely a formula; it was upon a question in the questionnaire. Perhaps I ought to explain that I anticipated a question: "Do you mean the burden of debt on the real income or on the nominal income?" The condition is the same whether you are taking it on the real income or on the nominal income Then I deal with the Death Duties. (*Paragraphs* **21** *and* **22** *read.*) I do not think there is anything new in that. (*Paragraphs* **23** *and* **24** *read.*) I merely distinguish that to indicate people who wish to die rich. I think a large part of the value of savings in one's lifetime is the acquirement of industrial power by large shareholding, and so on, apart altogether from whether you die rich or not.

5826. *Mr. Bell*: It is difficult to know what is in the minds of people who save. We need not go more closely into it, but I should have thought the purpose of saving, in the case of most men, was for wife and family. It is not really for any of these things that you put; it is on account of the man's anxiety that provision should be left for those who will be without his help in the future?—In that case the imposition of Death Duties causes people to try to cover them, and to more than cover them, because of progression.

5827. Of course, it is really idle to try to find the motives of people, but would you not say that is really the main object in saving of the people in this country—that there is somebody dependent upon them for whom they wish to provide?—I think a large part of saving in this country is due to the desire to have the industrial power which large shareholding gives.

5828. But is there not a great feeling with regard to the family? The family is the unit, and is it not because of that family feeling, for the sons and the daughters and the wife, that savings are set aside?—I think I have allowed for that in regard to what I call the first case here; they would desire to make a foreseen provision.

5829. *Chairman*: Mr. Bell's point is this. Is not provision for the family primarily the reason of saving, though it may develop afterwards into the wish for power which you suggest?—These are people who will try to cover it and to more than cover it.

5830. Is it not true that nearly the whole of the cases spring from that originally, and then develop from that to the desire for industrial and commercial power?—Taking a flashlight view at the present moment of saving, some of it is due to that, and some of it has got past that stage. But the real question is, how far for any reason it is a foreseen provision that is made, or a casual provision. In paragraph **25** I say: "Death Duties may hit small businesses at awkward times, and they borrow at worse rates than joint stock companies." I understand, however, that there might have been set off against that the fact that they pay Income Tax at the earned rate on their profits. (*Remainder of paragraph* **25** *read.*) I was a member of a Committee on Agriculture where a very strong memorandum was given to us as to the effect of Death Duties on cultivation of land in this country.

5831. *Professor Hall*: I wonder if you will expand that last sentence of yours in regard to mutual credit. In what way would you suggest that provision should be made?—I have written a long report elsewhere on that.

5832. *Mr. Bell*: Similar to the Landschaft, I take it. It is a scheme of land mortgage which is so common abroad?—It is done in this country through Land Improvement Societies.

5833. Practically no good at all?—It is not well enough known. It could be done. The Landschaft is an imperial question in Germany. Its officials are sworn in as public servants.

5834. *Professor Hall*: I wondered whether you had in mind that kind of thing?—Yes, I had.

5835. Can you give us any reason why this kind of credit is not taken more advantage of in this country?—There is far less owning-cultivation, but still the Land Improvement Society is made considerable use of, but its extension is not great enough, because it is not well enough known.

5836. I have been concerned with some efforts in this direction, and there is a great deal of difficulty in getting people to take any advantage at all of the very great facilities that have been offered?—The Land Improvement Society can very well raise their money from insurance companies or anybody. It is the publicity of the thing that is difficult in this country. There is a very great difference between a private society that runs a land improvement society, and an imperial organisation of which the officers are public servants, and where the affair is conducted under the supervision of—I would rather not say just now, but it is conducted as a national business.

5837. You think that ours would be better if it were more directly controlled and directed by the Government?—I think it is good enough, if it were better known. I think there ought to be more than one; I do not think it should be a monopoly.

5838. *Mr. Bell*: I have been into this as a practical man, and I find that the individual will borrow from his bank, but he will not join with other people in the village to make a committee where they discuss one another's affairs?—That is a smaller thing. I need not have said this at all, really, except that it was an aspect of the Death Duties about which we had a very strong paper.

5839. With regard to Death Duties as a whole, do you feel that they are at present at a level at which they should not be increased, that the burden of them is sufficiently heavy; that is to say, if you had an idea of a further increase in the provision for the debt, you would not like the Death Duties, as such, to provide it. Do you think that they are already very burdensome?—I am not prepared to say that they should be reduced relatively to anything else.

5840. But you were putting the view that taxation was so high that it should not be increased. Do you feel that about Death Duties?—I hope there is not going to be any increase of taxation. I would not

say there was a special case for relieving Death Duties as compared with Income Tax, for example.

5841. It was really that you would not proceed to increase them?—No.

5842. *Professor Hall*: It has been put before us that the Death Duties are specially burdensome in the case of large owners of land?—Yes.

5843. You mentioned that it was a question of business and a question of the owner-cultivator?—Yes.

5844. There is the question of the landowner?—There are estates that have had to be heavily mortgaged, where one death has followed another within a few years. The ownership of land and the way in which it is held has compelled them to mortgage their estates very heavily, and I think our memorandum came from the landlords.

5845. You do not think that is any argument against the Death Duties as such?—No. The means of credit have been found sufficient to meet that.

5846. You do not think that the burden is quite as heavy as it is sometimes represented to be?—If you are interested in that, I think you might get a special witness on it, because they feel very strongly about it.

5847. We have had special witnesses on this point and they have rather emphasised the burdensome nature of the tax. I was wondering whether you, as an economist, had any special views on the subject?—No. I have said what I think. They have not made use of the system which has spread over the whole of Europe and has now been adopted by the United States. (*Paragraph* **26** *read.*) I say that, because it appeared to me that the part of our expenditure which is taxation is apt to be put in the dock, and I was very much interested to read a book by an ex-Secretary of the Treasury, whose view of it was that the less taxation there was, the better. The argument was to make this form of expenditure appear essentially an undesirable thing—with which I do not agree.

5848. You suggest that in some cases there might be collective spending instead of individual spending?—I think, perhaps, it is obvious from what I have said here. Then paragraph **27** is a summary of a great deal of what I have written. (*Paragraph* **27** *read.*) Then I say something about the question of under-consumption. (*Paragraph* **28** *read.*)

5849. *Mr. Bell*: Some agricultural witnesses have told us that taxation has forced agriculturalists all over the country to reduce the labour on their estates. Practically the result of the working of an agricultural estate to-day is that it only meets its expenditure and the Income Tax, that the Super-tax has actually to be found out of the owner's pocket from other resources, and that taxation is so burdensome that they have had to reduce their labour?—But how can they say that they reduce their labour because of that part of their expenditure which is taxation? They can only say that their expenditure in relation to their receipts is such that they have to reduce their labour bill. Why do they say it is that part of their expenditure?

5850. It was very strongly put to us yesterday that that is what is going on: that a man has to employ fewer hands because of taxation?—Then why did they not put it on the burden of the cost of living? Why did they put it on that part of the expenditure which was taxation?

5851. I can only tell you that we had it put strongly to us that that was the direct result of high taxation?—But everything is dear now, including the public services; they are one thing that is dear among other things—there is a Commission sitting on the cost of foods. If you have to dismiss men, it is because your whole receipts are out of relation to your whole expenditure; why say it is because of that part of your expenditure which is taxation?

5852. They gave us an individual instance where a man who had recovered something like £10,000 from the working of his land had to pay Income Tax and Super-tax, and interest on a mortgage which had been raised to pay the former Death Duties; he was as a matter of fact paying £12,000 as the sum of these three items, and he was getting in only £10,000, so he was £2,000 poorer every year, and he had perforce to reduce the labour; he could not pay the wages?—He said that was because of a very high rate of taxation? I saw a question in the questionnaire as to whether taxation diminished employment.

5853. He said, here was a case where it was actually taking place every day?—In the same way, I should say a very high cost of food might diminish employment. This witness apparently has put it on the taxes; he has singled that out because he thinks that people can voluntarily reduce expenditure. There is a Commission sitting on the cost of food, to see if you can relieve the situation by reducing that. Why does he blame that part of his expenditure which is taxation?

5854. *Chairman*: Is there not a greater increase in taxation than in the ordinary things that constitute expenditure?—Taxation has gone up more, you mean?

5855. That is the point. Has not that had an effect upon the position?—Yes, I see.

5856. *Professor Hall*: He rather put it that this was the last straw, as it were; he had higher maintenance costs and higher expenses generally, and then on top of them, Income Tax and Super-tax and Death Duties were just about the last straw; but of course in that case he was trying to pay his Death Duties out of income and maintain the original capital intact, but it is hardly fair to charge current production with the Death Duties.—The question put to me, I think, was whether taxation led, through underconsumption, to unemployment.

5857. You do not think that taxation increases permanent unemployment?—No.

5858. It may temporarily but not permanently?—That is so.

5859. *Chairman*: Take an instance of things as they are to-day, and then suppose your Income Tax was raised 1s. in the £ and nothing else was raised, would not that affect it?—It would depend on what you are buying; you are buying something.

5860. *Sir Josiah Stamp*: That is, it depends what the Government are doing?—Yes.

5861. *Mr. Bell*: They might be buying armaments for Singapore?—Yes. But compare the amount per head paid in this country and the amount paid in France; what are you getting for it? We might bring bread under taxation and distribute free bread and charge taxation; our taxation would be high, but there would be something that we were not paying for in another way. However, I was asked a quite general question as regards that. (*Paragraph* **29** *read.*) I do not know if you are dealing with arguments of this kind about protective taxation; if not, I will take that paragraph out; but as you asked me about the effect of taxation on unemployment, and proposals have been made to protect employment by using taxation to protect industries, I put this paragraph in.

5862. *Mrs. Wootton*: Before you leave that, I would like to ask one or two general questions. We have had two opposite points of view put to us. First of all, we have had witnesses who are anxious to increase public expenditure on certain lines which they consider desirable, and they argue that if the debt charge was relieved it would be easier to meet this new expenditure. Against that, the argument is put before us that what we can afford to spend on social services and so on, has no relation to debt charge at all, but is governed by our general national income. Would you give us your view on that?—I am afraid I have not got that, quite.

5863. The argument that I want you to deal with is this. Supposing the debt charge is wiped out, we should be in no better position to provide money for education and health, and so on, because our national income would be the same, and it is our national income that ultimately determines our taxable capacity. Is that your view?—When you say to wipe out the debt, do you refer to any way of wiping it out? Probably you mean that the largest part of the charge for wiping it out would be on the fund-holder?

5864. No, I am not really referring to any specific way of wiping it out?—I think that any ordinary proposal for doing it would imply for new social services a largely increased progression.

5865. Is it then your view that the existence of the debt is an obstacle to increased public expenditure?—No; I think that there would be a larger progression; but, remember, I have said that a large progression does not mean a higher rate at the top. The general rate for everybody would be less.

5866. And therefore there would be increased ability to spend?—One has to be careful of what one says. May I just take a case. Take the case again of a person whose taxes, on account of the debt, are equal to his income from the debt. If you redeem the debt, his rate of taxation will be less than it was before. That is quite easily proved. The burden of taxation on him as a person will not be greater than it was before. He will have as much left to spend on other purposes. The rate will be different, but that is purely a nominal and arithmetical thing. What he will pay for other purposes and what he will have left for himself will be the same. The change in the rate is purely a matter of arithmetical formula. It would affect an addition to social expenditure, but if you are talking about the burden of remaining social expenditure, I do not think he is any worse off.

5867. If we argue on from him as a representative person, over the whole class of fundholders and taxpayers, the net income to that whole class would be the same; or would it not, in your view?—May I just take the case of the typical person. He has a certain industrial income, call it i; he has got a certain income from the debt, call it d; he has got taxes for social services and other purposes, say t. His rate is $\frac{t+d}{i+d}$. You cancel out the debt, and his rate is $\frac{t}{i}$. Now out of his real income, i, he pays for remaining taxes t, and that is exactly what he paid before.

5868. Do you think there is a psychological effect which is of importance there?—It depends whether he calculates separately the rates he pays for different taxes. He formerly paid a rate $\frac{t}{i+d}$ for purposes other than the debt, now he pays a rate $\frac{t}{i}$. He may think his position is worse in that respect.

5869. What I want to get at is a simpler point; that is, whether the existence of the debt prevents public expenditure. What he may argue is not so much "How much do I pay for such and such a thing?" or "How much do I pay for the debt?"; he is more inclined to argue from the rate of tax. Now his rate of tax will be relatively steeper, though his true rate may be the same, and psychologically he may be upset?—If he separates his taxes and says: "What I pay for education and for the poor and so forth is so much," then his willingness to do it is affected by this, though the amount he pays is exactly the same. Nothing has happened to change the amount he is going to pay. There was a certain rate over his real income plus his debt income. Now it is a certain amount over his real income, and that is a higher rate, if he looks at it like that.

5870. I thought he would look at it like that. You think there would be a psychological effect there?—We publish a special return showing what these things cost, and they have got up to about £300,000,000. This draws attention to the remarkable increase in the cost of these services. (*Paragraph* 30 *read*). Everybody cannot say that he has got to pay Income Tax and that somebody else has got to pay it for him, because then somebody else's Income Tax would be charged back to him. That is the Ricardian argument, that the quantity of money would limit the whole thing.

5871. *Sir Josiah Stamp*: Mr. J. A. Hobson meets that by saying that the currency argument is not quite watertight, because you will get a higher price all round for everything and a lower quantity of goods?—I was going to say that. It is only if there is a restriction of supply.

5872. He argues that the net effect of taxation is to restrict supply. I am not saying I think his argument is valid, but he does escape from the currency dilemma in that ingenious way?—I ought to have put that in—unless tax is such as to make a general restriction of supply—of course, that is obvious.

5873. Otherwise there is no point in it?—If you start with that, then there is no end to it. The supply would be restricted, and the taxes are still on and it will be more restricted, and in fact taxation will get heavier the more restriction is applied. If you start with the cost of food and say: "The cost of food has gone up, I must charge more for my services," you are in the same circle. You cannot be reimbursed for your expenditure in that way; you cannot absolve yourself from, say, the cost of living, which includes the cost of what you get through the public services. Everybody cannot do that.

5874. *Mrs. Wootton*: Some people think that other people can?—Yes.

5875. Some do think you would get redistribution in the sense that there is an untapped source of profit which people do not bother about when taxes are low, but when taxes are high they start exploring to see how much higher a price they can charge and secure to themselves?—You mean the effect of the tax is to make them investigate more? They could have done so before the tax, of course, if they could do it at all, but it is simply a stimulus to make them look round.

5876. We are constantly met with this point. This series of arguments is all right, no doubt, theoretically, but practical men know that it is not done, and they charge more when taxes are high?—They do charge forward part of your Income Tax?

5877. Yes. The business men say that the professors are no doubt right along their own line of reasoning, but after all they are not in actual business and do not know the business that is being done every day?—They can only charge forward by restricting their produce. That is the only way they can charge it forward.

5878. When it is put to them they say: "Well, you are keener on getting the last penny that you can in the price, and you would not have bothered before"?—I agree that it may be a motive to make you do something which you could have done without the tax. That is quite true; I have said so.

5879. Even if you admit that, then you have to offset against that what that same person has to pay as a consumer for the things that other people are doing against him in the same way?—Yes, it is charged forward and it is charged back again.

5880. *Mr. Bell*: Would you say that as to a small shopkeeper?—He cannot say to his customers: "My taxes have gone up; I must charge you more for my goods."

5881. He might not say it, but he might act it?—He might say: "There is an addition to my family; I must charge more for my goods."

5882. There is very strong argument that that is being done. *Sir Josiah Stamp*: The evidence from business men at any rate is that they think they are

doing it. They do not pursue the argument to its logical conclusion that the burden on the capitalist has ceased to be a burden because he has passed it on to somebody else?—(*Witness*): Do you mean that men in private businesses are charging it in full?

5883. Do you think there is anything in it really, or is it self-delusion?—Do you mean people who are not combined, men in individual businesses, are putting up their prices? I do not see how one person in a private business is going to do that. There must be other people who are going to do the same.

5884. It has been put that the prices are very largely affected?—A's taxation in relation to the quantity he produces is a different thing from B's taxation in relation to the quantity he produces.

5885. The point is put to them that they are all bearing different rates; some are bearing high rates and some are bearing low rates, and it is also pointed out that public companies are not affected; all these different considerations are put to them; but they urge that they know in practice that men are doing so?—Does it mean that they are doing it by diminishing rebates and discounts, and so forth? Do you mean they are putting it on the price?

5886. They are declining to obtain contracts that, after payment of Income Tax and Super-tax, give them a negligible profit?—Are they men strong enough to be able, by withholding their supply, to do anything to the market prices, or are they not?

5887. Do you regard that as the test?—Yes; the only people who are really strong enough would be joint stock companies, and they are not affected by that motive.

5888. *Mr. Bell*: The small traders are notoriously known to meet together and confer?—I should agree that where there is a great deal of economic fricton, people do not ask the price of what you could get anywhere else. That might happen; a small trader might do it for that reason, or, as I say, because his family has increased. But then if he could do so, he could have done it without the tax.

5889. I agree, but what we see in actual practice is this. There is a notorious case where a man went out to a small place outside London, where there were five other tradesmen of the same sort. He sold his goods, for a week, below anybody else's and yet made a very satisfactory living. He was nobbled, and at the end of the week he was selling at the same price as the others. The takings of those small people at that small place enabled them to buy houses. They were holding up things?—Of course, in shopkeeping, there is a great deal of economic friction indeed. I suppose a person in a small shop can do it. He may say his wife's hats have got dearer and he is going to charge that on the prices.

5890. I do not know that it related to Income Tax at all?—Then I come to commodity taxation. I have nothing new on that at all; I was only asked the question. (*Paragraph* 31 *read down to the words* "and therefore general prices.") You asked me about the question of taxation apart from changes of taxation. I had to take the thing as existing at the moment, not changes in taxation, but the taxation at the moment. (*Remainder of paragraph* 31 *read. Paragraphs* 32 *and* 33 *read.*) I have kept foreign exchange out of that, as not being in my opinion the relevant fact at all. That is purely a matter of mechanism.

5891. *Sir Josiah Stamp*: Would you say that if you were obliged to place a certain heavy burden of taxation upon a country that engaged in export trade, you would embarrass it less in its export trade if you put considerable direct taxes on profits as compared with putting taxes indirectly on commodities?—Obviously, on the ground that if it is put on commodities the volume of trade as a whole must shrink. Foreign exchange is merely a mechanism. The result of that will be that foreign trade will balance at a smaller quantity.

5892. I am taking the more direct argument that the manufacturer is put at a disadvantage, owing to the high rate of taxation in his country, in tendering for a contract in common with other nations whose rate of taxation is not so high. The economic answer, of course, is that Income Tax does not enter into prices, and if it is a high Income Tax that he is paying he is not at a disadvantage, but that if the tax is raised by a commodity taxation, and we will suppose that it enters into the cost of living, and his wages are high, he is put at a disadvantage. Would that be a valid distinction in your opinion?—The distinction would come to this. In one case the foreign trade would balance at its present quantity; in the other case the foreign exchange would move and the foreign trade would balance at a less quantity. In one case you are going to put a general charge on prices, which you are not going to put in the other case.

5893. The point being that you cannot determine the point at which the contractor is put to a disadvantage by a higher taxation in making tenders for contracts abroad, until you have examined the nature of that taxation as to whether it is direct or indirect?—Yes.

5894. You would agree with that?—Yes, I would agree with that. I follow the argument of working that out through the exchange, but I have come to the conclusion that that is not the relevant fact and that in the end commodity taxation would make foreign trade balance at lower quantities.

5895. We are constantly having it put to us that these high rates of Income Tax and Super-tax are a hindrance in competition with other countries for trade abroad?—I do not think the relative rates would be affected; it is the quantity.

5896. On the principle that you have been enunciating that a direct tax on profits or income does not enter into cost of production, and therefore into tendering, it surely must be a fallacious argument for a man to urge: "If I had less Super-tax and Income Tax to pay I could give lower quotations and get the business"?—There is a little more in it than that. I can see an answer along certain lines very clearly, but I would hold that generally—that, on the whole, international values would not be affected if it is a general tax acting on everything. But while that may be so, the amount of goods where foreign trade would balance would be less under commodity taxation than under direct taxation; and obviously that comes from the fact that commodity taxation affects prices by restriction of supply and you are putting less on the world's markets.

5897. *Chairman*: Take a shipping business, for instance. Supposing you did a certain business for one year, and the next year everything else remains normal, but the Income Tax is increased 5s. in the £; does not that affect it?—If you are going to take a 5s. increase I suppose the effect on saving will be tremendous. He cannot get out of it any way.

5898. *Sir Josiah Stamp*: Not on saving, but quoting with existing capital. *Chairman*: If you put another 2s. 6d. on the Income Tax for next year, would it not have an effect upon the competition that we have abroad? If we take into account the Income Tax we paid last year, and then have 2s. 6d. more put on, it would mean that we could not do the business?—(*Witness*): I can quite see that people will not work at all if what they have left is indefinitely reduced by Income Tax, if that is what you mean.

5899. *Sir Josiah Stamp*: That is what it comes down to. The net return is so small that they will not work. That might be true as to future business and saving, but if you have a lot of ships and existing capital would you not rather have something from them rather than nothing at all?—Yes.

5900. I can well understand you being influenced in extending your business in regard to having new ships, but if you have money locked up in existing ships and it is a case of having a small profit or none at all, would you take the small profit?—Yes. Then there was a question on distribution of wealth. (*Paragraphs* **34** *and* **35** *read.*) I think you can introduce an argument about the equity of equalisation, but you will get exactly the same policy whether you do or not as regards progression. (*Paragraph* **36** *read.*) I am not sure whether the reductions in tea and coffee duties will leave them regressive. I am referring to Sir Herbert Samuel's paper, "The Taxation of the Various Classes of the People." It is possible that that is so, but I do not know whether Sir Josiah Stamp can say.

5901. *Sir Josiah Stamp*: I think it is still regressive.—The inquiry referred to families of five, which has been very much challenged recently. (*Paragraph* **37** *read.*)

Chairman: Thank you.

(*The Witness withdrew.*)

(*Adjourned.*)

NINETEENTH DAY.

Tuesday, 3rd March, 1925.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman.*
SIR CHARLES ADDIS, K.C.M.G.
SIR ALAN G. ANDERSON, K.B.E.
SIR ARTHUR BALFOUR, K.B.E.
MR. HENRY BELL.
MR. J. W. BOWEN.
PROFESSOR FRED HALL.
MR. W. L. HICHENS.
MR. H. B. LEES-SMITH, M.P.
SIR JOSIAH STAMP, G.B.E.
MRS. BARBARA WOOTTON.

MR. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

Professor A. C. PIGOU called and examined.

EVIDENCE-IN-CHIEF handed in by Professor PIGOU (in reply to the Committee's questions regarding a Capital Levy printed on page 683).

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

1. When a country has a large internally held National Debt there are four lines of action open to it: (1) repudiation; (2) provision for the service of the debt by currency inflation; (3) a large special levy; (4) payment of interest and sinking fund out of taxes. When for any reason, political or other, method (4) is excluded and the choice is between the other three, the case for a special levy is enormously stronger than it is when method (4) is not excluded. In England method (4) is actually at work, which proves it to be feasible, and, therefore, the case for and against a special levy stands on a different plane from what it would occupy if our National Debt were, say, two or three times as large as it is.

2. None the less the National Debt at present standing against the country—in spite of the fact that it is for the most part held internally—is a very serious menace; because, with so large a debt, should another great war break out, it would be extremely difficult for the Government to raise large loans or to maintain its credit. This consideration points to the urgent need of a very substantial repayment of debt within, say, the next twenty years.

3. The large size of the debt is also probably injurious to production here, because it necessitates the raising of more taxes than it is possible to levy by innocuous methods. There is a considerable presumption, though there is no certain proof, that the present high rate of taxation checks work and saving. The reason is that anybody considering whether or not to undertake a little more or a little less work and saving than he is actually doing is likely to reflect that a substantial portion of the proceeds will be taken away in taxes. This consideration is not affected by the fact that, the debt being internal, his taxes may be paid back to him in the form of War Loan interest.

4. The rates of taxation necessary to provide the service of the debt on current methods would become smaller in the future:

(i) if conversion operations into debt bearing lower interest are successfully undertaken: it may be presumed that some saving will be effected in this way:

(ii) if, for currency reasons, the general level of prices and incomes rises. There has been a tendency through many centuries for prices to trend upwards: but this does not prove that the tendency will continue. Adequate data for prophecy are lacking:

(iii) if inventions, growth of population and so on increase production *and* the increased production does not carry with it a proportionate fall in prices. Other things being equal, increased production would probably carry with it *some* fall in prices but not a proportionate fall.

5. During the period immediately following the War I was of opinion that, if it had been possible to pass with general assent, or with such measure of assent as was accorded to the Excess Profits Duty, an Act providing for a large special levy to wipe out a substantial portion of the War debt, this would on the whole have been to the national advantage. At the present time (or as regards the near future) I do not advocate such an Act for the following reasons:—

(i) if passed, its execution would be impeded by strong and organized opposition, perhaps backed by some of the banks, and, in view of the great technical difficulties to be overcome in any event, it could not, I think, successfully surmount this:

(ii) such an Act passed now would create a much greater fear that the levy would be repeated than it would have done if passed in intimate connection with the ending of the War:

(iii) at the present moment industry is still abnormally depressed and anything that might frighten business men—even if the fright were unreasonable—is to be deprecated.

To these general reasons I have to add one personal to myself. Though, of course, I realised from the outset that a special levy used in repayment of internal debt would cause Income Tax, Super-tax, and Death Duties on any given scale to yield less revenue afterwards, I have not, until within the last year, realised how very large a proportion of a levy at steeply progressive rates—and the rates would have to be steeply progressive—would be used up in repairing ravages in the future revenue consequent upon the levy itself.

6. I am now in favour of the gradual repayment of the debt through a Sinking Fund. If it were not for the risk of future wars, I should be in no great hurry about repaying it by this means; for the higher the Sinking Fund the higher current taxes must be. But, in view of the risk of war, I think the Sinking Fund should be large. How large it should be must depend on our estimate of the probability of continued European peace. Personally I should prefer 100 millions to 50 millions a year.

7. If it were feasible, it might be well to make smaller repayments in years of depression than in years of prosperity; but, Governments being what they are, the adoption of a policy of this kind would probably result in practice in cuts in the repayment in bad times not offset by adequate increases in good times.

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

8. In principle I hold that a special levy, if introduced, ought to cover brain capital as well as material capital. There would be obvious and great difficulties in working this. The brain capital part of the levy would have to be based somehow on recent earnings. Probably the best plan would be to assess, on this basis, an annual lump sum to be levied on the payer for the remainder of his life, subject to remission in certain eventualities. The apparently simple method of balancing an extra tax on earned income against the levy on capital would be unsatisfactory, because the main purpose of a levy is to make possible a reduction of rates on *marginal* work and *marginal* saving. Though, however, I advocate the inclusion of brain capital in principle, the yield of it would be relatively small—perhaps one-tenth of the whole levy—and it may be that the technical difficulties are so great as to make it not worth while.

9. I hold that, if a special levy of the kind contemplated by the Labour Party is made, the resultant reduction of taxes should be used in relief of Income Tax (including Super-tax) and Death Duties. This must not, of course, be taken to preclude subsequent increases of direct taxation, or subsequent shiftings of tax distribution for good cause, *i.e.*, if they can be shown to be desirable independently of the levy. But the levy itself I regard as an alternative to other taxes on the people who would have to pay it.

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

10. It is probable that, in the present state of opinion, the passage of a special levy law would frighten people, and so for a time check industrial activity. It would be much better, therefore, that such legislation, if introduced, should be introduced in a time of boom rather than in a time of depression.

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

11. The main argument in favour of a special levy to wipe out a large part of War debt is that, when people know that the proceeds of future work and saving will be subject to heavy annual taxation, there is danger that work and saving will be discouraged: whereas under a special levy raised once for all and not expected to be repeated, there would be no corresponding discouragement to work and saving. In so far as a special levy removed this discouragement, it would indirectly promote the interest of all classes; but there is no reason to suppose that the benefit conferred on the working classes would appear in the form of a reduction in the average level of unemployment.

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

12. I do not regard a special levy to wipe out War debt as a means of altering the distribution of wealth, but as a piece of fiscal technique designed to lessen the discouragement caused by high tax rates to work and saving. Incidentally distribution would, no doubt, be affected to some extent: the nature and scale of the alteration depending on the plan of the levy and the choice of taxation to be relieved as a result of it. If brain capital were exempted and Income Tax relieved there would be some shifting of burdens from the receivers of earned income to property owners.

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

13. If a large part of the National Debt were wiped out, the credit of the *Government* would be improved. This would not come to much as things are: but, if another great war were to take place, it would be of substantial advantage to us to have a debt of three or four thousand millions instead of seven thousand millions.

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

14. If a Capital Levy were imposed and the proceeds used to pay off internal debt, the demand of the people paid off for securities would roughly balance the supply of those wishing to sell. If the transaction were managed stupidly or if the banks were obstructive, there might be panic and a great slump of values, because the offer to sell would *precede* the offer to buy. But, if things were handled properly, nothing of this sort should happen. Even then, however, it might well be that the *relative* values of different sorts of securities would be more or less seriously disturbed.

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

15. In my opinion the fears sometimes expressed as to the deflationary effect of a Capital Levy are greatly exaggerated. It is true, of course, that a considerable amount of scrip available as collateral, and a much smaller amount actually used as collateral, would be destroyed. Under a paper standard this might be worth considering, but under a gold standard —and it may be presumed that, long before there is any practical possibility of a Capital Levy, we shall again be on a gold standard—any deflationary tendency that there might be would be quickly corrected by the familiar mechanism.

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

16. I have not personally made any calculation of the kind referred to in question 13. I have no doubt that Sir Josiah Stamp's estimates are as good as the data allow.

ANSWER TO QUESTION 14 (*as to methods of valuation &c.*).

17. As to the technical matters referred to in question 14, an academic economist can only have second-hand opinions. The only suggestion I have to make is that, when an income of an estate is accruing to a life tenant the life tenant's contribution should be taken in the form of a special Income Tax, the corpus of the estate being attacked when the settlement falls in. An Income Tax of this sort would not have the discouraging effect of an ordinary Income Tax, because it would not touch new (marginal) work or saving on the part of the life tenant.

5902. *Chairman*: I will ask you to read the paragraphs of your paper and then we can examine you on each paragraph?—If you please. (*Paragraph 1 read.*)

5903. *Mr. Lees-Smith*: On point No. (4), in that paragraph would you say that the system is effectively at work now, when under it it will not be possible to pay off the National Debt for 150 years?—Yes, I should say it is at work. There is no compulsion to pay off the debt at all. It is a matter of words rather. Of course it would be more satisfactory if the present plan would pay it off more quickly. But what I mean here is that supposing the War had gone on for another five years it would have been obviously impossible to have a Sinking Fund method at all, and instead of that method you would have had to have something else. As things are, it is not a hopeless position for ordinary methods.

5904. *Sir Arthur Balfour*: You say the method is a sound basis and of course the amount repaid might under certain conditions be increased?—Yes, whereas if the debt was £24,000,000,000 then I do not see how it would be possible to provide for the service of it by ordinary taxes.

5905. *Sir Alan Anderson*: I suppose the real question is that our ordinary national expenditure is rather more than our debt service. In that last line you speak of our National Debt being two or three times as large as it is?—If the relation of the debt service to the Budget was such that you had to increase the Income Tax further to meet it, say to about 15s. or 16s. in the £, or something of that sort, it would be impracticable to provide for it by ordinary taxes.

5906. Or if in any other way you were spending so much money?—Yes, if it was impracticable to budget for the thing in the ordinary way. I think there is a distinction between a case in which it is reasonably practicable and one in which it is really impossible to use the ordinary tax method.

5907. I think there is a distinction, too, in the way in which the country pays. These first three courses all differ in degree, but they are all the same in kind; the country loses credit by adopting any of them?—But there are other objections besides that. They are very inequitable as between different persons in the country.

5908. But the business objection is that you lose your prestige and your credit?—Yes, but I think the inequity itself is objectionable.

5909. What I was getting at was that in the case of a country which depends for almost its whole trade on its external credit, it is more important for it to avoid payment by the first three courses than it might be for other countries. Is not that so?—Yes, it might be; but I myself should object to repudiation, on the ground that it is very unfair as between the people who subscribed the War Loans and the people who put money into businesses.

5910. *Mr. Hichens*: You do not hold with those who urge that there should be no repayment of the debt, but merely ordinary interest payments, until the present depression is over?—I am anxious to have the debt reduced soon, because I cannot see what would happen if we had another war, with a debt like this.

5911. One answer would be, would it not, that no one else would be in a better position in relation to their debts than we are, that all other countries are burdened with debt, too?—Yes, but still, I do not like the idea of having a war with a debt of £7,000,000,000.

5912. *Sir Arthur Balfour*: Starting a war?—Starting a war, like that: I do not know how you would be able to raise money.

5913. *Sir Alan Anderson*: If we were all in the same position, it might deter everybody from having a war?—It might.

5914. *Mr. Hichens*: It might be argued then, if everybody had a very high debt, the chances of at any rate a prolonged war would be reduced, and therefore it would be rather an advantage to have it, from that point of view?—Yes; but I would rather we did not have it.

5915. *Sir Arthur Balfour*: A debt of this size does induce Governments to be a little more economical?—Yes, but that cuts both ways.

5916. It does induce them to be more economical. If it was removed suddenly, the Government might go in for very extravagant expenditure?—Yes, but economical in two directions. It induces them to stop expenditure which is undesirable, but also to stop expenditure which is desirable.

5917. That is true; or to confine their expenditure to desirable expenditure?—We cannot be certain that they would cut the things which we would like them to cut.

5918. It is never certain what a Government will do; that is why you cannot extract a promise that there will never be another Capital Levy?—That is so.

5919. *Mr. Bell*: The suggestion has been made of a forced loan with a low rate of interest as another alternative. Do you think a forced loan is worth considering?—If you have a forced loan, it really comes to the same thing as dealing with part of the debt by loan and the other part by a Capital Levy without interest at all. If you have a forced loan of £1,000,000,000 at 2½ per cent., that is the same thing as raising £500,000,000 by a Capital Levy and the other £500,000,000 by a voluntary levy at 5 per cent. It is really just a method of having rather less Capital Levy.

5920. You suggest there is a strong case for a Capital Levy when the service of the National Debt involves annual taxation so heavy as not to be feasible. Might there not be a stronger positive case for a levy at a time of high prices and profits?—You mean it would be easier to work then; yes, I agree it would be easier to work then. My contrast really here is between countries which are in such a position that they cannot possibly go on with the ordinary methods, and those that can. (*Paragraph 2 read.*) I distinguish there between the internal and the external debt. I do not know that it is necessary to enlarge on that.

5921. *Mr. Lees-Smith*: Would you make this clear? Suppose another war broke out, it would be possible to raise your revenue by other methods than loans, by taxation, for instance?—Yes, you might.

5922. But you mean that even that source would be depleted if we had already this interest on the heavy internal debt to pay. Suppose we said: "We will raise it all by taxation"?—The objection to raising it all by taxation, I suppose, is that it makes people dislike the war. That is why we would not raise it by taxation before; so politically I do not think you would raise it by taxation. Then, if you had great difficulty in raising it by loans, you would be in a bad way.

5923. *Sir Alan Anderson*: You mean that disliking the war might make them dislike the Government?—Yes. A reason, I suppose, why it was not raised by taxes was the fear of destroying what was called morale. Obviously the thing to do was to raise much more by taxes, if it had been politically feasible, a thing which one never does at the start of a war.

5924. *Chairman*: If there were a Capital Levy now, would it not be very difficult later on to raise money in the event of another war or even for any other purpose?—If people were afraid that there would be another Capital Levy to wipe out that debt, of course it would be harder, but I think it would still be easier than if you had a great debt to start with.

5925. *Sir Arthur Balfour*: You think that theoretically it might appear to be a good idea to raise necessary money by high taxation, but practically it is impossible?—That is what I am afraid of. I was always in favour of raising a lot more taxation for the war, but they all said: "If you do, people's *morale* will break down." Theoretically I think it would be much the best.

5926. *Mr. Lees-Smith*: I am in rather a difficulty about this. The alternative you propose to the Capital Levy is one which is in fact so impracticable that nobody seriously suggests it could be done; that is, to pay off a substantial portion of the debt in 20 years. At the present rate of Sinking Fund we shall not pay off any substantial portion of the debt for another 70 or 80 years?—That is £50,000,000. I should like to have a bigger Sinking Fund than that.

5927. *Sir Arthur Balfour*: £100,000,000, you said?—That is rather a shot. I would like it to be a larger Sinking Fund than it is.

5928. We have had a larger Sinking Fund in past years; we have reached £80,000,000?—I do not put a particular figure. My idea would be that I should like to pay off the debt as rapidly as possible by that method.

5929. *Chairman*: Will you go now to paragraph 3?—Yes. (*Paragraph 3 read.*)

5930. *Mr. Bowen*: In what form would you argue the presumption that the present high rate of taxation checks work and saving? You say there is no certain proof. How are we to be impressed?—What I mean is this. We will take Income Tax, for instance. If you have a very high Income Tax, a person thinking whether he shall do something that will earn another pound, will reflect: "I will only get 15s. out of this"; and so he may think it less worth while to work to get that pound than if he knew he was going to get the whole pound himself.

5931. You do not think that any reflection of patriotism or some interest in the nation's welfare would induce him to do his best, whether a portion went into taxation or not?—Of course some people will work as hard as they can for patriotism, but most people will pay attention to their own interest. If they think it is to their interest to do more work, they will tend to do more work.

5932. If you assume that taxation has such an effect upon work, cannot that be counterbalanced by some interest in the nation's welfare? After all, in a community like ours, we can reasonably expect that anybody who is called upon to do his best will do his best, and we might presume that he will regard the demand for money for the nation's work as equally as strong as anything else, even in profit making?—If you believe people will do that. I think a good number of people would not.

5933. *Sir Arthur Balfour*: How far can you drive that question of doing their best? Take a clear case that we have before us at the present time—the Australian Commonwealth Shipping Line. The Australian Commonwealth has only 5,000,000 people, and you would think they would do their best to support their own shipping line; but they have totally failed. Is not that rather an answer to the theory that people out of patriotic reasons will do their best?—I do not think all people, or a great majority of people would do very much if they did not expect to get anything out of it.

5934. They do it at times of war under great stress of national peril, very likely, but taking year in, year out, you cannot count on them?—That is so.

5935. *Sir Alan Anderson*: And if you could, is it not just as well to have the other inducement too?—(*Sir Arthur Balfour*): You cannot count on it at all for practical purposes. (*Mr. Bowen*): So that the appeals we get, you think, are of no avail at all? We get appeals from very high places.—(*Witness*): I do not think they are of no avail. Of course, during the war people would do a lot of work for nothing at all, and even in peace, of course, some people would; but if you pay them, on the whole, I think, you will get them to do more.

5936. We may take it that the presumption is that we need not expect more from one class than from another when it comes to a question of paying taxes?—No, I do not think there is any distinction between classes.

5937. *Mrs. Wootton*: We are always hearing about people who reduce their work and saving owing to taxation. I was wondering if there really are very many people who are in a position to act in that way. On the one hand you have a good many salary receivers with a very limited field for adjusting their precise amount of work to the rate of taxation, and on the other hand you have a great deal of enterprise carried on by companies whose precise amount of enterprise cannot be adjusted very closely to the rate of taxation. Is it really a very practical point that people are influenced in this way?—I do not think it is a thing of which you can determine the quantitative effect. I think you can only take a general vague impression. I do not see how you can estimate it.

5938. Whether the quantitative effect is great or small, you cannot put it down in figures?—No.

5939. *Sir Josiah Stamp*: Can you express the effect in the expression of the area over which it works?—Yes, you might do that.

5940. *Mrs. Wootton*: That is really what I meant.—I do not myself think it would be very enormous. I think it is more in the nature of a guess than anything else. If people calculated right, it might be quite small; but a great number of people may think that it is not worth while. They might, for instance, not bother to make a saving; that is the sort of thing, for instance, that the Excess Profits Duty led to.

5941. *Sir Arthur Balfour*: That was very wasteful?—That was apparently very wasteful.

5942. *Mr. Lees-Smith*: Have you taken into account the opposite effect that is very often pointed out—that people will save for old age, and so on?—Yes. That is why I say there is no certain proof. There are the two things acting against one another.

5943. You do not mention the opposite effect there at all, do you?—I am taking it on the whole. What I say is that there is a considerable presumption, though there is no certain proof. I say there is considerable presumption because there are the two forces pointing in opposite ways, and I just guess that this one is the stronger.

5944. *Mrs. Wootton*: Is it perhaps more important in regard to saving than in regard to work? The field in which you can adjust your savings to the net return after taxation is much larger than the field over which people can adjust their work?—Yes. I cannot estimate how big the field is. That is quite likely.

5945. *Sir Alan Anderson*: Are there not two different effects in the two different classes of people? If you get a very high Income Tax and Super-tax of 5s. in the £ and make that 10s. in the £, then it is possible that you might stop an enterprising person from going on taking risks and creating further wealth?—Yes.

5946. As to salaried people, it is quite true they cannot withdraw their salaries, because they must have their salaries, but the effect of a high Income Tax on them must be to make them struggle to get rather higher salaries than would satisfy them if there had not been a high rate of tax?—Yes. There is the person who gets a definite salary, and there is the person, like a lawyer, who gets paid for the particular work. If a person had a definite fixed salary it could not make much difference either way. (*Mr. Bell*): Lawyers do put 33⅓ per cent. on their accounts.

5947. *Sir Josiah Stamp*: Can I suggest to you the way in which the effect that you are speaking of is perhaps most obvious? Take the case of a highly skilled professional man already working very hard and making several thousands a year, who has heard of some new appointment by which he might add to his present income. He is very disinclined, unless the reward is great, to undertake the second job, and as the margin is more highly taxed than any other part of his income, there is a double incentive not to take more?—Yes; the job may go to another professional man less known.

5948. You are really discouraging a certain section who might be in competition for it, and giving a differential advantage to another section?—Yes, it would probably work like that.

5949. You are familiar with the common statement which is made about Budget time, that the Chancellor ought to reduce the Income Tax by 1s. in the £, because if he did so he would not lose revenue, he would get it all back. You have seen that?—Yes, often.

5950. Have you ever analysed that upon assessed incomes in order to see over what fields that could operate?—No.

5951. Would you agree with this: that we should cut out Schedule A?—Yes.

5952. That Schedule B is only slightly affected because of the way it is assessed?—Yes.

5953. That Schedule C, fixed interest on Government Stock, and so so, is unaffected?—Yes.

5954. And Schedule D, so far as it relates to public companies' profits, is affected only in the lower grades of companies that are more or less private concerns?—Yes.

5955. And that Schedule E is affected only to a limited extent as regards actual ability to get a higher salary on which to pay the tax?—Yes.

5956. And if you took the limited area of figures where this stimulus could operate, and allowed as a maximum 50 per cent. increase—and you would agree that 50 per cent. would be the very maximum increase that you would get as a stimulation to the ordinary payer?—I should think so.

5957. Then that the effect of taking off 1s. would be that you could not conceivably get more than 1½d. back?—I have not made the calculation, but I should think that is very likely. I should not think you would get anything like 1s. back.

5958. That is after taking very wide assumptions for the full operation of the stimulus?—You mean the immediate operation?

5959. Yes.—Of course, I have not made the calculation, but I assume your calculation is right.

5960. It is all right to take something off if you can afford it on the Budget, but not to gamble on the idea that you are going to get a higher assessable income to pay it. That is what this argument really amounts to?—I do not want to put it quite like that, because there may be all sorts of indirect psychological effects. There is a difference between the immediate and the ultimate effect.

5961. If you ignore the effect on this Budget, in five years' time there may be so much capital investment that you would get your money back?—You might. I think it would be more complicated to make a complete calculation than to deal with an immediate one.

5962. As a rule, as a Budget argument, it is usually addressed to the results of the year?—Yes.

5963. Before I came here this morning, I was begged on the telephone by a well-known economist not to pay so much attention to the psychological effect of reduced taxation, and it was put to me that it was demonstrable in the North, at any rate, that whatever the earnings of wage-earners and salary-earners are, if they get an increase in their wages they will work less hours and take more time off because they had got the figure they wanted, and they prefer at that stage more leisure to increased work. If that is true—I have not sufficient knowledge of industrial work to say—it seems to me to cut very much into this argument?—There is evidence about that in the coal mines, but there again I think you want to distinguish between the immediate and the final effect. A person's general standard may alter after a bit. You cannot take his immediate standard as fixed for ever.

5964. You think that after having had this leisure and enjoying a low standard of wages he will begin to work harder?—He may. I do not think a person's standard is permanently the same if he gets a higher income.

5965. Otherwise, in the nineteenth century we should never have enjoyed a higher salary. We should have reduced the hours of work?—Yes.

5966. *Mr. Hichens*: At any rate, you would agree, would you not, that whatever effect high taxation may have upon the output of the individual it must have an important effect on the amount that he saves. Take an extreme case. Supposing taxation was so high as to take away everything except sufficient to provide the bare necessities of life, it is obvious that there would be nothing left for him to save?—I think I would draw a distinction there—the distinction between the effect of actually taking the money away and the knowledge that the taxes are there. If you actually take the money away and the Government then hands it over to somebody else, somebody else gets it.

5967. They may hand it over to somebody else for a non-capital purpose, or some purpose that is unproductive in the same sense?—It may be the other way. For instance, take the Sinking Fund. Supposing that you take in taxes £100,000,000, and you use that to buy up somebody's War Loan, that person probably would invest the money so that in that case the direct effect will be that you will actually cause more saving.

5968. But you will not increase the incentive. Is that so or not?—I want to distinguish between incentive and the actual use of the money.

5969. *Sir Arthur Balfour*: Surely if direct taxation is high, the effect, even to-day to some extent, on the mass of the middle class salaried people, is to increase their anxiety about their finance, which produces a psychological effect on their work?—You mean that they are probably disturbed and so cannot work so well?

5970. Yes. There are millions of people disturbed to-day in that way.—Yes; of course that might cut both ways.

5971. *Mr. Lees-Smith*: In most of the evidence that we have had, the psychological effect of heavy taxation has not been so much criticised as the simple fact that if taxation is heavy there is a smaller margin from which you can save, and therefore the actual amount of saving is less?—That does not apply when the saving is taken and handed over by the Government to repay war debt. That only applies when real resources are actually used up: otherwise it is a choice of whether the Government is more likely to use it in a capital way, or the private person.

5972. *Chairman*: Will you now go to paragraph 4?—Yes. (*Paragraph 4 read.*)

5973. *Sir Arthur Balfour*: It has been suggested to us by one witness that there was not much saving to be hoped for from conversions?—I should expect that the general rate of interest would tend to fall and that would mean that you had more conversions.

5974. *Mr. Bell*: It is impossible to form any estimate of the saving?—I could not form any estimate. One wants to have in mind details of exactly when the various loans are repayable and also to have knowledge of when the rate of interest was going to fall.

5975. Some witnesses very much condemn the issue of Government securities below par or below the price of redemption. It seems to be an arithmetical question that simply wants working out, but that view has been taken rather strongly. Have you any view on the point?—I suppose the point is that if you issue securities below par and the repayment period is a long way off, you cannot convert, or you are less likely to convert. Supposing you issue at 100 with interest at 5 per cent. and interest rates fall to 4 per cent., and you are allowed to redeem, you can redeem at £100.

5976. I do not think that was quite the point in the witness' mind. It was really a question of the advisability of issuing below par, say, at 4 per cent., a loan which runs on for some time, or whether it would not have been better to have issued the same loan at a higher rate of interest at par?—I should have thought it would make no difference, except that it might alter the terms on which you could convert.

5977. *Mr. Hichens*: If you issue below par you are surely putting on to posterity a certain proportion of the debt which otherwise you would pay to-day.

Take an extreme case. If you issued, let us say at £10 with no interest at all, and agreed to pay off at par in 100 years, it is obvious that you would be putting practically the whole burden on to posterity?—Yes.

5978. And in so far as you issue below par you are to some extent adding to the burden which posterity has to bear and lightening your own. *Mr. Bell*: Is that so? Because by issuing below par you pay a lower rate of interest. It is purely arithmetic, is it not, which is the better way? If a 3½ per cent. loan is issued at 95 what difference is it to issuing a 4 per cent. loan at par?—*Mr. Hichens*: You are at least asking posterity to pay off £100 at some future date in respect of a loan which only yielded £95, and if you carry that to an extreme it is obvious that you can place the great majority of your interest burden on posterity by making the issue price sufficiently low and the redemption price sufficiently large. I merely want to point out that that is a possibility, and I wanted to get from the witness how far he thought that was a permissible thing to do. It may be only a small amount that you put on to posterity, but it must be something, I think. You see the point, do you not?—(*Witness*): Yes. Supposing you want to raise £1,000,000, you can raise that £1,000,000 either by issuing 10,000 bonds at £100 or by issuing more at £80, but if it is £1,000,000 you have to pay back £1,000,000 at the end anyhow.

5979. You have to pay back £1,000,000 at the end, but the difference is whether you get £1,000,000 in the first instance and have the benefit of that money and pay a higher rate of interest on it, or whether you get only £800,000, let us say, and pay 3½ per cent. all through the period, but at the end you have to pay back not the £800,000 that you received but £1,000,000?—Yes.

5980. The question I wanted to put to you was this. In so far as you are doing that, are you not really adding to the burden of posterity and lightening your own immediate burden?—Yes, it looks like it. I had not thought about that, but it looks as if that is so.

5981. It is a point that is of some importance. Suppose you took an extreme case and said that you would issue at £10 and pay no interest, and that you will repay ultimately at £100 in thirty years' time. There would be no burden on the community at the moment, would there?—No.

5982. But a big burden ultimately?—Yes.

5983. Therefore, you would in an extreme case like that obviously be adding to the future burden of the community by issuing below par?—Yes. What you are doing then is in effect getting rid of interest for the next twenty years, we will say, at the expense of leaving all that interest to be paid by the people who are living twenty years hence.

5984. Are you not doing that in any case, in so far as you issue below par and get a low rate of interest?—*Mr. Bell*: You are taking into account Sinking Fund, of course? *Mr. Hichens*: There may or may not be a Sinking Fund; I should like to see what the Sinking Fund was, first. *Mr. Bell*: If there were, that would be an alleviation. *Mr. Hichens*: It would, *pro tanto*; but it would not take it all away, even then; there would always be something. That is the argument as I see it, and I was just wondering how far Professor Pigou thinks that?—(*Witness*): On the face of it, it seems valid. I would not like to commit myself to it; I had not thought of that particular thing before.

5985. *Sir Alan Anderson*: The same argument exists against having a debt at all. *Mr. Hichens*: Quite so. Whatever debt you have, obviously you are spreading the burden over posterity, but this is only another rather concealed way of doing it. That is the argument which has been put forward. *Sir Alan Anderson*: Not much concealed. *Mr. Hichens*: I do not know; Professor Pigou has just told us that he has not considered it, and is not prepared to give an answer at present, which rather shows that it is concealed. The advantage again of doing that is that the holder does not pay Income Tax on this increment which will accrue to him on redemption. Supposing Income Tax for a rich man is 10s. or 12s. in the £, he will get off Income Tax on a substantial sum if the loan is issued at, say, £50, and repayable at par in 30 years, and therefore in that way the present is given a benefit, so to speak, at the expense of the future?—(*Witness*): Yes.

5986. Those are the points that have been raised. I just wanted to know what you thought of them?—*Primâ facie* that seems to be so, but it is not one of the things that I have thought about; and one is always liable to be tricked by these arithmetical problems. If one has not thought about them beforehand, one may quite well be tricked, so I would rather say Yes, in a tentative way.

5987. *Mr. Lees-Smith*: May I put another point that arises? The weight of this debt burden really depends largely upon the direction of prices?—Yes.

5988. So that if prices eventually fell to anything like the pre-war level, then I presume our debt burden would be largely in the position which you have indicated; it would be almost impossible to meet it?—The rate of tax to meet it would have to be much higher. It would make it very difficult.

5989. In your view would the position with regard to a special levy be altered if prices fell to pre-war level?—I think it would much strengthen the case for having some violent method. You might have prices fall and no new production. Of course that would strengthen the case a great deal for a special levy.

5990. *Sir Arthur Balfour*: Do you think prices may fall for currency reasons to such an extent if there is an increase in production?—Supposing we had a gold standard and a great number of countries begin to absorb a large quantity of gold, prices might fall—supposing America altered its policy, or supposing some country abandoned the use of cheques, or something like that. If prices were falling enormously, the Government would probably do something to the currency.

5991. *Mr. Lees-Smith*: Because of the problem of the debt?—For instance, supposing under the gold standard prices were to fall very rapidly a great deal, there would be a tremendous outcry for abandoning the gold standard.

5992. *Sir Arthur Balfour*: You would get a reduction in the standard of living then, would you not?—That would not be the main thing. The main thing would be the currency.

5993. But would you not also get a fall in wages?—You might. I was supposing there was less currency; presumably wages and prices would both fall.

5994. *Sir Josiah Stamp*: At a time when prices have fallen for currency reasons, real wages have generally gone up, because money has not fallen so rapidly?—But if you take a long period, the two things tend to go together.

5995. *Mr. Wootton*: Would the case for a special levy be strengthened by this if it were a difficult time for having a levy?—Of course the task of working a levy would be hopeless during a period of collapsing prices. When prices were very unstable it would be almost impossible to work a levy, as in the case of Germany when prices were altering every day.

5996. After prices have fallen heavily, do you think would be the time?—When prices are moving in either direction quickly it would be extremely difficult to have anything like a special levy, because your valuations all go wrong; but if you had a general lower level of prices, that would mean that the proportion of tax to deal with the debt would have to be very high, and the existing arrangement would be much more unpleasant than it is now.

5997. *Mr. Lees-Smith*: The whole effect of our deflationary policy lately has been to make the burden of the debt heavier?—In that sense, to make the budgetary burden heavier. Of course it is not related to the real burden of the external debt. The

amount of actual stuff that has got to go for external debt is not affected by our prices.

5998. *Sir Josiah Stamp*: That is true of deflation of sterling?—Yes.

5999. It cannot be true of deflation of gold?—No, there is that difference.

6000. *Mr. Hichens*: There is one general question which does not come in any of these earlier paragraphs, that I might ask now. There are many people who think that a forced loan is something wicked and savouring of Beelzebub; they regard it as perfectly natural and reasonable that you should take money from a citizen and never pay it back at all, but they regard it as wrong if you take money on terms to pay it back. I should like to know whether in your view there is such a natural and fundamental objection to a forced loan?—No. As I said just now, I think a forced loan is really a special levy plus borrowing by ordinary methods. If you want £1,000,000,000, it is broadly the same if you take the whole of it up 2½ per cent., as if you take £500,000,000 of it in taxes and £500,000,000 at 5 per cent.

6001. Supposing it so happened that there was something like £200,000,000 of the National Debt maturing in each year, would you regard it as inherently wrong to say that a forced loan would be raised on the basis of the Income Tax to pay that loan off, but that those who contributed the money would receive 3 per cent. or 2½ per cent. interest?—No, I should not think there was anything wrong about it, but I do not think that is the point.

6002. Why not?—You might just as well borrow half of it in the ordinary way to pay off half, and make a special Income Tax levy to pay off the other half. It would come to the same thing.

6003. Why would it come to the same thing if you get it that way? Supposing you decided to pay 2½ per cent. interest on the whole of the £200,000,000, you would be getting your money at par and not at below par. If you borrowed it, you would be getting it below par, whereas this way you would be getting your full £200,000,000, would you not?—Supposing you wanted £200,000,000, you can get the whole of it by borrowing it compulsorily at 2½ per cent.; that is one way: or you can get half of it by borrowing it voluntarily at 5 per cent. and take the other half in Income Tax. It seems to me it is much the same thing to get £100,000,000 by taxes and £100,000,000 at 5 per cent., as to get the whole £200,000,000 at 2½ per cent.

6004. *Professor Hall*: Is that really so?—Of course there are incidental differences of distribution, but broadly it is the same thing.

6005. The person who holds the scrip for the £200,000,000 can borrow on it, but if you take it away from him by taxation, he has not the same opportunity?—Will he be able to? His scrip is only at 2½ per cent.

6006. The capital value is there and some day would be repaid?—Yes, but it will not be worth anything like £200,000,000 as collateral if it is only bearing 2½ per cent. interest.

6007. But it would be worth more than nothing?—It would be worth more than nothing, but it would not be worth so very much more than £100,000,000 paying 5 per cent.

6008. As a marketable security, true; but since it is to be ultimately redeemed, the banks would take it?—Would they take it at more than its market value?

6009. It depends on the date when it is to be redeemed?—You mean 2½ per cent. redeemable at a particular date?

6010. Yes?—Then of course it is equivalent to more than 2½ per cent. really. I do not think there would be much difference. It would be an arithmetical calculation. There would be some difference.

6011. There is only the difference between taking £100,000,000 in taxation and raising a loan of £100,000,000, and having the £200,000,000 security available for the person who has accepted it?—Yes, there is a difference in that, too; but I do not think a person with the £200,000,000 scrip would be able to borrow £200,000,000 on it, if it is only at 2½ per cent.

6012. *Mr. Hichens*: But it would enable him to borrow something?—Yes.

6013. *Mr. Bowen*: In your reference to prices, how do you relate that to what I will call the cost of living index figure? In speaking of prices, do you speak of general prices—all kinds of prices?—Prices in general.

6014. Not those indicated by the cost of living index figure only?—They go more or less together. I mean general prices.

6015. The point I was going to put to you, following on that, was this. Do you agree that we have reached, or pretty nearly reached, some stabilisation? There has been very little change in prices in the last two years?—That depends on the currency policy and on production. I do not see how you can make a forecast.

6016. There does not appear to be any way to secure an automatic fall in prices?—A sudden fall?

6017. Automatic, not exactly sudden?—You could force a fall of prices by currency measures, of course. If you forbade the use of cheques, for instance, you would bring about a very large fall in prices.

6018. I do not want to ask you questions which may lead to something else, without making quite clear what I have in my mind. What I have in my mind is this. How far does the fact that the level of prices has tended to stabilise during the last two years affect your mind with regard to the Capital Levy?—I do not think at all. We have to look a long way ahead, and whether this policy of stabilising will go on, I do not think one can foresee.

6019. You do not think the effect is quite natural?—At present we are not on a gold standard. When we are on a gold standard, prices will largely depend on what happens to gold, and we cannot be certain what is going to happen to gold.

6020. *Sir Josiah Stamp*: I am a little uncertain of the meaning of your words "other things being equal" in paragraph 4 (iii). Do you mean if the gold production were to remain constant, or if gold production were to increase *pari passu* with goods?—When I said "would probably carry with it," I meant in the sense of cause. What I mean is that probably if you had increased production you would at the same time get a certain development of banking, and therefore there would be some correspondence on the banking side in the way of facilities, and that would partially balance increased production.

6021. Supposing you had increased production of gold at the same rate as the production of goods?—That would be a different thing. I meant, ruling that out. I was simply taking the direct effect of increased production. The thing would be different if your debt was in terms of goods from what it is if your debt is in terms of gold.

6022. *Mr. Lees-Smith*: I do not know whether you have formed any estimate at all; do you anticipate an increase in the wealth of this country?—Its real wealth, yes, certainly. I think there will be a continuance of investment of capital and a continuance of growth of population.

6023. Evidence which has been given to us makes it very doubtful whether there will be an increase of population?—You mean Professor Bowley's suggestion; he does not begin to stop it till 1935. I should expect there would be a continuance of growth of population up to a point. Anyway, I should expect a continuance of the increase of capital and I should be surprised if all of a sudden we stopped increasing our real wealth. Of course, it is a guess.

6024. *Chairman*: Will you go to paragraph 5?—Yes. (*Paragraph 5 read.*)

6025. *Mr. Bell*: Do you think that advocates of a Capital Levy generally have realised the inroad that a levy would make into annual revenue?—I do not know; I had not realised it; I had not worked the thing out. It is surprising, I think, because

naturally one's first way of looking at it is to compare the amount of the levy with the amount of the aggregate capital and not to take full account of the effects of these progressive rates. I was very much surprised when I found how big an inroad it was.

6026. *Sir Alan Anderson*: How big do you make it?—I have not made the calculation. Sir Josiah Stamp's calculation puts it at two-thirds; it is a matter of arithmetic.

6027. You are taking his figure?—Yes. I have not done the sum myself, but it is a matter of doing the sum, which presumably he has done right.

6028. *Mr. Lees-Smith*: I see your view, stated later, is that the main argument for the Capital Levy is that it really would lead to an improved fiscal technique if you could overcome these difficulties?—Yes.

6029. So far as it leads to an improved fiscal technique, it would be better to raise your money by that means than by Income Tax, Super-tax and Death Duties?—Yes, but the point about these ravages is that you would be able to reduce your Income Tax, Super-tax and Death Duties so much less than one would think at first sight.

6030. But in so far as you move the burden of tax from Income Tax, Super-tax and Death Duties to the Capital Levy, to the extent that you did that, you would get an improved fiscal technique?—Yes. Then against that are all the difficulties of a Capital Levy, and the fact of the gain being smaller than one would think might shift the balance the other way.

6031. *Sir Josiah Stamp*: You refer to the question of the ravages as being one of arithmetic. It does involve the laying down of certain hypotheses?—Yes.

6032. Particularly with regard to the Sinking Fund, and so on?—Yes.

6033. Would you dissent from any of the principles that were adopted in the calculations I made?—No; I presume that they gave substantially the right result.

6034. There are points on which one might say it is not right to take the death rates into consideration, or it is not right to take two generations; there are points on which one might differ, apart from the accuracy of the arithmetic?—But I mean the whole thing is a statistical calculation. I think one obviously ought to take account of death rates of different classes and the distribution of income at different ages, and all those things.

6035. You would not dissent from any of the principles?—No. I have not gone into it very carefully, but I should take it roughly as being correct

6036. *Professor Hall*: There are two arguments really here; one is the lack of general assent, which would lead to difficulties in administration, and the second is that the net result would not be so advantageous as at first sight it appears to be?—Yes. There are three things, really. There is the lack of general assent, the peculiar temporary depression at the moment, which makes it rather a bad time, and the fact that if you put on a levy now you would create an expectation of repetition much bigger than you would have done if you had put it on before.

6037. That is a matter of time, but on the principle of the Capital Levy, one principal objection is the lack of general assent, which would create difficulties in working, and the other is that you do not think the net result would be as big as people previously had thought?—I do not think it would be as big as I thought it would be, and I cannot make up my mind whether if I had realised then how much smaller it really would be than I had thought, I should still have been in favour of it.

6038. *Sir Arthur Balfour*: It is a question as between the amount obtained and the dislocation caused?—Yes, that is the point. You would get obvious dislocation and you have to balance the two things. When you find that one side is much less than you thought it was, it tends rather to make you doubt. I think, anyway, there was a much stronger case for doing it when people were full of patriotism just after the war, than for doing it later.

6039. *Sir Josiah Stamp*: Supposing on balance you had then still been in favour of a levy, do you suppose it would have checked the deflationary tendency of prices?—I think it might have; it might have stopped that post-war boom. That would have been all to the good.

6040. Therefore, although we might have a subsequent fall, it would not have been quite as steep?—Yes, there would have been a strong case for it at that moment.

6041. Looking back on the prospects of what would have happened on your instalment system over a period of falling prices, you would not be inclined to regret that position?—The instalments would have been very awkward, undoubtedly, but you would not have had such a large change of prices, I think.

6042. Do you think you would have avoided the change?—You would not have avoided it altogether, but I do not think you would have got that enormous boom. It would have been rather a good thing to frighten people just then. They wanted frightening.

6043. *Mr. Bowen*: Do I gather your view is that if a levy were at all practicable at any time, it is now too late?—I think it is still practicable, in a loose sense of the word "practicable," but I think it would be very difficult to work unless you had a general assent to it, and now opinions have rather crystallised; and it is a very different thing for the Conservative party to pass a Capital Levy and for the Labour party to pass it. If the Conservative party passed it, it would be generally accepted, and you would not have organised opposition. But where you have organised opposition, the mere fact of organised opposition might be fatal against it.

6044. Do you think it would be worth a General Election?—I was thinking of how people might try to evade it and how banks might make it awkward to deal with the securities in the interim, and things like that.

6045. *Sir Josiah Stamp*: Would you agree that if in ten years' time you had a very low level of prices, it is quite possible that big taxpayers and business men and bankers might get together and really reintroduce some arrangement of this sort, being careful not to call it a Capital Levy?—Yes, that would be admirable.

6046. *Mr. Lees-Smith*: With regard to this paragraph, while you state your own objections to the Capital Levy, you give no weight to the ordinary objections which have had an effect upon the public mind and which we have had in evidence here. Nine-tenths of the ordinarily expressed objections to the Capital Levy, you do not consider worth mentioning?—Well, I do not.

6047. I gather you do not believe that it would diminish the amount of capital available for investment?—No.

6048. One would like to be clear about that, because we have had evidence the other way?—There is just this point that I mention later, about that £3,000,000,000 collateral. Apart from that, the popular argument is that you are going somehow to eat real capital up.

6049. That you are taking capital out of industry and therefore you are creating unemployment?—I do not think those arguments worth mentioning before this Committee.

6050. *Mr. Bell*: Let me put it to you as I put it to another witness who, I think, was rather surprised. Take the case where a man has £100,000 of capital invested in War Loan, of which £30,000 was handed over in payment of the levy. Do you say that is not a serious reduction of capital?—It is not a reduction of capital in the real sense of capital.

6051. Why not?—It is not a reduction of the amount of railways or machines, or anything like that.

6052. Is it not the fact that he is less able to

use it in his business?—No; his business is machines and factories.

6053. No, it is not. I am talking of the man who wants the capital for trading, such as getting imports into this country, and other things. Do you mean that his actual capital is not reduced by taking £30,000 away from him?—His own private capital is reduced, but then it is paid over to another man.

6054. No; it is cancelled; that is the whole point. The State tears up the £30,000 worth of bonds which he tenders?—That is the point—he has collateral.

6055. Exactly?—Yes; I come to the collateral question later on.

6056. But the suggestion is made that he has not any less capital?—Surely your suggestion is that he has less collateral on which to borrow from the bank.

6057. Exactly—his working capital?—That I come to later—the question of how far collateral is reduced, and how far, therefore, you reduce people's power of borrowing; but I was speaking about the reduction of real capital; I was thinking of something different.

6058. A business man does not understand these fine distinctions; he knows he has got £100,000 with which to trade, which for the moment he has got in Government securities. If you tell him that when you take £30,000 of that away there is no real reduction of capital, that does not mean anything to him?—Because he is using "capital" in a different sense.

6059. *Sir Arthur Balfour*: If he has to go into liquidation, it does not interest him to know that somebody else has got the money and is using it in some other way?—No, but if you take away £30,000 from that man, you ought at the same time to tell him of the less amount of taxes that he would have to pay.

6060. And now he discovers that the amount is not as large as he thought it might be?—Yes, you have incidental disturbance. I do not think there is any inconsistency. It is simply that we are talking about capital in two different senses.

6061. *Chairman*: Now paragraph 6. (*Paragraph 6 read.*)

6062. *Sir Alan Anderson*: There is some definite limit to taxation. Do you think taxes are near the top limit now?—They are below what they have been. What does the difference between £50,000,000 and £100,000,000 a year mean in Income Tax? I have forgotten.

6063. *Mr. Lees-Smith*: 1s. in the £.—Yes; that is a good lot.

6064. *Sir Alan Anderson*: You would provide the larger Sinking Fund by increasing taxes, would you?—If I was certain there were not going to be any more wars I would not, but I am rather obsessed by the notion of starting a war with a debt of £7,000,000,000.

6065. I suppose the whole question with the Chancellor and the tax-gatherer is, in what way they can get the money. They are advised now by one section of the community that if they put up taxes they will very seriously depress trade, and, looking over years ahead, they will get less money by doing that than if they hold their hand. Have you any view about that? Do you think we are up to the top limit of taxation?—No, I do not think we are up to the top limit in the sense that we are at the rate which would yield the maximum possible revenue. I think we would get more revenue if we put another 1s. on.

6066. Without depressing trade?—I think we would get more on the whole. There would be more evasion perhaps, but I do not think you would depress trade much by a higher Income Tax.

6067. *Mr. Bell*: In your paragraph 3, I thought you said you did?—Not much, I think. You would to a certain extent.

6068. The practical point is: would you anticipate in connection with a higher Sinking Fund, say £100,000,000, that you would actually tax to get it—that you would do that as a practical measure?—I think I should, because I am rather frightened of having a big debt. But it is a matter of balance. If I was not afraid of a war, I would not, I would let the debt run on; but I cannot see what is going to happen if we have a war when we have this sort of debt to start the war with—and there might quite well be a war in 20 years.

6069. *Mr. Lees-Smith*: You object to the Capital Levy and you propose an alternative, and immediately you propose an alternative everybody begins raising objections to it about as strong as they have to a Capital Levy—so strong that nobody could carry it out. Under those circumstances what do you in practice propose? You cannot carry your alternative. You will not get any more assent to your alternative from those who object to a Capital Levy than you get with regard to a Capital Levy itself?—I think most people would prefer to add £100,000,000 to the Sinking Fund rather than have a Capital Levy.

6070. You would not get your alternative carried?—You might as a matter of practical politics say: "Now we will have £100,000,000 Sinking Fund."

6071. *Mr. Bell*: I do not know why Mr. Lees-Smith should say that. I think the witness is quite within his right in saying that he thinks, at all events, that we should put the Sinking Fund up to £100,000,000, and that we should consider that. (*Mr. Lees-Smith*): My difficulty is caused by the fact that there are strong objections to putting the Sinking Fund up to £100,000,000; what is his position when he finds that both proposals that he puts forward are met by objections which prevent them from being carried?—(*Witness*): I do not think I should admit that it was impossible politically to have £100,000,000 Sinking Fund.

6072. *Sir Arthur Balfour*: If a referendum were taken in the country to-day of the people who pay, as to whether they should have a Capital Levy or raise another 1s. in the £ Income Tax, to make another £50,000,000 for the Sinking Fund, what would be the answer?—I think they would vote for the other 1s., but I think they would vote for it chiefly on a bad argument.

6073. *Mr. Lees-Smith*: Is it not that they would vote for neither; they would have neither one nor the other? (*Sir Alan Anderson*): It seems to me it is wrong to put the views of the witness as if these were alternatives. I think he compares the Capital Levy with certain other courses that are open to us, and he decides that the levy is not convenient just now, and then having decided that, he goes on to see whether we ought as prudent people to pay off more debt even at the risk of taxing ourselves more, and he says: "Yes, I think we ought." (*Witness*): That is my view.

6074. Professor Cannan, I think, said the same—that we ought to pay off more, but he was going to get an extra £50,000,000 out of economies. Do you think that is possible? Have you looked into that at all?—I have not gone into how much we could get out of economies.

6075. Your view is that even at the risk of taxing more, you would have £100,000,000?—Yes. If we can get it out of economies, so much the better.

6076. *Sir Arthur Balfour*: But if we could get it out of conversions, and so on, it would mean not taxing more, but not reducing taxes so soon—keeping the level of taxes where it is, for a longer period?—Yes.

6077. It is not necessary to put another 1s. on to carry out your scheme; your scheme might be carried out, maintaining the present rates for a longer period?—Yes, we might get £50,000,000 from conversions after a time, but I do not know whether we could or not. There might be various other ways in which you could get it. Even if you have got to have more taxes, I should feel safer on the £100,000,000 than on the £50,000,000.

6078. *Professor Hall*: Would you make it £100,000,000 immediately, or would you reach it

gradually?—I have not thought about that. I suppose gradually. It is a rather awkward moment to begin at this instant.

6079. I was wondering whether you would make use of the reductions of debt interest and the reductions of war pensions by adding the amount saved annually to the Sinking Fund until it reached £100,000,000, so that without actually increasing taxation you would actually reach the amount you mention?—(*Mr. Bell*): We had a suggestion from Professor Macgregor that the Sinking Fund might be kept at its present level for five years, and that then the total charge for interest and Sinking Fund might be stabilised, so that after another 18 years the Sinking Fund would reach £100,000,000. You would not object to that, would you?—My feeling is a perfectly general one, that I do not like the notion of keeping such a big debt on for a long time.

6080. Are we really going to think upon these matters in terms of another war? Because I have formed the opinion very strongly that if there is going to be another war we had better not have any Commissions or anything else. If we are really going to anticipate the possibility of another war and the terrible troubles that we have seen in Europe and elsewhere we had better throw the whole thing up? (*Sir Joseph Stamp*): Is it not rather more reason for buckling down to it? (*Mr. Bell*): I do not think so. The thing is over then; the game is up; if we are going to add thousands of millions more on to it, there will be no civilisation left.

6081. *Professor Hall*: It has been suggested to us by one or two witnesses that besides the £100,000,000 we should add to it either part or all of the interest saved annually so that the Sinking Fund would increase year by year, and thus enable us to pay off the whole of the debt in, say, 30 years. Do you think that is too heroic a policy?—I think it would mean pretty heavy taxes to do it in 30 years.

6082. It would not mean necessarily an addition to taxation, but the maintenance of the rate of taxation for a longer period than perhaps you contemplate?—I have not really any definite time limit proposal to make about this.

6083. You do not attach any importance to our setting a date, either 30, 40, 50 or 60 years, by which the debt should be paid off?—My feeling is that we should pay it off as quickly as we can without severe inconvenience, and I suppose one would have to see how inconvenient it was as we went along.

6084. But you have not considered specially this suggestion that we should increase the Sinking Fund by the interest saved. You think we are pretty safe if we have £100,000,000 without any further addition?—I did not like to suggest more than £100,000,000. It is a bad position, having such a big debt.

6085. *Mr. Lees-Smith*: The best that Professor Cannan could say was that we ought to impose on ourselves the same terms as the Government impose on local authorities?—That is just a rule of thumb. There is no principle in that. Of course, if you have a thing that is going to wear out after a certain definite time there is an obvious reason for making the payments finish up when the thing is worn out. But there is nothing to correspond with that in the War Debt. There is no principle of that sort; it is a matter of balancing up.

6086. *Sir Alan Anderson*: But is there not a principle? I should have thought there was, but I quite agree it is a matter of balancing up. What you want to do is to get the best balance that you can. You want the country to be a well-managed, go-ahead concern, with people thriving, and if you tax them too heavily, even if you are paying off the debt, they may do less than if you were running on with the debt; I should have thought, more or less on the lines that Mr. Bell was putting, that it really is not much use looking at the prospect of another war and ordering one's policy now, because there might be a great demand for capital later on, and because you do definitely want to get to the best and most solvent state whether there is a war or not. If you get to that solvent state you will enter a war in the best position. I should have thought it did not matter how much debt you had if all those things were in your favour.—There are two points. My first point is that you cannot write down any principle to determine how long you shall take to pay off the debt, in the same way that you can if you raise debt to build a house. Secondly, with regard to the size of the debt, why I am frightened of keeping it so big is that it would make it so awkward to raise money.

6087. If you depreciated your credit in reducing it, it would be more difficult than if you had a larger debt and better credit.—It might be so, but you would have to depreciate it a lot. I cannot see people lending very willingly when there is a debt like that to start with.

6088. There is a good financial proposition that it is well to be in debt to your banker, because he will then back you up.—Yes.

6089. *Mr. Bell*: Are you in favour of attaching Sinking Funds to specific loans?—I do not attach much importance to it. I think the main point is, how much you really pay every year. The other is a matter of technique, whether you do it by a Sinking Fund or by a system of annuities.

6090. The idea was rather to attach them to those loans which were likely to be used in connection with future conversions?—My feeling about that is this. The chief point of having a formal Sinking Fund is that you make it less likely that the Government will change its mind; the technical arrangement by which you do it does not much matter.

6091. *Chairman*: Now paragraph 7. (*Paragraphs 7 and 8 read.*)

6092. *Mr. Bowen*: If the annual lump sum suggested were to be levied on the possessor of brain capital for the remainder of his life we should have great difficulty in getting any guarantee that he would be in a position to pay it for the remainder of his life?—Yes; you would have to remit it if he was not. Supposing he ceased to have any income, you could not get it.

6093. *Mr. Hichens*: What would your criterion be? Would you assess a man who got a first in Greats at so much and a man who got a second at so much, and a man who got nothing at nothing at all?—No. I think you can only assess people on their incomes.

6094. But is that reasonable? If you take 1915, a man may be getting a salary of only £200 a year, and in 1926 he may suddenly jump into affluence. Is that arbitrary divison reasonable?—No, I do not think you can do anything reasonable about this. If you are thinking of fairness and equity, the thing to do would be to have a supplementary Income Tax.

6095. But if you have a supplementary Income Tax can you divide it off sharply as an Income Tax in respect of what a man was and what he was doing in a given year? It is to be a thing which will affect him and other people on a sliding scale throughout their lives, and therefore it is not reasonable to take a man as only being worth £250, say, all through his life because at the moment of the levy that was his wealth. You would have to say, in so far as he improves he shall pay more, just as in so far as the other falls off he should pay less?—What I mean is that for fairness you would want to have an ordinary Income Tax on earned income, that would more or less balance the special levy on property. But the disadvantage of that is that that would involve marginal taxation, which would tend to check work, and since what you want to do by a Capital Levy is to get rid of that sort of extra marginal taxation, you would defeat your own object. I do not see a way of doing it both equitably and so that it does not spoil the object of the Capital Levy; so I am rather inclined on the whole to drop it. Still it is unreasonable that a lawyer making £20,000 a year should not pay any contribution to match what the man who has got a property yielding him £1,000 is paying.

6096. *Professor Hall*: Could you apply that and have a tax bearing more heavily on unearned incomes

than on earned incomes?—Then you would come back to the present arrangement.

6097. Except that you would overcome the difficulty of the valuation for Capital Levy?—You might base a Capital Levy on people's incomes.

6098. Yes, over a period, say, of five years?—You might do that, but that would not be fair in some ways. Supposing a person has property in land which has a large capital value because the land is going to appreciate, and yields in fact no income now, that man would get off. He clearly ought to pay under a special levy.

6099. But there are inequalities in all these things?—Yes. There is something to be said, I think, for basing it on income, only there would be very serious inequalities.

6100. Supposing you decided that you are going to have a levy and just for the sake of illustration, we will say, that the persons in receipt of unearned incomes pay a levy equal to double their annual average Income Tax during the last five years, and persons with earned incomes once the average earnings during the last five years, do you think that would be a workable scheme?—The difficulty would be that unless you made it much more than twice you would not get as much money.

6101. I was just putting that figure as an illustration?—If you made it much more than twice some of the people assessed on earned incomes might not have the resources to meet the demand.

6102. Suppose you allowed them to pay it by instalments?—You might make special arrangements like that, but what you are suggesting is that it would be convenient to base a Capital Levy on recent incomes rather than on the amount of capital.

6103. I am putting the term "capital" out of the way for the moment and assuming that everybody is anxious that the National Debt shall be reduced, and as a means of reducing the debt we all agree to an additional levy, which you can call supplementary Income Tax or by any other name. That levy would be based roughly upon the capacity to pay, which would be indicated by the incomes of the different classes of the community rather than by capital values. Would you think there is anything inherently objectionable in such a method if there was general assent to it?—I think the argument in favour of it is that it gets over some of the valuation difficulties, but the argument against it is that when you are having a single special levy a man's capital is a much fairer test of his ability than his income at the moment.

6104. Even when it is spread over a period of years?—I think so. For instance, take the case of a person who owns land that has practically no value now annually, but has a very large capital value because it is going to be built on some time after. Then there would be a good number of other things that you would like to bring under the levy if you could, but you would not be able to bring them under a levy based on income; for instance, a man owns a yacht or he owns a lot of motor cars—various things in respect of the service which he is not assessed to Income Tax at all; I would like to bring them in.

6105. *Mr. Bell*: I am puzzled about this difference between capital—so-called unearned—as a better basis for taxation or levy. Take two people doing the same amount of work and putting in the same amount of energy, and one gets a pension of £1,000 a year, but the other, who has no chance of a pension, saves up year by year until he has got £10,000 to live on for the rest of his life. Do you really differentiate between the two that one is capital and that the other is not?—No. How has he got this pension? The pension would have a present value presumably. I would call the present value of that pension, capital for this purpose—if you could do it. That is another of these cases in which there would be technical difficulties. But in principle I would call the present value of any assured future claim, capital for the purposes of the levy, though, of course, you have to deal with that sort of case by the method of instalments.

6106. It seems to be infinitely difficult?—It is extremely difficult, I agree.

6107. *Mr. Bowen*: In speaking of brain capital here, do you assume that people with brain capital, professional classes as we understand it, would have no material wealth? That would appear to be suggested in your paragraph?—No. If they had, of course, it would be easier to work. Some would not have very much. If they had, you might possibly be able to make an assessment on them, but still it would be very difficult, because you still would not know how much you would have to assess them, because you could not tell how long they were going to live and how long they were going to earn these big incomes.

6108. *Chairman*: The whole of the Civil Service would come under this question of pensions?—Yes.

6109. *Sir Josiah Stamp*: You would have to have special arrangements for reimbursing the State if a man died the following year if he had been given ten years' purchase?—Yes; you would have innumerable difficulties.

6110. *Chairman*: Now paragraph 9. (*Paragraph 9 read*).

6111. *Mr. Bell*: Do you approve generally of the present distribution of taxation?—You mean the proportionate burden among people of different classes of wealth?

6112. Indirect and direct?—I have not gone into it very much recently. I do not know what it is; nobody knows what it is exactly at present.

6113. *Sir Arthur Balfour*: Do you mean that rather than reduce taxes on food the relief should be in Income Tax, Super-tax and Death Duties?—The question as to how you should alter taxes is a distinct question from the Capital Levy. A Capital Levy should, I think, be used as an alternative to other taxes hitting the same people. I do not want to imply by that, that on other grounds you should not alter the whole distribution of taxation. But if you alter it, then you should alter it directly and not introduce a change of distribution by a sort of back door.

6114. *Sir Alan Anderson*: It is difficult enough to make up your mind, without confusing the issue?—Yes. The argument for the levy is a technical argument. If you, in your technical method, introduce a distribution change, that is introducing a distribution change by a back door. I do not want to commit myself to saying that you should make a distribution change.

6115. Or that you should not?—Or that you should not. (*Paragraph 10 read.*) I ought to add really that that is an extremely difficult affair. You might, for instance, introduce a Capital Levy law at a time of boom, and it might begin to operate in a time of depression. I do not quite see how you could apply that principle practically; because you cannot as a matter of fact introduce your levy and make it work instantly; there must be an interval.

6116. *Sir Arthur Balfour*: Would not its introduction tend to bad trade, and if you introduced it during the time of boom, would it not break the boom?—It might, but supposing you had a depression which came afterwards, it would be very awkward to begin operating it in the time of depression.

6117. In fact, you cannot do it without a depression; it would either depress a boom or it would depress the prospect of boom, or, if it was a time of bad trade, it would make it worse?—Yes. The difficulty is that there must be an interval between the passing of the law and making it work.

6118. If it would cause a depression, it would cause unemployment?—If you could make it only depress the boom, that would be all right, but I am afraid, owing to the length of time that would be involved, you might depress both the boom and the future depression.

6119. And therefore it would cause unemployment?—It might frighten people, you mean—yes.

6120. *Sir Alan Anderson*: It is inherent in a levy that it must act in the conditions most difficult

for it to act in?—A part of it must. I think either the introduction or the beginning of putting it into force must; I do not see how you could avoid that. (*Paragraph* **11** *read.*)

6121. *Mr. Bell*: Does this paragraph mean that you are in favour of taxing past savings—accumulated wealth, that is—more heavily in order to lighten the burden on those who are now engaged in industry?—No, I am not in favour of a Capital Levy at all. That is in answer to a question about unemployment. My suggestion is that such benefit as there was would be generalised, and there is no reason to suppose that it would appear specially in the form of a reduction of unemployment.

6122. Is there not much more reason to suppose that it would increase unemployment?—No; except from the point of view of the immediate dislocation, I do not think it would affect unemployment, because unemployment depends more on dislocation.

6123. *Mr. Bowen*: But we have had unemployment in many periods when there was no talk of a Capital Levy, and we probably shall have it again whether we have a levy or not; so that the material effect of the levy need not disturb our minds on that point?—My point is that such benefit as there would be from a Capital Levy would not appear in less unemployment, that it is more or less irrelevant to unemployment except so far as there was an immediate dislocation through frightening people.

6124. Or the other way round?—Or the other way round, but at the present moment you may get more unemployment by frightening people. My point is that unemployment is not a thing that is particularly relevant to it. (*Paragraph* **12** *read.*)

6125. *Mrs. Wootton*: Your view is that, in order that taxation should be relieved, it should be done on the principle that the levy is not to be repeated?—Yes. (*Paragraph* **13** *read.*) That is the same point as before, of course.

6126. *Mr. Bowen*: You say that the improvement of State credit by a levy would not come to much as things are. Does not that really challenge the general impression that we have got, that our meeting our debt to America has substantially improved the credit of the country?—Credit is used in a different sense. That is an external debt. I was speaking of the internal debt here.

6127. Does not the same principle apply?—No, I do not think so. There was a sort of feeling that, after all, we were not paying any interest on our American debt, and there might be a feeling, as there is in regard to France, that we did not really intend to repay it at all, whereas there was never any feeling like that about the internal debt.

6128. *Sir Arthur Balfour*: You include, in the words "as things are," the fact that we are paying our American debt?—Yes.

6129. That is part of the situation?—Yes.

6130. It is the beneficial effect of that, amongst other things, that enables you to say this?—Yes. I think one is using the words "the credit of the Government" in a rather different sense when one is thinking of external debt. What I mean really is that to reduce our debt from £7,000,000,000 to £4,000,000,000 in ordinary times would not probably have a great effect on the amount of interest that the Government had to pay to borrow.

6131. Our credit as a country is good to-day?—Yes.

6132. *Mr. Bowen*: Do you agree with the statement that has been made to us, that we can get accustomed to any amount of debt, and need not worry very much about it?—Do you mean external debt?

6133. Internal debt?—That means that we can get accustomed to any rate of taxation. I suppose it is less annoying when one is accustomed to it; but still, I think that to have a high rate of tax is always bad, if you can avoid it.

6134. *Professor Hall*: You do not think the substantial reduction of the debt suggested would be of much assistance in assisting schemes of conversion?—You mean, if you knocked off £3,000,000,000 by a special levy, whether the effect of that would be so to lower the rate of interest that you could convert the rest of the debt on better terms?

6135. Yes; you said you did not think it would have much influence on the rate of interest?—I do not think it would make much difference in that; it might make some difference.

6136. Not an appreciable difference?—I should not myself think that it would make a very appreciable difference; I mean apart from a war. Because everybody really does believe that the Government will pay this interest in full on War Loans. Of course, if there was any doubt about that, it would be very different. (*Paragraph* **14** *read.*)

6137. *Sir Arthur Balfour*: If people saw a Capital Levy coming, is it not possible they would start to sell property in advance and try to turn it into pound notes and hide it?—Yes, they might do it.

6138. Would there be a strong tendency to do that? Would not selling come very early?—You mean they would evade and take it abroad. I should hope they would not do that very much, but of course one cannot be certain.

6139. I should hope so, too, but there is a strong probability, it seems to me. People would begin to try to save themselves from confiscation, would they not?—You mean they would put their money into pound notes and hide them. They might be got at.

6140. What happened in Switzerland? Could they be got at, supposing they put it into pound notes and took it over to France and turned it into francs and then proceeded to live in France? A very similar thing happened in Switzerland on talk of the Capital Levy. Switzerland was depleted of currency, her securities went abroad and she was in a very embarrassed position and has not got over it to this day?—I only know from the newspapers about that. Of course it is possible that people might hide away their capital, but I should not myself be very much afraid of that.

6141. It could be done to a large extent, but it could not be done everywhere, of course. You said just now that if you put the taxes too high you got evasion?—Yes.

6142. I put it to you: if you put a confiscatory tax on people which was considered too high, is there any reason to suppose you would get less evasion?—You would get a certain amount, and you would get much more if people did feel that it was confiscatory; and that is one of my points about general assent.

6143. *Professor Hall*: Who would buy, in that case?—*Sir Arthur Balfour*: It depends how soon they started. I do not want to argue it. *Professor Hall*: You are suggesting that they would be willing to sell and other people would be willing to buy. (*Witness*): They might sell abroad.

6144. *Sir Josiah Stamp*: When you speak of obstruction by the banks, what degree of passive resistance, shall we say, would be necessary really to break down the levy?—What I was thinking was this. There will be an intermediate period in which people will want to sell securities before anybody gets money to buy them. If the banks refuse all loans to people who propose to buy in between, or if they refuse loans to enable people to hold them during the interval, that might cause a panic. I do not suppose the banks would, because, to begin with, if there was a big fall, it would be very profitable to the banks to buy themselves.

6145. *Sir Alan Anderson*: What you are really referring to is the question of general assent?—It is like refusing to lick stamps for the Insurance Act: if there was that sort of attitude towards it, it would make it much more likely for the thing to go wrong.

6146. Your view was that the banks might so act, if instead of assent you had a general disapproval?—Yes. I mean the position would be such that if

the thing was to work properly, the banks would really have to help it.

6147. *Sir Arthur Balfour*: You mean that if banks were quite convinced that this was a wrong policy for this country and was going to pull the country down, their opposition could bring it down?—Yes.

6148. And they might be applying it quite legitimately, because they believed that the Capital Levy ought to be stopped?—Yes.

6149. *Sir Alan Anderson*: Or because they believed it was going to bring about collapse. *Sir Arthur Balfour*: They might be applying it quite legitimately to prevent a Capital Levy being introduced. You are speaking of the period after it is introduced, but I was speaking of approaching its introduction?—(*Witness*): Yes.

6150. *Sir Josiah Stamp*: It would require their utmost goodwill and conviction to help it?—Yes: what I mean is that bankers' opposition would be much more important than anybody else's opposition. (*Paragraph* 15 *read.*)

6151. *Mr. Bell*: I do not understand how one thing bears on the other. Let me get back to my original question about the man with £30,000 War Loan who has £10,000 taken away which is destroyed. That has nothing to do with the gold standard, has it?—What I mean is this. Supposing your man has £10,000 War Loan on which he is borrowing from his banker. He has got that. He may have some War Loan which he is not using as collateral; that will not affect the deflation at all. Secondly, when this £10,000 is taken away, he may have other securities that he can deposit as collateral instead, so that the removal of used collateral will not be as big as the destruction of War Loan; because not all the War Loan is used as collateral, and even where there is War Loan used as collateral, the person so using it may have other second line securities that he could put in place of it.

6152. He may have; but I am going back to the case where he has not?—Where he has not, of course he will not do it, but taking the country as a whole, some borrowers will. So that supposing £3,000,000,000 of this scrip is destroyed, you will not really reduce your available collateral in use by as much as £3,000,000,000.

6153. No, not by as much, but the point is, if a man had, say, a £10,000 loan, and he had only £5,000 collateral to lodge against it, which is quite common, what happens when that is taken from him?—That particular man, of course, would lose his collateral, and he might not be able to borrow any more. I quite agree with that. My point is that the thing is exaggerated. Some people have written to say that bank loans would be cut down to the full extent of this £3,000,000,000. My first point is that you would do less than that. My second point is that under a gold standard, if there was deflation of this sort, it would mean a fall of prices and that would lead to an influx of gold and would lead to the fall of discounts and so the tendency to deflation would be at least in part corrected.

6154. *Mrs. Wootton*: Do you think the exaggeration of the deflationary effect is due to an exaggerated idea of the amount of War Loan scrip used as collateral behind which there is no second line security?—It is partly that, but I think some of the people who use this argument are confused in using "capital" in two senses.

6155. *Sir Josiah Stamp*: There are some who do not; for instance, Mr. W. W. Paine was cross-examined at some length as to that. He was then asked to read a certain line of argument that I published following the line that you are putting now, and after reading it he has written a letter in which he says he still thinks the problem is much larger than that. He says that bankers are lending simply on their personal knowledge of people. Every banker will know that every man's surplus or every man's reserves are reduced, and in that sense his personal credit ought to be also reduced. You cannot measure the extent of the deflationary effect solely by the actual lodgment at the bank. Credit is very important. Now, that is evidence from a banker who considered my argument very carefully. He is still of opinion that the deflationary effect would be much larger than you think it would be?—Something intermediate between that and the £3,000,000,000?

6156. Yes, but he read the examination of the situation that I published, which took rather the line that you have taken up, that you must measure the amount of payments that would be made out of sources of actual collateral, and from that he made a deduction to consider the amount of relative deflation, and he says: No, the effect is much wider than that. It goes into the whole question of bankers' personal estimates?—Of course I have no practical knowledge of that, but I suppose, even adopting that argument, one would still conclude that the deflation would be much less than the whole £3,000,000,000.

6157. Yes, I think he would admit that?—But how far bankers lend without collateral, of course I do not know.

6158. *Mrs. Wootton*: You have not formed any idea of the figure of dislocation likely to arise from a levy of £3,000,000,000?—No.

6159. *Chairman*: Then we come to paragraph 16?—Paragraphs 16 and 17 are really saying that I have nothing to say on these two questions. They are technical things that really are a matter for the Revenue people.

Chairman: We are very much obliged to you for your evidence.

(*The Witness withdrew.*)

(*Adjourned for a short time.*)

Mr. F. W. PETHICK-LAWRENCE, M.P., called and examined.

EVIDENCE-IN-CHIEF handed in by Mr. PETHICK-LAWRENCE (in reply to the Committee's questions regarding a Capital Levy printed on page 683).

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

1. When in times of peace individuals do not consume their whole income they either invest the balance abroad or put it into industry at home as capital. This capital increases the annual output of the nation, and so in either case the interest or profits accruing to these individuals are paid out of the increased income of the nation as a whole.

2. When in times of war individuals spend less on themselves and lend to the State part of the balance, these loans do not add to the permanent capital of the nation and do not increase its annual output. Accordingly the interest paid to them subsequently on these loans is withdrawn from the unaugmented income of the country as a whole, reducing the reward of industry.

3. This result unless negatived by (1) repudiation, (2) inflation or (3) a special tax on those holding accumulated wealth, will be bad for trade and will also create a legitimate sense of grievance in the minds of working people. These facts go a long way to account for the serious conditions through which this country has been passing and from which it has not yet emerged. Rejecting as I do repudiation and inflation as false remedies I am driven to the third alternative.

4. This does not mean that I rule out altogether reduction of expenditure, but it must be reduction of unnecessary and not of reproductive expenditure, and the division of items into these two classes will be a highly controversial matter. I do not see any prospect of much further economies in our national expenditure; nor can any considerable saving be effected by conversion.

5. As to an increase in existing taxation there are only three forms which even partially fulfil the condition I have laid down above of falling on the holders of accumulated wealth. Of these (1) the Death Duties are somewhat arbitrary in their incidence and are liable to be evaded if put up unduly high, (2) Income Tax and (3) Super-tax are applied not only to incomes derived from accumulated wealth but also to those obtained by exertion; they take account of only one side of a man's capacity to pay. The remaining taxes fall on the bulk of the people and their increase would aggravate the evils from which we are suffering to-day. I favour therefore what is called a Capital Levy. (Capital is here used in the sense of accumulated wealth.)

6. I hold that the future level of prices depends almost entirely on the currency policy adopted in this country and elsewhere. When I know what it is proposed to do with regard to that I might be willing to hazard a prophecy as to what will happen to prices, but until that is decided it would be a baseless conjecture.

7. If prices fall the greater will be the effective burden of the debt upon industry and the greater the need for relieving that burden by a tax on wealth.

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

8. (Section 1).—I accept the proposal outlined in (*a*) (*b*) and (*c*) as the basis of discussion. But as to (*d*) I am of opinion that to-day the yield would be greater than 3 milliards, perhaps as much as 3½ or even 4 milliards. As to (*e*) it is not possible in any country to lay down a fixed sum at which the budget should balance, but the levy should be used exclusively for debt redemption and there should be a considerable reduction in taxation.

9. (Section 2) (*as to reduction of Sinking Fund after levy*).—I would suspend the Sinking Fund during the period of two or three years while the bulk of the levy was being paid. At the end of that time the whole situation ought to be reviewed with a view to determining the figure at which it should be placed. For the purpose of comparison, however, between our present position and that brought about by the levy it is evident that the Sinking Fund should be assumed to be at the same percentage of the outstanding debt in both cases.

10. (Section 3) (*as to changes in taxation after levy*).—Reductions in the Income Tax and in the food taxes.

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

11. I consider that taxation should be in the main be based on ability to pay. The Income Tax alone, falling as it does on earned and investment incomes does not fully meet the situation, because it takes no account of a man's total wealth. Equally of course a levy on capital alone would fail to be equitable because it takes no account of income. By combining both a better result will be obtained.

ANSWER TO QUESTION 4 (*as to whether the lapse of time since the War bears on the acceptability of of a levy and as to guarantee against repetition*).

12. Yes. The best time would have been immediately following the War before luxurious expenditure had been restarted. First, this would have been clearly recognised as a War Levy—a sacrifice called for from holders of wealth as a counter-part to the demands made upon life during the War—and secondly it would have prevented both the artificial boom and the subsequent slump which took place in 1919, 1920 and 1921. The present evils spring largely from the failure to impose a Capital Levy in the budget of 1919. The evil done cannot be undone; but that is no reason why the evils which continue should not be remedied.

13. As to a guarantee against repetition, the present cannot absolutely bind the future, but individuals can bind themselves and should do so, making it clear that the proposal is a corollary to the improper financing of the War and would not be repeated by them except in the unlikely event of another catastrophe.

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

14. In answering questions 5 to 12 it is necessary to distinguish the primary or genuine effect of the levy from the psychological effects of the panic brought about by misrepresentation of the proposal. In my answers I shall confine myself to the former, and as to the latter will content myself with saying that it is obviously in the power of any considerable section of the population to sabotage measures of reform, to the detriment of the country as a whole and of themselves in particular; and further by the threat of such sabotage they may be able to intimidate peaceful citizens into disapproval of these reforms. If this were to be done in the present case other forms of taxation of wealth would have to adopted which could not be sabotaged in this way.

15. These matters apart I would say that the primary effect on trade and industry of the levy would be to put them in a more healthy condition than they have been since 1914.

16. There is a great deal to be said on both sides as to the best time for having a levy.

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

17. I would compare the two operations to having a tooth out or suffering from continued toothache.

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

18. In so far as it changed the distribution of wealth it would make a slight change in the character of employment and steady it. Otherwise it would not make a great deal of difference.

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

19. It would tend to reduce inequality.

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

20. The levy will tell both ways and it is not easy to strike a balance. But in any case I doubt whether the amount of saving is affected nearly as much by these considerations as is sometimes supposed. It is largely a matter of temperament and circumstances. In several cases, as with minors, the saving goes on automatically.

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

21. Highly advantageous.

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

22. No. A great part of the levy would of course be paid in Government stock or other trustee securities. In some cases there might be exchange of stocks without sale. Where sale actually occurred it must be remembered that corresponding to everyone anxious to sell there would be someone anxious to buy, because no one, not even the State, is out to obtain or retain money as such. There might, however, be small changes in price as between different securities; these changes would be in favour of State loans and other trustee investments.

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

23. Very little or none. If there proved to be any it could be prevented by other means.

ANSWER TO QUESTION 13 (*as to reduction in yield of taxes following a levy*).

24. This is of course a point of great importance. Yes. I should place it at about £100 millions a year.

ANSWER TO QUESTION 14.

25. (Section *a*) (*as to methods of valuation*).—On the basis of the Death Duties.

26. (Section *b*) (*as to finality of valuations*).—Yes in the main, but if part payment of the levy were deferred certain allowances might be made on this account.

I should be guided by the Inland Revenue Authorities, who have already stated that a practicable scheme could be worked out.

27. (Section *c*) (*as to extent of payment in cash, securities and other forms*). (1) I should not expect a large part to be paid in cash.

(2) It is not easy to forecast the proportions in which the levy would be paid.

28. (Section *d*) (*as to payment by private businesses*).—In all such cases where the person on whom the levy was imposed had not ample other resources to meet the payment, I would suggest an option being given to him to pay by instalments over a considerable number of years. Properly adjusted as to details, I think little difficulty would arise.

According to the Inland Revenue Authorities (given in their evidence (p. 290) in the Report of the Select Committee on War Wealth) the wealth held in private firms was in 1919 less than 9 per cent., and that of private companies about 6 per cent. of the total wealth of the country. In a sample of 310 private firms the Inland Revenue ascertained that 62·6 per cent. had no overdraft at their bankers, and further that of the total wealth of the proprietors less than 40 per cent. was invested in their business. From an examination of the Estate Duty records they conclude that this figure should be reduced to 20 per cent. As to private companies the Inland Revenue say that only 19 per cent. of individuals whose estates exceed £15,000 were so engaged, and of these only as to 23 per cent. of their total resources.

29. (Section *e*) (*as to extent of payment by instalments*).—Not generally but in various special cases.

Probably it would be best to allow for a final adjustment.

30. (Section *f*) (*as to cases where resources are locked up in private businesses*).—I would propose various optional forms of payment in such cases, the rate of interest being adjusted to take account of the risk the State ran.

I do not think it should take exactly this form.

31. (Section *g*) (*as to order of debt repayment*, &c.).—In view of the large portions of the debt with short terms to run this presents no difficulty. I should not favour compulsory powers especially as they are quite unnecessary.

6160. *Chairman*: Will you please read the paragraphs of your paper; questions may be put upon each one as we go along?—Yes. (*Paragraph* **1** *read.*)

6161. Do you want to amplify that at all?—No, I think that explains itself.

6162. *Sir Arthur Balfour*: As regards capital invested abroad, of course the income comes from abroad?—Yes.

6163. It only becomes national income when it is brought here by the individual?—Yes, quite so.

6164. It is not income from production in this country?—No; that is why I said "in either case." (*Paragraph* **2** *read.*)

6165. *Sir Charles Addis*: When you say "reducing the reward of industry," have you in mind upon what classes the burden particularly falls—the interest receiver or the worker?—That will depend upon the equlibrium established inside the industry on the one hand, and on the other upon the equilibrium of taxation. I was rather looking at the whole. Here is the whole income of the nation, and, in times of peace, savings go into increasing that income; in times of war they do not go into increasing that income. Therefore, as some people have more there must be less for the others.

6166. You are regarding the post-war period. It is the interest subsequently paid which, in your mind, reduces the reward of industry?—Yes.

6167. Is it not in the nature of a transfer from one section of the community to the other?—Yes, but it is a transfer from industry to the owners of accumulated wealth.

6168. *Sir Josiah Stamp*: Is that necessarily so to the whole extent? Suppose that you could represent the reward to capital previously at x as a part of the total of x plus y, is it not possible that a large part of the interest on the loans may be a reduction of x; that is to say, that x still has to suffice for the larger amount of real capital? That is, you do not so much reduce the reward for actual energy in business as you do the reward for capital?—That would be an independent event happening separately. That might tend to neutralise it; but the tendency of this thing in itself is in the direction which I have suggested.

6169. *Sir Charles Addis*: That is not quite clear to me. You say that in the subsequent period the interest is paid upon War Loan; that, in your view, is the method of reducing the reward of industry specially, as I understand you?—Yes.

6170. How do you differentiate that from reducing the reward of capital?—What I visualise is this. The whole national income partly is the reward of capital and partly is the reward of industry. If you add to the nominal capital without increasing the income, owing to the fact that capital goes into destructive forms in a time of war, and, if in consequence of investments having increased there is a larger amount of interest being paid annually to capital, surely that must reduce the amount of income which falls to industry.

6171. *Sir Josiah Stamp*: Do you follow that, Sir Charles? *Sir Charles Addis*: No, I do not follow it; it is not clear to me. *Sir Josiah Stamp*: Supposing a very large part of the new interest is paid out of heavy taxation upon the interest and the old interest itself, that is to say, the people who have got a lot of invested capital are very heavily taxed in order to pay themselves back that taxation in the form of interest, why should not industry be going on as before, and the reward for it?—(*Witness*): Surely that is not the question. What you say is quite true; you can neutralise this result by imposing a very heavy tax. That is what I say in answer to question No. 3. Apart from taxation, what I say is surely correct; you can neutralise it in several ways which I have suggested in the following paragraphs.

6172. Can you separate the interest from taxation; is there any way of paying it except by a fund provided by taxation?—No, you cannot altogether separate it, but the first result is to withdraw additional income from the general income of the country and hand it over to those who have accumulated wealth, to that extent you will be withdrawing it from industry. (*Paragraph* **3** *read.*)

6173. *Mr. Hichens*: Why do you use the words "legitimate grievance"? Do you think that it is a legitimate grievance of the working man that this country is paying its debts?—I think the grievance fundamentally is that a far too large part of the cost of the War was borne out of loans, some of which were not genuine loans, and too little out of taxation of wealth at the time.

6174. It may be a debatable point as to how far it was advisable to take more out of revenue at that particular time. But in point of fact there was the Excess Profits Duty, which was a tax that has never been applied before, with the object of trying to secure as far as possible that extravagant profits were not made out of the War; to some extent that was successful, was it not?—Yes. Of course that is a very debatable point, how far under monopolistic conditions the Excess Profits Duty was really a tax

upon profits, or how far it altered prices. I could agree with you to a certain extent, at any rate. But even if you take all that into account, undoubtedly the larger part of the cost of the War was borne out of loans rather than out of taxation.

6175. The excess that you could have raised out of revenue without injuring production at the time and without dislocating financial arrangements generally is a debatable point, is it not? It was not raised very much at the time, was it; it was not suggested very strongly that the Income Tax ought to have been trebled, for instance, or doubled, or that there should have been other taxes on the working classes in those days on the ground that they were earning very high wages and should pay a higher share? On the whole, the general public acquiesced without great objection to the principle that a proportion should be financed out of revenue and the balance out of borrowed moneys?—It may be that the general public acquiesced, because the general public are not really capable of expressing a very definite opinion on these financial questions; but I think most of the economists were very strong in opposing the payment of so large a proportion by loans. I do not want to get too far afield, but personally I contend that, in the proper way of looking at it, the proportion borne by the revenue was very much smaller than is usually reckoned, and when you say that it was not possible without altering production, I should dissent from that. Because after all, except so far as it comes from a foreign country, the cost of war, whether borne by loans or by taxes, really all falls upon current production.

6176. The fact remains, does it not, that the financial proposals were never really criticised at the time, that there was no very strong body of opinion which made itself felt, in Parliament or elsewhere, advocating higher taxation? Taxation measures, as far as I know, were agreed to more or less unanimously in Parliament by all sides of the House; that being so, one might have supposed that this was an arrangement which, as far as under representative government anything can reflect the will of the people, reflected it. Therefore it was a burden which was legitimately imposed and should be, if not cheerfully carried, at any rate recognised as an obligation, and certainly not as a legitimate grievance?—A good many things could be said in answer to that. First of all, the House of Commons is, both constitutionally and politically, a very difficult place in which to advocate increased taxation. When you say that there was no considered body of opinion, I do not think I should agree with you. There was a very large demand for what was then called conscription of wealth, which was a rather hazy idea in people's minds. There were really two distinct ideas. One was conscripting incomes to correspond to the conscription of life during the War, and the other was the idea of a Capital Levy in a sort of embryo, which ultimately took final concrete shape when the War was over. I think that view was held by a very considerable number of people out of those who understood what was happening. It was broadly that, whereas if the money were raised at the time it would fall upon wealth at the time, but if it were borrowed, it would fall upon a so-called "broader" basis, which means that part of it would be borne by the working people.

6177. But, as you say yourself, the proposal of a Capital Levy was in embryo at the time. We were too busy with the War to be able to develop that idea at the moment. The idea of conscription of wealth ultimately took a practical shape in the Excess Profits Duty. It may be that a better shape could have been devised, but on the spur of the moment, in the midst of an intense conflagration, it was possibly the best that could be done. That being so, I do not quite see where the legitimacy of the grievance comes in that we are now having to foot the bill. Nobody likes footing a bill, of course, but seeing that it has been incurred for a very definite purpose, to which I take it you do not dissent, namely, the carrying on of the War to a successful conclusion, we must look cheerful and pay, must we not, without thinking we have a legitimate grievance on that account? I could understand a legitimate grievance if one section of the community was being taxed more than another to pay for this, but for it to be regarded as a legitimate grievance that it should be paid for at all, does not seem to me to follow?—The grievance that I am trying to represent is the feeling among working people that a burden that should have been a burden borne by wealth has been put on to their shoulders by means of postponing the payment to a later date. Can I put it in this way? In order to prosecute the War to a successful conclusion certain things were necessary; there was the service of a very dangerous kind imposed upon the young life; there was a demand for wealth from those who had means. Now, of course, the first could not be vicariously paid. It had to be paid as it was. The feeling which has created a sense of grievance is that in the case of wealth instead of being found at the time and permanently by the holders of wealth, it has, by means of what to the uninitiated appears the legerdemain of finance, been successfully imposed to a considerable extent upon the backs of the working people.

6178. Supposing that the War had been paid for at the time by some conscription of wealth, should we have been any better off to-day?—Yes, I should think we should, for many reasons. If I may say so, I think where I should not quite agree with your analysis would be that you assume that the total cost of the War would have been approximately what it has turned out to be; but I do not at all; I think had an entirely different method of financing the War been adopted from the beginning, prices would not have risen in the same way and the cost of the War would have been very much lower. It was very largely owing to the methods of financing the War that prices rose, and had you adopted a different method I think the cost of the War in terms of money might have been half what it was, for various reasons.

6179. I suppose that nearly 90 per cent. of the money that was spent in this country was spent on wages, was it not, in the last analysis—between 80 and 90 per cent.?—I should not like to agree to that or dissent from it for the moment, but let us suppose that to be so for the sake of argument.

6180. Supposing that were so, then the effect would have been to have reduced wages during the War, would it not? That would have been the main effect. *Mrs. Wootton*: And prices. *Mr. Hichens*: And prices through that, of course, would have been reduced in so far, and in so far only, as we are self-contained. It would have had no effect whatever that I can see in reducing the prices that were paid for imports from abroad?—(*Witness*): It might not have affected that. You must bear in mind the point that something like £300,000,000 sterling was made in the shipping world (or at least it is generally assumed so) before control was established, and that makes quite a large hole in itself in the margin of 10 or 20 per cent. that you have left over of the costs of the War. I think you have put it far too high for wages, but even if you have not, I think that it does make a great deal of difference how the War was paid for as to the result on the future.

6181. I think I see your point of view. The legitimacy of the grievance consists, in your view, in the fact that a higher contribution was not demanded out of revenue at the time, and to that extent, and to that extent only, the grievance is legitimate. Is that right? You would not regard it as a legitimate grievance that the public is called upon to pay all this interest on money which is dead money, merely on that ground; that is to say, you recognise that the War was one which was necessarily costly, that it was worth anything to us to win it, and therefore we have to pay the bill somehow: the only question is whether we should have paid a little more at the time or not?—It would not be in place for me to discuss the exact merits of the War or the

date at which it might have been brought to a conclusion. I should not like to go into that; that would be taking us rather away from the issue. But stating it from your point of view, at any rate, I think that the greater part if not the whole, of the costs of the War—I will not say the whole, but the greater part of the costs of the War—could have been borne at the time. As a matter of fact, they are borne at the time with the exception of what is obtained from abroad; they must be obtained at the time. There is no way of throwing the cost really on to posterity; that is only a book-keeping transaction between the different elements in the community.

6182. *Sir Arthur Balfour*: Whatever theoretically might have been the thing to do, would it have been feasible and politically possible to have taxed the people in a crisis like that to the extent that you indicate?—Yes, I think it would. If people are so determined to have a war and to fight at all costs, and are willing to make the sacrifices in life which they make, I do not think it is out of proportion to ask them to make an absolutely phenomenal sacrifice in wealth.

6183. They were all making phenomenal sacrifices in any case at that moment. Was that the moment to come along with such taxation that the War practically could not have been carried on, for political reasons? I can quite understand, if your theory is that there should be no war, that that is one way of trying to stop it; but whether it is a practical way to finance a war is another matter?—You prevent people spending their money in all kinds of ways that they have been spending their money; you do that in any case; you did it during the War. You reduced people to a comparatively simple method of life; in consequence of that, they had very large sums of money over out of their income. During the War you took part of that in taxes, but a very large part was left over.

6184. A very large part went in increased costs too, did it not?—The question we have to ask ourselves is this: Where did the money come from that went into the loans? It must have come from somewhere. Part of it was pure inflation; and the other part, which was not inflation, but genuine money, and therefore represented genuine income, was paid out of savings. Now there was no fiscal impossibility in that part of the income which was put into the loans, being put into taxation.

6185. Do you think there was no political obstacle? What sort of Income Tax would you have said was necessary to carry out your proposals?—I think it would have been approached, possibly, somewhat the other way. It would have been approached in this way: that the sacrifice of life on the one hand carried with it a certain sacrifice of income on the other.

6186. It was not only sacrifice of one kind. Everybody in the country went, both workers and people with accumulated wealth went to the War?—I am not suggesting that it was a class matter, but it was an age matter, surely; there was a distinction between the young and the old in that way.

6187. It was a fairly high limit?—The argument that was used during the War was that the War was so essential that everybody had to give of what they had. Those that were young had to give of their service, and I think, under those circumstances, it would not have been out of place to ask those who had wealth to contribute that.

6188. What sort of Income Tax would have been any use at all for the purpose—how many shillings in the £?—I do not think I could answer that straight away. If you have followed the answers I made to Mr. Hichens, my point is this: that had we begun earlier taxing in the War, I think that the costs would not have risen to anything like the extent that they did. If you want particulars, I remember quite well when the first Income Tax was doubled, and in the first year a very slight addition was made to revenue, I think that addition might have been larger, but where the special failure came in was in the following year. The War began in 1914. In September there was an addition put on to the revenue, but if I remember correctly, there was practically no addition in the following April, and I think that was a very great blunder.

6189. We taxed ourselves both more quickly and heavily than any other nation, did we not?—Yes. I think that this country in many respects always leads the way in financial methods.

6190. Surely it does come back to the point of political possibility, which is a debatable point, which nobody, perhaps, can answer to-day. But it seems to me that the Income Tax which it would have been necessary to impose at the time would have created such a situation that we could not have carried on the War?—First of all, what really took place? Roughly speaking, the War consumed half the income of the country, and it consumed it equally whether it was taken in the form of taxation or whether it was taken in loans or through inflation; there is no essential difference. The economic facts were the same, that people were deprived of half the incomes that they could have spent upon themselves, in order to convert that half into the service which the State required. Therefore the only difference was that you were able to make people think they were doing a great deal better, because you left them with a considerable part of their income inflated against that, through loans and all the rest of it, and it did not really make a great deal of fiscal difference; it made a psychological difference. You are suggesting that people in their patriotic zeal would not have been prepared to make the sacrifice that would have been necessary to carry the War through.

6191. I suggest that you could stretch that too far. Would you express it that we did not stretch it as far as possible?—Yes.

6192. *Mr. Bowen*: Would you put it in this way: If we had taxed ourselves in the early stage and not after the War, you do not contemplate that there would have been any lack of interest in winning the War, but rather you would say that the result of taxation would have been a disciplinary one, and there would not have been so much wastage?—Yes, that is very much what I should say.

6193. *Mr. Lees-Smith*: The question is whether people would have been more grudging of money than they were of their lives?—Yes.

6194. *Sir Josiah Stamp*: There is no question about the economic facts. As you say, the cost of the War had to come out of the balance of production at the time. But you do now put a great deal of stress upon the psychological factor of people being deceived. Do you think you could have destroyed that psychological factor if you had taxed to the extent of 10s. in the £ all round?—I think at the beginning there was a very wide patriotic feeling of the very best kind, and people were prepared to make all kinds of real genuine sacrifices, and I think those who were at the head of affairs then could have utilised that and kept costs down. But owing to a number of causes, after a time people made very large profits, and then, when some people found other people making large profits, they did not see why they should not make them, and the thing piled up. All the economy idea at the beginning of the War, in about the second and third and fourth years of the War, was thrown to the winds. It returned in the later stages, because costs were mounting so enormously that great efforts were made to economise; but in the second and third year I think there was a considerable waste and a considerable running riot. In particular, there was the enormous shipping profit that was made, which was just one example of many.

6195. Is that strictly accurate, do you think? Was there any inflation to speak of in prices until the rates of tax were rather high? Let us take the history of the thing? You start off with the Government saying the time is not ripe for financial measures. In November, 1918, Mr. Lloyd George

doubled the rate of Income Tax—it was not doubling the rate, that is merely a figure of speech, because for the year it was only one-third.—Quite.

6196. That is why you say he did not increase the rate in the following April. As a matter of fact he did, because he doubled it for the next financial year; it went from 1s. 3d. to 1s. 8d. and then to 2s. 6d. It was in the autumn of that year that some opinion was vocal that taxation ought to be heavier, and then it was that the Excess Profits Duty was first brought on; but it was from the end of that year when the taxation became heavy that inflation also became heavy. Is not that so?—I should not quite agree with your representation of the facts in that April. It is quite true that the effect was that in the year 1914-15 there was only one-third up, but that was partly because a great part of the year had already gone by and part of the money had been paid. The actual fact was that the nominal rate at any rate was not increased in that April. There was no reason why it should not have been that I can see at all. As to the question of when inflation came and the prices went up, I did not of course expect to go into a great deal of discussion on the War, and I do not carry all these figures in my head, but I should say that the main reason was that in the earlier stages of the War the cost was comparatively small, but of course it was cumulative; in so far as it was not paid out of revenue but out of loan, the effect upon prices was cumulative. As you know, it takes a long time before it can begin to show itself on any extensive scale.

6197. I suggest to you that if you take the history and read it though carefully, there is no point in the War at which you could say that there was a very definite case for doing something quite different from what we did, except in April, 1915, when the rate of Income Tax might have been put higher. It culminated in the Government, in August of that year, saying that there should be an Excess Profits Duty and later, about January, 1917, the Excess Profits Duty was raised to 80 per cent. Now at that period the rate of tax was such that in many cases it amounted to nearly 90 per cent. You had 80 per cent.of Excess Profits Duty, that was a large sum in excess of pre-war standard, and of the balance you had rates of tax running up to 10s. in the £, bringing it up to 88½ per cent. or 90 per cent. Now at what point would you have put such an increase in the rate of tax as would have got the revenue that you wanted, bearing in mind at the same time your own view as to the necessity for some kind of psychological self-deception?—I think that the taxes were not put up sufficiently even in October, 1914; and further than that, I think that they could have been put up higher in April, 1915. I think if that had been done, and the whole tremendous feeling of patriotism had been invoked, undoubtedly a very much larger contribution from wealth might have been obtained. Further than that, I think at the time when conscription in the ordinary sense was imposed, a completely different method of dealing with private income might have been adopted, which may, broadly speaking, be called conscription of incomes. Instead of thinking how much proportion of a man's income should have been taken, I think it might have started at the other end, and you might have claimed the whole of a man's income, subject to certain exemptions. I do not think that would have been unreasonable when you were claiming the whole of a man's sacrifice of his being.

6198. In fact, there was a variety of opinions, but there was a strong movement for putting on an Excess Profits Duty of 100 per cent., and it was only defeated by a very narrow margin; but everybody inside the machine knew it would have been disastrous at that stage. Surely that is sufficient indication that you could not put it on then. If you were really going to have a drastic increase such as you speak of, you would have to have taken a very large sum from the workers of the country, who were enjoying quite a considerable real income at that date?—Yes. Every section of the population of those who stayed at home got a great deal of money from the War, and it would have been very difficult to take it away, but I do not think it would have been difficult if you had started at the very beginning to say, men are out at the front and are making immense sacrifices and are running great dangers, and those who stay at home have got to live simply and have got to give up all luxury of whatever class; and I think if that had been imposed upon one class it would have been accepted by the other class. I think it is quite true that the working people had a great deal of money and spent it, but I think that they would have quite willingly done without if it had been imposed equally upon everybody.

6199. *Sir Alan Anderson*: I think we are examining the witness at great length on the one word "legitimate," which is really not essential to the whole argument, and I think we have got his idea quite clearly, that, looking back, we could have been wiser than we were at the time. I dare say that is possible, but, even so, I do not think that this paragraph 3 is quite clear. Would not this be true: You say that the immense spending of money during war is bad for trade unless something is done. It is inevitably bad for trade—not merely unless certain things are done?—I do not think I quite follow you.

6200. You say "this result," which means that the income was withdrawn from trade and was put into non-remunerative purposes—"will be bad for trade" unless certain things are done?—Yes.

6201. It is bad for trade anyway. If there had not been a war and we had not had to spend thousands of millions in fighting Germans, we should have been better off; so the fact that we have squandered that money is inevitably bad for trade?—Yes.

6202. Then you say it cannot be met at all by repudiation or by inflation, because you discard those two, but you think the burden on trade can be removed by this special tax. That is what you say?—Yes, I think it can be improved at any rate. I think it could have been removed probably if it had been done at once.

6203. But surely, even if you did have that special tax, you would still have squandered these millions?—Of course, that opens up another very large issue, which is, to compare what you might call the balance sheet of the country as a whole after the War with what it was before the War.

6204. Is not that what you are doing? It is what you have done in paragraphs 1 and 2, is it not?—That rather relates to the distribution of the income. I have always maintained that at the close of the War the actual capital of the country in concrete things was very little less than it was at the beginning of the War.

6205. Perhaps, but very much less than it would have been if we had been working during the years of the War and spending the money on remunerative purposes?—Certainly.

6206. So that all this loss that you point out in paragraph 2 has occurred and it is bound to be there. Whatever you do in taxing people, it will still be there, will it not?—Yes, but it will affect the situation very much how that loss is distributed. If it falls upon accumulated wealth it will, in my submission, be less injurious than if it falls otherwise.

6207. That is not quite what you say. You imply, I think, in paragraph 3, that it will not be bad at all. You say it will be bad for trade unless negatived by a special tax. You imply that it can be negatived, absolutely made nothing?—It rather depends upon exactly what you say. Supposing we took it for granted that the position of the country at the end of the War was not economically different from what it was before, then in a sense it would be true that the result would not be bad. It is quite true that if something still better had been done, namely, that people had had all this money and they had put it into industry, it would have been better still; but it is rather a matter of words, if it comes to that.

6208. *Mrs. Wootton*: Surely Mr. Pethick-Lawrence says this result will be bad for trade, and, if you read the previous paragraph, the result which he is referring to is the transfer of interest from the taxpayers to the debt holders. It is with regard to that method by which the War was financed, rather than the result of squandering the money one way or another during the War. When he says it is the result of that, does he refer to the fact of expenditure for war purposes? (*Sir Alan Anderson*): I thought it referred to the whole of paragraph 2?—(*Witness*): I think it does refer to the fact that owing to the particular method of financing the War, such income of the nation as there is falls in larger proportion to accumulated wealth than it otherwise would; and that, I imagine, is bad for trade.

6209. *Sir Charles Addis*: In fact you think the present distribution of taxation is inequitable. That is the basis of the grievance—that the reward of industry is too much diminished?—Yes.

6210. It is your position that the burden should fall upon accumulated wealth and not upon industry generally. Are your grounds for that moral grounds, or are they economic?—Primarily they are moral grounds; but I think that it has ramifications in the economic field. Because if those who are conducting industry, in whatever capacity, feel that they are being exploited by the owners of accumulated wealth, that will bring about a sense of disquiet and unrest and will not give a good result in a purely economic field.

6211. *Mr. Bell*: How are you separating them—the holders of wealth and those engaged in industrial work? They are surely one and the same, are they not?—I should have thought there was a considerable distinction, and even assuming that they represented to some extent the same individual, I think there would still be a difference. If a man, owing to his industry, receives a certain amount of money, and owing to his position of wealth receives it, I think there is quite a distinction, because it has a different effect upon his mind and upon his actions.

6212. *Mr. Lees-Smith*: Is your point that the burden on industry depresses what I may call the active factors in production, and the burden on accumulated wealth, the passive factors in production?—Yes, to some extent.

6213. *Mr. Bell*: What, in regard to this matter, is the position of an industrial company that holds a million of War Loan?—It certainly will make a difference whether it receives its income as the result of accumulated wealth, because it gets it then without exertion, whereas if its income depends upon its industrial activity, that will obviously operate upon it and produce a different outlook, surely.

6214. If one and the same person carried on business activity and was also a holder of War Loan, what is the position then?—I think it is a perfectly correct analysis. If a person has an income of £1,000 a year for which he exercises no exertion, and if he is earning a further £1,000 a year and you tax him on his exertions to a very large part, he will be inclined not to trouble, and industry will tend to reduce. But if the proportion was the other way and everything that he had got by his exertion came home to him and the tax fell upon the accumulated wealth, he would be much more likely to exert himself. *Mr. Hichens*: But not to accumulate.

6215. *Mr. Bell*: Take the case of a joint stock company. Is not the directorate of that company doing its best for its business because it is holding War Loan?—I do not think that I suggest that the holding of War Loan is going to be bad for industry. What I suggest is that if the fact is that there is a large amount of the wealth of the country going in interest on accumulated wealth, and if that does result in reducing the reward of industry, that will tend to have a bad effect upon industry.

6216. I am putting that precise case. I will give you a specific case of a company which is working as hard as it can for profit, and has a million of War Loan. Does the fact that it holds that War Loan have a deadening effect upon its other activities?—It is not the fact that it holds the War Loan, but if, in consequence of holding that War Loan, it means that a very large part of the reward of industry is taken away from other people in taxation, it will make industry less profitable, and it will reduce the margin of industry and therefore will tend to curtail industry.

6217. That is what I am trying to get at. Will you take this particular company which I am taking as an example. What will the result be—that it has a debilitating effect on its business? Let us take a company which is producing for abroad?—If the effect of the charges upon industry and the high cost of living upon its workers is to mean that production can only be done at a higher cost, that will obviously interfere with its foreign sales, because it will have a difficulty in securing orders and in keeping its price down to the world price.

6218. You agree that high taxation here is against our exports?—High taxation of a certain kind. It depends very much on the kind of taxation.

6219. This kind of taxation?—By "this kind," do you mean what we have at the present time?

6220. Taxation to meet debt charges?—I think, taking our taxes together, they injure our industrial position. Mr. Hichens made a remark just now; might I answer that, too?

6221. *Mr. Hichens*: Yes, do?—You said that you did not necessarily agree with me, but you were suggesting that even assuming I was right as to its affecting the exertion, it would affect a man's intention of saving. Of course, that would depend entirely upon the form in which you put the tax on accumulated wealth. If it was a tax on accumulated wealth in the past, it would not affect future saving.

6222. *Sir Arthur Balfour*: Referring to the proposition put by Mr. Bell, I would like you to explain what you meant about the million pounds which the company had in War Loan. When you said that was accumulated wealth, did you mean that was accumulated wealth by war profits or did you mean it might be their ordinary capital? What do you mean by accumulated wealth in the proposition put to you by Mr. Bell?—I was distinguishing that part of the income of the company which was derived from investment from that part of the income of the company which was derived from current exertion.

6223. By accumulated wealth, you did not mean wealth which had recently been accumulated. It might be their ordinary capital which was not in use?—Yes.

6224. *Mr. Hichens*: As to these serious conditions that you refer to in the industrial world would you say that they had been brought about more by the considerations that we have been discussing, than by the general disturbance in Europe and the world at large? That has dislocated our trade more than anything else, perhaps, has it not?—That is the fountain source of the whole thing, but I think that the experience of various countries shows that the method they adopted of meeting the situation has distinctly influenced the effect that it has had upon their trade.

6225. What I was trying to get at was this. Has our financial policy been as responsible for the depressed state of industry as the general poverty of the world due to the War? That is really what it comes to?—They have both played a part. I do not know that I should like to express an opinion as to the percentage. (*Paragraph 4 read.*) I do not suppose here, but elsewhere I think there is an exaggerated idea of the amount that can be done by conversions to write down the burden of the War debt. I do not myself hold the view that any very large alteration in the actual burden can be now effected in that way. (*Paragraph 5 read.*)

6226. *Sir Charles Addis*: Will you explain in what sense you regard the incidence of the Death Duties as being arbitrary? Are you looking upon them as falling wholly upon the successor to the estate?—What I meant by their being arbitrary was that it

depended how many deaths there were in a certain number of years; and that is to a certain extent an arbitrary thing.

6227. *Sir Josiah Stamp*: In what sense do you say that the Income Tax and Super-tax apply not only to accumulated wealth but also to exertion and yet they take account of only one side of a man's capacity to pay?—The two factors which, in my judgment, should indicate a man's capacity to pay, are both his capital and his income, and these taxes are based only upon the one measure.

6228. *Sir Alan Anderson*: If he invests his money in something that does not produce an income, he escapes Income Tax?—Yes, and generally the man's capacity of bearing the burden is not solely measured by his income.

6229. *Mr. Bowen*: You say here that Death Duties are liable to be evaded if put unduly high. Could you amplify that?—I was thinking mainly here of gifts *inter vivos*. The higher the duty is put up, the more likely it is that people will attempt that method of evasion. It is not wholly an illegitimate thing for an elderly and wealthy person, seeing people who are glad to have money now rather than later, to hand it over to them, and if it escapes Death Duty it has that effect. I do not know that you can altogether say that it is a criminal evasion.

6230. That may be done, whether the Death Duty is high or not, may it not?—Certainly.

6231. And is really being done?—Yes.

6232. *Mr. Bell*: Is that what would be done under a levy?—I do not think it would be effective under a levy.

6233. If I saw it coming and divided my little stock among people so that each of them would have only £5,000 and therefore they would be free from the levy, I would have successfully evaded any levy upon myself?—If there was any likelihood of that—and there probably would be—the levy would probably carry some retrospective effect, like the three years' rule in regard to Death Duties.

6234. I would go further. The same methods would be open to me in the one case as you suggest might quite fairly and legitimately be open in the case of Death Duties?—Except for this, that we are presumably discussing the possibility of putting on a Capital Levy within three years. We are not contemplating now a proposal to put it on in ten years' time, whereas of course the essence of the Death Duties is that they go on for a very long period, and a person may evade them by handing over money six or seven years before his or her death.

6235. *Mr. Lees-Smith*: Did not exactly this problem arise in the discussion on the War Wealth Levy, whether evasion would be possible in the same way, and was not that avoided by laying down that they would take a certain particular year and not take any account of any transfer subsequent to that year?—Yes, that was so, but of course that was a little different, because that would have needed two valuations, both in past time. The presumption is that the Capital Levy would be taken on a current date, but it might perfectly well lay down a period, which might be a year or which might be longer, in which gifts *inter vivos* would not have the result of evading the levy.

6236. *Sir Arthur Balfour*: You could not prevent people, if they really saw a Capital Levy was imminent, selling their shares abroad and disposing of their property abroad?—That of course is quite a different question.

6237. It is a question which bears on the feasibility of a Capital Levy?—Certainly; I was not going to evade it. I think that would not result in evading the levy, because in so far as a person sells things abroad, provided that person still remains domiciled here, he still is credited with the value of the property; he must have got something in return for his sales and he is just as liable to the levy under the new holding as under the old. The only thing would be if he invested it in bearer bonds or in something which he could in some way hide: but even then, the knowledge of his estate would be very considerable owing to his previous record of Super-tax and things of that sort, and he might get himself into serious trouble.

6238. If people invested money abroad and went abroad with it, which is possible in some cases, they could evade it?—If, before the imposition of the Capital Levy, they sold their holdings and went abroad, they might perhaps be able to evade it, but they would then be subject to the financial arrangements of that other country, which might not even be an advantage to them if they did so. *Sir Josiah Stamp*: There might be an extradition clause for the other country.

6239. *Sir Arthur Balfour*: That would apply to people who did go with their money, and people who kept their money at home would be liable to the levy?—Yes. I do not think there would be very much loss from that. I think people prefer living here so much that they would not be very likely to run away.

6240. *Sir Alan Anderson*: There was a great upset in Switzerland, was there not? Did they not lose a lot of capital?—The Swiss proposal was very largely different. The Swiss proposal differed in this, I think, that foreigners were liable to taxation, for one thing, and the main difference was that the results of the levy were to be expended upon current expenditure instead of being used for the reduction of debt. So that the proposal was widely different from this.

6241. Do you think that would make any difference to the person who had to pay?—Yes, because it was a financially unsound proposal.

6242. *Mr. Bell*: We have had the same proposal here. *Sir Alan Anderson*: That was the Trades Union Congress General Council's proposal, was it not?—(*Witness*): What exactly do you suggest?

6243. *Mr. Bell*: That it does not by any means follow that this would necessarily result in a reduction of taxation. It might mean additional expenditure upon social services?—If I may say so, that is not quite the same thing. There is a very great deal of difference. I have dealt with that a little later on in my paper, but if I may in answer to that, anticipate, I would say they are two quite different things. You are presumably going to raise, by a Capital Levy, a certain sum of money. You can either use the whole of that for redemption of the debt, or you can use part of that capital sum for current expenditure; that is one thing. The second thing is this: that having used the whole of it for redemption of debt, the saving that is obtained to the national revenue can be used wholly or partly for reduction of taxation. That is not the same as the first; it is quite a different proposition.

6244. *Mrs. Wootton*: On the Swiss proposal, I understood you to say that your plan for us is that a person domiciled here should be liable on his capital whether it is here or abroad?—Yes, that is right.

6245. If any analogy can be drawn, you would have to get evidence that the Swiss had emigrated with their capital?—Yes.

6246. Have you any evidence of that?—No, I have not any evidence of that at all. Of course, it was not necessary, under the Swiss plan, and I think there it was mostly foreign capital that was withdrawn. I believe that there were two sources of withdrawal. First of all, there was a purely seasonal withdrawal from the banks, which goes on every year and happened to coincide with the period at which this levy was imposed. Switzerland, being an agricultural country, obviously there are seasonal payings in and withdrawings from the Swiss banks. The second withdrawal was a withdrawal by foreigners of their accounts; neither of which would arise in this country, as the questions have suggested. The true thing would be if they emigrated with their capital.

6247. That is the only way out of it that you see?—Yes, that is the only way, I think, a person could evade it, except by deliberate falsification, and there I think in a great many cases they would be discovered, the risk would be very great. All the large

holders of wealth who have not hitherto been having bearer bonds and other forms which would enable them to evade would find it very difficult to account for a sudden loss of tangible wealth, and they would almost certainly be discovered.

6248. *Mr. Lees-Smith*: Has there in fact been any impartial scientific inquiry as to what the Swiss proposal was and what its consequences were?—No; as far as I know, there was never any investigation of it here. We never saw any careful account of it in this country.

6249. Have you read one by an economist at Geneva—not a Swiss economist, but one attached to the Legation?—No, I have not read that.

6250. *Mr. Bell*: It was in every canton put to the popular vote and there was a very great majority against it?—Yes; I should have voted against it myself.

6251. *Mr. Bowen*: Can you tell us anything about the levy in Czecho-Slovakia?—Yes, the levy in Czecho-Slovakia was imposed for a special purpose, which was the deflation of the currency, and it brought that about very speedily. It brought up the Czech crown from somewhere in the neighbourhood of 300 to the £ to 160 in the £; and the trouble with regard to the collection of the levy in Czecho-Slovakia has been that that particular purpose was so successful that people complained that their wealth now was not represented by as many crowns as it had been, and therefore it is very hard to make them pay, and in consequence of that they modified it.

6252. *Chairman*: It was always small in amount in Czecho-Slovakia?—Yes.

6253. *Sir Josiah Stamp*: It was spread over three years, like a very big Income Tax. *Mr. Hichens*: Do you think it really sufficiently lightened the burden?—(*Witness*): The main difference is that it was used expressly for deflation, and as you will see later in my paper, I should have suggested that at this juncture at any rate the Capital Levy in this country should not be used for deflation at all. (*Paragraphs 6 and 7 read.*)

6254. *Mrs. Wootton*: We have had many witnesses who were rather inclined to let things go and not do anything towards reduction of the debt, in the hope that increased production will enable us to bear the burden. Is it your view that there is any danger that if we did that, this increased production will be accompanied by a fall in prices and therefore will make the debt more burdensome?—I think that depends almost entirely upon the monetary policy.

6255. *Mr. Lees-Smith*: It is as a matter of fact a factor which may make it impossible for us to allow the reduction of prices to go very far?—It would make it against the interests of the national Exchequer.

6256. I was rather impressed by an article by an Italian economist pointing out that currency reform in Italy must not go too far, or the National Debt charges would become too heavy?—France is a classic instance of that. There is a book by a Belgian dealing with the Capital Levy, in which he points out that a return of the franc to normal in Belgium would be impossible because the Belgian debt would be impossible.

6257. Do you think that our currency policy might in this way be deflected from what would otherwise be right, because of this problem in the background?—I should be opposed to deflation of currency on general grounds, and therefore I should not object to the currency policy being directed to stabilise prices. (*Paragraph 8 read.*)

6258. *Sir Josiah Stamp*: Have you any evidence which you could give us to show why you think the yield of a levy would be greater than three milliards?—The principal point would be that I think the capital value of the wealth of this country has increased since the time when that estimate was originally promulgated.

6259. When it was originally promulgated, was the figure of yield worked out with any exactness?—I do not think it is possible for persons outside the Inland Revenue and the Treasury to form an exact analysis. All that what I might call amateurs can do is to form a rough approximation.

6260. This was really an impression on your part, rather than any actual calculation you have made?—No, it is the result of a calculation. If the Inland Revenue were to say: "We have gone into all the figures and we put another figure." I could not put my figures against theirs. It is not mere speculation; it does represent a calculation, only that our calculations are bound to be rather rough, particularly for this reason, that owing to the time lag in all the figures relating to Super-tax, Income Tax and Death Duties, an outsider cannot judge accurately what the actual figures for those should be at the present time.

6261. *Mrs. Wootton*: Can you tell us where the original calculation came from? I remember a pamphlet which I think first gave currency to the scale, and mentioned the figure of £3,000,000,000 as the probable yield of a levy on that scale at that date, but no calculations were included in that pamphlet, and, apart from Dr. Dalton's book, I have never seen any reasoned or calculated justification of the scale as likely to yield the £3,000,000,000.—I am not responsible for the scale, and I do not know who was. I think it may very likely have been Dr. Dalton, but I would not be sure.

6262. You have not anything yourself to relate the scale to the yield?—No. I went over it afterwards and came to the conclusion that it seemed to me approximately right.

6263. *Sir Josiah Stamp*: Have you seen any figures based upon the Death Duty statistics, that I was responsible for in a recent book? Calculations were published of the death duty figures showing the effect upon the revenue according to this scale, based upon the Death Duties?—You are referring now to a later part, are you? I am talking of gross yield at the moment.

6264. I am not on the point of the inroads into future revenue, but I am on this point, that those tables were tables of the Death Duty wealth, and, so far as they indicated anything in the total, they indicated a total of something like two and a quarter milliards, rather than three milliards, and I wanted to see if you could show why that should not be so?—I thought I had read nearly all you had written on it, but I do not remember that particular thing. I did not realise that you had put it so low as that.

6265. I was only examining how much £1,000,000,000 of levy on this scale will cut into the future revenue, but there was a side indication that the scale would not yield £3,000,000,000 by a considerable gap, and I was wondering whether you could point out to me a way of bridging the gap?—I think it is a matter of calculation upon the figures. I am sorry I did not read your particular memorandum. I did not go into your figures.

6266. I will not pursue it, but I was only wondering whether you could help me to find the different figures of the Death Duty statistics, which are much lower than these, but which are the class of figures which will come out in the Capital Levy. I was wondering whether you could show me why the yield is more?—I think probably one thing would be that I make an allowance for the increase that there would be. I think that in the last year or two, owing to the appreciation of the large proportion of gilt-edged stocks and commercial stocks, probably there is a considerable increase.

6267. The figures I took that were last published, were I think in the 1921 Inland Revenue report, and they covered a period of very high inflated prices for shipping and that class of figures?—But then you must remember that in spite of that, the Death Duties for that period date back to estates of an earlier period.

6268. It was the estates proved in that year. I am not criticising anything you have said; I am only

asking for help, to see if you can show why my calculation should give such a low result compared with yours?—I am sorry, but apart from the fact that I have calculated it from the figures, I should not like exactly to explain the difference.

6269. *Sir Charles Addis*: You say that a levy should be used exclusively for debt redemption?—Yes.

6270. And that there ought to be a considerable reduction in taxation?—Yes.

6271. You do not propose that it should be devoted exclusively to the reduction of taxation?—I do not think you can say that definitely in so many words. Supposing you had a levy you will get a certain amount of money; in the meanwhile the actual amount at which the Budget balances must always be a matter for the Chancellor of the Exchequer at the time. You cannot ear-mark the results of a thing specifically, because even if you did it technically, if the Chancellor wanted to spend another million on the Admiralty or whatever it was, that would be cutting into your plan, and you cannot tie him down in advance as to whether he shall spend a million more on education or a million less; you must allow a certain amount of margin. I think that the tendency will be for the expenditure to increase generally, and the effect of a levy in so far as it does not go to reduce taxation will be to prevent taxation rising to the extent that it otherwise would.

6272. It is no part of your plan of a Capital Levy to clear the way for increased expenditure which would absorb part of the tax relief?—No. (*Paragraph 9 read.*) I should like to emphasise that last sentence, because I think a good deal of criticism has been rather unfairly directed on that point. Whether the Sinking Fund should be reduced or not is a pure matter of policy, but in seeking to find the advantages or disadvantages of the levy and the net saving, obviously you ought to take the Sinking Fund after the levy at the same proportion of the outstanding debt then as you do take it to-day of the outstanding debt at the present time.

6273. *Chairman*: Supposing that the amount saved is put at £50,000,000 per annum—I do not know whether you accept that figure on the £3,000,000,000 levy—would you really think now that it would be wise to dislocate the whole financial position for that saving?—I should put it a great deal higher than that. Later on I put it at about £100,000,000.

6274. I was only taking the general feeling that the amount of saving which was supposed to be pretty big, has now come down by examination to something in the region of £50,000,000. Supposing that that figure is correct, would it be worth while to change the condition of things for that sum of money?—I think that the Capital Levy has got to be on a considerable scale or not at all. I do not think it would be worth while having a little Capital Levy which brought in a small figure. I should say that a net result of £50,000,000 a year was certainly a minimum. If any Capital Levy was watered down to a point where it would bring a net result of less than £50,000,000 a year saving I certainly do not think it would be worth going to the trouble of imposing it.

6275. Have you made any examination of the annual value at the present time of the £3,000,000,000 that would be taken in a levy?—I think the £3,000,000,000 would be taken in the main from the National Debt and other sources of that kind, and therefore I do not think you would be reducing the real economic income of the country at all.

6276. I was wondering whether you think that it would be worth the risk of doing it for a sum of money representing a saving of £50,000,000 a year on a Capital Levy of £3,000,000,000?—I think there does come a point when it would not be worth troubling to do it. Then in regard to Question 10, I am asked what changes, if any, I would advocate in taxation consequent upon a Capital Levy; and I say, reductions in the Income Tax and in the food taxes.

6277. Both?—Yes.

6278. *Mrs. Wootton*: Later on, in paragraph No. 17, you compare the continuance of high annual taxation and a Capital Levy to the choice of having continued toothache or having a tooth out. That rather leads me to imply that you refer to the Capital Levy as a means of putting the burden on to the same people as already bear it. How does that fit in with your proposal to reduce the food taxes? I can conceive two views of the Capital Levy, one, to put the burden on to people who mainly bear it now, and the other, to redistribute the burden?—The question to which that refers, Question 6, puts the point to me in this form: "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?" I think perhaps there is a slight hiatus in my evidence there. In paragraph 17 I was looking at the country as a whole, which has to bear a certain burden, rather than individuals. I admit that the distinction would not be the same for the individual, but rather for the country as a whole.

6279. *Mr. Bowen*: You are thinking of the country as a whole in debt?—Yes.

6280. *Mrs. Wootton*: The payers of food taxes after all do bear some part of the burden?—Yes.

6281. I wanted to get at your view as to whether you are inclined to think that under the levy the same individuals as now would be mulcted, or whether the levy would re-arrange the burden so that it would not fall on the same individuals?—I think both; and apart from the individual, I still maintain the answer that I gave to Mr. Bell, that even if the same individual pays from different sources of income, it affects the position.

6282. *Mr. Bell*: I was just going to ask you about paragraph 17. Should it not be compared to the operation of having other people's teeth out? That is what the old barons and kings used to do, is it not? They used to take people's teeth out to raise income?—Yes. (*Paragraph 11 read.*) I might say that Mr. Henry Higgs in a work which has just been published on finance, makes almost his principal point that neither income nor capital alone is the real measure of a man's capacity to pay, but both should be taken into consideration.

6283. *Mrs. Wootton*: Is that an argument for the kind of Capital Levy you propose or is it an argument for having some relatively small permanent tax based on capital?—It is not an argument solely for a Capital Levy; that is quite correct; it would equally apply to a permanent tax upon capital, and in fact that is how Mr. Higgs does apply it.

6284. In your view therefore it is an incidental advantage of a levy to correct an existing gap in our tax system?—What I think is this: that there is a gap in our present system: that capital is not taken into account at all in considering a man's ability to pay, and that you can mend that by having a Capital Levy at the present time.

6285. *Mr. Bell*: That is an entirely new doctrine, is it not?—The proposal for a Capital Levy is not new. It was proposed by Ricardo a great many years ago.

6286. I do not mean that. I mean the differentiation of the taxation basis. As I have always understood, until very lately it was supposed that the use of capital in the hands of a private person was much better than taking any capital from him. That was the prevailing view all through the War.—Considerably before the War there was a differentiation against what is now called investment income. That has been reduced since. In the later form in which that occurs it is not as large as it was originally. I cannot remember which year it began.

6287. The idea being, in the view of some of us, that this is a distinct deterrent to a man saving money, and falls with peculiar hardship upon a man who, for his old age and for his descendants and dependents, has saved with great care and denied

himself many things to save up a sum of, say, £10,000. You are really saying to him: "You are a bad man, and I shall attach some of that capital either by means of a tax or by a levy." And this strikes, more than these other questions, at the real root of the objection to the levy on the part of a great many. I have given on another occasion the instance of people I know who by a long life of saving and sacrifice and denial of enjoyments and pleasures which other people took, have saved up some little amount which is returning them a sum of £400 a year, and you are going to take from them some of that amount. I want to get right at the root of this question.—In the first place, I do not think you are justified in saying that it is saying to the man who has saved money: "You are a bad man." A tax is by no means a penal thing; it is a thing for the good of the country, and therefore it is no criticism of a man that you place upon him a tax. With regard to the case of your man who saved £10,000, I must remind you that on this scale he pays a very small sum and of that he secures, or his family secures, a very considerable part back in reduction of taxation of one kind and another. It is not until you get to the very much larger amounts that you find any considerable burden arising from taxation. I think against every tax that is proposed you can draw a picture of somebody of whom you can say it is very sad that he should be taxed; but what you have to consider is the good of the community as a whole, and the merits of this form of taxation as against another. For every man that you can suggest will be deprived of one-hundredth of his income by this, I can set aside ten men and women and families who are going very short because of the high taxation of food. I contend that on the balance the advantage of this tax would be considerably to the good.

6288. There is no relation between the one and the other. I am not going on the question of food taxes. I am only saying that you are taking from the capital of a man who, by great saving and denial, has saved a little sum of money for those who come after him. Take the case of a ship captain with £8,000. You are taking something from him?—Yes, you are, but then in every tax you are taking from someone. There is no tax that has ever been passed yet against which you cannot put up a case.

6289. But here is a tax where a very considerable number of people of that sort—and I have had great experience of them in my profession—are going to suffer this burning injustice that you descend upon them and take from them the little savings which they have so carefully got together?—But you are not taking their savings. With such a man as you suggest, you are taking a very small percentage of his savings. As against that, you are reducing his Income Tax. All said and done, you are making a very slight inroad, if any, on that man's position.

6290. I have gone into these calculations, which you know have had to be altered many times—they were peculiarly fallacious—that when you take £500 or £1,000 from such a man you saved him a small amount of Income Tax. But the problem remains that that man feels bitterly injured by your descending upon him and taking by this method of a levy some of his hard-gained savings which he intends to leave to his wife and children and dependents?—If I may say so, I think that the people who have large sums of money and who will be really hit by this thing are sheltering themselves behind the plea of the small person who will not be hit at all.

6291. But you cannot say that. You have a schedule here showing how he will be hit. You are going to reduce his income from £400 a year to something less and you are going to reduce his power to leave to his grown-up daughters and his wife some of the savings which he has gathered together?—Really it is not a very large amount. A man with £10,000 pays 5.5 per cent. of his total fortune, and against that there is a considerable saving in Income Tax; I really suggest that to you.

6292. You are going to take £500 from him?—You are going to take £550 from a man with £10,000; that is to say, you are putting upon him once-for-all a tax of 5.5 per cent., but as against that, you are going to relieve him and his family of a considerable amount of Income Tax. I suggest that the thing is a much smaller matter than you suggest.

6293. *Professor Hall*: One year's interest at 5 per cent.?—Yes.

6294. *Mr. Bowen*: I suppose we may say that if the Germans had come here, his £10,000 would have been gone altogether?—It might; it depends upon the way the War was conducted, and upon the peace.

6295. *Mr. Bell*: Do you know that there is that feeling?—I know that there has been a great deal of talk along those lines, but I think it has been largely manufactured by misrepresentation of the facts. We are not here to discuss political matters, but I know that in the course of political campaigns elderly ladies who have got £1,500 altogether, have been told that a Capital Levy would take it all away—which, of course, is wholly without foundation. That has been spread about very largely, and, of course, if this thing be misrepresented in that way, you will get a very large psychological objection to it. I think it is not an objection on the facts, but on that misrepresentation of the facts which has been put before these people.

6296. I want to ask you whether it is not the case that the people with £10,000 would feel a grievance?—I think every person who is taxed, in any shape or form, always feels a grievance.

6297. No, I think not. It has been the glory of our taxation that it is quite fair and that we pay in such a marvellous way. The tax upon our incomes is paid with extraordinary facility in this country. The moment you descend upon the savings of the small man, or indeed of somebody with more, with a much higher incidence of the levy, you may produce a widespread feeling of hardship.—Well, we had better leave it at that; I do not think you and I shall agree over it.

6298. *Sir Charles Addis*: I suggest that in the matter that we are considering, we are rather wandering from the question, which really was the ability to pay, which you held was not measured equitably merely by income, but also by capital?—Certainly.

6299. So that really the question that you put specially was as to whether the basis of the assessment should be capital or income?—Yes.

6300. And that does not determine the source from which the payment would be made?—No.

6301. You might very well have a capital basis of assessment while the payment would be out of income?—Yes.

6302. You do not put it higher than that?—Not in that particular paragraph. (*Paragraph* 12 *read.*)

6303. *Mr. Bowen*: Do you still think that although a mistake was made in not having a levy in 1919, it is possible as a practical measure to have it now?—Yes.

6304. *Professor Hall*: Is it not rather a strong statement to make, that a levy would have prevented the boom?—It is a matter of opinion. It is fully in accord with my opinion.

6305. Would it have entirely prevented it?—My opinion is that it would have prevented the boom.

6306. Entirely?—I think so. That is my view.

6307. *Sir Charles Addis*: It depends on the definition of "boom," of course?—It would have reduced demand so that supply could have kept more or less pace with it, whereas, owing to the fact that people thought they were very much richer than they were, they spent on an extravagant scale, and the consequent boom, in my judgment, took place.

6308. *Professor Hall*: Were there not psychological factors at work, too; people imagining that there was going to be a big market in foreign countries as the result of having been cut off for so many years?—Yes,

it was largely psychological, of course; but I think this levy then would have just given the cold douche necessary to prevent that extravagant optimism.

6309. I should have agreed with the word "minimised," but I can hardly agree with the word "prevented." That is what I am differing from you about? —Well, we will not be too particular about the word.

6310. *Mrs. Wootton*: You argue that a levy imposed in 1919 would have prevented the boom of 1919-20. It is very often argued that a levy imposed, say, in 1926, would prevent a boom in 1927-8. What is your view upon that?—I think it all depends upon whether deflation were brought about. As I mention later, I think the question of deflation would be largely in our own hands. I think there was, among a certain section of influential people, a feeling that a deflation had got to come, and in 1919 a levy would have formed part of the deflationary policy, and deflation in consequence would have followed it. But I think to-day a levy could be, and should be, imposed in such a form that it would not bring about deflation, and that deflation could be prevented, if it would naturally occur at all. (*Paragraph* 13 *read.*)

6311. *Mr. Bowen*: What do you mean by individuals when you say individuals should bind themselves? Do you mean the Government of the day?—Yes, the people who were advocating and imposing the levy would be called upon to answer questions, and they could make the statement; a number of people would be called upon to make it, and therefore in their lifetime they could be held to the pledge not to do it. You have to face, in the political world, the difficulty of enforcing any pledge; you cannot enforce a pledge against a nation; you can only call for its recognition by individuals; that is the most that you can ever do.

6312. What would you say if other individuals rose and clamoured for another Capital Levy?—Then all those individuals who had given the pledge would have to be against it.

6313. Still, they would have no effect upon another Government, who would be quite a separate entity and might have a different policy. How would you get over that difficulty?—That is what I say; the present cannot bind the future in that sense. I do not know any conceivable method by which it could be done.

6314. A great deal has been said about the difficulty of giving a guarantee as one of the objections to a Capital Levy. We have been told that it would have such a psychological effect as to be a very big factor against the Capital Levy, and I am very anxious to see how that can be made out?—It is no good pretending things that cannot be done, and there can be no absolute guarantee short of a constitutional law, which does not exist in this country; there can be no method of binding the future.

6315. *Mrs. Wootton*: The suggestion has been made that the receipts for the levy might be stamped with a guarantee that the property on which this levy has been paid shall be exempt from further capital taxation over a period of a certain number of years. Would it be your opinion that that kind of pledge would be very much more difficult to break than merely an Act of Parliament?—Yes. Of course, it could be repealed, but it would be very unlikely. It would be a very much more binding thing than any other form.

6316. There are possibilities in that?—Yes.

6317. After all, Governments do borrow and commit themselves many years ahead and their obligations are usually observed?—Yes.

6318. *Sir Charles Addis*: You suggest that individuals should bind themselves not to repeat a levy except in the event of another catastrophe. But is not the possibility of another catastrophe one of the main reasons advanced for the levy?—When I say another catastrophe, I mean the double catastrophe of there being another war and it being equally improperly financed. Obviously no one can give a guarantee. Another war, if there is to be such a catastrophe, will obviously be of the most terrible kind, and with regard to what is done after that, I am quite sure we cannot bind ourselves in advance. There may be no property left at all.

6319. In your view that would be one of the conditions of the guarantee?—Yes. I do not think you could guarantee that in any further war of any great magnitude there would be no inroads on capital.

6320. It is the fear of repetition that I want to get at. The fear of repetition itself might be considerably enhanced by the period that has already elapsed since the war?—Yes.

6321. It is not your view that to make that one of the conditions of the guarantee would weaken its psychological force?—It would weaken it, but it would be very improper for me to suggest that a pledge could be made which I am sure could not be kept. (*Paragraph* 14 *read.*)

6322. *Mr. Bell*: I would like to have a definition of that paragraph. Do you suggest that anybody who conscientiously disbelieves in the levy policy is not allowed to express his opinion?—No, not at all. I mean to say, first of all, that if any proposal for reform is misrepresented, and if a certain section of the population take unconstitutional means in the end to prevent a reform being carried, and thereby drive the reform into another channel, that could be done in this case. That is what I think you would agree to in other realms.

6323. The paragraph refers, then, to misrepresentation of a levy, not to conscientious objection to it? —I do not think anybody can object to people conscientiously objecting to anything.

6324. *Mrs. Wootton*: What you mean is people obstructing?—Yes.

6325. *Professor Hall*: You mean hindering the operation of the law?—Yes; misrepresenting it in the first place, and hindering the operation of the law in the second place. There are two points involved there. First of all there is the defeat of the thing by misrepresentation. The second thing is this. It is quite commonly said, if you were to make this law, a number of people would band themselves together to resist the operation of the law and it would not be carried out. That is quite commonly argued. My answer to both of those is: it may be that those who possess much wealth have the power to do that. If they use it, it may prevent such a thing as a levy on capital being carried, but in that case other methods of impost upon accumulated wealth will have to be adopted instead which do not admit of such treatment.

6326. *Sir Charles Addis*: You refer to panic brought about by misrepresentation. Would you agree that even if the fear is unreasonable, it might have a very material effect in depressing industry?—Yes; I think if the facts are misrepresented to that extent and opposition is carried right up to the imposition of such a thing as a Capital Levy, it would have a panic effect upon people, who would sell their property for absurdly low figures, which would be picked up by speculators and, when the panic had worn off, the speculators would make a very considerable profit as against the people who had been nefariously driven into panic. That is the form of depression of industry that in my judgment it would take.

6327. Can you suggest any means by which that fear could be dissipated?—No, I do not think there is any, except by the continual exposition of the real fact.

6328. *Mr. Bell*: The real fact being what?—That the genuine primary effect upon industry would not be disastrous.

6329. But many people conscientiously think it would?—Then it is quite open to them to expound their views.

6330. *Sir Charles Addis*: Assuming that the fear of a levy cannot be dissipated, and that it might lead to panic, would you still be in favour, as a practical and beneficial measure, of introducing a Capital Levy?—I think the fear that exists is due very largely to wholesale misrepresentation in the Press and elsewhere of the proposal, and until it has

been fairly stated and the case given a fair chance, I should decline to believe that the fear could not be dispelled. After all, human beings are reasonable beings in the long run, and if you say they have a kind of complex against a Capital Levy, it may be so, but I should not accept that as a view of it until, at any rate, the other had been given a fair trial.

6331. Would you consider, for example, that some measure of general assent to your proposal would be an essential part of it? Would it be worth while to try it, unless you had secured a considerable volume of opinion in its favour in the country?—I think under our political system the Government could not carry any sweeping change except with a very considerable majority. You could not by a bare majority of five votes in Parliament, perhaps with a minority Government, carry a sweeping change of this kind; it would be politically impossible. In politics only those changes which have a considerable measure of public support—very much more than a mere 51/49 per cent.—could be carried through.

6332. The proposal for a Capital Levy would in point of fact have to stand or fall by the measure of assent which it secured from the public?—Yes, I think so. (*Paragraphs* **15** *and* **16** *read.*)

6333. Paragraph **17** we have already discussed?—Yes. (*Paragraph* **18** *read.*) By steadying employment, I consider the demand by the working class is a more stable form of demand than the demand by the classes that have a larger margin of income. (*Paragraphs* **19** *and* **20** *read.*)

6334. *Mr. Bell:* On paragraph **19**, I want to draw your attention to a paragraph in your book "A Levy on Capital" at page 73. "The imposition of the levy will give the State a direct financial interest in certain national public services. The number and extent of these will be determined by public policy; they will very likely include railways, mines, banks, insurance companies, ships and armament works. The interest thus acquired by the State in these concerns will be partial only, and can either be extended afterwards, by purchase, to complete State ownership, or bought out so as to restore full private possession." Is it in your mind, when you say the levy would tend to reduce inequality in the distribution of wealth, that one of the results of the levy might be the complete State ownership of various things?—No, I do not think that would be the result of the levy. It would depend upon the policy otherwise adopted by the country. The effect of the levy would merely be to transfer a certain quite limited number of title deeds of various kinds in such industries to the State, and, assuming you had a Government that took the line of the present Government, those would be held for a time and disposed of; assuming that by that time you had a Government that took an entirely different view, they might be used otherwise. I would remind you that when the first edition of this book was written we had at that time a definite statement by a member of the Government that the railways were going to be nationalised, so that it was a much more open question than at the present time.

6335. You do not regard the policy of the levy as a possible first step to complete State ownership?—If a Government were in power, supported by a sufficient number of people desiring State ownership of several things, no doubt the yield of the levy coming in the shape of title deeds of those things would be a small step, but still nevertheless a step in that direction. But as I point out in the paragraph that you have read, it would entirely depend upon the policy otherwise determined upon, and if the further policy were not determined upon, it would not form a step at all. In other words, it might be considered as a small step, but one that could be easily reversed.

6336. *Mrs. Wootton:* It is not because it is a step towards State ownership that you are putting forward a Capital Levy now?—No. (*Paragraphs* **21** *and* **22** *read.*)

6337. *Mr. Bell:* It is not my experience, in a good long time of business, that where everybody is anxious to sell there is somebody anxious to buy?—I am afraid I did not make the point clear I am not suggesting that because a large number of people are anxious to sell other people are anxious to buy. The point I am making here is that, as the object of the levy is not to transfer money at all, for every pound that someone wants to obtain someone will have a pound that they want to invest. Assuming that a person wanted to pay cash to the Government, as soon as the Government gets that cash it will hand it over to the present holder of some form of War Loan, and that person will have a pound to invest, so that corresponding to every seller there will be a buyer with exactly the same amount of cash available.

6338. Of course we do not know what he will do with the pound?—No. He may not use it in that particular way. I have not said that. I have said there will be just as many pounds coming into the market for investment as there are pounds which people are wanting to obtain by sale; and that I think is correct.

6339. No, you do not quite say that. You say that for everyone anxious to sell there would be someone anxious to buy?—I think that is true. I do not think you want meticulously to deal with the number of people. The real point and the essential point is that there would be the same amount of money ready for investment as people are seeking to obtain by sale. (*Paragraph* **23** *read.*)

6340. *Sir Charles Addis:* When you say that the levy would have very little deflationary effect do you mean that in your view only a small amount of War Loan is used as collateral security for advances, or that this collateral could easily be replaced by another form of security?—It raises a very important and a very large question. The successive stages of reasoning are these. First of all, a very large part of the wealth of the country is held not in private businesses at all. So far as this is concerned the question of deflation would not really arise; the owners are merely paying over part of their accumulated wealth which they use solely as a source of income. In the second place there are large numbers of companies. So far as they are concerned, if they are public companies of some standing, the terms of the levy would enable the holders of those companies to pay in debentures or preference shares, or in some cases even in shares, instead of paying cash at all. So far as those are concerned, there is no deflation arising. The only cases where deflation could arise would be with regard to people whose money is invested in private business or private companies. We have the evidence of the Inland Revenue, given at the time of the War Wealth Inquiry, as to the number of persons who have their money invested in private business. Of course I have no means of judging how far the circumstances have remained unchanged, but we can take that at any rate as a first approximation. I give this in paragraph **28**. You have the precise figures there. May I give it in general terms now? First of all, a very considerable number have other resources. In the second place, so far as overdrafts are concerned, it is only a small proportion of the private businesses that have overdrafts. Finally with regard to those particular persons all of whose money is invested in their business and who either have an overdraft or at any rate have not anything to spare, you will meet the problem by changing the levy into a payment by instalments. This is part of the essential plan of the scheme. By giving them an option of paying over 10, 15 or 20 years you make it entirely unnecessary for them to deflate; and in their particular case, which does not amount to a very large number of the whole, you do convert it into something that is not widely different from an Income Tax.

6341. The answer is that in your view the amount of War Loan which is represented by collateral security is practically negligible and that even for that small amount it is possible to make provision by way of instalments?—That is in effect the answer.

6342. *Mr. Bell:* I do not follow why you say a deflationary influence does not come in because a person surrenders some of his War Loan?—If it is a gentleman at large, not having a business, who

surrenders War Loan that is perfectly free and open, that does not, in my view, bring about deflation in any sense which means affecting prices and currency.

6343. His purchasing power is very much less afterwards?—People do not purchase by means of their capital; they purchase by means of their income. The question that affects it is whether the income of the country as a whole is reduced, and I do not think it would be.

6344. It is obvious, is it not? Take the example of the people you quote. If you take away from them a considerable portion of the War Loan that they hold, their income is immediately reduced?—Yes, but there are two factors to set against that. First of all, their income is not reduced by the whole of the gross charge; firstly because you have originally to deduct Income Tax from their income, and in the second place you have to deduct the saving of Income Tax on that part which is left if you reduce the rate of Income Tax; and in general the whole benefit of this saving to the State goes in reduced taxation, and that reduced taxation relieves income either to the individual who has paid the Capital Levy or to others, to the exact amount. Therefore there is no deflation, because the income of the country is the same.

6345. To the exact amount—surely not. It is only the Income Tax upon the larger amount which he had formerly; it cannot be the whole amount?—I venture to suggest that it is. I do not know that I can trust myself to give figures out of my own head; but supposing a man has been in the habit of getting a gross income of £50,000 and supposing you take as a rough figure that the Super-tax and Income Tax at the present time cut that down to £25,000; now supposing by taking away his capital you reduce his gross income down to £30,000; in the first place he would be paying a slightly smaller Super-tax and Income Tax, and therefore instead of paying 10s. he would be paying something like 9s. That would bring him down from £30,000 to perhaps £16,000 or £17,000, or something of that kind. So that to start with, even if you made no alteration in tax, you would only have reduced his true income by whatever it would be, £8,000 or £9,000, and not by the £20,000, that appears to start with. Then in the second place, as the result of the levy you are able to lower the rate of Income Tax. That again cuts into the £9,000 difference. In so far as the lowering of the rate of Income Tax does not cut into the whole of it, obviously you get a saving to the Exchequer, and that you use in cutting down the food taxes and giving a wider margin of expenditure for other things. That mounts up so that in time you get the same net income as you had before.

6346. You have not convinced me at all. Somebody else may get a benefit but you have not convinced me that the man himself has not had a lesser income because some of the Income Tax is reduced upon that lesser income.—No. That is quite right. But that was not the point, if I may say so. The point was whether there was less income for the country as a whole. I quite agree with you that the man may not have the same income for himself, but the point on deflation was whether the income of the country as a whole would be the same.

6347. *Mrs. Wootton*: Is your view about this at all affected by the question whether or not this country is on a gold standard at the time the levy is imposed? We had a witness here this morning who suggested that the deflationary effects of a levy would be much less if you had a gold standard, because you would have automatic correction; you would get an influx of gold and you would get a rise of prices if there were deflation?—If you have an inelastic gold basis for the currency I do not see how there could be any deflationary effects of a levy. If you have a managed paper basis, then I think any deflationary effects that might accrue would be altered by the management. If you had an unmanaged paper basis for your currency then the whole thing is unmanageable, and you cannot tell what will happen.

6348. If you had a gold standard, as you had before the war, any deflation which results from an operation of this kind tends to correct itself through the effect on prices?—Yes.

6349. *Sir Charles Addis*: Deflation leads to lower prices and so leads to an influx of gold, which will immediately raise them again?—I should have thought that the result would simply be that there could not be a deflation.

6350. It is on the hypothesis of there being a deflation?—The word "deflation" has never been accurately defined, and therefore it rather depends on exactly what you mean by deflation.

6351. What the witness had in view evidently was that prices would be reduced below the level of prices in other countries and the result would be that, with a gold standard, gold would flow in and deflation would be immediately corrected?—I agree if that were to happen that would be the result.

6352. The result being that the danger of deflation under a gold standard would be less?—Except that I should in any case think there would not be deflation; therefore I do not think I should quite agree.

6353. But your disagreement is limited to the fact of deflation?—I think that there could not be a deflation under a gold currency. Under a paper currency it would depend upon how it was managed. (*Paragraph 24 read.*) It was pointed out to me that I had slightly misunderstood the question. What I had intended to convey was that the £100 millions would be a net saving, but when I read the question over again I saw that I was made to say that that would be the loss in revenue owing to the Capital Levy. As a matter of fact the difference is not very important, because I should put them both at nearly the same amount, from £90,000,000 to £100,000,000. But it depends, of course, upon the yield of the levy. With a yield of about 3½ milliards I should put the gross saving at about £157,000,000, and the loss to the revenue at about £93,000,000; that gives £64,000,000; adding the reduction to the Sinking Fund gives you about £90,000,000 saving a year.

6354. With roughly a net saving of one-third, taking the service of the debt, that is, the interest on the debt, as £305,000,000?—In your new Budget you would strike £157,000,000 off the debt interest; you would cut it down to half; but the loss to the revenue would come in on the other side, so that the net saving apart from the Sinking Fund reduction would be £64,000,000; and if you add that in, as you ought to do on any fair comparison, you would get about £90,000,000, whereas if the yield was four milliards then I think the net saving would be over £100,000,000. That is how I arrive at it.

6355. If you were to wipe out the whole debt the result would be that a sum of £305,000,000 for interest would be no longer necessary?—That is true.

6356. But that would be fallacious, because a deduction would have to be put on the other side?—Yes.

6357. And the point is to arrive at what amount of that £305,000,000 would be net saving?—Yes.

6358. Is it your view that it would be one-third, or do you say that £100,000,000 would be saved out of the £157,000,000 on the assumption of half the loan being paid?—In the first place you have not taken the Sinking Fund at all into calculation. I think you ought to add that in, because obviously if you wiped out the whole debt you would not require any Sinking Fund at all; so that instead of £305,000,000 you ought to take £355,000,000. Now if you wiped out the whole debt by means of a levy on capital you would relieve the national Exchequer of the payment of the £355,000,000. As against that you would suffer a loss in revenue that I have not worked out. What I have worked out is that if you get 3½ milliards, the gross saving would be £157,000,000 and the net saving would be £90,000,000. Now the effect of that on the Budget would be that £157,000,000 would disappear from the right hand side; in fact £157,000,000 and £26,000,000, the Sinking Fund, that would be £183,000,000, would disappear from the right hand

side, and at the same time £93,000,000 would disappear from the revenue side, showing a net advantage of £90,000,000, and if it was four milliards those figures would be slightly increased.

6359. It is £183,000,000 on the one side and about £90,000,000 on the other?—Yes, something like that. (*Paragraphs* **25**, **26** *and* **27** *read.*)

6360. Paragraph **28** we have already dealt with, I think?—Yes, I think we have. (*Paragraph* **29** *read.*)

6361. What had you in mind when you said it would be best to allow for a final adjustment? How would you preserve equity as between the payer of a lump sum and the payer by way of instalments? Have you considered that point?—If a person pays down, he pays on the basis of his present wealth. If a person spreads the instalments over a long period the question arises, supposing his wealth very much increases during that period or very much declines, whether you take that into account: if you put an extreme case of a person's wealth declining so much that the instalment swallows up the whole or more than the whole, how will you stand? I think it is quite clear that you may have to make some adjustment in that case. I think broadly the best way would be to give several options of instalment to the man. It may sound complicated, but I think the man might have two or three different optional methods of paying instalments, which would have different results. I could enumerate those if you wish.

6362. He would have liberty to pay a lump sum if he chose?—Yes, he could always pay a lump sum if he chose. (*Paragraphs* **30** *and* **31** *read.*)

6363. *Professor Hall*: You do not anticipate any difficulty in regard to the valuation of particular parts of the property of a person liable to the levy?—There will be difficulties, of course. You must remember that the Inland Revenue in the case of the proposal to tax War Wealth said that the difficulties of assessing in two separate valuations, both in past time, and taking the difference between them were not insuperable. If that be so, then *a fortiori* the current valuation once of the wealth of certain people in the country would obviously be at any rate not insuperable.

6364. I think it has been estimated that the cost would be one-tenth to one-fifth per cent. You would not think that was a very excessive charge?—I would not like to charge my memory with figures; it is in that book that you have before you. That is not very heavy.

6365. *Mr. Bell*: You spoke once or twice this afternoon in your very interesting evidence about war services and the arbitrary division between those who went to the War and those who stayed at home. Do I understand you that if a man is liable to the levy because of his means, if he had gone to the War he would be exempt?—No, I did not suggest that people who stayed at home in the main were people who made money out of it. What I did say was that during the War the idea was that people should give whatever they had. Some people had life and health and youth; some people had money; some people had neither and some people had both; but whatever they had, it was expected in the interests of patriotism that they should give. That was my point.

6366. Then you would not mind a man giving in both ways?—No.

6367. The distinction between war service and the other thing is not to be taken into account?—I am not sure what you mean by "the other thing." Do you mean a levy on his wealth? There are two forms of contribution or sacrifice if there is to be a war; one is a sacrifice of health and comfort and possibly life, and the other is a sacrifice of wealth.

6368. And another is the sacrifice of both?—With some the sacrifice of both and with some the sacrifice of neither. If you are going for sacrifice it is not a question where you can balance a profit and loss account between one person and another. You call upon people for what is theirs to give.

6369. We have had that sort of thing told us—that was just my point. I want to know about the man who had both war service and wealth. In your judgment he would still be levied upon, would he?—Yes. I think when you are calling for sacrifice on the ground of patriotism you have to call for sacrifice of those things which a person has, and if you are going to call for the sacrifice of health and strength and youth you are certainly entitled also to call for sacrifice of money from those who have it.

6370. Although they took part equally with the others in the War?—Yes. It is a case of "Give what you have."

6371. I quite agree, but we have had it rather put as a contrast of classes that those people who went had no money and those who stayed at home had money; but that is not so. Now about this limit of £5,000. Was the limit originally proposed very much less?—Yes, in my original proposal I proposed a very small limit for the levy, which would have paid off the whole of the War Debt. I still think that if the country would have accepted that, that was the right proposal, but that was turned down and then the figures were altered into their present shape.

6372. You say "turned down"; nothing is turned down as yet; why cannot that remain part of the original proposal—that everybody, if there is to be a levy, should to the extent of his means, and possibly with graduations, take his share in helping towards the reduction of this great debt?—It has been turned down in this sense, that a considerable number of years have elapsed, and in view of that, I do not think it would be possible to revert to that proposal to-day.

6373. It in fact would be very much less popular as a measure among the electorate if you made it a £2,000 limit instead of a £5,000 limit?—Yes, very likely it would.

Sir Charles Addis: We are very much obliged to you for coming here to-day and for the evidence you have given

(*The Witness withdrew.*)

(*Adjourned to to-morrow morning.*)

TWENTIETH DAY.

Wednesday, 4th March, 1925.

PRESENT:

Mr. HENRY BELL (*in the Chair*).
Mr. J. W. BOWEN.
Professor FRED HALL.
Mrs. BARBARA WOOTTON.

Mr. G. R. HAMILTON, *Secretary*.
Mr. G. ISMAY, *Assistant Secretary*.

Mr. P. D. LEAKE called and examined.

EVIDENCE-IN-CHIEF handed in by Mr. LEAKE (in reply to the Committee's questions regarding a Capital Levy printed on page 683).

1. My answer to Question 15 should be read before my answers to Questions 1-14 inclusive.

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

2. I think the repayment of the National Debt should be undertaken—not in an uncertain and haphazard way, but by means of a regular annual Sinking Fund. Beyond the amount of the necessary annual Sinking Fund the repayment of the National Debt should not lie upon annual taxation and so upon production. I think there is no practicable way of reducing the debt except by means of an annual Sinking Fund.

3. I anticipate that with a gradual return to normal conditions, there will be a gradual fall in the level of prices, and that prices may ultimately fall to the pre-war level.

ANSWER TO QUESTION 2.

4. (Section 1) (*as to form of levy*). For the purpose of this Memorandum, the suggestions for a possible form of levy made by the Labour Party are adopted.

(Section 2) (*as to reduction of Sinking Fund after levy*). If the levy could in fact be applied to the reduction of debt, I think it would afterwards be desirable proportionately to reduce the amount of the Sinking Fund.

(Section 3) (*as to changes in taxation after levy*). If a levy could be imposed, I would still advocate the adoption of the principles of taxation explained in the evidence already given by me to the Committee, i.e., a flat rate tax on all annual production at a rate necessary to produce the amount of revenue required.

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

5. The confiscatory nature of a Capital Levy is much clearer and more direct than is the similar characteristic involved in our present progressive taxation, and its destructive effects on industry and employment would be accordingly greater.

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

6. I do not think that the lapse of time since the War period can have any bearing on the acceptability of a Capital Levy. I think that any guarantee against its repetition given by those responsible for its imposition would be neither convincing nor effective.

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

7. A Capital Levy would irretrievably damage public confidence and security. It would greatly deteriorate the exchangeable value of all existing capital. It would be disastrous to those conditions which beget credit, and credit is the very lifeblood of the body of industrial capital, upon the effective use of which annual production depends. Finally, it would react with crushing force upon wage-earners and others with small incomes by diminishing industry and employment and by further raising the prices of all current production, which a nation must have in order to live.

I do not think that the state of trade for the time being can have any bearing upon the arguments for and against a Capital Levy.

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

8. As stated in my answer to Question 3, I think that the destructive effects of a Capital Levy upon industry and employment would be much greater than are the destructive effects of our present high progressive taxation.

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

9. I think that the effects of a Capital Levy, set out in my answer to Question 5, would seriously diminish employment.

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

10. A Capital Levy, if it were practicable, would, by reducing the large estates, have the effect of taking out of the most capable hands the control of a large part of industrial capital. While it would not, of course, reduce capital in the sense of actually destroying the materials and commodities which alone represent existing capital, it would greatly deteriorate the exchangeable value of such materials and commodities. It would reduce the value of all estates, including those not exceeding £5,000, and especially of the large estates.

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

11. If a serious attempt were made to impose a Capital Levy, I think that the inducement to invest savings would be destroyed, and that therefore, owing to lack of inducement to invest, the practice of hoarding might revive.

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

12. I think that both the immediate and ultimate effects on national credit at home and abroad of repaying a large part of the National Debt by means of a Capital Levy would be disastrous, because it involves barefaced confiscation of personal capital.

Answer to Question 11 (*as to effects on sale of securities*).

13. A very large part—perhaps nearly one-half—of personal capital is held in the form of shares of joint stock companies, and these companies would not themselves be directly subject to the levy. Any attempt to impose a Capital Levy would necessarily lead to attempts being made on a large scale to sell or pledge these shares. The consequent fall in prices of shares would not be prevented by the demand by those holders of debt that was paid off by the levy.

Answer to Question 12 (*as to extent of deflation involved by levy*).

14. A Capital Levy, by reducing all production, including the production of necessities, would cause prices to rise still further, and thus, owing to the fact that production must be had, it would have an effect on prices of current production contrary to the normal effect of deflation, which is to cause prices to fall.

Answer to Question 13 (*as to net annual saving effected by levy*).

15. Other things remaining the same, the annual saving in interest which would be effected by a reduction of £3,000 millions in the National Debt would be about £150 millions per annum, and at the existing rates of progressive taxation this would involve a future reduction in the yield of taxes which might reach £100 millions per annum.

Answer to Question 14.

16. I do not think the practical working of a Capital Levy is possible—

(Sections *a* and *b*) (*as to methods of valuation and finality of valuations*).—Owing to the destruction of confidence and security consequent upon the attempt to impose a Capital Levy it would, I think, be impossible to determine any methods by which property could be fairly valued for the purpose of a levy.

(Section *c*) (*as to extent of payment in cash, securities and other forms*).—(1) Owing to the state of chaos which would be produced by any attempt to impose a Capital Levy, it is doubtful whether any substantial part could be paid in cash. (2) For the purpose of this question it may be estimated that personal capital is at present held in the following forms:—

	Shares in Companies.	Individual Holdings.	(*b*) 78¾ per cent. of Individual Holdings liable to Capital Levy.
	£ Millions.	£ Millions.	£ Millions.
Industrial property ..	6,583	6,583	5,185
Domestic property ..	1,000	4,062	3,200
Gold and silver coin and bullion	120	5	4
Foreign, Indian and Colonial Government pre-war fixed interest securities	216	217	171
National Debt and local loans—pre-war ..	500	500	394
post-war ..	3,750	3,750	2,953
	12,169		
Shares in Companies		12,169	9,585
		£27,286(*a*)	£21,492

War Loan is, of course, unevenly held. Many individuals hold none and others hold the bulk of their capital in War Loan. It is probable that a large proportion of War Loan is held by a very numerous body of small investors who would not themselves be liable to the levy. If the holdings of War Loan of the individuals liable to assessment—*i.e.*, about 10 per cent. of the total number of individuals who hold capital—amount in all to £2,953 millions only, it would be unsafe to assume that more than about one-half, or, say, £1,500 millions of the £5,726 millions Capital Levy (see answer to Question 15, table in paragraph **20**, column E) could be paid by the actual transfer of War Loan. From this it follows that the balance of £4,226 millions would have to be found by selling, pledging or transferring securities representing rights of ownership and control of existing capital now almost wholly engaged in some form of industrial production. It seems probable that two-thirds of this capital would be represented by Stock Exchange securities and one-third by other property, including real property. It is inconceivable that it would be possible to sell on the market, even at knock-out prices, a quantity of securities of this nature representing nearly 25 per cent. of the whole of such assessable property and securities. It is equally certain that the money could not be raised on credit by pledging such property and securities to the banks. It would therefore be necessary to transfer the ownership of a vast amount of property and securities of this kind to nominees of the State, and incidentally the control would pass into unsuitable and less capable hands.

(Section *d*) (*as to payment by private businesses*).—In the case of a private business, whether firm or company, it would seem impossible to provide the payment of a levy. A private manufacturing firm or company whose capital was £100,000 invested in buildings, plant and stock, the book debts being set off against the creditors, would need to raise £33,000 in order to pay the proposed levy. This it cannot do in the conditions which would prevail if a Capital Levy was imposed. In case of private firms and companies with larger capital, the difficulties would be greater because a larger proportion of the capital would require to be turned into cash in order to pay the levy. About two-thirds of the whole amount of the levy would be payable by those individuals whose capital exceeds £100,000. I think that, owing to the conditions which would prevail, the difficulties in the case of a private firm or company would be largely typical of the difficulties of industry generally.

(Sections *e* to *g*) (*as to payment by instalments, &c.*).—If, as I think, the imposition of a Capital Levy is impracticable, these further points would not arise.

Answer to Question 15 (*additional points*).

17. I refer to paragraphs **26** to **32** of my previous Evidence-in-chief on the 3rd December, 1924, for the meanings attached in this memorandum to the following terms:—

26. Capital as it exists (existing capital).

27. British national capital.

28. Personal capital (individual capital).

29. Value of capital.

30. National Debt.

31. National income (annual production).

32. Employers and wage-earners.

18. The following is my rough estimate of the nature and value of post-war British national capital and of personal capital. This estimate is based upon a careful analysis of the best estimates of pre-war British national capital compiled, in the usual way, from Inland Revenue statistics of national income. The figures have then been adjusted in certain particulars to post-war conditions, and, as regards existing capital (*see* definition) a rise in currency value of 66·6 per cent. has been assumed. It should be noted that all the figures are approximate, and that any of the individual estimates of items comprised in the valuation may be varied and readjusted without impairing the validity of the general form and method of statement.

(*a*) See tables in paragraphs **18** and **20**.

(*b*) 21¼ per cent. of £27,286 millions represents estates not exceeding £5,000 and therefore not liable to Capital Levy.

ESTIMATE OF THE NATURE AND VALUE OF POST-WAR BRITISH NATIONAL CAPITAL AND OF PERSONAL CAPITAL.

	£ Millions.	At pre-war prices. £ Millions.		Currency + 66·6% rise in prices. £ Millions
Industrial property :—				
In U.K.—				
Lands	867			
Industrial buildings ..	1,110			
Farmers' capital, ex-lands	450			
Railways, shipping, mines, the contents of factories, plant and stocks	3,472	5,899		
Outside U.K.—				
Lands, buildings, growing crops, railways, shipping, mines, works, the contents of factories, plant and stocks, less deduction for securities sold abroad during the war		2,000		
Domestic property in U.K. :—				
Lands	288			
Dwelling houses, etc., less deductions for neglected repairs	2,000			
Household furniture, works of art, wearing apparel, less deduction for neglected repairs	750	3,038		
		10,937	existing capital + 66·6 %	18,228
Gold and silver coin and bullion, less deduction for proportion exported		125		125
Foreign Government pre-war fixed interest securities less deduction for securities sold abroad	150			
Indian and Colonial Government pre-war fixed interest securities	500	650	— 33·3 %	433
		11,712		18,786
National Debt and local loans :—				
Post-war fixed interest ...	7,500			
Pre-war fixed interest ..	1,500	9,000	— 33·3 % on £1,500 = 500	8,500
Personal or Individual Capital		20,712		27,286
Deduct.				
National Debt and local loans due to the individual subscribers	9,000		— 500 as above.	
Carried Forward	9,000	20,712		27,286

	£ Millions.	At pre-war prices. £ Millions.		Currency + 66.6% rise in prices. £ Millions.
Brought Forward	9,000	20,712		27,286
Less.				
Government and municipal lands, dockyards, arsenals, public buildings, roads, bridges, sewers, etc.	1,600	7,400	existing capital + 66·6 % on £1,600 = 1,066.	5,834
British National Capital ..		£13,312		£21,452

In addition to the National Debt, there rests upon us, in common with the other belligerent nations, a heavy, but gradually diminishing, liability for the payment of war pensions.

19. My estimate of the post-war value of British national capital, at pre-war prices £13,312 millions, may be compared with £14,319 millions, the amount of Sir Josiah Stamp's estimate of British national capital based on 1914 figures and set out by him under each source of taxable income with the addition of certain supplementary heads. (*See* page 405 of 1916 edition of "British Incomes and Property"). My estimate discloses a diminution in value, at pre-war prices, of about £1,000 millions as the result of adjustments to post-war conditions. These consist, in the main, of deductions for securities sold abroad, deterioration of property owing to neglected repairs and upkeep, shipping losses, and fall in value of certain fixed interest securities, less increases under some heads in the extent of buildings and plant.

20. My estimate of the currency value of post-war personal capital is £27,286 millions, and the following table shows in column C the approximate allocation of this amount to estates of different value-limits. The percentage in column B is based upon the table contained on page 21 of the 66th Report of the Commissioners of Inland Revenue, showing the percentage of estates of different value-limits to the total net capital values of estates of deceased persons liable to Estate Duty 1922-23. The results shown by this table correspond approximately with the results shown by the similar tables relating to recent previous years.

ALLOCATION OF POST-WAR PERSONAL CAPITAL TO ESTATES OF DIFFERENT VALUE-LIMITS.

A. Value-limits of estates.	B. Percentage of value-limits to total value.	C. Allocation of post-war personal capital to value-limits.	D. Approximate percentage of proposed levy.	E. Amount of levy.	F. * Percentage of numbers in each value-limit to total number of estates.
	Per cent.	£ Millions.	Per cent.	£ Millions.	Per cent.
Not exceeding £5,000	21·22	5,794	—	—	90·196
£5,000 to £10,000	10·16	2,774	3	83·22	4·581
£10,000 to £15,000	6·97	1,905	7½	143·87	1·800
£15,000 to £20,000	4·78	1,305	12	156·60	·918
£20,000 to £30,000	6·80	1,856	16½	306·24	·896
£30,000 to £50,000	8·61	2,348	22½	528·30	·765
£50,000 to £100,000	11·47	3,120	28½	889·20	·521
£100,000 to £200,000	8·32	2,271	35	794·85	·207
£200,000 to £500,000	8·20	2,239	41½	929·18	·082
£500,000 to £1,000,000	4·81	1,310	47½	622·25	·022
£1,000,000 to £2,000,000 ...	6·09	1,665	52½	874·12	·010
£2,000,000 and upwards	2·57	699	57	398·43	·002
	100·00	£27,286	—	£5,726·26	100·000

* Including 13,008 estates not liable to Estate Duty.

21. The results shown by this table indicate that if—as alleged by its advocates—a Capital Levy at the rates proposed could be imposed without causing a serious fall in values, the amount realised would be £5,726 millions and not £3,000 millions. It shows that the estimated value of capital upon which the levy would be imposed—i.e., after deducting the amount of individual estates not exceeding £5,000—is £21,492 millions, and thus the proposed levy is equal in amount to 26·6 per cent. thereon. The table also indicates that 90 per cent. of the owners of capital would pay nothing; that 9 per cent. owning estates between £5,000 and £50,000 in value, would pay 20 per cent. of the proposed levy; while the remaining 1 per cent., owning estates valued at upwards of £50,000, would pay 80 per cent. of the whole.

22. The War debt, like all other national and municipal debt, was incurred, not for the needs of the past, but for the needs of the future, and it should be repaid, not out of past, but out of future production. There is no other means of repayment of National Debt—apart from confiscatory methods which would irretrievably damage the productive mechanism of a modern industrial State—except out of annual taxation, the burden of which, however distributed, inevitably and rightly lies on future annual production. The really important question therefore is how that inevitable burden may be laid on future annual production in the way least harmful to wage-earners and others with small incomes. These constitute the great bulk of the nation, but they must, nevertheless, be always ultimately dependent on their employers—a numerically very small body, in whose hands, however, all co-operative production —except only State production—arises. I ventured to suggest what I think is the true answer to this question in the course of my evidence before the Committee on the 3rd December, 1924.

6374. *Mr. Bell*: We are extremely sorry that there are so few of us present; I am sorry also to say that we have just had a message that the Chairman is ill and not fit to be present.—I am very sorry to hear that.

6375. If you have your paper before you, you will recall that you wish us to look at the answer to question 15, before we go through the other paragraphs of your paper. Will you kindly read the paragraph and then draw our attention to anything on the following pages which will elucidate what you say there?—My answer to question 15 includes a rough estimate of the nature and value of post-war British national capital and of personal capital. The amount of personal capital is £27,286,000,000. That appears in the table in paragraph 18, in the outer column, as personal capital in currency. It is interesting to notice that at pre-war prices the value of post-war national capital, shown at the foot of the inner column, is £13,312,000,000, which compares with the estimate of pre-war national capital, made by Sir Josiah Stamp, which is, I think, the best estimate that we know, of £14,319,000,000. My estimate thus indicates a diminution in post-war national capital at pre-war prices of about £1,000,000,000 as the result of adjustments to post-war conditions. These adjustments consist in the main of deductions which I have made for securities sold abroad, deterioration of property owing to neglected repairs and upkeep during the War, shipping losses, and fall in value of certain fixed interest securities, less, however, increases under some heads in the extent of our buildings and plant. So that this estimate which I have prepared is parallel with the accepted pre-war estimates after allowing for certain necessary adjustments to post-war conditions. I have, of course, the details of the adjustments made under each heading, but at the moment perhaps I need not trouble you with those. Then having got the value at pre-war prices of post-war British national capital £13,312,000,000, we find higher up in the same column that the post-war personal capital at pre-war prices is £20,712,000,000; that is before we deduct the National Debt and local loans. The currency value of that property is shown in the outer column to be £27,286,000,000. I wanted to show that that figure is arrived at strictly on the commonly accepted lines of valuation.

6376. To make it a comparable figure, you reduce it to £21,452,000,000?—Yes, that is the amount of British national capital; and the difference between the amounts of personal capital and national capital is the amount of the National Debt and local loans, less an adjustment for the value of Government and Municipal lands, dockyards, public buildings, roads, bridges, and so on. When we seek the amount of national capital, we must deduct from the amount of personal capital the liability of the nation for its debts, less the value of its property. That is the distinction between the amount of personal capital and the amount of national capital. The important figure for the purpose of discussing a Capital Levy is the amount of personal capital, £27,286,000,000. Going on now to the following paragraphs, I have allocated the post-war personal capital to the different value-limits of estates. The percentage of each value-limit to the total value of post-war personal capital is shown in column B of the table in paragraph 20, and is based upon the table contained on page 21 of the 66th Report of the Commissioners of Inland Revenue which shows the percentage of estates of different value-limits to the total net capital values of estates of deceased persons liable to Estate Duty in 1922-23. It is interesting to note that the results shown by this latter table correspond approximately with the results shown by the similar tables relating to recent previous years. For instance, estates between £5,000 and £10,000 represent about 10 per cent. of the net capital values of estates of deceased persons liable to Estate Duty within that year; and looking back to the two previous years, one finds that estates falling into that value-limit represent about the same percentage. Therefore I have taken those percentages for the purpose of allocating the amount of personal capital, £27,286,000,000, to the different value-limits.

6377. *Professor Hall*: Have you compared those percentages with other years, to see how far the figures for 1922-23 are typical of a series of years?—I have compared them with the two previous years. Taking the 65th Report, on page 20, I find that the value of estates between £5,000 and £10,000 represents 10·27 per cent. of the whole. Then taking the 64th Report, page 17, the value of estates between £5,000 and £10,000 is 10·34. That is rather remarkably near, and therefore I have used a similar scale for the purpose of allocating the amount of personal capital to the different value-limits.

6378. You would not agree with any conclusion differing from that?—Not, I think, substantially differing from that.

6379. I have before me a paper read before the Manchester Statistical Society about a fortnight ago, and the figures there given for England and Wales do not support the figures that you have put forward here. They differ in total. One must remember, of course, that these figures are for England and Wales only, but even when allowance is made for the addition of Scotland and Ireland, there would still be a difference between your figures and these figures; and the proportions differ. It is estimated here, for example, that 98 per cent. of personal estates fall within the £5,000 limit?—In numbers of estates, according to the statistics of the Inland Revenue, 90 per cent. fall below the £5,000 limit. Your reference is to Professor Henry Clay, is it not?

6380. Yes.—Does he state on what he bases his estimate?

6381. Yes. He has taken pretty much the same returns that you have; he has also taken other things into account as well. I was only wondering how far you have had these figures checked or whether they were merely based upon the information that you have now given us, without any criticism at all by any other person?—I have, after careful consideration, relied upon the tables in this 66th Report. There is a table, No. 10, on page 20, giving numbers of estates liable to duty, 1922-23, and it is from that table that I have taken my percentage of numbers of estates in each value-limit to the total number of estates. The important point is, however, not the number but the amount of estates in each value-limit, and this is shown in column C of my table in paragraph 20.

6382. In this paper, of course, there are included all persons who may be assumed to have capital at all, including persons below £100, and that would naturally affect the percentage?—Yes. My table does not include in column F any estates not exceeding £100 net value—which are exempt by law—nor insolvent estates.

6383. *Mrs. Wootton*: Do not your figures assume that the distribution in different groups among the living corresponds to the distribution among the dead?—Yes.

6384. Is it not possible that the number of living persons having great estates is smaller relatively to the number who have died, and in fact, that people who have very large estates are generally fairly advanced in age?—I have considered that and would rather suggest that it may be the other way in present day circumstances; because as a man gets older it is becoming rather customary to divide a portion of his estate before his death. We have seen a good bit of evidence in recent years of that tendency.

6385. Do you think that is sufficiently wide to counteract the other tendency?—I am inclined to think so.

6386. You think you can safely use the same multiplier?—I know of no better one. I offer it for criticism. It seems to me to be an approximately accurate measure.

6387. Have you seen the calculations that were published in Sir Josiah Stamp's latest book, in which he makes an estimate for another purpose, based on Death Duty statistics, and uses a different multiplier, a smaller multiplier, for large estates than for the smaller ones, assuming that the tendency I have mentioned is active?—I probably have seen them, but I have not compared his calculations.

6388. The multiplier used leads to an appreciable difference in the result?—Possibly he may not have taken into account the other point I have mentioned, which is not unimportant.

6389. I do not remember that he did. *Mr. Bell*: In any case, your table is based the nearest you can upon the returns, and it shows what the various classes and categories between different value limits of estates would have to pay under a levy on the scale proposed, and that such a levy at those rates would produce £5,726,000,000?—*Witness*: Yes, that is so.

6390. *Mrs. Wootton*: That is on the assumption that you can infer distribution of property among the living from distribution among the dead?—Quite so, and also assuming that there would be no substantial fall in prices as the result of a Capital Levy and that a levy would be practicable.

6391. *Professor Hall*: Assuming also that the distribution in the different groups is as laid down here, apart from other causes than those mentioned by Mrs. Wootton?—Yes.

6392. *Mr. Bell*: It is just an estimate as nearly as you could get it of the amounts of the levy which would be derived from various classes?—That is so.

6393. *Professor Hall*: Are you satisfied about the £27,286,000,000?—I know of no better estimate.

6394. Have you compared it with any other estimate that has been made?—Yes. I do not know of any other estimates with which it may not be reconciled, possibly by adjusting factors such, for instance, as the estimate of rise in prices.

6395. When you say the post-war gold standard, are you thinking of pre-war prices?—Yes.

6396. You are taking pre-war prices?—Yes.

6397. Suppose we went back to a gold standard within the next 12 months, do you imagine that that figure, £27,286,000,000 would be much altered?—No; because I think it will take a long time for prices to fall after the return to more normal conditions, and the restoration of a free gold market. I think that ultimately prices must tend in the course of time—possibly a long time—to fall to normal level again.

6398. I would like to take up the basis of that point with you when you come to question 1. You suggest now that even if we were back on the gold standard, these figures in paragraph 18 on the basis of 66·6 per cent. rise in prices would be quite correct?—They would be approximately correct, because owing to existing conditions, prices are, and will be, I think for a long time, abnormally high. We now ask to be paid about £1 15s. for what we should have asked £1 before the War, and we find inevitably therefore that £1 15s. buys us only an amount of production, whatever it may be, equal to what £1 would have bought us before the War. It is really a kind of contra transaction.

6399. What is the basis of the 66·6 per cent? How have you arrived at that percentage?—The general level of prices is now in this country 70 per cent., or perhaps a little more above pre-war level, and I have taken 66·6 per cent., as an estimate, to be on the safe side, and also because certain things may cause the average to be rather less.

6400. It is your estimate of what would be a fair percentage to take?—I know of no better.

6401. On the same page, under the heading "National Debt and Local Loans," are you taking the whole of the debt to be individually held?—No; for my allocation of that we must go to another table, to which I will refer presently.

6402. Are you assuming the whole of it is held internally?—Yes, for the purpose of these estimates.

6403. Have you provided for any amounts that may be held by Government Departments, or anything of that sort?—No.

6404. Before any accurate result could be arrived at, some of those things would have to be allowed for, would they not?—I have set off external debts against external credits. I think, however, that any of the individual estimates of items may be varied and readjusted without impairing the validity of the general form and method of my statement.

6405. But your figure of £27,000,000,000 would be affected, would it not, if some of the debt were held outside this country?—There is a set-off against that.

6406. Would it not be necessary, to get at the precise statement, to get the amount held externally and the set-off that you mention?—I think it would. But that is unnecessary for the purpose of arriving at an approximate statement of the general position.

6407. Your answer would be then that this is not a precise statement; it is subject to a great many qualifications, but you consider it sufficiently near to serve as a working basis. Is that your point?—That is so.

6408. *Mrs. Wootton*: When you say you have not allowed for debt held outside the country, does that mean that you have not deducted the external debt, or does it mean that you have not allowed for individual foreign holdings of our internal loans?—I mean that I have assumed that the debts due externally by us may be set off, in the main, against debts due by other nations to us.

6409. You have included in that assumption the American debt?—Yes.

6410. It is not withdrawn from this?—No.

6411. *Mr. Bell*: The results shown by these tables you have just been discussing are dealt with in paragraph 21. Will you just go through that shortly?—(*Paragraph* 21 *read.*)

6412. We have had the yield of a levy estimated at £3,000,000,000, £4,000,000,000, and now, in your case, nearly £6,000,000,000. There is an extraordinary difference?—Very great indeed. I was surprised, but I could see no escape from it, because these figures are all founded upon commonly accepted statistical returns.

6413. *Professor Hall*: Except, of course, that this £27,000,000,000 is something that is not yet proved?—Yes, I only offer it for consideration, and show exactly how I arrive at it.

6414. But that is the basis upon which this large sum that you mention here, £5,700,000,000, has been arrived at?—Yes.

6415. If that basis is wrong, then the result is not quite correct?—I agree. Then in paragraph 22 I say: "The War debt, like all other national and municipal debt, was incurred, not for the needs of the past, but for the needs of the future, and it should be repaid, not out of past but out of future production." That is, as I think, necessary in order to avoid disastrous interference with the mechanism required for future production. If we attempt to pay it off by methods involving confiscation of capital

needed to co-operate in production, we shall not get that future production out of which in the natural course I think this War debt should be paid by means of a regular Sinking Fund. I think there is no other means of repayment of National Debt, apart from confiscatory methods.

6416. Would not a Capital Levy be a transfer, really, and not a reduction in the amount of capital available for industry? Would it not then be paid out of past and not out of future industry?—I think that so far as it constituted a transfer, it would have this deplorably detrimental effect on production; that it would transfer the means of production on the capital side—that is, the tools of industry—into less able hands, and so we should get a serious interference with the successful carrying on of industry. I have been very much struck with the importance of capital remaining in the most capable hands to which it is naturally attracted. About 75 per cent. of all existing capital consists of plant, machinery and the other vast equipments of industry, the other 25 per cent. consists of domestic capital—in the forms of houses, furniture, and so on. The 75 per cent. should remain as at present in the most capable hands. That is a most important thing from the point of view of the wage-earners' interests.

6417. Let us agree for the moment that the transfer may be deplorable; I am coming to the words that you use here: "and it should be repaid, not out of past but out of future production." Would not a transfer of that kind, however deplorable it might be, be a payment of the debt out of past production?—It would be a payment of the debt out of past production by confiscating the property of other people.

6418. *Mr. Bell*: Now will you pass to your answer to Question 1? (*Answer to Question* 1 *read.*)

6419. *Professor Hall*: What are your views in regard to the desirability of increasing the amount of the Sinking Fund?—I think that an annual Sinking Fund aimed at repaying the debt in, say, 50 years, which involves the setting aside of half of one per cent. per annum—assuming a rate of interest of 5 per cent.—is the most that we should seek to raise, because of the importance of not imposing any unnecessary taxation on production.

6420. That rather postpones the complete redemption of the debt a long way ahead?—Yes, but even in the near future it may be that conditions will so improve that we may be able to save a great deal by means of voluntary conversions without injustice to holders. Anyhow, 50 years would be known as the utmost limit.

6421. If the rate of redemption is only half of one per cent., the annual saving in interest, apart from conversions, would not be very great; so that the amount that you could add to your Sinking Fund by reason of interest saved would not be large?—It would be sufficient, on the assumption of the 5 per cent. interest base, to repay the whole debt in just under 50 years.

6422. You want to add the saving in interest to the half per cent.?—But you would do that by going into the market and buying amounts of stock equal to the annual Sinking Fund.

6423. That is a question of method, rather. I am wanting to find out how much annually you would set aside for Sinking Fund purposes. If we stick to the half of one per cent., it would take us a long time to wipe off the debt?—Just under 50 years.

6424. Without any accumulation of interest?—You would get your investment always available at 5 per cent. by buying 5 per cent. stock. You do not invest the annual Sinking Fund outside but you invest it by purchasing the 5 per cent. stock and so save yourself the future 5 per cent. on the capital sum.

6425. If the Sinking Fund is only half of one per cent., unless that is increased by the amount of interest saved, you cannot surely wipe the debt off in 50 years, can you?—But the provision is, in effect, increased by the amount of interest saved.

6426. The amount of Sinking Fund annually diminishes as your debt diminishes, if your standard is half of one per cent. on the debt existing at the moment?—No, it is not. It is half of one per cent. on the original debt.

6427. That of course makes a difference?—Yes.

6428. You are satisfied that would clear the debt off in 50 years?—Yes, in 50 years, because it is applied to a 5 per cent. debt, and you would secure your 5 per cent. investment by going into the market and buying that 5 per cent. stock.

6429. I should like to consider your suggestion before I say anything further about it. When you say that "Beyond the amount of the necessary annual Sinking Fund the repayment of the National Debt should not lie upon annual taxation," do you mean that there is no need to provide for the reduction of debt except so far as contractual obligations are concerned?—I feel that we must not increase the heavy burden upon production. I believe that all taxation, however imposed, falls ultimately upon production, and therefore that we must keep the amount of taxation as low as possible.

6430. You do not attach any great importance to the reduction of debt as a means of raising the prestige of the country or effecting conversions or for any purposes such as that?—I attach much more importance to the adoption of a settled and definite scheme which will ultimately effect the redemption of the debt, rather than the adoption of any abnormal means for rapidly paying it off.

6431. We have quite a variety of opinions expressed in regard to the future course of prices. I think nobody has been so optimistic as you are in suggesting that we shall get back to the pre-war level?—Ultimately, I say. I have not ventured to suggest any period.

6432. That does not take any account, surely, of the output of gold since 1914, or it assumes such a development of production as to offset that increase of gold?—The annual output of gold is scarcely more than a ripple upon the surface of the mass represented by the world's stock of gold. In that respect, I think one must consider that gold, as a commodity, is subject to quite different conditions to any other commonly used commodity. The annual production of gold is a mere fraction to the mass. Though the annual production of gold may increase or decrease, it takes a very long time for annual output seriously to affect the value, owing to the very large stocks which are in use in the world, and owing also to the fact that gold is not perishable to any considerable extent.

6433. Nevertheless this increase in the annual output of gold was sufficient to cause a fairly considerable rise in prices between 1897 and 1914, and since that annual output of gold is being maintained, it would be reasonable to suggest that its influence upon prices would continue. In effect you say that in 1914 that influence ceases and in 1925 or some subsequent year we are going to get back to the price level of 1914; that is to say, that whilst gold had an influence on prices from 1897 to 1914, it is now going to have no influence at all?—I would not say that. After 1914 the chief use of gold viz. as money almost ceased. But now the use of gold has extended and is extending, not only owing to the normal increase in the populations of gold using countries, but also in connection with the growing use of gold as the basis of currency. Thus any increased production of gold is more readily absorbed. We need not fear anything like a sudden doubling of the available amount of gold in the world.

6434. I take your argument to be that the demand for gold has overtaken the supply of gold more rapidly since 1914 than it did between 1897 and 1914?—I have not considered that point sufficiently to be able now to give an opinion upon it.

6435. It does seem to be important?—Yes, it may be.

6436. The whole question of debt policy may be affected by the correctness or the incorrectness of

your statement here. If prices are to fall from the present level to the 1914 basis the real burden of the debt is going to be enormously increased?—Yes.

6437. So that it would be an argument in favour of very early repayment if the burden were to be increased as the result of falling prices. It is desirable that we should have as much light on this problem as we can get and you are so definite here and so much more optimistic in regard to prices than other people have been, that it would be helpful to us if we had your reasons for being so optimistic regarding the future level of prices?—I think that, with possible future acceleration in the production of gold owing to improved methods and new inventions, and so on, will come also future acceleration in other production owing to similar causes. In that case we should find that the ratio of exchangeable value between the two commodities—gold and other commodities—did not vary much. The acceleration in production would be likely to extend to other commodities.

6438. But is not the production of gold something rather distinct, something separate, something that has to be considered rather differently, from the production of other commodities, and may it not be affected by some special cause that does not apply to other industries? Take, for example, the introduction of the cyanide process for working the gold ores. That was something which specially applied to gold and cheapened the cost of extracting gold; it did not affect other industries?—But I suggest that parallel with those improvements in the gold industry we did see a great acceleration in production in other industries.

6439. That would be true of the period 1897 to 1914 just as much as of the present day, and yet those improvements were not sufficient to prevent the rise in prices that took place between 1897 and 1914. What happened was that more economical methods of working gold ores were discovered so that workings that previously had not been profitable became profitable and there was an extension of output?—Wages were rising during that period and this would cause prices to rise. As regards the rise in prices since 1914 I feel instinctively that with a return to normal conditions there will be a gradual fall, and that ultimately prices may be a good deal nearer to pre-war level than to the present level.

6440. Of course if prices fall, the rate of taxation would have to be higher?—Unless expenditure also fell.

6441. So that would be an argument really in favour of an early repayment?—If it were possible without damage to the productive mechanism of the country.

6442. That would count on the side of early repayment; you have set other things against it, but that particular argument is in favour of an early repayment?—Yes, subject to my previous answers. (*Answers to Questions* 3 *and* 4 *read.*)

6443. *Mr. Bowen*: With regard to the lapse of time since the War, have you any view as to whether a Capital Levy could have been more profitably made three or four years ago than it could be now in any case?—I hold the view strongly that it is impracticable, and I think, therefore, that time and other conditions are immaterial, I think it would have been found to be impracticable three or four years ago.

6444. Then you do not agree with the view expressed by the Inland Revenue before the War Wealth Committee?—Not so far as it was thought that a Capital Levy would be practicable. I do not think it would.

6445. *Mrs. Wootton*: It has been very often put to us that it would have been much easier to convince the taxpayer that there would not be a repetition of the levy if it had been imposed immediately after the War, when it would have been very closely related to the special circumstances of the War. You do not think there is anything in that?—It may be that in those days things were even more abnormal than they are now. But I do not think we have missed any opportunity that could have been profitably used.

6446. You do not think that a guarantee would have been appreciably more effective at that date than it would now?—I do not think so.

6447. *Mr. Bowen*: I see the whole of your answers are generally in condemnation of the Capital Levy, so there would be no particular point, I should imagine, for me at any rate to put questions on the different paragraphs. You clear them all away by saying that you do not agree with the Capital Levy. In answer to Question 10, you call it "barefaced confiscation of personal capital." How do you justify that?—I look at it fairly and reasonably, and I cannot see any other description for it. It would be a sudden seizing of property belonging to some individuals amounting in some cases to well over 50 per cent.

6448. *Professor Hall*: Is that argument based upon the percentage taken or upon the principle? Would you like to relate your answer to the Income Tax, where we take a part of the income before it is set aside as savings and becomes capital, and to the Death Duties, where a part of the capital is taken?—I am well aware that our present system of progressive taxation is confiscatory in its nature, but the great difference between that and the proposed Capital Levy is that one is a sudden descent upon a man's property and the taking of it away, while the other is the continued application of a long-accepted principle of taxation. The basis is known as ability to pay—a bad principle, I think, which reacts disastrously on the wage-earners, but, at any rate, it is a well-known principle. There is a great difference between the two.

6449. *Mr. Bowen*: May I suggest that although we have had a war, a very abnormal proceeding in the course of our history and in the history of the world, the method you are suggesting to us to get ourselves cured of the disease or to put our troubles right is purely normal procedure, and any suggestion of abnormality in taxation you regard as barefaced confiscation. Do you think the things are quite equal?—I would gladly find some better means of helping to restore normal conditions, but I find no means other than to proceed normally. We must avoid taking steps which would be disastrously detrimental to the interests of the State; and so to the interests of the wage-earners and others with incomes not exceeding £500 a year.

6450. But if the State owes £7,000,000,000 it is no good talking about barefaced confiscation if you ask the State to pay the debt?—The State, I think, can scarcely lay its hands upon the private property of a very small section of its individual members in order to pay that debt, without laying its action open to be properly described as barefaced confiscation.

6451. You take no account of the fact that that very small number of people to whom you refer with their property holdings have all the protection that the State can give in its relation to the whole of the community. For example, their property would not have been worth two minutes' purchase if it had not been for the life of the community that saved it for them?—All industrial property is in effect held by its owners in trust, and is used in co-operation with labour to give us production, out of which we all live. If this property benefited owners only, other considerations might arise; but industrial property is part of the mechanism of our industrial State, and should be used to the best advantage in producing, in co-operation with wage-earners.

6452. I am not going to enter into an argument as to the relative merits of property owning and all that, but I do suggest that you are looking at this with coloured glasses, and the description and the suggestion such as you put in your statement is hardly in keeping with what we are trying to obtain. If you suggest that property has its relation to the wage-earning classes, then I suggest that does lead you into the channel of my own thought, that you are not attacking so much individual property which must be held sacrosanct, but you must have regard

to the relation of the property to the State and the protection which is given to it, and its relation to State indebtedness. Therefore, confiscation is not a proper term to apply, any more than you can apply it to Super-tax or to any other tax which is accepted by the community as being just?—I think that any form of confiscatory taxation is unwise in the interests of the wage-earners and others with small incomes.

6453. That is another point. You say that in another paragraph, but I am talking about your description of the proposal, which I am suggesting is somewhat difficult for you to justify?—I venture to think that there is no escape from that description.

6454. *Mrs. Wootton*: May I take this point up for a moment. I want to get exactly at what characteristics of the Capital Levy make it confiscatory when other taxes are not so described. I understood you to say just now that it is a sudden thing, and that it is not based upon long understood principles, and you contrasted it in that respect with the existing arrangements as to Income Tax and Death Duties. I was wondering whether you had brought your mind to bear on the age of the Super-tax, which is not a very old tax, whether you had considered the things which were said about the Super-tax and about the Death Duties at the time of their introduction, or, in the case of Death Duties, at the time the rates were raised. It seems to me that your description of the Capital Levy as confiscatory, if it is based on its newness, limits our ability to introduce any new taxes at all?—I think that progressive taxation is in its nature confiscatory, but there are different degrees. Some methods of applying the principle are much more confiscatory, because more sudden or more severe, and there is less opportunity to prepare for them than others. It is said that all taxation is confiscatory, but I do not think so.

6455. You confine it to progressive taxation?—Yes, progressive taxation. Proportionate taxation, on the other hand, is not in the least confiscatory.

6456. That is what you have stated?—That is what I believe.

6457. In your view progressive taxation is always confiscatory?—Yes.

6458. But of course there are degrees of confiscation?—Yes.

6459. So that this characteristic of the Capital Levy is something which it has in common with existing taxation, but in a higher degree?—That is so.

6460. *Professor Hall*: Coming back to Question 4, you make reference there to a guarantee against repetition of a levy. You say that no guarantee can be either convincing or effective. Have you tried to formulate any guarantee that would be effective?—No. Having once exercised such a power of confiscation, I think that no guarantee can be effective. One cannot bind one's successors. It might hereafter be said, "Conditions are now so different that we must look at things as they are, and we must now impose another levy."

6461. Would you say, until you had tried to find one and found that it was impossible to get one, that this statement is justified? You say you have not tried to formulate any guarantee, yet you say it is not possible to get one?—But no form of words either spoken or written would, I think, be convincing.

6462. The State does give many guarantees which are accepted, guarantees to pay interest upon loans, and those terms are kept. Could you not get an equally acceptable guarantee in regard to non-repetition of the Capital Levy?—I think that none would be accepted by the business community.

6463. But you have not tried to find one?—I feel that no form of words would be accepted.

6464. Supposing that you were a Civil Servant and serving a Government that had decided upon a Capital Levy and that you were asked to suggest to the Chancellor a form of guarantee which would be accepted, would you say to him that it was not possible, that you would give up the job?—I do not think that I should be able to place much reliance on any form of words, for the reason that circumstances alter as years go on, and it is impossible effectively to bind one's successors.

6465. *Mr. Bell*: Now Mr. Leake, as time rather presses, I would like you to select out of the remaining part of your paper the points you would like particularly to put before us. Some of them are possibly not as important as others and we should like you to choose which you would like to amplify?—May I take the answer to Question 14, which contains a table showing the forms in which personal capital is held? The estimate of the amount of personal capital which we were discussing earlier is £27,286,000,000. The table shows in what forms this £27,286,000,000 may probably be held by individuals. I suggest there that £12,169,000,000 may be held in the form of shares in British and foreign companies; that the National Debt and local loans may be represented to the extent of about £4,250,000,000; that industrial property—in this country and abroad—in the form of industrial land, growing crops, mills, factories, plant, machinery, stocks and so on, may be represented by £6,583,000,000, and domestic property by £4,062,000,000. Then in the outer column those figures are reduced to 78¼ per cent. of individual holdings. That is the proportion liable to a Capital Levy after deducting the part estimated to be held by persons whose estates do not exceed £5,000. We thus get £21,492,000,000 as liable to a levy. If the holdings of War Loan of individuals liable to assessment amount in all to £2,953,000,000 only, as shown in the outer column in the table, it would probably be unsafe to assume that more than about one half of this amount, or say £1,500,000,000, could be paid by the actual transfer of War Loan. From this it follows that the balance of the Capital Levy, £4,226,000,000 would have to be found by selling, pledging or transferring securities representing rights of ownership and control of existing capital now almost wholly engaged in some form of industrial production. It is probable that two-thirds of all this existing capital would be represented by Stock Exchange securities and one-third by other property, including real property. It is inconceivable that it would be possible to sell on the market, even at knock-out prices, a quantity of securities of this nature representing nearly 25 per cent. of the whole of such assessable property and securities. It is equally certain that the money could not be raised on credit by pledging such property and securities to the banks. It would therefore be necessary to transfer the ownership of a vast amount of property and securities of this kind to nominees of the State, and incidentally the control would pass into unsuitable and less capable hands. That, I think, is a very serious thing, to which sufficient weight has not been given.

6466. *Professor Hall*: On what basis has this table been compiled?—The division of property between shares in companies and other property held by individuals is an estimate. I was unable to find any statistical basis.

6467. You have no statistical evidence to offer us regarding the holdings of, say, War Loan?—No.

6468. You have taken an arbitrary figure here, £3,750,000,000, as being the amount of National Debt and local loans held by individuals?—Yes, and I have allocated the other moiety, £3,750,000,000, as probably held by companies including banks, insurance and trust companies. They hold very large amounts.

6469. Of course this figure is a rather important one, is it not?—It is.

6470. It affects the amount of War Loan that might be offered in payment of the levy?—Yes. At the same time even if two-thirds of War Loans are held in individual holdings, it would still leave a very large proportion of the levy to be found by selling securities and properties held by individuals. That seems to be inevitable.

6471. You have no information as to the proportion of War Loan held by small investors, large investors and companies?—No, I have not.

6472. So that this is an estimate or surmise?—It is an estimate in support of which I can bring no direct evidence. It is based on observation.

6473. *Mr. Bell*: I suppose the National Debt holdings in banks and insurance companies could easily be ascertained?—They might, I think.

6474. With a little industry, or perhaps a good deal of industry, in examining balance sheets of public companies, one would be able to get some indication of industrial companies' investments. It might be possible to get at some figure from those?—Balance sheets very rarely show the details of the investments. Certain trust companies, as we know, publish lists of investments, but that class of company is about the only one that does this commonly.

6475. I am thinking of a very large industrial company which shows a million pounds of War Loan on its balance sheet. That, as you say, is exceptional, but I think a minimum figure could be got for this from banks, insurance companies, trust companies and industrial companies who show it. It might be worth while to see if we could get a minimum figure, but there would be a certain amount to be added to that?—Yes. It is an important point, as Professor Hall says.

6476. *Professor Hall*: And of course the question of holdings of people outside this country would have to be allowed for too in estimating the amount upon which a levy could be imposed?—Yes. I should imagine that that holding is a very small proportion, but I have no information on the point.

6477. I was wondering whether you had the information?—No, I have not. The case referred to in (*d*) of paragraph 16, of the private manufacturing firm with a capital of £100,000 invested in buildings, plant and stock, who would need to raise £33,000 in order to pay the proposed levy, would represent one of very great difficulty. In the case of private firms and companies with larger capitals the difficulties would be even greater, because a larger proportion of each capital would require to be turned into cash in order to pay the levy; and I think that owing to the conditions of chaos which would prevail, the difficulties in the case of a private firm or company would be largely typical of the difficulties of industry generally. I can find no arguments in favour of the Capital Levy.

6478. You come back to your previous suggestion of a flat rate production tax?—I do, in the interests of the wage earner; I am not putting forward my proposals for a production tax in the interests of rich people only, as some may think, but, as I believe, in the far greater interests and needs of the wage earner.

Mr. Bell: Thank you; it is very good of you to come a second time.

(*The Witness withdrew.*)

Mrs. Matthews and Miss A. Honora Enfield, representing the Women's Co-operative Guild, called and examined.

Evidence-in-chief handed in by Mrs. Matthews and Miss Enfield.

1. The Women's Co-operative Guild is a self-governing organisation of women within the industrial co-operative movement. Its 52,000 members, organised in approximately 1,140 branches, are members, or wives of members, of Co-operative Societies, and it thus represents the great mass of Co-operative purchasers—the consuming as distinguished from the supplying side of the Consumers' Co-operative Movement—who practically all belong to wage-earning families.

2. In the following statement of evidence it has not been our aim to answer seriatim the questions submitted by the Committee, many of which are of a technical nature on which an organisation of the character of the Guild is not in a position to express an opinion. We desire rather to deal with the subject of the debt and taxation in their relation to trade and employment on general lines in the light of the problems indicated by some of the Committee's questions.

3. We take it that the purpose of the Committee's inquiry is to arrive at a conclusion as to whether and to what extent the National Debt, the various expedients for reducing it, and existing or possible forms of taxation are detrimental or otherwise to national well-being and trade prosperity, and the Committee's questions indicate three main factors in this prosperity—capital, credit and purchasing power.

4. Of these, we wish to emphasise particularly that of purchasing power (using that term as implying effective demand), as being of special importance in the present situation. We believe that while a proper balance between the three factors is necessary, the maintenance of a stable purchasing power is the keynote to trade prosperity, and in our view this factor has hitherto received too little consideration.

5. Problems of the debt and taxation have been regarded almost wholly from the point of view of production; from that of the manufacturer as capital, of the financier as credit, or of the workman as employment. But seeing that the real purpose of trade is the satisfaction of the needs of the consumer, it is only when these problems are regarded primarily from the point of view of the consumer that their true significance for trade becomes apparent and the various factors in prosperity assume their right proportions.

6. Since the most constant demand is the demand for necessaries and the most capricious the demand for fashionable luxuries, it is the maintenance of the purchasing power of the great mass of the people which is devoted to necessaries that is of greatest importance from the point of view of trade stability.

Taxation.

7. Bearing these points in mind, it is, in our view, not only the form of taxation, but also the purpose to which it is applied that must be taken into account in estimating its effect on trade and national prosperity.

8. *The Form of Taxation.*—We are of opinion that taxes on commodities fall on the consumer. Their tendency is to increase the price and thus to restrict demand and reduce the volume of trade and employment. If the commodity is a necessity, there may be little or no drop in its sale, but there will be restriction of demand for other goods. If these are imported goods, there will be a corresponding reduction (direct or indirect) in the demand for British exports.

9. Moreover, the restriction of trade is a progressive one; it does not end with the reduction in demand due to the original imposition of the tax, which produces a vicious circle of lessened employment and further restriction of demand.

10. While, therefore, it cannot be said to be a determining factor in the present unemployment situation, such taxation has, in our view, a definite effect upon employment, and may show itself either as under-employment, unemployment, or lowered wages.

11. We desire to point out what a very heavy burden existing taxation imposes on the purchasing power of the working classes. Assuming the correctness of the calculation that approximately nine-tenths of the country's wealth is held by one-tenth

of the population, it is roughly true to say that at least 90 per cent. of the indirect taxation is paid by the working classes; *i.e.*, the purchasing power of the community, which would otherwise have been expended on staple products and so have helped to steady trade, was, in 1923-24, reduced by taxation to the extent of over £240 million.

12. From the point of view of the individual housewife catering for a large family, this burden constitutes a very serious hardship, and too often means that what is paid in taxation has to be saved on food.

13. We are therefore of opinion that taxes on commodities should be abolished, beginning with those on necessaries, and should be replaced by an increase of direct taxation on wealth and by taxes on land values.

14. While, in our view, indirect taxation is particularly harmful in that it cannot be graduated according to wealth and falls most heavily on the poorest classes, we recognise that direct taxation may also have an adverse effect on the purchasing power of the community, and we would advocate the raising of the exemption and abatement level for Income Tax to £250 in the case of single persons, with a proportionate adjustment in the case of married men.

15. *The Purpose to which Taxation is Applied.*—The tendency of taxation spent on providing Old Age Pensions, Unemployment and Sickness Benefit, and indirectly also that spent on Health Services and Education, is to stabilise or increase the effective demand of the community as a whole, and particularly to increase the purchasing power devoted to necessaries, and thus to steady trade and employment and to increase the physical and mental efficiency, and, therefore, the productive capacity of the community.

16. On the other hand, that applied to military and naval expenditure withdraws labour from productive employment, while much of the demand it creates leads to the least productive of all industrial employment—that of manufacture for the purpose of destruction.

17. Again, the proceeds of taxation used to pay debt charges go mainly to the investing classes, and in so far as they are spent and not re-invested are used to a large extent for luxuries, personal services, expensive pleasures, etc. which divert both labour and capital from more necessary production and add nothing to the productive capacity of the community. In so far as they are re-invested they tend to increase the existing disproportion between capital and purchasing power.

Effects of the National Debt on Public Expenditure and the Distribution of Wealth.

18.—*I. Public Expenditure.*—In our view, therefore the most serious result of the debt charge is that while absorbing about 40 per cent. of the national revenue in payments to the investing class, it has resulted in restricting the public expenditure absolutely necessary for maintaining the health and efficiency of the workers through the Public Health Services and Education, etc. and in raising a barrier to such necessary developments as the proper provision for:

(*a*) families which have lost their breadwinner, or whose breadwinner is incapacitated or unemployed.
(*b*) young people continuing their education till 18.
(*c*) Old Age Pensions at 60.
(*d*) Family allowances or Motherhood Endowment.

We believe that all these measures are urgently needed for the general well-being of the nation, while from the point of view of trade prosperity they would have the effect of stabilising demand by increasing the purchasing power which is devoted to necessaries and is therefore steady, especially expenditure on clothing, furniture and household requisites.

19.—*II. Distribution of Wealth.*—The existence of the enormous National Debt thus operates to maintain and probably to increase the undue proportion of the wealth of the country held by the investing classes and so (1) to direct labour into the least productive occupations; (2) to keep the standard of life for the workers too low with consequent loss to their industrial efficiency; (3) to keep the purchasing power of the community below the level necessary to maintain a proper balance between capital and purchasing power as factors in trade prosperity.

Debt Reduction or Redemption.

20. We therefore believe it to be highly desirable in the interest of trade recuperation and general prosperity that the burden of the debt should be reduced at a very much greater rate than at present.

21. To reduce it by increasing taxation in such a way as still further to restrict purchasing power would however be to defeat the very purpose of the reduction. Debt reduction ought in our view to be a charge on the investing power and not on the purchasing power of the community. The Guild, like the rest of the Co-operative Movement, has pronounced in favour of a Capital Levy, and it is on such lines that we believe the situation can best be met.

22. While we do not feel that the application of Budget surpluses sufficiently accelerates the rate of reduction of the debt, and should entirely deprecate administrative economies on the social services with a view to creating such surpluses, we are of opinion that any surplus there may be should be applied to debt reduction.

6479. *Mr. Bell*: Perhaps you would kindly read the paragraphs of your paper and then at the end of each paragraph the Committee may put questions. I do not think you need read the first paragraph; we have well in mind whom you represent?—(*Miss Enfield*): I will begin with paragraph **2**. (*Paragraphs* **2**, **3** *and* **4** *read.*)

6480. Would you tell us what the maintenance of a stable purchasing power means in terms of everyday life and facts?—I think that is largely answered later on.

6481. Very well; we will leave that till later. (*Mrs. Wootton*): In your view, we are not suffering so much from a shortage of capital as from a shortage of consumption. Is that right?—Yes, that is so.

6482. What do you base that on?—We have not seen any evidence of a shortage of capital. Taking rather a casual survey of the situation, it seems that large amounts of capital are very readily subscribed. We have various loans which have been issued and over-subscribed in a very short time: the Tube Railways, for instance; and we have evidence in our own Co-operative movement that there is not the difficulty as regards capital that there was. As regards purchasing power, I think Mrs. Matthews could deal with that point from the women's point of view. (*Mrs. Matthews*): I do think the ordinary working woman has not the same purchasing power as she had; in fact, I met 10 women at a Committee on Friday, and I asked them, was the purchasing power as good even with their money to-day as it was before the War. They all answered, No, and some have a very much lower standard of living than they had. Five of them said that they never bought margarine before the War and they have margarine to-day. Seven of them said they had had to lower their purchasing of milk to a very low quantity, even going without milk puddings—just enough to carry on with milk in their tea. It is the rule of the thrifty woman with a standard wage to allocate that money

as well as she can in a particular weekly outlay. She has the rent, which does make her purchasing power very much less to-day than it was before the War. She has a certain amount of coal, which makes her purchasing power much less than it was before the War. Usually they belong to a clothing club, to which they allocate so much of their income each week. That is the only possible way of getting really necessary clothes. Then comes their money for their food. The woman allocates it as well as she can, and of course what she cannot get, she cannot get. There was one woman on that Committee who said that if we went through their street on a Thursday afternoon, she does not think we should find sugar in any one house. They order their sugar by the week and however careful they are, it does not go round. One woman said that she never thought of buying a pot of jam to-day, she could not afford it. They did have a little bit on their bread, but when the margarine was done, it had to be treacle or dry bread towards the end of the week. There are lots of instances among ordinary working women where I can tell you that if the taxation was moved off food, it would look a very small amount to people who have enough money to spend, but it would make a great deal of difference to the women in this particular position. Even if the money goes round, say that she has a family and she has 5s. a head to spend on food each week, it makes it one day in the week where she is very short, even with that 5s., and if the tax were moved off the food it would make a great deal of difference to that woman in the one day in the week. Perhaps I had better leave that now, because there is a later paragraph on the Income Tax, which touches people who are in a little better position than these women that I am talking of now; but I do know that the purchasing power of the ordinary working woman is much lower than it was before the War.

6483. *Mr. Bell*: I would like to know in what way the maintenance of stable purchasing power has anything to do with capital. Has it not to do with profits?—(*Miss Enfield*): I am afraid I do not quite see the bearing of the question. Is the point this paragraph: "We believe that while a proper balance between the three factors is necessary, the maintenance of a stable purchasing power is the keynote to trade prosperity"?

6484. The capacity to pay, I take it, and the wage to enable a stable purchasing power to be maintained, is related to profit rather than to capital, is it not?—I am sorry; but I do not see the point.

6485. How is the maintenance of stable purchasing power to be effected? I take it that it can only be from the profit arising out of capital?—This paragraph assumes, and I hope the Committee will agree, that there is a point at which the ratio between wealth held as investments and liquid wealth—wealth held as purchasing power—yields a maximum return on industry; and we believe that this ratio must be maintained.

6486. I want to put it in a concrete way: because it is so much easier to follow it. If in the Lancashire cotton trade, for instance, the state of the industry is such that the employers cannot employ their workers more than three days a week, how can they maintain the stable purchasing power that they would be able to maintain if the workers were employed six days a week?—I agree that unemployment very seriously affects the stability of purchasing power.

6487. But how can it be maintained? Everybody wants it maintained, but how can it be maintained if, as a matter of fact, the workers cannot be employed three days a week?—(*Mrs. Matthews*): Is not that a vicious circle—that the low purchasing power of the workers themselves is caused by short time in manufacturing goods in their own trade. Is not that a sort of vicious circle? If we have shoemakers out of work and children running about barefoot, it looks a very funny thing, while if those people could buy shoes the shoemakers would be employed. It seems a sort of vicious circle—unemployment and poor purchasing power.

6488. I am talking now of an industry of which I had evidence when I was in Egypt. Figures that I have since seen show that the import into Egypt of Italian cotton goods has greatly grown because they are able to send into Egypt at a much less price than the Lancashire cotton trade can. The Lancashire cotton trade which, as you know, is largely engaged in manufacturing for export, is unfortunately working only three days a week, and the wages received by the unfortunate employees are therefore down. Obviously the maintenance of the same wage is not possible in that trade unless we can alter conditions and make the export trade as good as it was before?—That is quite right.

6489. *Mrs. Wootton*: Could we relate this to what the witnesses say later on in their evidence? (*Mr. Bell*): By all means, if there is another opportunity.

6490. *Professor Hall*: Reading these paragraphs in conjunction with paragraph 15 and a later paragraph, I understand that the suggestion is that taxes taken off food lead to the development of trade which is more stable than the trade in luxuries. I think that is mentioned in paragraph 6.?—(*Miss Enfield.*) The whole memorandum refers to taxation.

6491. *Mr. Bowen*: Would you say that you could agree with what one witness put to us, that taxation does not reduce aggregate purchasing power unless it leads to an increase or decrease in borrowing from the Bank of England?—I am not prepared to answer that. (*Mrs. Matthews*): Did you say adequate purchasing power?

6492. No question of adequacy at all. One witness said that taxation does not reduce the aggregate purchasing power?—It always does below a certain amount of purchasing power. Every penny taken away for anything else affects purchasing power, and that is the ordinary working woman's position. A working woman has to allocate her money and buy as much as she can with her money. She never buys really enough. Was that the point you wanted?

6493. I just wanted to know whether you agreed or not with the statement?—No, I do not agree with the statement in regard to the mass of the people.

6494. *Professor Hall*: The aggregate amount of purchasing power might be maintained and the individual power might be very different?—That is right. (*Miss Enfield*): I do not think we could give a definite answer on that point without going more fully than we have had an opportunity of going into the relation between the effect of taxation on different classes, and borrowing from the Bank. We have not gone into that matter and I could not give a definite answer.

6495. *Mr. Bell*: Perhaps you will now go on to paragraph 5.—(*Paragraph 5 read*).

6496. *Mr. Bowen*: On the general question of taxation, but particularly in regard to the point of purchasing power that you have already mentioned, what is your view with regard to statements that have been made, and denied, that Income Tax is passed into retail prices?—This again is a question that wants thinking out. It is rather difficult to answer on the spur of the moment, but I do not see how Income Tax could be passed into retail prices, at any rate on a whole class of goods. Individual manufacturers or individual retailers might try to compensate themselves for the Income Tax they have to pay on the particular goods which they sell, but I do not think that Income Tax could affect a whole class of goods in a way that an indirect tax does; and if a manufacturer tried to recoup himself, it would be difficult to do it. I cannot see that there could be any definite ratio between increased prices and the Income Tax, because the Income Tax is paid on profits after the costs of production of the goods, which enter into selling price, have been arrived at. As I say, I have not fully thought out the question; but answering it on the spur of the moment, that would be my view.

6497. Would you agree that there is a great need for stimulating savings in order to make good the destruction of capital caused by the War?—I think there is a far greater need of stimulating consumption.

6498. Your view is that the more consumption there is, the more efficiency you think there will be and the greater will become the saving eventually. Is that your point?—Quite.

6499. Then you do feel the necessity for accumulating savings for the restoration of capital for various purposes?—In general, certainly.

6500. *Professor Hall*: I have read into this evidence that your position is that you require capital for the purpose of production; but unless there is some demand for the things you produce, then that capital lies idle, and at the present moment the great need, in your view, is that consumption should be stimulated; there is a greater need for stimulating consumption than production, but obviously consumption is limited by the amount of production, so that you really want both, in the long run?—That is exactly our view. We have said that in the present position what needs stimulation is consumption and then that will react on trade prosperity in general, which will result in producing the necessary capital to continue.

6501. *Mr. Bell*: I want to ask you this, as a practical question. The real purpose of trade, you say, is the satisfaction of the needs of the consumer; that is, if the consumer can pay for the goods?—I consider that the real purpose for which trade exists is to meet the needs of the consumer.

6502. If the consumer can pay for the goods produced?—It would not be trade if he did not pay for the goods produced.

6503. Precisely; but here there is a difficulty. For instance, a great number of former users, especially in Europe, have been impoverished, and therefore they cannot pay for these things as they could pay in the past. You cannot have greater production, I take it, than the amount that people are ready to consume?—Exactly, unless you stimulate consumption.

6504. How can you stimulate it in Roumania?—(*Mrs. Matthews*): By getting from Roumania goods that we need, and giving the people here wages to pay for those goods.

6505. That may be so, if anybody wants to buy those things, but suppose he does not?—(*Miss Enfield*): I do not know if you want us to go into the whole question of foreign trade. It is a rather large subject to deal with in answer to a single point. We would be quite prepared to put before you a statement of our views of how to stimulate foreign trade.

6506. I wish you would?—I am afraid it is rather more than we could do in answer to one question.

6507. Quite, but I only want you to see that in making the statement that the satisfaction of the needs of the consumer is the primary consideration, you must also bear in mind that the producer must be paid?—Quite; we should quite agree to that. (*Paragraphs* 7 *and* 8 *read.*)

6508. *Mr. Bowen*: Have you considered how far an increase of price due to indirect taxation is reflected in increased wages, for example in cases where wages are regulated by the cost of living index?—No, we have not gone into that point.

6509. *Mrs. Wootton*: You think that taxes on commodities fall on the consumer. Is it also your view that when taxes are reduced or removed from commodities, the consumer gets the benefit? On the face of it, that would seem to be a corollary of your statement?—I do not think the consumer always gets the full benefit. I think the price of goods is often increased to the consumer by more than the amount of the tax. Very often it is increased by a round sum, whereas the tax would be a fraction of a round sum. Then also, when the price has once been increased to the consumer, it is always easier to maintain the high price. So that I do not think the consumer always does get the full benefit of a reduction of taxes on commodities.

6510. Do you think that the producer might really be in a stronger position, because if a tax is put on the producer can add that tax to the price, whereas if the tax is removed the same forces that enable the producer to put it on to the price, do not enable the consumer to get it off again?—(*Mrs. Matthews*): I think that between the producer and the consumer there are so many middlemen, and each takes a little bit of that, that it is not just alone the producer, but it is all the people concerned between the producer and the consumer, who take a little share, which of course takes it in bulk from the consumer. I think that has a lot to do with it.

6511. By the producer, I meant the person, whoever he is, who increases his prices on the strength of the tax. I am in rather a difficulty here, because a great many witnesses have given us their opinion that indirect taxes are paid by the consumer, but we have also had evidence that the removal of indirect taxes does not benefit the consumer. On the face of it, it would seem that the same reason that makes the price go up when a tax is put on, would make the price go down when the tax is taken off. I want you to tell us, in your opinion, why that does not always happen?—(*Miss Enfield*): As you say, it is easier for the producer to put up the price when there is a definite reason, such as the imposition of a tax, than it is for the consumer to get the price reduced when the tax is taken off. In the profit-making system of industry there is always a motive for keeping up the price, if profit is to be yielded by that price. Of course, in the Co-operative movement, where that motive does not apply, the full benefit of the reduction of the tax was felt by the consumer, for instance, in the last Budget reductions on tea and sugar.

6512. *Professor Hall*: Does not that rather work in this way? The tax is imposed, the producer adds it to his price, a reduced demand for the commodity results from the rise in price, and a part of the loss may be borne by the producer; he curtails his production and then, when the tax is taken off, production has been so much curtailed that the increased demand resulting from the reduced price enables him to get a scarcity price? That happened, I think, in regard to tea. Restriction of output had been practised in order to meet the reduced demands, then the demand went up and the tea producers were able to get a scarcity price, so that the consumer was not getting the full advantage of the reduction in the tea duty?—*Mrs. Wootton*: Is that your view? I thought I understood you to say that people get accustomed to these prices, tea at so much; a great many consumers do not trouble about details, and they do not therefore feel aggrieved that the price is not put down when the tax is taken off?—(*Miss Enfield*): I should not quite say that. It is not so much that they do not feel aggrieved; I think they feel very strongly the burden of the high prices, but I think they do to a certain extent get accustomed to it, and the chief difficulty is that, except in the Co-operative movement, the consumers are not organised, so that they cannot use their organised power to bring down prices. As Mr. Hall has said, the fact that there is a restricted demand necessitates, from the producer's point of view, the maintenance of the high price. He takes the line of least resistance, keeps his price high instead of reducing it and stimulating his market and getting back his trade. I think that very often happens.

6513. I do not want to waste time on this point, but it seems to me rather important, because we, as a Committee, have to consider many other things beyond the relation of direct and indirect taxes, and it is rather important for us to know whether it is the case that if you put on an indirect tax you know that you are going to hit the consumer, but once you have got the tax on you cannot get it off again and relieve the consumer. If indirect taxes operate in that way, it seems to me to be a very dangerous thing, and I wanted to know whether it is your view that when you put a tax on, it stays on indefinitely, and when you take the tax off again you do not relieve the

consumer from taxation. It that your view?—That is our view; that is one of the greatest evils of the system of indirect taxation. (*Paragraphs* **9** *and* **10** *read.*)

6514. *Professor Hall*: If it is true that the tax falls upon the consumer, either wholly or partly, then it must mean a lower real wage for the worker. He may get the same number of Treasury notes, but on account of prices being higher his effective wage is really less?—Yes, that is the first result of the imposition of the tax; taking it a stage further, it may even lead to lower money wages.

6515. But you would say in any case it means a lower real wage?—Certainly.

6516. It is the word "or" in paragraph **10** that caused me to ask that question—the suggestion that it might have the first two results mentioned, but not the last?—I was thinking of its effects at a later stage. (*Paragraph* **11** *read.*)

6517. *Mr. Bowen*: May we take it from this statement that in your view people with small incomes spend as much on tea, sugar, alcohol and tobacco as the rich?—Per head I should say they spend considerably more; certainly on sugar.

6518. On tea and sugar perhaps?—Certainly.

6519. On alcohol and tobacco?—(*Mrs. Matthews*): I could not tell you really, because I do not know what the rich spend on tobacco, but I do know that tobacco is the only solace a working man has.

6520. *Professor Hall*: I wonder if you could help the Committee by supplying any typical weekly household orders for groceries, and whether you could supply us with information regarding the expenditure of some of the families among your members on tobacco and alcohol?—I tried to get it, but it is very difficult. The women are a bit too independent and a bit too proud to give you their wage and the way they spend their money. They will tell me what they go short of and things like that, but the women are very diffident at giving their particular items, and one rather admires them for that. You do not like really to go too deeply into it with them. But with regard to tea, working-class people do require a lot of tea. Many a husband takes one or two meals out, and it is tea and sugar wrapped up in a paper that they have to drink. There is nothing else for those people unless the man does want a drink of beer instead. A man who carries his food out must have something to drink, and it is tea and sugar or beer, if he can get it near to him, whereas, in the other class of people it is so very different. They can get other things instead of that; but I do think that for tea and sugar there is a very stable demand among ordinary working-class people.

6521. Do you think that any of your members keep a weekly order book showing what they have ordered from the stores, say for three months back?—Yes.

6522. Something like that might be useful to us in regard to the proportion of different commodities?—Yes, they do keep weekly order books.

6523. Any information of that sort might be useful to us?—(*Miss Enfield*): I may say we did try to get some budgets, but, as Mrs. Matthews says, it is not very easy, especially by correspondence, to get women to give everything. But if the order books would be of help, I think we might get something of that kind. What is especially felt amongst them is that they do not like to give away the amount of the income and the total amount of their expenditure. The actual expenditure on different items I do not think they would mind giving so much, but the relation that that bears to their total income and their total expenditure is a thing that they are shy about giving.

6524. And that, of course, does not cover alcoholic liquors or much tobacco?—The order book would not.

6525. *Mr. Bowen*: In regard to indirect taxation, we have had it put to us many times, when the statement has been made that the working classes are unfairly taxed indirectly, that the rich are also paying indirect taxation. When you suggest the abolition of certain taxation, do you include the general abolition of indirect taxation applicable to the rich and the poor?—I should begin, as we have said here, with the abolition of taxation of necessaries.

6526. What do you call necessaries? You do not mean to include in necessaries such items as alcohol and tobacco, do you? Would you relieve all classes of taxation on alcohol and tobacco?—(*Mrs. Matthews*): I would on tobacco and certain classes of drink. I am in sympathy with the working men a little bit.

6527. Then your point is that the working classes should be relieved of all indirect taxation except, as Mrs. Matthews has said, on certain kinds of alcoholic drink?—(*Miss Enfield*): Yes, that is our position.

6528. Is the suggestion made by the Co-operative Guild that the working classes should not be required to pay taxation at all—those who do not now pay direct taxation in the form of Income Tax? I see in paragraph **14** you say you desire that the Income Tax abatement should be raised. Is it your suggestion that they should be entirely relieved of taxation?—(*Mrs. Matthews*): I think all persons who cannot buy enough necessaries to keep the family in health ought to be relieved of all taxation. I think there is an ability to pay, and below that ability to pay no working class family ought to be taxed, because it affects the health of the family as well as the purchasing power, and of course that is a very important matter.

6529. Your point is that health and efficiency come first and taxation afterwards?—Yes.

6530. *Mr. Bell*: In that case we want to know something about the expenditure of the whole income. We want really to have statistics of what it costs to keep a family of a certain number in good health. We want to see how the whole income is spent because sometimes too much is spent on drink, for instance and too little on the home?—(*Miss Enfield*): We could not deal with exceptional cases. You would have to take the normal case in estimating what is necessary for keeping a family in health. It does not seem to me any part of the duty of a Committee like this to go into the expenditure of an individual who may be spending his money in a very foolish way. The point is the standard of the community as a whole, are we setting a standard which is a just standard for a normal family.

6531. *Mr. Bowen*: Have you any views as to how we ought to make good the loss of revenue if indirect taxation is removed?—We suggest in paragraph **13** that it should be replaced by an increase of direct taxation of wealth and by taxes on land values.

6532. That means an increase of Income Tax, and taxes on land values. Those are your alternatives?—Yes.

6533. *Mrs. Wootton*: How does that fit in with the proposal in paragraph **21**. where you say that the Co-operative movement are in favour of a Capital Levy and you think the situation could best be met by a levy. Are you proposing to have a Capital Levy to pay off the debt, and are you also proposing to raise the rate of Income Tax and to impose new taxes on land values, or is this proposal in paragraph **13** an alternative to your proposal for a levy?—In our view the effect of a Capital Levy would be so far to reduce the debt that the amount of revenue raised by taxation would need to be very much smaller, so that it might not be necessary to increase the direct taxation of the wealthy. If the levy is not sufficient to reduce the revenue to an amount which could be raised without indirect taxation, then we suggest this alternative.

6534. Paragraph **13** might not arise then if a levy were imposed?—Quite. We hope it would not.

6535. But if you want more tax revenue you want to get it in these ways rather than by any other method?—Yes.

6536. *Mr. Bell*: We have had a great deal of evidence from business men that direct taxation at its present rate is already hampering the saving of capital and development of commerce, and therefore bringing about unemployment to that extent. Are you not impressed at all by the fact that direct taxation as it is at present, even if it is not raised, and certainly more so if is raised, will have a serious

effect upon employment?—We are very much impressed by the amount of taxation, direct and indirect which exists at the present day, and that is our chief reason for wishing that the National Debt, which involves such very heavy taxation, should be at any rate partially wiped off as quickly as possible.

6537. But you said even if it had been wiped off and further taxation was necessary, you would be ready to apply it?—Yes, we feel that in that case direct taxation of wealth and taxes on land values, even from the point of view of their effect upon trade, would be a better way of raising the revenue than indirect taxes.

6538. You do not fear unemployment as arising from this high direct taxation?—No. (*Paragraph* 14 *read.*)

6539. You do not attach any particular value to the old principle of no representation without taxation?—I think Mrs. Matthews has really given our views, which are primarily that if a family has not enough to keep itself in health it has nothing to contribute to taxation. Taking the general principle, supposing the income distribution was such that health could be maintained throughout the whole community, it would certainly be our view that it was the business of the whole community to contribute to the public services; but we feel that under the present conditions there is a large part of the community which is not in a position to maintain the health and efficiency of its own life, and that for the sake of the community as a whole that part which has the surplus wealth should contribute the taxation to meet the public services.

6540. *Mr. Bowen*: In your previous paragraph you imply that wages are really below the subsistence level. You feel that, do you?—In a great many cases.

6541. *Mrs. Wootton*: On that question of representation without taxation, do you think that perhaps the importance of that principle is rather limited because it only works one way? It is suggested that you should not have people represented who do not pay taxes, but if that principle is important, does it, in your view, carry with it the corollary that you should not have people paying taxes who have no representation?—I think that is the more important; you should not have people paying taxes who are not represented, but I do not think it follows that you should not have people represented who are not paying taxes.

6542. It seems to me that if the principle is important in the one way it would have at least equal importance the other way round. I mean, that the principle is of rather academic interest so long as you have people paying taxation who are not represented, as you do at present?—I think it is of quite academic interest in this connection.

6543. *Mr. Bell*: Looking at this problem from a wide point of view, direct taxation in Germany at present I think goes down to a level of £36; before the War it was £45; and in most countries of Europe to-day it begins at a very low rate. The question is whether we can say we must have a certain standard of living in this country alone without reference to the conditions of the world and the marketing and cheap production of our goods. How are we to live? These are large problems; I do not want you to go into them, but that is what puzzles the brains of so many people—that we must keep the prices of our exports at the level which poor countries are prepared to give. In India or in Egypt they do not consider whether we ought to have first a living wage of so much or a certain measure of comfort, but they want to have a cheaper article. We have to send out the goods that will bring back the food that we require. The question is whether we are to form an idea as to the standard rate of living in this country without considering the rest of the world?—(*Mrs. Matthews*): I think we ought to have a minimum standard of living, and when it comes to obtaining it, it ought to be obtained from the people at the top and gradually coming down. I think there ought to be a minimum standard of living.

6544. *Professor Hall*: I rather thought that the witnesses' argument was that if taxation fell on people below the minimum standard of living their efficiency was impaired, and that it really was not economical— that you did not get cheaper production by keeping people below this level. *Mr. Bell*: The trouble is that I find the Italians are selling their cotton goods cheaper, although they have lower wages; they are getting a great business. *Mr. Bowen*: Of course you cannot have a world standard of living. I take it the witnesses will agree with that. The witnesses will probably, coming from Manchester, know the great difficulty that was experienced in the cotton trade because of the introduction of competition in India. If we are to have a world standard it means that, to get down to a basis where we should be absolutely on a competitive level, we might have to adopt an Indian standard. That, I suggest, is not practicable?—(*Miss Enfield*): I do not think that we should in any way depreciate the importance and the extraordinary difficulty of that question; but to begin with, admitting the lowness of the standard of living in other countries, that is in our view one of the factors which have created the present situation, because it means a reduction of purchasing power in those other countries. Our trade is not concerned simply with exports. A very large proportion of our trade is for the home market. Considering not one single industry, but considering the general situation of industry as a whole, we are not going to improve the general situation by lowering purchasing power in the home markets.

6545. *Mr. Bowen*: Would you then not admit foreign goods if they are cheaper than they can be made in this country?—Yes, certainly I should admit them. I should admit goods at what price the consumer can pay for them. If the consumer can purchase goods more cheaply of foreign origin than of British origin I should admit them. (*Paragraph* 15 read.)

6546. Do you think there is any limit to this policy—taxation providing for unemployment benefits, for example?—I am not sure that I quite follow your question. Of course we should not suggest that the whole community should become unemployed and be provided for out of taxation. But we do suggest that the unemployment benefit has the effect of increasing purchasing power.

6547. I agree, but I was trying to get some assistance to find out how far unemployment benefit might be ineffective in so far as, perhaps, if it were too high, it might increase taxation and throw the whole thing out of gear and thus actually reduce purchasing power by transferring it from one source to another?—You mean that too high a rate of unemployment pay or too wide a distribution of unemployment pay might operate to divert purchasing power from those who pay the taxes and are producing wealth into the hands of those who are not producing.

6548. Yes. Granting the need for the maintenance of all people who are unable to obtain employment, what I wanted to find out was whether you had anything in your mind as to where this operation became ineffective?—We have not gone into the question of what the limit of unemployment benefit should be (*Paragraphs* 16 *and* 17 *read.*)

6549. Would you agree that the man who invests his dividends in industry rather than expending them in luxurious consumption is rendering a service, though it might tend to increase the existing disproportion between capital and purchasing power?—Yes, on the whole I would. I think to invest it in industry is a greater service than to spend it on pure luxury.

6550. We have had it put to us by a number of witnesses that the richer classes are the saving people. What is your view on that?—Of course, the bulk of the savings of the community naturally comes from the richer classes, because they have more to save.

6551. A bigger margin?—A much bigger margin.

6552. That does not mean that the people that you represent, for example, are not saving people?—Certainly it does not, and I think the very large amount

of savings that are invested in the Co-operative movement, which are all working-class savings, proves that.

6553. *Professor Hall*: I would like to ask a question on paragraph 17. It bears on the point about saving and spending. Knowing of the scarcity of houses, I take it you would agree that the expenditure of capital in that direction is rather desirable at the present moment?—Yes.

6554. There are certain forms of capital expenditure that you would think desirable to-day?—Yes.

6555. For instance, the building of schools and the building of houses?—Certainly.

6556. You do not mean to check the accumulation of capital and investment in those things?—Certainly we do not mean to check the accumulation of capital. The accumulation of capital for the development of industry must necessarily be maintained if industry is to continue.

6557. I only want to prevent your evidence being misunderstood and being interpreted to mean that you do not want any form of capital expenditure to go forward. There are certain forms of capital expenditure that you think are necessary?—Certainly.

6558. *Mr. Bell*: The last words of paragraph 17 seem to be the other way: "In so far as they are reinvested they tend to increase the existing disproportion between capital and purchasing power" ?—I think that is rather a different point. What we say in this paragraph is that the proceeds of taxation that go to pay the debt charges go to the investing classes mainly. Now those classes can use the proceeds of taxation that come to them in two ways; they may either invest them or they may spend them and it will not be expenditure on necessaries, because they can meet that in any case. Any additional expenditure would be expenditure on luxuries. Now we do not feel that expenditure on luxuries is helpful from the point of view of trade stability. The other alternative is to reinvest. In our view there is already a disproportion between the amount of wealth held as capital—the amount of invested wealth—and the amount of wealth held as purchasing power. We feel that that balance which we have spoken of at the beginning is already not properly maintained. It is over-weighted on the side of invested wealth, and the debt tends to increase the disproportion. That was the argument of this paragraph.

6559. I did not know what this unfortunate fellow who had a surplus was to do. He either has to spend it in one way or another, or he has to invest it. If he invests it in houses does he do a service, or what does the paragraph point to?—The paragraph points to the fact that the whole situation which, through the operation of the National Debt, leads to such a large proportion of the national revenue coming back into the hands of the investing classes, is not right. It leads on to the conclusion that it is desirable to reduce the National Debt at a very much greater rate than at present.

6560. Do you mean that if the surplus did not come from the National Debt but from another investment it would be different in kind?—We are not considering that point at the moment.

6561. But you tell me this is the elucidation of it. If a man holds debt and gets interest, he is getting too much. I want to know, if he did not invest in debt at all but had other investments, would there be any distinction in kind?—I do not know that there would. But I cannot quite see the bearing of that question on the debt. The whole point of this is the situation raised by the debt.

6562. That is what I want to get at. I want to know what is the difference between two individuals, one holding debt and one holding other securities which produce some surplus of income?—We should not admit that it was a beneficial arrangement of society that any man should hold such a large lien on the productive capacity of the community that he had all this money coming to him to invest. But we are not concerned at the moment with the whole organisation of the industrial system; we are concerned simply with the effect of the debt.

6563. I am still trying to elucidate it. If I have £1,000 of debt to-day and I sell it to-morrow and get something else in its place, is there any different view taken of me as a subject for taxation?—Not of you as an individual.

6564. But we are all individuals. The holding of all these things is in the hands of individuals?—(*Mrs. Matthews*): I take it the only way to solve that problem would be to pay the debt and give the man, say, his £1,000, and let him invest it where he likes, but pay the debt to relieve the community of the interest which is an income to a few persons, which the consumers have to find.

6565. *Professor Hall*: I do want the witnesses to make themselves clear on this point. This last sentence would rather suggest that they do not want the large disproportion between capital and purchasing power to be made more extreme, but I want to suggest to them that probably they themselves agree that more houses are required, that is to say, more capital expenditure is necessary. Do they want us to stop building houses, or do they rather mean that certain kinds of capital are sufficiently abundant to meet the needs of the present day?—(*Miss Enfield*): I am not sure that I quite follow the question. We certainly should quite agree that the investment of capital in building houses was very important.

6566. That is what I wanted to get on your evidence, really—that you think that is necessary?—Certainly, and the investment of capital in a number of other directions also.

6567. The general trend of the evidence might have been interpreted as meaning that you do not want any extension of capital expenditure at all?—(*Mrs. Matthews*): We want capital expended in productive trades that provide the people with necessities, instead of trades that provide them with luxuries.

6568. I thought your point at first was that there was not sufficient demand for the goods that were made, and you wanted to increase the spending power of the people rather than increase the productive powers of the community at the present moment?—(*Miss Enfield*): Is it not partly answered by what we have said above as regards taxation, that the purpose to which taxation is applied must also be taken into account. If the revenue of the community is invested in the building of houses, we should agree that that is very desirable.

6569. *Mr. Bell*: Then you go on to deal with the effects of the National Debt?—Yes. (*Paragraph 18 read.*)

6570. *Mrs. Wootton*: These particular services that you mention are put forward just as illustrations of the kind of thing that you have in mind?—Quite.

6571. You cannot form any calculation as to how many of them you would have if you could not have the whole, or which of them you put first?—No.

6572. They are purely illustrations?—Yes, that is right. (*Paragraphs 19 to 22 read.*)

6573. *Mr. Bell*: Have you any suggestion about the Sinking Fund of £50,000,000 a year; would you increase that, if necessary by further taxation, to get down the debt?—I think we have answered that point, because we say that to reduce the debt by increasing taxation, so as still further to restrict purchasing power does not, in our view, meet the case at all; it would defeat the purpose of wishing to reduce the debt.

6574. It has been put to us as the alternative of a Capital Levy that we should find more year by year in some other way by increased annual taxation. You would not be in favour of that?—On the whole, we should not. I do not see how we could increase taxation without still further restricting the purchasing power of the community.

6575. *Professor Hall*: In the absence of a Capital Levy, we are to go on indefinitely bearing the debt and paying off at the rate of about £50,000,000 a year. Do you contemplate either Capital Levy or nothing? Is that the position?—If anybody is

ingenious enough to find another way, it might be considered, but at the present time it seems to us that there is no alternative between either increasing taxation to an extent that is altogether unbearable, and wiping off the debt or a portion of it by some other means such as the Capital Levy.

6576. Do you think that Income Tax at 5s. is unbearable?—Added to the existing indirect taxation.

6577. It was 5s. a little while ago, and earlier than that it was 6s. Do you think it was unbearable then?—No, but I think that the existing amount of taxation is having a very unfortunate effect, and as we said earlier, it is the indirect taxation that we are anxious to see taken off. If we are going to increase the revenue out of taxation, there seems no possibility of abolishing indirect taxation, even if we add something to the Income Tax.

6578. Would you mind going back to paragraph 11 for the moment. Out of the amount paid in indirect taxation in 1923-24, about £190,000,000 went in taxes on tobacco and alcohol. You seem to assume that the amount spent by the workers on these particular commodities is on the average the same as the amount spent by the wealthy. If that is true, then the high rate of tax is not limiting the consumption of the poor. They have not the same resources as the rich. The rich obviously would not be restricted in the same way in buying tobacco and alcoholic liquors, and yet you suggest here that on the average consumption has been about the same. Would you not like to reconsider that point?—On these two particular things?

6579. Yes. Just consider the implication. You do not mean that the high taxes have not restricted the consumption of those things, do you?—No, I think certainly the high tax has restricted the consumption, at any rate of alcohol. I do not know how far it has restricted the consumption of tobacco.

6580. Perhaps you would like to look at that paragraph again and then weigh it up?—(*Mrs. Matthews*): A working woman is restricted. It is not always on the taxed article. I think when people put a tax on an article they watch that they put it on an article which is necessary for people to buy.

6581. I was speaking only of alcoholic liquors and tobacco?—I could not give any evidence on either of those two, myself, as a working woman. I do not think a working woman can, because she does not even know what her own husband spends on tobacco, and I am sure she does not know what he spends on alcohol.

6582. If we follow out the statement you make in this paragraph, the workers are spending per head on the average about as much as the rich on these things. Now, obviously the position of the two classes is very different; in the one case they do not need to consider the effect of the tax; they can buy without much restriction. The poor man presumably has to consider the effect of the tax. Now, if the argument is sound, the poor are not being restricted by the high tax; and you do not mean that really?—(*Miss Enfield*): I do not quite follow it. The argument of the paragraph is a very general one, taking the whole of indirect taxation.

6583. £190,000,000 of that is on tobacco and alcoholic liquors, which is a very substantial part?—Yes, and we presume that roughly speaking 90 per cent. of the indirect taxation is paid by the working classes, or perhaps the purchasing classes would have been a rather more accurate definition.

6584. That would mean that the poor and the rich are spending per head somewhere near alike, and if that were true it would mean that the high tax was not restricting the consumption of the poor?—I think on certain articles per head the poorer classes spend a great deal more.

6585. But drink and tobacco is such a large proportion of the total that I think you are bound to give special consideration to these items?—I do not think we have any means of forming a judgment as to the amount per head spent on alcohol by the rich and by the poor.

6586. The point here is really whether the high tax is having a restrictive effect upon the consumption of the working classes in regard to these articles?—(*Mrs. Matthews*): If it does not affect those two articles, it still affects others. For instance, first of all, margarine is used instead of butter. Where there is a shortage it is not often taken off those two articles in a working woman's home; it is taken off the woman's purchasing power and it affects other commodities. She decides which she will reduce, and usually it is milk that is the second thing. It does not go always in the taxed article. It is something that she can spare best that goes.

6587. Then you do not think beer and tobacco are things that could be spared best?—I think that an ordinary working woman, in spending her wage, has not much power over the spending of her husband on tobacco and alcohol. I think we recognise that. But if he keeps the amount that he wants for those two particular articles, hers is that much less and she has to restrict her spending power in other commodities.

6588. Is that the normal way of dividing the wage?—It is my experience, and I have had a very broad experience with women spending money, because I have been behind a shop counter.

6589. Your conclusion then is that the high tax on beer and tobacco has not restricted the consumption of the workers?—No, I could not say that. I do not know.

6590. *Mr. Bowen*: You will agree with me that a poor man might be satisfied with a pint of beer, but a rich man would not be satisfied under a bottle of wine?—That is right.

6591. Cannot you see some difference of expenditure under those two heads?—I am positive that the rich spend more, because they have so much more to spend; they can do it easily.

6592. *Professor Hall*: That is what one would rather presume; but your evidence does not say that. That is why I should like to suggest to you that you should reconsider it, and affirm it if you wish to affirm it, or amend it if you think it needs amendment.—*Mrs. Wootton*: I think there must be something wrong with paragraph 11, because you draw a comparison there on the assumption that nine-tenths of the wealth is held by one-tenth of the population. So far as I can see, the inference you draw from that has nothing to do with the earlier part. You go on to say that, therefore, nine-tenths of indirect taxation is paid by the working classes. I wonder if you would reconsider that paragraph?—(*Miss Enfield*): Certainly we will reconsider it, but I cannot quite see the difficulty. If I could quite see what Professor Hall was trying to get at, it would be easier to reconsider it. That is taking roughly the population as divided into one-tenth what we call the investing class, and nine-tenths the purchasing class.

6593. Now you are referring to numbers rather than to wealth. I feel that the two points, numbers and wealth, have got confused. If one-tenth of the population is the rich section, then it is they who would be spending nine-tenths of the expenditure; people with nine-tenths of the wealth would have nine-tenths of the expenditure, surely?—Not necessarily as regards indirect taxation. If nine-tenths of the wealth is held by one-tenth of the population, there is one-tenth left for all the other 90 per cent. of the population. That 90 per cent. of the population may be assumed to be the working classes.

6594. *Professor Hall*: Then you say they pay 90 per cent. of the indirect taxation?—Per head, the working class pay a larger proportion of the indirect taxation than the wealthy classes, because they spend more of their income on taxable commodities like sugar and tea—sugar certainly.

6595. That is only one item. You compare the working man's beer and the rich man's wine?—It is

only a rough calculation. You cannot compare all the items, but there are certain items like sugar, which are so very large.

6596. But then out of £260,000,000, £190,000,000 is got from tobacco and alcohol, leaving only £70,000,000 taken from tea and other things. I think you might just reconsider this paragraph and see whether you can make it a little clearer for us. I do not think you want to suggest that the workers spend more upon beer and tobacco per head than the richer people do. I do not think you want that impression to be created?—No. We should quite agree that the consumption of beer has been restricted.*

6597. *Mr. Bell*: I think, sometimes, when I find that my tea bill is very high, it is not because I drink a great deal of tea; it is because the household who are employed by me drink a great deal of tea, for which I have to pay the tax. When you compare the amount of my indirect taxation with somebody else's, it is not quite a right comparison; it is my household who drink the tea and I have to pay the tax.—Quite. (*Mrs. Matthews*): If those persons were paid a normal wage and had to keep themselves, they would still pay the tax. That is considered in the employment, is it not?—*Mr. Bell*: It may be, to some extent. Thank you very much for your evidence to-day.

(*The Witnesses withdrew.*)

(*Adjourned.*)

* The following note in explanation of paragraph 11 of the Evidence-in-chief was afterwards submitted by the witnesses:—

"If one-tenth of the population can be regarded as the wealthy classes and nine-tenths as the working classes then, if the average consumption per head of all taxable commodities were the same in both classes, the working classes would pay 90 per cent. of the taxation upon these things.

"But taking the Customs and Excise returns—

(1) The rich may be considered almost exclusive consumers of the following:—
Motor cars; musical instruments; wine; club licences; game, establishment and plate licences; accounting for about £5½ millions taxation.

(2) The consumption per head of the following is higher among the rich than the poor:—
Clocks and watches; coffee; table-waters; saccharine, etc.; accounting for about £3½ millions taxation.

(3) The consumption per head of the following is considerably higher among the poor than the rich:—
Beer; chicory; cinema films; sugar; glucose; tea; patent medicines; coffee mixtures; hawkers' and pawnbrokers' licences; accounting for about £131 millions of taxation.

(4) Of other taxable commodities it is difficult to say in which class the average consumption is higher and it may be therefore assumed to be approximately the same per head in both.

"Taking the consumption per head in (3) as 8 in the working classes against 2 in the wealthy (probably an under estimate of the difference on many of the commodities) the excess paid in taxation by the working classes on these things counterbalances the excess paid by the rich on (1) and (2), and it is 'roughly true' therefore to say that the working classes pay 90 per cent. of indirect taxation.

"This in no way invalidates the argument that the tendency of taxes on commodities is to restrict demand, and that these taxes have restricted the demand of the working classes either for these *or for other* goods."

TWENTY-FIRST DAY.

Tuesday, 31st March, 1925.

Present:

The Rt. Hon. LORD COLWYN, *Chairman.*
Sir CHARLES ADDIS, K.C.M.G.
Sir ALAN G. ANDERSON, K.B.E.
Sir ARTHUR BALFOUR, K.B.E.
Mr. HENRY BELL.
Mr. J. W. BOWEN.
Professor FRED HALL.
Mr. W. L. HICHENS.
Mr. H. B. LEES-SMITH, M.P.
Sir WILLIAM McLINTOCK, K.B.E., C.V.O.
Sir JOSIAH STAMP, G.B.E.
Mrs. BARBARA WOOTTON.
Mr. G. R. HAMILTON, *Secretary.*
Mr. G. ISMAY, *Assistant Secretary.*

The Right Hon. Reginald McKenna, called and examined.

Evidence-in-chief handed in by Mr. McKenna (in reply to the Committee's questions regarding a Capital Levy printed on page 683).

Answer to Question 1 (*as to the case for a large and early repayment of debt*).

1. The question whether the present financial and general position of the country is 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 should, in my opinion, be answered in the negative. It is not an abstract question as to the desirability in general of debt repayment, but it is one the answer to which must depend upon the practicable means of repayment at our disposal.

2. Four methods of repayment are suggested in the question:—

(*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.

Of these I do not think much dependence can be placed on (*b*). A severe restriction of expenditure has been preached for many years and, I have no doubt, has been practised to the limit of their power by successive Chancellors of the Exchequer. Having regard to the political programmes of the great parties in the State, whatever remains to be done does not afford much promise. Restriction of expenditure should not, perhaps, be left entirely out of account, but as the question is one of a large repayment of National Debt attention must be mainly confined to the methods (*a*) and (*d*), both of which are methods of taxation. Our consideration must be directed to the degree to which taxation could be increased, if at all, without impairing the productive energy and capacity of the nation.

3. If trade were an automatic process in which the effort and sacrifice of the individual played no part, it would be easy to argue that national welfare is promoted by increasing taxation to the maximum and applying the proceeds to the repayment of debt. For money taken in taxation, it might be said, would in part at least be drawn from expenditure on consumption, and inasmuch as it was to be used to pay off an investment, the whole of it might be expected to be reinvested. Thus directly or indirectly the

repayment of debt would be the means of providing additional capital for trade development and would therefore be an economic benefit to the State.

4. This argument might be well founded if we were dealing with taxes and capital in an abstract world, but in the actual conditions in which we live it is fallacious. Capital for trade development is furnished from annual savings. As high taxation reduces the incentive to save, it must tend to diminish the supply of new capital, and the reduction from this cause may readily be far greater than any increase due to the proceeds of taxation being used to repay debt. The argument ignores the direct relation between taxation and the accumulation of savings, and proceeds on the mistaken assumption that one of two dependent variables may vary while the other remains constant.

5. The argument is fallacious for another reason. The trade of the country is now carried on by a vast number of individuals each disposing of a certain quantity of capital. The funds taken through taxation from each individual must in some degree deprive him of the means of adding to his capital and, where the amount so taken is excessive, may in fact become a drain upon existing capital. The theoretic return of these funds to industry in some form or other does not and cannot compensate the individual for the loss he suffers. He could only acquire a share of the money seeking reinvestment by borrowing it, a proceeding which, though practicable in some cases, would in the mass of business be impossible from the want of sufficient assets to justify a loan. The successful trader whose business is developing is certain to be hampered, his credit impaired and his growth stunted. A heavy increase of taxation, which cannot fail to disturb gravely the existing distribution of capital, must at least for the time being diminish the production of the nation, and as less will be saved out of a reduced total, from this cause also the quantity of capital available for trade development is likely to decline.

6. Again, apart from the effect of the withdrawal of potential capital, to which I have already referred, we have to take account of what may be called the moral influence of high taxation. The taxpayer is not a working automaton. There may be exceptions, but in general he will not make unusual efforts or undergo great risk except for an adequate reward. Every manifestation of enterprise, whether it be in the development of a new line of business, or in expenditure on new plant, or in any other form, entails a financial risk which the trader will only feel justified in taking if he foresees the probability of a good return. When taxes are moderate their influence may be neglected, but when any additional profit which may be made is subjected to a contribution to the State of upwards of 10s. in the £, the prospect of profit must be exceptionally large to warrant an additional output of effort and capital.

7. It must not be overlooked that, in measuring the utility of capital, quantity is not the only factor. Capital may be used with every degree of productive skill; it may be merely wasted or it may be employed with the highest efficiency. When potential capital is withdrawn from industry for the purpose of paying Income Tax, it is taken from an individual who must be using his capital to some advantage since he is making a profit, and if the rate of profit be taken as the measure of productive skill in the use of capital, most is taken by the tax-gatherer from the most competent. When the proceeds of taxation are applied to the repayment of debt, we have to compare the existing use of capital in the hands of the profit-making taxpayer with its probable use in some undertaking to which the public are invited to subscribe. The number of such undertakings in which the capital is ultimately entirely lost is by no means negligible. The argument for the quick repayment of debt out of the proceeds of high taxation is based on the assumption that capital is completely mobile and that all men are equally skilful in its use. But capital is not completely mobile, all men are not equally skilful in its use, and there is grave danger in taking it from those who have proved that they can use it well.

8. It can never be an easy matter to determine whether a nation has reached its limit of taxable capacity without detriment to national production. We get accustomed to taxation, and a rate of Income Tax which, when first imposed, might have a most injurious influence upon thrift may in course of time lose much of this effect. The maxim "An old tax is no tax" has considerable truth in it. We adjust ourselves to the inevitable burden and become content with a smaller return on our savings. But notwithstanding the mitigation in time of the ill effect of high taxation on production, I am still of the opinion that so far from the present moment being opportune for considering the desirability of an increase of taxation the existing burdens are already so heavy as to be seriously harmful to our trade.

9. My opinion is based upon observation of the course of our trade since the War. It is not a matter capable of statistical proof, and it is certainly not one for dogmatism. But there is a relation between high taxation and trade depression, and it is undoubtedly true that while our taxation is higher than that of any other country our unemployment is consistently greater. I do not intend to suggest that there are no other factors injuriously affecting our trade at the present time; I think there are several, some of them remediable only with very great difficulty; but I regard high taxation as one of the factors, and I am disposed to think that a lower rate of tax would, in a very little while, yield no less revenue than is collected to-day.

10. As regards the question of the future level of price, I can only say that, if the course of history is any guide, prices are certain to rise over a considerable period of time. If this anticipation is correct, early repayment would benefit the creditor, postponed repayment the debtor, which in this case is the nation. In considering this matter from the point of view of the just treatment of both debtor and creditor, it might be desirable to have an official statement as to whether the addition since 1913 to the real indebtedness of the nation on the basis of our present price level is greater or less than the total value of the amounts borrowed, measuring the value of each loan by the price level at the time the loan was made.

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

11. As I believe that a scheme of Capital Levy which proposed to raise more than an insignificant amount would prove impracticable, and that any scheme would be inexpedient, it is difficult for me to offer suggestions on this question. A Capital Levy would have none of the advantages that may attach to an old tax, and its ill-effects would be accentuated by the deep sense of injustice which it would inevitably arouse. The resentment against the tax would not be lessened by the discovery in practice that the professed object of its imposition could not be realised. I believe it is admitted that a considerable part of the proceeds of the tax would have to consist of unsaleable stocks and shares, of mortgages on real estate and personal debts. Income indeed might be obtainable from these sources, but they could not be made available for repaying the capital of the National Debt. In every case of this kind the Capital Levy would only yield to the Treasury the same result as would be obtained from an additional Income Tax levied on the basis of a percentage on capital instead of on the basis of income actually received.

12. The grounds on which I think any scheme of Capital Levy would be inexpedient are contained in my answer to the first question. It would mean an additional tax in a form having all the defects

to which I have referred. But, in my opinion, a conclusive argument against Capital Levy may be founded on the insuperable difficulty of introducing a system of valuation which would be reasonably fair as between different classes of taxpayers. In some cases the valuation would be tolerably easy and could be made quickly. In others there would be extreme difficulty, and the valuation might extend over a considerable period of time. Values, however, are not constant, and it is quite conceivable that a valuation taken in March might bring the taxpayer into one category of percentage, while the valuation of the same property six months later would make him liable to pay a different rate. If the tax were annual, inequities of this kind would straighten themselves out over a period of years, and no doubt this happens in those countries where Income Tax is based upon a valuation of capital.

13. It is sometimes argued that we should escape much of the difficulty if the State were to take over part of an individual's holding of stocks and shares, or part of his interest in real estate, or any other part of his property, but, obviously, no such escape is possible. The proposed scale of payment is graduated according to the total property of each individual taxpayer, and the value, therefore, of every item, whether he retains or surrenders it, must first be ascertained to determine the rate of tax payable.

14. It is true that the valuation for Death Duty purposes is a valuation of capital and it has been suggested that all that would be required would be an extension of a system already in existence. The difference, however, between a valuation for Capital Levy and the valuation of the property of a deceased person is so great that the existence of the one gives no real ground for belief in the practicability of the other. My evidence would run into interminable length if I were to take the various items of property and show the different value which might be attributable to them in the case of a deceased partner in a private firm and a living partner, a deceased shareholder in a private company and a living shareholder, and, in a very large number of cases, a deceased shareholder in a public company, with shares having a Stock Exchange quotation, and a living shareholder. In most cases of large valuations for Death Duties the difficulties are provided for in anticipation of death, but no similar arrangements could be made in the case of a Capital Levy. It must not be forgotten, moreover, that the work of valuation for Death Duties purposes is greatly facilitated by the fact that the returns are rendered by the legal representatives of the deceased and not by an interested party.

I have not alluded to the very great cost involved in setting up a new Valuation Department.

Answer to Question 3 (*as to equity, &c., of levy as compared with income taxation*).

15. From the point of view of equity to the individual taxpayer on the ground of ability to pay, the existing income taxation is in my opinion greatly superior to a Capital Levy.

16. A Capital Levy would be a new tax and new machinery would have to be set up, and it is only after years of experience that the machinery of any tax can be made to work efficiently and equitably. Taxation founded on a basis of valuation is necessarily less equitable than that based upon actual income received. There may be evasions of the Income Tax but every year these become less as the Inland Revenue Department gathers experience. The problem of valuing fairly the assets and liabilities of every individual appears to me to be beyond the ability of any Department.

Answer to Question 4 (*as to guarantee against repetition*).

17. In my observation the acceptability of a Capital Levy, the principle of which had considerable support immediately after the War, is greatly diminished in popular estimation to-day. A guarantee against its repetition could neither be convincing nor effective. Any Government that arrogated to itself the power of binding its successors would obviously be acting improperly. No such guarantee ought to be given or accepted.

Answer to Question 5 (*as to effects on trade and industry*).

18. I think the general effect of a Capital Levy on trade and industry would be to cause serious friction and grave dislocation of business. I think this would be true whatever the state of trade at the time.

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

19. The present heavy annual taxation does not so much cause friction and dislocation of business as it damps down and retards trade. A Capital Levy would cause immediate friction and dislocation, the effects of which would lead to lasting impoverishment.

Answer to Question 7 (*as to effects on employment*).

20. If the answers to the last two questions are correct, the effects of a Capital Levy must be bad for employment.

Answer to Question 8 (*as to effects on distribution of wealth*).

21. It does not appear to me possible to answer this question.

Answer to Question 9 (*as to effects on future savings*).

22. The answer to this question must depend upon the answers to questions 4, 5, and 6.

Answer to Question 10 (*as to effects on national credit at home and abroad*).

23. The same answer as to question 9.

Answer to Question 11 (*as to effects on sale of securities*).

24. I do not think that in practice a Capital Levy would lead to the sale of securities. It would be found that the levy could only be made if securities were accepted by the Government in discharge of the taxpayers' liability. If this were not done, the offers for sale would be so extensive as to swamp the market. I do not understand how the contingency suggested in the last part of the question could arise.

Answer to Question 12 (*as to extent of deflation involved by levy*).

25. I do not understand why deflation should be involved in a Capital Levy. Deflation depends upon the Bank of England calling in loans or effecting a sale, and it does not seem to me to be a necessary consequence of a Capital Levy that the Bank of England should do either one or the other. On the contrary, it would seem to me more probable that the Bank of England would make additional loans which would involve inflation.

Answer to Questions 13, 14, and 15 (*as to annual saving, methods of valuation, etc.*).

26. I am not able to express an opinion in answer to these questions.

6598. *Chairman*: Perhaps it will be convenient if you will read your paper and then you may be asked questions by the Committee.—Yes. (*Paragraphs* 1, 2 *and* 3 *read.*)

6599. *Mr. Bell*: There is a very strong feeling that there is a very great area for restriction of expenditure. Is it really hopeless to expect it?—For any large repayment of debt it is quite hopeless. If you take the different items of expenditure and see which could be reduced it becomes quite obvious that, while perhaps you might point to some few millions of saving, it could not be more. You cannot reduce pensions; they are contractual; and you cannot reduce the interest on the debt; that is contractual. Other social expenditure that we undertake is not of a kind which could be seriously reduced.

6600. It is very disheartening to know that there is no field of reduction of expenditure, because that is what many people have for some time been earnestly hoping for—reductions in expenditure which seems to be unnecessary, and which is on too high a scale.—We have had a series of Governments in office representing various parties since the War, and they have all preached economy, and we have seen the result.

6601. *Sir Arthur Balfour*: The difficulty is to resist an increase really?—That is the utmost one could almost hope for—to resist increases. I am not saying there may not be some economy still to be effected, but as for a large economy, I do not see where it is to be done.

6602. *Sir Josiah Stamp*: I think it is only fair to put it to you that although we have had witnesses who have tried to hold out this feeling as being the foundation it has only been in general terms; directly we have got down to details it has evaporated. *Sir Arthur Balfour*: One witness thought we might get rid of some advertisements in Kingsway. *Sir Josiah Stamp*: Yes, and stationery.—(*Witness*): I dare say you might save a little.

6603. *Mr. Hichens*: What would be the effect supposing you did pass a self-denying ordinance, so to say, and reduced everybody's salary and wages 10 per cent.?—In the Civil Service, do you mean?

6604. Not in the Civil Service; I mean in the country generally. Should we be any better off?—You could not do it; it is not a practicable scheme.

6605. I quite follow that, but you could conceivably arrange to reduce wages, for instance, all round: would you really be any better off if you did? Would it do anything except enhance the value of the dividends of the capitalists by a policy of deflation?—The reaction of such a policy is so difficult to follow. I am disposed to think that everybody would suffer, the capitalist as well as the others.

6606. *Sir Josiah Stamp*: In what respect would it differ from very heavy taxation?—I do not think it would differ in its reaction; it would have exactly the same effect.

6607. *Sir Charles Addis*: Your view would also apply to the sphere in which national policy might perhaps come more into play—the reductions in expenditure on the Army and Navy. Are you equally hopeless there?—I am, looking at the ordinary tendency of human nature. The first scare would send up expenditure again.

6608. You have not much confidence in those international relations which are proposed?—I have great hope and great confidence in them, but not as leading to immediate economy.

6609. Or even in the near future—a proposal such as international disarmament?—I do not think it would reduce our existing level of expenditure to any serious extent.

6610. *Sir Alan Anderson*: In paragraph 3 you seem to imply that theoretically it might be a good thing to increase taxation to the maximum. Even in theory, I suppose if consumption is suddenly checked, that would be bad for trade. A violent stoppage of consumption would have a bad effect on the whole nation, would it not?—Of course it would. In paragraph 3, I state the conditions if trade were an *automatic* process, which it is not. It is not true, therefore, in any conceivable theory.

6611. But if it were an automatic process there would still be that serious dislocation of saving by people stopping spending, would there not?—If trade were an automatic process I do not think there would be any dislocation. The dislocation arises from the human element in trade.

6612. I should have thought it arose also from the material; everyone would be left with stocks on hand and there would be much less buying and selling, and so on. I should have thought there was something more than the psychology of the trader that would be damaged. (*Sir Josiah Stamp*): I think Mr. McKenna is giving a severe definition to the word "automatic."—(*Witness*): Yes, I am assuming it to be an automatic process, which it is not, and therefore it makes the whole idea untrue even in any conceivable theory.

6613: *Professor Hall*: In replying to the first question you say the answer must depend upon the practicable means of repayment at our disposal. Do you mean solely depend?—Solely.

6614. You do not attach any importance to the disadvantage, or perhaps danger, of the maintenance of the very large debt that we now have?—Even if there be grave disadvantage and even danger, you have still got to consider the method of repayment It must be a practicable method.

6615. But you would weigh the disadvantage of the maintenance of the large amount of the debt against the methods available. Some methods that you would reject under normal conditions you might be inclined to adopt in other conditions?—If there were a practicable method, although inconvenient, I might adopt it, but there is no practicable method. I *mean* the word "practicable."

6616. You would not say that higher taxation was a practicable method?—No, because I do not think that by such higher taxation as it would be necessary to impose to make a large repayment of debt you would get any larger revenue.

6617. You mean you would be really in a worse position by trying to get more than you would by trying for a smaller amount?—Yes. (*Paragraphs* 4 *and* 5 *read.*)

6618. On paragraph 4, have you in mind the Capital Levy or merely a higher rate of Income Tax when you speak of high taxation?—High taxation in the form of high Income Tax.

6619. Would you differentiate between a Capital Levy and high Income Tax in regard to the incentive to effort, a Capital Levy coming once as contrasted with Income Tax occurring annually?—The suggestion that the Capital Levy is something which would come once is a suggestion which we are not justified in making. For if the Capital Levy is good there is no reason why it should not be repeated; and nobody has the authority to assure us that it will not be repeated.

6620. That is true; at the same time one imagines the effect of a non-recurrent tax will be different from that of an annually recurrent tax. The justification put forward for the Capital Levy is, of course, the existence of the debt, and not that it should be used as a means of meeting normal expenditure. With the reduction of the debt would not the justification for the Capital Levy have gone, to a great extent, and would not general assent be much more difficult to obtain for a further levy?—That I am quite unable to follow. If the Capital Levy is a beneficial proceeding I see no reason why it should occur only once, and why it should not be repeated until all the debt is paid off, and why it should not thereafter be repeated again in order to meet social expenditure. If it is a good thing, why should we have a self-denying ordinance to prevent the exercise of the Capital Levy on future occasions?

6621. Assuming that it proves beneficial there would be justification for repeating it?—Yes, therefore we must argue about the Capital Levy on the basis of a recurrent tax.

6622. What would be the argument against recurrence, if a levy were beneficial?—I do not think it would be beneficial. I am only arguing that you cannot base any argument for the Capital Levy upon the assumption that it will not recur.

6623. It would seem that if it is beneficial, the arguments are in favour of it?—If it is beneficial, in favour of it and in favour of its recurrence.

6624. If it is not beneficial it is hardly likely to be recurrent?—It ought not to occur once if it is not beneficial.

6625. I was rather following the argument about the effect of a levy upon savings. You suggest that it may be beneficial, and therefore recurrent?—I do not suggest anything of the kind. I am absolutely convinced that it would not be beneficial.

6626. If it is beneficial it may be recurrent?—If it is beneficial it would be recurrent. I am afraid I do not make my point clear. I am only arguing that we cannot found ourselves, in any conclusions we may draw, upon the assumption that the Capital Levy will not be repeated.

6627. I see that point, but all those who so far have put forward the case of the Capital Levy have, I think, suggested that it should be non-recurrent?—I suggest that they do that because in their own minds they are quite satisfied that the tax in itself is a bad tax, but they think that the object to be secured justifies them in imposing a bad tax.

6628. *Sir Arthur Balfour*: Any guarantee against recurrence is impossible?—Any guarantee is impossible.

6629. *Mrs. Wootton*: A levy might, of course, be beneficial in particular circumstances, such as when you have a very large debt, and it may be in the minds of witnesses that it is not beneficial in other circumstances. Whether it is beneficial or not beneficial may be rather an abstract question?—There are two things to consider, are there not? One is the effect of the imposition of the tax, and the other is the use to which you are going to put the proceeds of the tax. Those are quite two different things. If you start by saying that the effect of the imposition of the tax is good, from that point of view it is immaterial to what purpose you apply the proceeds. If, on the other hand, you start with the assumption that the imposition of the tax is bad, but is justified by your application of the proceeds, then we may argue it upon that basis. I am arguing that the imposition of the tax is bad, quite irrespective of how you apply the proceeds. If we are all agreed that the imposition of the tax is in itself bad, then we will discuss how bad it is and whether it is so bad as not to be worth while doing; but let us agree then that it is bad.

6630. *Mr. Hichens*: It is possible to say that it is bad in some circumstances and good in others, just as a dose of quinine may be a very good thing if you have a fever, but would probably be a very bad thing to take every day?—There again the analogy is not quite complete, but I will agree that you may say quinine is a poison and there are cases when you may take the poison with beneficial effect. Now if we are agreed that the imposition of a Capital Levy is a poison, then we will start on that basis.

6631. You need not necessarily say it is a poison; you may say that it is an antidote to some serious fever from which the world has been suffering, that the world is in an evil state, and can only be cured by this particular drug. But it does not follow that you are always going to be in that state of fever which follows from a great European war; therefore you may be justified in taking quinine to cure that particular fever?—There you give me my case. The taking of the quinine is by itself a bad thing, but it is justified in certain circumstances by the effect it produces.

6632. No, my point would be that the taking of quinine might under certain circumstances be a good thing. You cannot say that by itself it is a bad thing. Supposing you were always in a state of fever, it might be a good thing to take quinine every day, and therefore you might say that by itself it was a good thing?—As in most cases, the analogy does not help the argument. If we can keep strictly to the case in point and not be led off into analogies I think it would be safer.

6633. *Mr. Lees-Smith*: Have you examined the methods of putting a Capital Levy into operation which have been worked out by Lord Arnold and others? If you take Lord Arnold's examination of the subject, which is very complete, he has practically come to the conclusion that you could not impose a Capital Levy, if it had to be carried out by cash payments; that it is a practicable scheme only because a great deal of it would be paid in War stock and in other good securities which could be exchanged for War stock?—I deal with that myself later.

6634. If that view is correct, that the practicability of the levy depends upon the existence of a huge amount of War stock in which it can be paid and certain advantages given to those who pay, you will see that when once a large part of the War stock has been cleared off by a Capital Levy the levy cannot be repeated. It would no longer be a practicable proposition, unless we had another war and more War stock was created?—On that basis the Capital Levy is a good thing only if it is not levied in cash but is levied in securities which are available.

6635. It becomes practicable if a large part of it is levied in War stock or other securities; financially it would be practicable?—But there would still be a very large amount of securities in existence after the first levy,—quite enough to be available for the same purpose again.

6636. You need a very large margin for those who are not willing to surrender War stock. It would all have to be voluntary; you would have to ask people to pay their levy in War stock or in securities, and a certain proportion would not agree. You must have a very large margin to account for those who would not agree?—I quite agree, but I do not see the relevance of the point.

6637. The relevance is this, that if you clear off a large part of the War stock, then as a matter of fact you have not available the margin of War stock which would make a second Capital Levy a practicable proposition; therefore it could not be repeated? — The failure, if I may say so, in that argument is this, that although you may not have as much War stock available, you would have other securities available and in as great a quantity. You may have paid off £1,000,000,000 of War stock but you would still have £6,000,000,000 or £7,000,000,000 of War stock, and for this purpose you would have almost an unlimited amount of millions of other stocks which could be dealt with in the same way. You do not exclude the possibility of a second levy because you have paid off so much War stock.

6638. *Sir Josiah Stamp*: You make it less practicable?—Not really less practicable.

6639. *Mr. Lees-Smith*: Of course one would have to go into the scheme in detail, but as the scheme was worked out it would become clear that without this great block of War stock as the primary means of payment, the actual operation could not be carried through; you would want a great block of War stock which people were willing to exchange and you would have to have another great block to account for those people who are not willing to exchange?—The State would hold the other securities, do you mean?

6640. It is not the State holding the securities; it is the fact of the War stock being in the hands of private individuals who would pay their levy by that means?—Some would pay it by that means, some who had not got the War stock would have other securities, and the State would take the securities.

6641. *Sir Arthur Balfour*: May I clear up one point? Is the suggestion that the Capital Levy is to be a voluntary transaction? *Mr. Lees-Smith*: No; the point is that it is impracticable to pay a levy largely or mainly in cash. It only becomes practicable if a large part of it is paid in War stock directly by War stock holders of their own accord, and therefore

it is only practicable so long as there is a large amount of War stock in the hands of private individuals. *Sir Alan Anderson*: Substitute "stock" for "War stock."—(*Witness*): Stock; that is my trouble. Why War stock, why not Commonwealth of Australia stock, or Canadian stock or American stock? Why not any stock? There is no distinction between War stock and any other kind of stock, and there would be a large amount of other stock outstanding.

6642. *Sir Josiah Stamp*: Is there not this amount of truth in Mr. Lees-Smith's argument: that supposing you had a recurrent levy every six or seven years you would be slightly diminishing the amount of the stock which would be acceptable by a Government, by the amount that you had taken in that form before, less the amount of new capital that had grown in the interval?—Yes.

6643. But having regard to the large amount that there is, it would take some five or six levies before you would get to the region of the impracticable?—Certainly, it would take a very long time to have so exhausted the private ownership of stock and shares as to have left you no margin upon which to levy.

6644. *Sir Arthur Balfour*: In the meantime you would have dislocated the whole situation, so that there would not be any saving. *Mr. Lees-Smith*: That is another argument.—(*Witness*): Yes, that is another point.

6645. For the Government to obtain War stock is one thing; for the Government to obtain securities is quite another thing. It is not proposed in Lord Arnold's scheme that the Government should hold a vast amount of ordinary securities. His proposal is that practically the only reason for which the Government should take securities would be to exchange them immediately for War stock. Their taking of securities depends upon there being a large amount of War stock out for which those securities could be immediately exchanged.—Certainly.

6646. So that if a large part of the War stock is cleared away, you can neither get payment in War stock nor can you take securities and exchange them for War stock.—Certainly.

6647. That is why I say that the levy cannot be repeated.—Are we not discussing the point as to whether it can be repeated or not?

6648. Yes, that is the point. — It could not be repeated for exchange into War stock; I agree that. But it could be repeated without that qualification; and if it is a good thing why not repeat it?

6649. It would only be repeated if the Government were willing to hold a large amount of general securities, railway bonds and so on?—Why should they not?

6650. That makes it a very much more difficult proposition. In Lord Arnold's scheme they get those securities for the purpose of immediately exchanging them for War stock.—If they can; if the holders are willing.

6651. Yes, and if the holders are not willing the thing is not practicable. I will not say it is not practicable, but it becomes so exceedingly difficult that the Government would hesitate to repeat the operation under the very much more difficult conditions.—I cannot see why they should hesitate if the thing is a good thing; if we are going to get no reduction of our capital investments, if trade is not going to be disturbed, if we are going to suffer no inconvenience, why not repeat it?

6652. The point I am trying to bring out is your view of the argument that it is a very difficult operation in the first instance. The difficulties are intensified in the second instance because of the disappearance of a large amount of War stock, and that in itself is a security against repetition.—The main difficulty, surely, is the valuation.

6653. I will come to valuation later. I see you have a paragraph on that?—Yes.

6654. *Mr. Hichens*: With regard to high taxation, would you use the same argument? Would you say very high taxation is either a good thing or a bad thing? If it is a good thing we ought always to have it; if it is a bad thing we ought never to have it.—High taxation is an evil. It may be an inevitable evil to which we must submit, but we need not increase that evil when it is not compulsory.

6655. But might you not say the same thing with regard to a Capital Levy as you are now saying with regard to high taxation?—No; if we have to submit to this bad thing, high taxation, a Capital Levy is a bad way of taxing; there are far better ways than a Capital Levy.

6656. *Sir Josiah Stamp*: Am I correct in putting it that you are saying that you are content to stand on one leg at this stage, and that is the evil of the Capital Levy?—Yes.

6657. You are not setting up the question of what you do with it at all?—No.

6658. You would say that all methods of high taxation are evil but this particular one is more evil than the others?—The Capital Levy is more evil than the others. The Capital Levy is a particularly bad form of high taxation. All high taxation is bad; this is particularly bad.

6659. *Sir Alan Anderson*: All you are saying at this stage is that a Capital Levy is taxation?—Yes.

6660. *Mr. Lees-Smith*: There have been several witnesses here who broadly take your line, that if we were to lower the Income Tax and Super-tax we should really finally get a larger yield than we do at present. I would like to get your view. You say here that high taxation reduces the incentive to save. Our difficulty has been that we have had all these general statements, but no specific quantitative effort to prove them; they are all tendencies. Do you in fact, in your own experience, come across any large number of persons, or a majority of persons, who say to themselves: "Taxation is high, therefore I am less willing to save than I was before the War"?—No, you do not come across it in that form. You can only judge by the general tendency. I cannot say, in any given case, that A. or B. says to himself, consciously: "Well, in view of the taxation being 4s. 6d. in the £, I will do this or I will not do that," in regard to any particular transaction; but the tendency on the mind of everybody engaged in business is that when taxation is high they will not take the risks.

6661. I want to take these arguments one by one. I am now dealing with the willingness to save; I am not dealing with risk?—The test of the willingness to save is really what net return you can get upon your savings after deduction of tax. Now if you look at the price to-day of securities in general, and compare those securities with the price of similar securities pre-war, you will find that the net return to the investor is very nearly the same. That is to say, unless you can offer a certain return to the investor, the investor will not save as readily.

6662. That is the point I am putting. Have you come across examples of investors who say that?—How can I? All I can do is to refer you to what the investor asks to-day to induce him to save, and that is shown by the net return to him on particular classes of securities, according to the risk. On what may be termed a trustee security he will demand so much; on a security with a slightly less sound basis, he will demand a little more. Now if you take those securities through, you will find, with slight modification with regard to trustee securities (which I could explain), the general net return to the investor is much the same as it was before the War.

6663. *Mrs. Wootton*: Therefore the incentive is the same?—If he can get the same return, yes.

6664. I understood you to say he can?—He does and he will not save as much unless he does.

6665. Then is the incentive the same?—You cannot earn the same total; you cannot carry on trade as successfully, in as large a volume, if capital has got to have a return, we will say, of 6, 7 or 8 per cent., as you could if capital were content with a return of 3, 4 or 5 per cent. Therefore, the whole

volume of trade is affected by the large demand of savings, if they are to be made to the same extent.

6666. *Sir Josiah Stamp*: Would it be true to say that even though the net price now being offered is not less than the net price pre-war, the amount of capital being produced at that price is not as great?—Certainly not as great, because it has to obtain a much higher rate of interest than the saver obtained, and therefore there is less employment for that capital, there is less volume of trade done, and we are doing a less volume of trade to-day.

6667. *Mr. Lees-Smith*: You are assuming, I understand, that high taxation is due to loss of incentive. Is it not due to very much broader causes, that the whole country is poorer, that there is depression of trade, and these results show themselves?—The return on capital is determined more by what makes it worth while for the individual to save.

6668. If the whole wealth is diminished, the incentive of the individual is to save less?—He saves less because he gets less. The incentive to him to save will be measured by the return he gets.

6669. *Sir Josiah Stamp*: Would it not be true that there would be a greater fund available for investment if we were not taking the top layer of all the big incomes?—Certainly.

6670. And it is probable that there is a lower incentive then to bring it into the capital market. Is there not a very important factor in addition to the net rate of interest, namely, the fact that you are physically and forcibly taking away the most available source of saving?—Certainly, but as to whether a person will save or not, the incentive to a person to save is the return he gets. That is what we understand by incentive. What induces a man to save? It is to get some benefit hereafter, that induces him to save and to sacrifice present enjoyment for the sake of future enjoyment. The incentive is the return he is going to get which will give him a future enjoyment. That is only a truism.

6671. *Sir Arthur Balfour*: And the sense of security as well; that comes in very strongly?—That is a necessary condition of enjoyment.

6672. *Mr. Lees-Smith*: You are really coming back to the question of psychology now?—I think we are speaking about different things, really.

6673. You assume that, so to speak, the higher the return the more a man is going to save. Have you taken into account the very commonplace proposition that is put on the other side, that a man will say: "I am a family man and I wish to save for myself and my family." If taxation is high, does he in fact say to himself: "Taxation is high; whatever I save, my wife and family will therefore receive less than otherwise, and for that reason I shall save less and leave them worse off still." Surely a man does the opposite. If taxation is high, he must save more to leave his wife and family comfortably off?—It is quite open to him to say that, but if you look at the mass of savings and see how they arise, and the mass of mankind, you will find it is not so. You are not putting the incentive to save as having any relation to the amount you are to receive in return, but to the desire to provide for wife and children. Now I say that the general incentive to save, whether for the family or for one's self, is stimulated or measured by the return which is obtainable.

6674. *Sir Josiah Stamp*: I should like, if I may, to pursue the point. We have this curious fact, that even if the net incentive to save is the same as before the War, we are getting less capital put up?—Yes.

6675. You put that really on the ground that there are reactions on the production side?—Yes.

6676. I would ask you if it cannot be accounted for without going as far as that, looking at this fact. If a man has £20,000 a year, in regard to the top £5,000 of that the incentive would be comparatively slight compared with the incentive that he would require to save the next £5,000. If heavy taxation is taking away the top £5,000, he comes down to that range of income which requires a still greater incentive. That to-day is the position, and the reason why as much capital is not being put up at the same net offer is because everybody is being reduced to that lower stratum where the higher incentive is required?—That is true.

6677. Is not that probably a sufficient reason? Is it not very difficult for a man to save?—It is true.

6678. It would have existed in any case apart from the productivity of industry, when you are dealing, as now, with individual psychology; but now I get to the stage where a man has not a higher incentive to save?—I agree that is a more complete analysis.

6679. *Mr. Hichens*: Is there less saving at the higher rates which obtain to-day than there was before the War? I ask that, because Mr. Layton, who was here, said that he had no very clear idea on the subject, but on the whole he thought there was a little less, but not very much. That is my recollection of his evidence?—I think there is less saving to-day.

6680. *Mr. Bowen*: If there is less saving to-day, what is happening to the money?—Money spent on consumption is not saved. There is less spent on production and more spent on consumption.

6681. Consumption surely reduces capital?—The difference between saving and non-saving is the difference between the methods of spending money.

6682. Would you say there is excessive consumption?—"Excessive" is a difficult word to justify. I would not say there is an excess, but of the total amount of money spent in the course of the year, I should say that a larger proportion is spent now on consumption and a less proportion spent on production than was the case before the War.

6683. The suggestion is that the higher the taxation the less inducement there is to saving?—Yes.

6684. The suggestion follows, therefore, in my mind, that there must be some extravagance in consumption?—Extravagance implies that precisely the right amount was spent pre-war and that what we spend now is not the right amount. Perhaps there was not enough spent on consumption pre-war, and it may not be extravagance in spending more now.

6685. You do not think it is a matter of extravagance, but a question of degree?—It is difficult to say.

6686. If you were of opinion that consumption was excessive and unwise, there could not be a real objection to taxing what would appear to be luxury in excessive consumption?—It is very hard to say that the consumption is excessive. I do not know what standard you are to take as the right standard.

6687. *Sir Arthur Balfour*: If the food imports for 1913 were 100, and were 114 in 1924, and raw materials were 100 for 1913 and are now 79, would not that rather point towards increased consumption?—I think there is more expended on consumption and less expended on production.

6688. Those are the figures, I think?—I agree that is so. It is very difficult to say that the additional food imported means extravagance. They may not have had enough to eat before.

6689. *Mr. Hichens*: Does it show even that the proportion has increased since 1913? You would not expect exactly the same amount of food to be imported. Allowing for that, the consumption of food is just about what it was, and has not increased. *Sir Arthur Balfour*: It is 14 up on 100. *Mr. Hichens*: Our population is up a great deal also. *Sir Arthur Balfour*: And 21 down on 100 for raw materials gives a pretty wide margin between the two.

6690. *Sir Josiah Stamp*: You think the absolute amount being saved is rather less than before the War?—I do.

6691. And a smaller proportion is saved. There are two things, a smaller proportion, and the actual amount.—A smaller percentage. Reckoned in money, more is saved; but money has depreciated.

6692. Would you think so?—Yes, I think so.

6693. Supposing the pre-war saving was £400,000,000, would you think that we save as much as that now? We should want about £600,000,000 to be on the same level of real saving?—We should want

about £600,000,000 to £700,000,000. There is nothing like as much as that.

6694. Would there be £400,000,000, do you think?—It is difficult to say. There is a great deal saved.

6695. *Professor Hall*: Would you say there is any shortage of capital at the present time in regard to our present day needs?—There is always a shortage of capital. You would of course use more capital if you had it.

6696. I was thinking that the return to the investor in business is partly dependent upon his markets. Does he not to-day suffer more from the absence of markets, than from the lack of capital for production?—You say markets; do you mean foreign markets or domestic markets?

6697. Principally foreign?—But we could greatly enlarge our domestic market. I rather doubt whether there is such a reduction in markets generally, in possible sales.

6698. You have been discussing the question of saving. From the rapidity with which new issues are taken up, it would appear that there is a great deal of capital available, and that the present high rate of taxation is not preventing a large amount of capital being saved?—Yes.

6699. Quite adequate to the needs as expressed in the demands made by new issues?—I cannot agree that it is adequate to the needs. We could use a great deal more capital if we had it.

6700. There is no dearth when new issues are offered to the public. *Sir Josiah Stamp*: Is it not true that if you have a rush of new issues for a week or two, you very soon get to a point where the underwriters have to take up a good deal more?—(*Witness*): Yes, when the underwriters have to take up more.

6701. It would not be true to say that the recent experience of new issues shows an unlimited supply of capital?—No, there is no unlimited supply of capital.

6702. *Mr. Bell*: There are many issues waiting?—Yes. It is new to me that any suggestion of the kind should be made. That is why I was rather slow in taking up the point.

6703. *Professor Hall*: In view of the extent of over-subscriptions to these various issues, what do you say as to the shortage of capital?—That does not mean anything.

6704. We understand that people apply for more than they are prepared to take. But to the man in the street, at any rate, there does not seem to be any difficulty in getting capital for production?—I am afraid we must leave that view to the man in the street.

6705. We must take the appearance of things as we see them and hope that gentlemen like yourself will give us the facts of the case. That is why I am putting these questions to you. You do not take the view, then, that there is an abundance of capital available for production?—No, I do not.

6706. *Mr. Lees-Smith*: Is there not an abundance for safe investments?—No, I do not think I should say that there is the relative abundance that there was pre-war.

6707. I was talking of safe issues, not new issues?—For trustee investments I should not say there was the relative abundance that there was pre-war in relation to the amount of capital available for trustee investments. There are far more trustee securities now than there were pre-war.

6708. *Sir Josiah Stamp*: If you were to take the experience of the last six months, taking those issues that have been apparently over-subscribed and knocking out the subscriptions of those who could not unload—still leaving them over-subscribed, if you like—and then taking those issues under-subscribed, and add them all up, would there be any remarkable surplus?—Oh, no.

6709. *Professor Hall*: That is a point that I think wants stating by somebody of authority like Mr. McKenna. *Sir Josiah Stamp*: There is a popular belief that there is a tremendous lot of capital about?—(*Witness*) That is not true.

6710. *Mr. Bowen*: What is the explanation of these oversubscriptions where there is an apparently attractive investment with a high rate of interest?—There are people who are called "stags," who apply for perhaps twenty or thirty times as much stock as they could possibly pay for. On application they have to pay, perhaps, only 5 per cent. of the amount that they apply for; so that a man who pays £1,000 could apply for £20,000 worth of stock. He hopes, if he gets an allotment, to sell that stock immediately, before it is fully paid for, at a premium, and he may make £100 or £200 profit out of it. He is known as a stag. He never intended to take up the stock and his application was only made for the purpose of selling it. When you only pay on application 5 per cent. of the amount that you are applying for, you can see that the application might be fifteen or twenty times the total value of the stock, and yet the amount of money put up may be no more than the amount of the stock issued.

6711. But if they buy it in order to sell, and they do sell, there is money to be got from somewhere?—Yes, that stock will be taken, but only the amount of the stock, and not the amount of the applications. (*Paragraphs 6 and 7 read.*)

6712. *Mr. Hichens*: Do you yourself believe that the rate of profit can truly be taken as the measure of productive skill in the use of capital?—In one sense, no, but in the sense in which I am arguing here, yes. As a general rule, the most efficient user of capital will get the higher rate of profit on it.

6713. You may, of course, have difficulties, such as a sheltered and a non-sheltered industry, such as a close ring, where you have high profits?—I agree.

6714. Would you say that that was a measure of the competence; that is the word you use?—I should not say it was true in every case, and therefore I put it hypothetically.

6715. Must there not be a very large number of cases where it is not true at all? I suggest in a close ring, for example, or in a gold mine?—Yes, I agree; but as between the members of the close ring, the most competent will be getting the higher rate of profit. As between the members of the close ring and the outside world, it would not be true.

6716. Where you can compare like with like?—Where you can compare like with like, it is true.

6717. But that is rarely the case; that is the trouble?—No; in the bulk of businesses this would be true, but it is subject to very many exceptions, so I have put it as hypothetical.

6718. *Professor Hall*: Following the remarks in your paragraph, would you say that the rate of tax deters people from commencing new businesses?—Yes, they will not take the risk.

6719. As well as checking the enterprise of those already in business, you take the view that it prevents new businesses coming into existence?—Certainly.

6720. *Mr. Lees-Smith*: If you take two investments—one safe and one speculative—and assume the safe investment gives you 5 per cent. and the speculative investment gives you 10 per cent., then if you work out the final net return to the investor, taking into account the higher tax on the 10 per cent. as against the 5 per cent. investment, is it not the case that the net difference between the two is really so comparatively small that it is not enough to affect the investor's willingness to take the risk? I am trying to bring these general doctrines down to some quantitative test, as distinct from generalisations, and I take that as a test.—I do not know that one would risk very much capital for either 10 per cent. or 5 per cent. I do not think a man is going to engage his capital in a new risky venture, if he foresees only a problematical 10 per cent., of which he is going to pay half in taxes. He will not do so, much less will he do it for 5 per cent.

6721. I was taking the simplest case, of a safe investment at 5 per cent. and a more speculative one at 10 per cent.; does the high taxation in fact tend to drive people on to the 5 per cent. safe, rather

than the 10 per cent. speculative?—I am speaking of the manufacturer who is engaged in business, not of a man investing his money, nor of a *rentier* looking for investment. I am not speaking of him; I am speaking of the man engaged in doing work, a business man who is investing capital in his own business. Now suppose he has got either to borrow or to use his own resources in order to put up a new plant, or he has got to endeavour to open up a new market, which will involve new expenditure. Will he undertake that expenditure if the return is going to be very small? The expenditure may all be thrown away. If he is expending £10,000 in a new development of his business, if it is not successful, he will lose his £10,000; if it is successful and he is going to get, we will say, a 5 per cent. return, he is going to get a net 2½ per cent. return and he will say it is not worth doing. If he was going to get a 10 per cent. return on it, he would very probably say: "I am only going to get 5 per cent. on this, and I will not risk £10,000; I do not think it is worth it."

6722. If he is not risking anything, if he is putting his money into War Loan, he is only going to get a small percentage?—He is going to get 2½ per cent. when his Income Tax and Super-tax are taken off. He gets 2½ per cent. certain, and he will not be tempted to spend £10,000 with the risk of losing it, unless he is going to get a very high return.

6723. *Mrs. Wootton*: It seems to me that two different points are involved. Some witnesses have told us that people will not save new capital and take risks with it, owing to high taxation. Other witnesses put a rather different point, that there is a certain volume of saving, but more of it goes into gilt-edged investments and less of it goes into speculative investments that may be more valuable. Is your point that you get a reduced volume of new saving in business enterprise, or do you also put forward the suggestion that of the saving you do get, there is a diversion into gilt-edged investments as the result of high taxation? They are two separate points, really?—I quite agree they are two separate points, but here I am not on either of those points. Here I am on a third point: not on the question of the inducement to save, but the inducement to undertake risk—the enterprise point of view; whether the men who are the leaders of industry in the country will show the same enterprise and undergo the same risks with high taxation as they will with low. I think not. Therefore when you curtail the enterprise and energy of what I may call for the moment, captains of industry, you are really impairing the whole productive power of the nation.

6724. What is the alternative with which those people are faced? If they take risks, they take risks for something. Supposing there is very high taxation and they do not think the risk worth taking for the return they get, what do they do instead?—They go on as they are going on now.

6725. That means that this capital, which would have been expended in a new risky enterprise, is in fact not so expended?—Oh, no; it would be expended just the same, but here I am dealing with the people who use the capital. Now it is vitally important to the nation that capital should be used by the people capable of using it; and the most capable people, the energetic, powerful men of business, who can use their capital most efficiently, will not use it to the same extent or put forth the same energy or enterprise as they would if taxes were lower. The money will be spent, whether they spend it on their own productive business or whether they lend it to somebody else to spend, but it will be less efficiently spent in production. That is my point; it may be right or wrong, but that is the point I am endeavouring to make. It is the killing of enterprise.

6726. I am afraid I have not made myself clear. Surely, if people have the choice between using capital in two different ways, either as they are at present or in a new enterprise, their decision in making that choice will be affected only by something which upsets the relative effect of the two uses. What I want to get at is whether you are putting to us that the relative attractiveness of the use of capital as it is being used now, and its use in a more speculative way, is affected by high taxation?—Yes, that is exactly what is affected—the relative attractiveness of the two uses, the one use by a safe investment and the other use by personal effort engaging in risk but with an expected high return. As between those two, high taxation will reduce the return on the new enterprise and therefore will induce the owner to use his money in a less productive way.

6727. *Sir Josiah Stamp*: Do you base that entirely on psychological grounds? May I suggest to you that it is mainly actuarial? Take this point. Supposing that you can get 5 per cent. without much risk, and the incentive to put your money into a more speculative thing must be a return of 7 per cent. to attract your money. There is a margin of 2. That margin surely in the long run has to be large enough to provide a pool which would cover all the losses that arise, otherwise capital will not be attracted. You have a certain amount of money in the pool provided by the 2 per cent. Taxation applies unfortunately, not to the 5 per cent only, but to the whole 7 per cent.; it applies to money which is not income at all, but is a pool; it halves your insurance fund; therefore capital in the long run cannot be attracted into that market unless the rate goes up 2 to provide the pool; the rate must therefore go up 4 and the new rate must be 9 per cent.?—I agree entirely; that is the explanation of it.

6728. *Sir Arthur Balfour*: I think Mr. Lees-Smith is asking what we really know about these things; and I think you and I know of many instances where men have actually withdrawn from business altogether owing to taxation—Yes.

6729. *Mr. Lees-Smith*: I know we are getting individual cases, but I should like to know what proportion they are to the total number of firms. *Mr. Bell*: Quite small.—(*Witness*): That is an extreme case, but I dare say most of us in this room could tell of cases where we ourselves have refrained from doing something because the return was not good enough. I should think there are quite half a dozen gentlemen in this room who could say that from personal experience.

6730. *Mr. Lees-Smith*: On account of taxes?—Yes, the net return is not good enough.

6731. *Sir Alan Anderson*: It does not matter for what reason the net return is not good enough?—No.

6732. *Mr. Lees-Smith*: We have been talking of types of investment and the difference between a 5 per cent. and a 10 per cent. return. The point is this, that if the tax is quite low, then obviously the 10 per cent. return would give a very considerable margin over the 5 per cent. return. But, taking taxation as it is at present, the relative difference is so small that the 10 per cent. return really gives you a return far from twice the 5 per cent. return?—With no tax there is 5 per cent. difference between the two returns; with existing taxation there is 2½ per cent.

6733. I am talking of normal taxation at our present rate?—Take 1s. Income Tax, as we had before the War. In one case you get £4 15s., in the other case you get £9 10s.; so you get a difference of £4 15s. between the two.

6734. *Sir Josiah Stamp*: Supposing the difference between the two in the first place was 5, made up of 4 which was actually required to cover losses and 1 for reward for entering that particular enterprise, now under the new arrangement you have only got 2½, which is less than the actual insurance fund requires?—Yes, and it is not worth it. (*Paragraphs 8 and 9 read.*)

6735. *Mr. Bowen*: On that last paragraph, are you able to say to what extent taxation had any effect upon previous trade depressions?—How far am I to go back—to pre-war?

6736. Yes, pre-war?—I should think very little

6737. If so little, why should it have such a big effect now?—Because it is so much bigger, so much heavier.

6738. *Sir Josiah Stamp*: Is there any more evidence with regard to its having had this effect?—As I say here, there is obviously a relation between trade depression and high taxation, because if you make taxation high enough, you will kill all trade—if you put it at a sufficiently high point. Now, is there any inference to be drawn from the fact that we have both the highest taxation and the greatest amount of unemployment in the world, that relatively our trade is more depressed than that of any other country? Is there any relation between them?

6739. *Mr. Bowen*: I should have thought you could have taken another test; you could have taken this country's own experience since the War. Broadly, the facts have been that when trade was very good, taxation was very high, and as taxation has been lowered, trade has gone back?—I should not agree with that statment. If you are referring to the boom of 1919 and 1920, there are obvious explanations for that, which do not affect this argument at all.

6740. But are there not equally similar explanations in addition to any question of high taxation?—No, because we are dealing now not with a boom period, but with a period which has lasted nearly five years, in which we have seen trade reviving and trade declining; we have had several ups and downs, I should think not less than four or five in the last few years, trade improving and trade declining again. It has not been a period of steady depression all the time. We have had our ups and downs during the last four years, but always on a low level of trade activity.

6741. *Sir Josiah Stamp*: Would it be true even in 1919 and 1920? 1919 was a boom year and for the first part of 1920 (the second half being depressed) we had 60 per cent. Excess Profits Duty as against 40 per cent. the year before?—Particular movements of trade over a short period cannot be taken as a guide.

6742. *Mr. Lees-Smith*: What is troubling me is that you have to-day promised us that if there were lower taxation, we should get an increased yield. I can recollect that the Chancellor of the Exchequer promised us the same thing two years ago and said that if we lowered the Income Tax 1s. we should get an increased yield—— *Sir Josiah Stamp*: Chancellors of the Exchequer have had that urged upon them, but they have refused to believe it. I would ask, within what time that would happen?—(*Witness*): Clearly it would not be in the next year; but in a little time it will, and if you ask me how soon, I should say within three years.

6743. *Sir William McLintock*: Trade is so bad that in the next three or four years it is almost bound to improve, even if the tax is kept at 4s. 6d.?—At the present rate of taxation I do not think we shall get it.

6744. *Mr. Bowen*: You will forgive me for making this remark, I am sure, but in one portion of your paper now, and in your previous evidence, you were exceedingly optimistic about the amount of taxation that we are bearing—that we could get used to almost anything: but you are pessimistic in the following paragraph.—I do not think there is any inconsistency between the two. I think if you were to read the first part of this paragraph by itself, you would see that I was optimistic that we would get used to anything, but it is by way of a qualification. I only want to state my view with all the qualifications.

6745. *Professor Hall*: Have you considered the various fields over which the possible increased yield of taxation can be obtained; I mean under the various Schedules of Income Tax?—Schedule D I am thinking of.

6746. You think the possibilities of an increased trade are sufficient to justify the statement that even with a lower rate of tax we should get a bigger yield?—Yes; if trade were more prosperous in this country and instead of having 1,200,000 unemployed, we had got 300,000 or 400,000, which would be our pre-war normal condition, and all trades were in consequence very much more active and making more profit in the aggregate than they are now, I think we should see the Exchequer reaping a very much larger return from the Income Tax. 1d. on the Income Tax would produce more.

6747. You put three years as the period roughly in which that improvement would be realised?—Probably it would take two or three years in order to feel the benefit of a reduction of tax. I remember when the penny used to produce £1,000,000, and I also remember when the penny produced £5,000,000. It does not produce quite as much now.

6748. Of course there is a limit to which that doctrine can apply, is there not? You can bring your Income Tax down so low that your yield will be actually less?—Yes, I agree. Sir Josiah Stamp asked me when it would happen. Undoubtedly, if the Chancellor of the Exchequer took off 1s. to-day, the revenue next year would be less; but the reaction will come sufficiently fast to give you immediately a higher yield per 1d. of tax.

6749. But that is only one factor. The increase per penny multiplied by the number of pennies that you impose has to equal the loss from the 1s. reduction?—When the penny yielded a million, 1s. yielded £12,000,000. To-day 2¼d. Income Tax yields the same amount. So that under the present conditions compared with the previous conditions you could have reduced the tax from 1s. to 2¼d. and still have got the same yield, because our income is much more elastic and our profits are very much higher. I believe that improved trade would soon make up the difference.

6750. You think that would go on if we reduced the Income Tax to 1s.?—Over a long period of time I should hope so, but it would take a very long while. I hope we shall get it down; I hope the production of this country will be so far developed that we shall, at some not too hopeless a date, see the Income Tax considerably lowered.

6751. I wanted to see how far this process of reducing the rate in order to get a bigger yield might go on with safety.—We have a large margin of possible production undeveloped. We have got 1,200,000 people unemployed, most of them producers and capable producers. We have got a field for development. If we develop that field, our revenue will be correspondingly enlarged, and if a reduction of taxation does have that effect then the Treasury will get the benefit hereafter of the greater production. That is my case.

6752. But supposing those people are absorbed, would a further reduction of taxation tend to bring an increased yield?—No, I do not think it would at anything like the same rate, because you would have no similar field for further development.

6753. That would be the limit from the point of yield?—For the time being, but so long as you have this obvious further production in front of you of 1,200,000 capable men and women not working, you have the means of increasing your production.

6754. Can you measure the relative importance of a reduction of taxation on production here and of the improvement of demand, say, from foreign countries; our foreign trade, it has been said lately, is only about three-fourths in volume what it was in pre-war days?—It is a very difficult question. The possible demand in our own country is very much greater than the actual demand to-day. The figures are very difficult to arrive at, but I assume that our production for purely domestic trade is 70 to 75 per cent. of our total production. Consequently, if you could increase the domestic demand by a small percentage it would make up for a considerable reduction in the foreign trade.

6755. That would not help very much the people who are specialising in production for foreign markets, would it?—No, I agree it would not.

6756. Sir Arthur Steel-Maitland, a few days ago, said that if our foreign trade were at the pre-war volume it would find employment for at any rate about half a million of the present unemployed. Does not that rather show that the foreign demand

is a very important factor in the absorption of the unemployed, and may be just as important as a reduction in tax in affecting production?—If you increase your home production you increase your foreign demand, your home producer demanding more himself from the foreigner and thus giving the foreigner the means of purchasing from us.

6757. That is true, of course, but it does not follow that it would operate to the extent of the trade that is now missing?—No, these can only be described as tendencies rather than as exact factors.

6758. As I follow your evidence, you rather minimise the importance of this demand for foreign trade, and you attach most importance to the reduction of taxation?—My general impression is that the public attach unnecessarily high importance to foreign trade. I regard it as very important; I do not want to minimise it for a moment, but I consider that the domestic trade is the more important of the two, and that we can make up a great deal for deficiency in foreign trade by development of our internal trade.

6759. *Mr. Bowen*: You regard that as being more reliable?—Yes, certainly.

6760. *Professor Hall*: And you think that would be stimulated by reduction of taxation?—I do.

6761. *Mr. Lees-Smith*: On the question of the effect of reduction of Income Tax, how do you account for this: three years ago the Income Tax was reduced by 1s., and we were promised, if not immediately, at any rate in a short time, that the yield would justify it. Then it was reduced by 6d. Now the little while has elapsed, do you anticipate that we are now going to get it all back in a great revival of trade; and if that did not happen then, why should it happen this year?—Can you tell me that the Income Tax yield from 1d. is not higher to-day than it was three years ago? Can you tell me that as a fact? Remember, you must not take returns based upon the three years' average.

6762. *Sir Josiah Stamp*: It is slightly higher, but not enough to make up for the actual loss.—Are you sure that it is only slightly higher—the actual yield for the year?

6763. If you multiply it out for the total you do not get anything like the amount of the yield. In order to fill up the actual amount of your budget at a lower rate the increase from 1d. must be very much larger to make up the whole.—I agree, but of course you have to consider the reaction upon other taxes as well, whether you do not get from stamps and Death Duties and other sources of revenue sufficient to make up the deficiency.

6764. It depends on how long you allow?—If you look at a period of three or four years, I think you would find the figures much more comforting.

6765. *Sir Alan Anderson*: In any case it is not a question whether you do better next year, but whether you do better than you would have done by keeping on the whole tax?—Yes.

6766. *Chairman*: I was wondering whether you saw any relationship between the amount spent on drink and tobacco, and the internal trade of the country in, for instance, cotton. Supposing we spent £100,000,000 less on liquor and tobacco, would that give a boom in internal trade?—It would divert the trade from tobacco and drink to textiles, a diversion which I should estimate myself would probably be greatly beneficial to the energy and health of the race, and consequently the reaction in that way would be good for trade. But the first effect would be a mere transfer from one class of domestic trade to another class of domestic trade; but it would be a good thing.

6767. *Mr. Bell*: There would be much more employment?—It would not in the first instance create more employment, because you would throw out the brewers' men while the textile operatives would be put into employment.

6768. *Sir William McLintock*: There is relatively only a very small amount of wages in the production of beer and whisky and so on, compared with foods and clothing and furniture.—All money is spent ultimately in employment. In the first instance some person may make large profits, which he himself spends.

6769. There has been no commodity which has been so highly taxed as whisky and tobacco, but apart from that, it would give more employment?—I do not think it makes much difference whether you spend it on production or consumption. What is meant when you say you save money is that you are spending it on production; employment is given in any case Money circulates and causes employment.

6770. *Chairman*: Supposing a man spends 5s. on liquor or else spends 5s. on clothes for his wife and child, what is the effect on the trade of the country?—The immediate effect on the trade of the country is the transfer of employment from one trade to another The ultimate effect upon the trade of the country is that in one case the money has been usefully expended, beneficially to health, and in the other case it has been expected in a way which may be enjoyable but is not beneficial. (*Paragraph* **10** *read.*)

6771. *Professor Hall*: Would your view with regard to the Capital Levy be affected by the possibility of a fall in prices in the future?—No, as regards the Capital Levy it would not be. For the purpose of repayment of debt supposing we foresaw a gigantic fall, we might submit to the inconvenience of high taxes in order to anticipate it, but I would not have a Capital Levy, because I think that it is a bad form of tax.

6772. You would agree perhaps that great efforts should be made to pay off the debt if prices were likely to fall rapidly?—If the fall were going to be such that you were going to be burdened very heavily, I agree it would be desirable to pay off as much as you could. But even then I would not have a Capital Levy to do it. I would regard that as a clumsy form of raising money. (*Paragraphs* **11** *and* **12** *read.*)

6773. *Mr. Lees-Smith*: On your point that an insuperable difficulty in working a Capital Levy is the question of valuation, have you taken into account the fact that this same difficulty had to be met by the War Wealth Committee in the proposal to tax wealth made out of the War? In that case the Inland Revenue reported that it was practicable not only to value the wealth at the moment, but to make a valuation of that same wealth as it was before the War; that is to say, to have a double valuation?—Yes.

6774. Have you taken that into account when you say the difficulties would be insuperable?—I have. I think they were wrong.

6775. *Mr. Bell*: Were they not very clearly wrong and have not events proved it?—Yes.

6776. Any valuation at that time would have been perfectly absurd?—Yes.

6777. *Sir Josiah Stamp*: May I put it to you that even if they had been right—as I believe they were—the answer that they gave was not relevant to this particular question?—No, it was not relevant to this.

6778. What they were doing was comparing two valuations and getting the difference?—Yes.

6779. If you had an under-estimate or an over-estimate of the life of a mine and you had that same error in both your items, whatever the error was, your difference was the same?—Yes.

6780. It was the difference that was the point in the case of that Committee?—Yes.

6781. It was a very different thing from getting an absolute valuation at the time?—Yes, and I do not think they could then have done it.

6782. *Mr. Lees-Smith*: As a matter of fact they did not qualify their assertion by any such qualification as Sir Josiah Stamp has introduced. They merely stated their capacity and willingness to make an absolute valuation in both cases. *Sir Josiah Stamp*: I think you will find, if you read the evidence, that it was directed to the practicability of that particular valuation. (*Chairman*): Now the next paragraph (*Paragraphs* **13** *and* **14** *read*).

6783. *Sir Josiah Stamp*: It is sometimes put to us that all that a Capital Levy really means is that you have to imagine that the individual coming under the

levy dies on that day. Your answer to that would be that you cannot carry that out in practice?—He does not die. When you are dealing with a dead man, it is his legal representatives who deal with an estate, and all information is readily given because probate cannot be taken out until the requirements of the State are satisfied; the estate is closed. When you are dealing with a living person you have to get your information from him and you cannot close down his business until he has given you the information. You have to accept his information. Now, he is not in a position to give it.

6784. *Sir William McLintock*: There are a great many cases of hardship arising even in the valuation for Death Duties?—Cases of very great hardship.

6785. I had one case within the last six months where we had to agree a value; it was 15s. for an ordinary share, but we cannot give them away to-day? —Yes.

6786. *Sir Alan Anderson*: Your point is that he is not only not dead, but he is kicking violently?—Yes, that is so.

6787. *Sir William McLintock*: Take the case of stocks and shares at a time when a Capital Levy is seriously contemplated. What would be the effect on all those values? Every one would be wishful to be prepared for the day and would be offering stocks and shares?—I assume if there was a Capital Levy, in order to meet the impossibility of finding a market for the stocks and shares, the State would very early say that it would take stocks and shares in proportion to the person's wealth. Suppose a man held £100,000 of shares in a company, if he had to pay 20 per cent. duty they would be content to take £20,000 of those shares. But that, of course, does not get rid of the need for valuing the shares. Although those shares may be quoted on the Stock Exchange at 3s. 6d. a share, that very likely is not their value. If you were to examine into what happened you might find that there had been dealings in five or ten shares in the course of the last two or three weeks, and that 3s. 6d. was the last marking. That was the price given, but if you were to try to buy or sell 20,000 of those shares the price might be 10s. or 1s.

6788. *Sir Josiah Stamp*: Supposing you were Chancellor of the Exchequer and people came to you and said: "You have adopted a system of valuation and the value of these particular shares is £1,000, but when in order to pay the duty we came to market them we only got £600," would you as Chancellor of the Exchequer revise the valuation?—If you are to be fair as between different classes of taxpayers you must reopen it; but how can you reopen it? You would never be at the end of it. Nobody would ever know where he was and what his ultimate liability was or whether he had ever discharged it.

6789. *Sir William McLintock*: Would it not mean that you would have to throw overboard all Stock Exchange valuations for industrial concerns, and go back to the business itself and make a separate valuation of all its assets?—And of course if you do, that would be monstrously unfair upon the owner of War Loan, a man who perhaps had put all his fortune into War Loan in order to assist his country; he would be paying in full. (*Paragraphs* **15, 16** *and* **17** *read.*)

6790. *Mrs. Wootton*: On paragraph **16**, some of the estimates of the net annual saving that you would get from a Capital Levy of £3,000,000,000 range about £50,000,000 a year; that I think is about the present yield of 1s. on the Income Tax?—Yes, roughly about that.

6791. Would you give us your view as to how you would compare, from the point of view of equity, a Capital Levy of £3,000,000,000—assuming you got £50,000,000 net saving from it—and an additional 1s. on the Income Tax? These are two alternative methods of getting £50,000,000 a year. One is the Capital Levy and the other is an extra Income Tax. Supposing we decided that we must have another £50,000,000 a year, how would you do it? From the point of view of the welfare of the country how would you look at it?—From the point of view of the welfare of the country I have stated my argument in the first part of my paper. If I were a professional man earning £10,000 a year with a considerable goodwill such as a doctor or a barrister may have, and paid nothing to the levy, I should be strongly in favour no doubt of getting a reduction of 1s. on the Income Tax and contributing nothing towards the Capital Levy. If, on the other hand, I were a manufacturer or a merchant making a small return on a considerable capital and I had to contribute 20 or 30 per cent. of my capital in order to get a reduction of 1s. in Income Tax I should say it would be very bad. As regards the effect on the business of the country I have stated my answers in my paper.

6792. I do not think that quite answers my question; I will put it again. Suppose we assume that the Committee decides that it is desirable to have an extra £50,000,000 a year for debt repayment, we have to get that in one form or another. You would have the two alternative methods of adding £50,000,000 a year to our net revenue. One way would be to impose an extra 1s. on the Income Tax?—I thought you said to relieve taxation by paying off debt.

6793. No. Supposing we determined to get our extra £50,000,000 I want to know how you would view those two alternative methods of getting it?—Whether I would do it by a Capital Levy or Income Tax?. I would do it by Income Tax.

6794. You think that more equitable?—Certainly by Income Tax, but I think I say that all the way through.

6795. The assumption is not made in your evidence; you had not assumed the position that we want the extra £50,000,000?—I think I do say that. I say in paragraph **15**: "From the point of view of equity to the individual taxpayer on the ground of ability to pay, the existing Income Tax is in my opinion greatly superior to a Capital Levy." I think I go on to deal with the general principle of Income Tax based upon a known income as superior to a tax like that based upon a valuation.

6796. *Sir William McLintock*: Are you in favour of a special tax being imposed to provide this specific amount of £50,000,000?—No, certainly not.

6797. *Sir Josiah Stamp*: You are not an apostle of the £50,000,000 at all, are you?—I am not an apostle of the existing £50,000,000, much less of an extra £50,000,000.

6798. That is the worst of accepting assumptions?—Yes. I accept no such assumption. I am not in favour of the existing £50,000,000.

6799. *Mrs. Wootton*: I only put that forward as an assumption; I wanted your views if those were the conditions?—If you wanted to get additional revenue for any purpose, Income Tax is the best method, in my judgment; it is superior to a Capital Levy. It would be obtained with less friction and with more certainty.

6800. *Sir William McLintock*: And the machinery is there to do it?—The machinery is there to do it.

6801. *Mr. Bell*: And it is more equitable?—And more equitable, and if you want to tax particular people, owners of property, for instance, rather than professional persons, again you can do it by a discriminating Income Tax, using the existing machinery. Capital Levy appears to me to have other disadvantages. (*Paragraphs* **18** *to* **26** *read.*)

6802. *Mr. Bell*: In paragraph **25** are you speaking merely of the inflation of currency?—Any inflation.

6803. Do you not take the view that these great issues of War securities were an inflation? — Yes, but they were inflation caused by loans from the Bank of England.

6804. Then would cutting them down be deflation?—You could not cut them down without repaying loans to the Bank of England. I am only dealing here with how deflation is effected. Inflation is

effected by loans from the Bank of England; deflation is effected by paying them off.

6805. Is there not a great deflationary effect in taking £30,000 by way of levy from a man who has got £100,000 of War Loan, which he is employing as collateral in his business and in other ways?—No, there is no inflation or deflation in that. Inflation and deflation arise by the action of the Bank of England.

6806. I know your thesis; I agree about that. I am only saying, that, in the general view of many people a great deflationary effect would be caused by taking from a man, who has £100,000 of War Loan which he is using in business, £30,000 of it for a levy. Is not that deflation?—In my understanding of the words "deflation" and "inflation" it would not be deflation.

6807. *Sir Josiah Stamp*: Would there be a reduced basis of credit in the hands of individuals?—Not necessarily. There might or might not be.

6808. *Mr. Bell*: Surely there would. Supposing the Government take from me £30,000 out of my £100,000 of War Loan and destroy it, is not my power to spend and to work deflated?—No, not deflated.

6809. Surely?—Why? You are a creditor and the Government is a debtor. You have let the Government off their debt. Where is the deflation? Let us get rid of the notion of the Government. If you owe me £100 and I say to you: "I will let you off," there is no deflation or inflation.

6810. But I do not owe you £100. I do not owe the Government anything. The Government suddenly comes down upon me?—The Government owes you. You have your War Loan, that is to say the Government owes you £100, and we will suppose they take it from you, or you voluntarily say to the Government: "I will let you off that debt," would that be inflation or deflation?

6811. Yes; to that extent my income would be less.—But the Government would be so much better off. It is only a transfer as between a debtor and a creditor. Leave out the Government and take any creditor and debtor; it does not matter whether it is the Government and the taxpayer, or who it may be. Take it as a relation between any two persons, one a creditor and the other a debtor. A cancellation of that debt cannot be inflation or deflation.

6812. You are putting the problem wrongly. The Government owes me and has expressed in a certificate a certain sum of money, which I am putting at £100,000. On that £100,000 I am able to borrow from banks and trade upon the money so raised. If you take that from me—the debt which you owe to me—by an arbitrary act of the Capital Levy, I have much less power to carry on business in future, and to that extent there is deflation?—Yes, you have less power to carry on business.

6813. That is all I want?—No, it is not. The individual power to carry on business does not make inflation or deflation.

6814. You are taking merely a very narrow meaning of the word "deflation"?—I am taking the ordinary meaning of the word.

6815. *Sir Josiah Stamp*: Is not the reconciliation really of the two aspects of inflation and deflation that any such deflationary action as Mr. Bell is talking about cannot have its full effect until it has had its effect in the way that you indicate through the Bank of England—that the two things are inevitable; they go together?—No, in my opinion they do not necessarily go together.

6816. Have you followed the suggestions and articles of Mr. Paine on this point?—I have not.

6817. He takes a very extreme view. He took the view at one time that the whole £3,000,000,000 would be deflation, but under the pressure of cross-examination that figure has been reduced and it is now a question of whether £1,000,000,000 of it would be deflationary; but I think he would agree that its final effect would be through loans of the Bank of England.—That is all it can be. You cannot get inflation or deflation except through the Bank of England.

6818. It will show itself there?—It will show itself there, and that is the only point where it does.

6819. *Mr. Bell*: But my point is that there is a real deflationary influence upon me and my spending power in this way, and my capacity to borrow for the purpose of my trade, when you take from me part of my £100,000 of securities and cancel it?—The State owes you £100,000, forcibly cancels £20,000 of that debt and then owes you only £80,000. But the State thereby has relieved the individual taxpayers of the liability to find £20,000. They were your debtors to the amount of £100,000, and they are no longer your debtors to £100,000; they are only your debtors to £80,000. Whatever you have suffered, they have gained.

6820. I am not talking about the other fellow; I am talking about myself.—But we are not dealing with inflation and deflation as applied to the individual.

6821. But I am?—But there is no such thing as individual inflation and deflation.

6822. *Professor Hall*: Is there not a difference between the contraction of the power of the individual to borrow, and deflation? Deflation is general; the power to borrow is individual?—Certainly. You have a condition of inflation in your currency and general credit when the value of the currency is depreciated and the volume of your general credit is increased. The fact that an individual has got less power to do trade and somebody else has got a correspondingly increased power, is not the same thing.

6823. *Sir Josiah Stamp*: Who has an increased power?—The State as a whole, the individual taxpayer.

6824. But no individual taxpayer can come to the bank and say: "I want an advance; I have no scrip, but I have less tax-paying to do than I had." Nor could another man say: "I am sorry, but I have less collateral," and then borrow as before?—You are in the same difficulty that Mr. Lees-Smith is. He desired a quantitative explanation of these things. It happens all the same; your taxpayers are relieved of 1s. in the £ Income Tax and they will collectively have more power of borrowing from the banks, though I cannot put my finger on A.B. and say that he borrows more.

6825. Your right answer then with regard to the man who has restricted collateral is that it is quite true that the lending to that man may be less, but the general lending to other people who have less taxes to pay will be more?—Yes.

6826. It seems to me that must depend on the practice of banking—whether in fact they would lend more. We can see on the one hand they would lend less; but they in fact will not lend more to the general community because they are paying less tax?—The banks can always lend all the money they have got, and a good deal more. They have no difficulty at all in lending. The limitation to their lending is their proportionate cash reserves. The amount of their cash reserves depends upon the Bank of England, and if the Bank of England increases the amount of money, banks lend more; if the Bank of England reduces the amount of money, banks lend less.

6827. *Mr. Bell*: Let us get at this question of deflation and inflation. Deflation I take to be a reduction of trading capacity. Do you rule that out as a wrong definition of deflation?—I regard deflation as a diminution of the quantity of spendable money, assuming that the amount of goods available for sale remains constant.

6828. *Sir Josiah Stamp*: Money includes bank credit?—Money includes bank credit. Deflation is a reduction in the quantity of spendable money; inflation is an increase in the quantity of spendable money. Deflation lowers prices; inflation increases prices.

6829. *Mr. Bell*: Then you have deflated my powers in both those things if you take away from me my capital.—The individual power of spending; but I am dealing with the total.

6830. I am dealing with the individual?—You cannot speak of an individual having deflated power.

6831. I think you can?—I should prefer to call it a reduced power; otherwise we get confusion in the language we use.

6832. I quite agree, as long as we mean the same thing; but there would be a reduction comparable at all events to a deflationary effect if you take from me any of my capital?—No, there would be no deflationary effect. You as an individual would have a reduced power of spending, but the rest of the community would have an increased power of spending, and the total amount of spending power would remain constant.

6833. *Sir Josiah Stamp*: I suggest to you there is a very important difference of quality, of lag of time. The first thing that would happen would be that an instruction would go out to all the bank managers to revise their loans on collateral. From the point of view of large taxpayers, there would be an immediate reduction of the amount that could be lent to a considerable number of people. That would mean that the banks would have a less amount to lend out, and the demands on the Bank of England would be smaller?—No.

6834. The power to lend more to the general taxpayer is a thing that would only gradually manifest itself?—No. What would happen would be this. If the banks wished to reduce their loans, they could not call them up immediately; they would mark down the various people whose collateral was going to be reduced, and as those accounts were diminished they would keep them to the reduced limits. But the banks would immediately use their money either by buying bills on the market or by investment. They would not keep their money idle because they were not lending it to people who paid the Capital Levy.

6835. *Mr. Bell*: It is a mere definition of the word "deflation." If a great accepting house had a very large amount of its capital taken from it by means of a levy and therefore would accept much less largely because the firm felt they ought not to accept as largely with a reduced capital as they did with a larger capital, would you not call that deflationary?—No. That firm would be doing less business, but whether it resulted in inflation or deflation would depend upon other matters.

6836. You are thinking of the currency?—Yes, that is one of the elements.

6837. I quite accept your use of the word, but in the sense that I mean, there would be a great restriction?—In that form, yes.

Chairman: Thank you very much.

(The Witness withdrew.)

(Adjourned for a short time.)

Dr. HUGH DALTON, M.P. (Sir Ernest Cassel Reader in Commerce in the University of London) called and examined.

EVIDENCE-IN-CHIEF handed in by Dr. DALTON (in reply to the Committee's questions regarding a Capital Levy, printed on page 683).

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

1. In my previous evidence to the Committee I have stated my opinion regarding the evil effects of the National Debt and the reasons why I favour the rapid clearance of a large part of this burden. I consider that a Capital Levy is the best instrument available for effecting such a clearance. The risk of a fall in prices, which would increase the real burden of the debt, is an additional argument for the levy. Neither I, nor anyone else, can accurately estimate this risk, but there can be no doubt that it exists. If a sufficient number of rich men and institutions would follow Mr. Baldwin's war-time example and voluntarily surrender a large part of their wealth for debt redemption, the need for a compulsory levy would disappear. But I regret to observe no signs, as yet, of such a spirit of voluntary renunciation.

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

2. (Section 1).—The suggestions made by the Labour Party appear to me to fall into two classes. Some are of the essence of any successful scheme. Others are tentative and open to amendment in detail.

(*a*) I regard this as an essential condition.

(*b*) A valuation of "brain capital" seems impracticable, but there is a good deal to be said, from the point of view of equity, for an additional tax, for a term of years, on large earned incomes. The proceeds of such a tax should be earmarked, like the levy, for debt reduction.

(*c*) I attach considerable importance, on administrative grounds, to an exemption limit of £5,000, or thereabouts, but I have quite an open mind as to the detailed graduation of the scale above this point.

(*d*) I should regard a gross yield of £2,000,000,000 as the minimum for which it would be worth while to impose the levy, and I doubt whether it would be practical politics to aim higher than about £4,000,000,000. I should be fairly well content with £3,000,000,000, but should be glad, in the public interest, to obtain more.

(*e*) I think both alternatives should be left open, though I should favour applying the greater part of the saving to tax reduction.

3. (Section 2) (*as to reduction of Sinking Fund after levy*).—I should be prepared to suspend the Sinking Fund altogether for the first few years after the imposition of the levy. But the clearance of the residue of the debt within a reasonable time is the best guarantee against a demand for the repetition of the levy and I should favour the creation of a fully cumulative Sinking Fund for this purpose. Such a Sinking Fund might, perhaps, reasonably start at a lower initial figure than £50,000,000. But this figure should depend upon the magnitude of the debt still outstanding.

4. (Section 3) (*as to changes in taxation after levy*).—A reduction of Income Tax and food taxes.

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

5. The main argument from equity turns on the fact that those who fought in the War are now heavily taxed to provide interest for those who stayed at home and, in many cases, made large fortunes out of the war-time necessities of their country. I share the opinion, which is widely held, that this is grossly inequitable. One of the chief advantages of the Capital Levy, from the point of view of equity, is that the greater part of it would be paid by elderly men, who did not fight in the War but were richer at the end of it than at the beginning.

Answer to Question 4 (*as to guarantee against repetition, etc.*).

6. It would undoubtedly have been better, if a Capital Levy had been imposed immediately after the Armistice. (It would have been better still if the War had been financed more by taxation and less by loans and inflation). But the case for the levy depends on the magnitude of the debt, and since the lapse of time has not markedly diminished the debt, it has not markedly weakened the case for the levy. As stated above, the best guarantee against repetition is the rapid reduction of the debt. The present generation of politicians can pledge themselves against repetition and, if a levy of reasonably drastic dimensions is agreed to, should do so. But they cannot pledge their successors, or the public generally.

Answer to Question 5 (*as to effects on trade and industry*).

7. If all men, including newspaper proprietors, were both clear-headed and public spirited, and if the detailed provisions of the levy were such as to prevent hardship and financial embarrassment in abnormal cases (*e.g.*, cases where practically the whole of a man's capital was locked up in a private business), I believe that the immediate effects of the levy on trade would be very slight and the subsequent effects, when account is taken of reduced taxation, &c., distinctly beneficial. If, however, we are to assume that irrational panic will arise, either from widespread ignorance among those affected or from deliberate press campaigns engineered by ill-disposed persons, the immediate effects may be somewhat damaging, though the subsequent effects, when the panic has spent itself, will remain beneficial. It is not to be inferred that those who support the levy should capitulate before the threat of panic or of organised opposition, but rather that they should aim at the better education of public opinion and the conversion of opponents.

8. In view of the tendency to cyclical fluctuations of trade, which are due in part to successive waves of miscalculation among business men, who alternate between excessive hopefulness and excessive gloom, there is a strong case for imposing the levy in the earlier stages of a trade boom. It would thus act as a curb upon the boom and, by preventing it from going too far, would mitigate the severity of the ensuing slump. This argument suggests that an excellent occasion was missed shortly after the Armistice and that another excellent occasion may soon arise.

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

9. Assuming general reasonableness, friction and dislocation as a result of the levy need only be slight and, even assuming unreasonableness, would be transitory. But "friction and dislocation" is not a phrase which adequately describes the evil effects of annual taxation.

Answer to Question 7 (*as to effects on employment*).

10. Assuming that steps are taken to safeguard private businesses from sudden shock and to prevent a sharp fall in the price level, the immediate effect of the levy on employment should be negligible. If its imposition was well timed in relation to the trade cycle (see answer to Question 5), it would steady trade and, therefore, reduce the average of unemployment over a period of years.

Answer to Question 8 (*as to effects on distribution of wealth*).

11. Broadly, it would lessen inequality. But much depends upon the scale of graduation of the levy and the subsequent reductions in taxation, and increases, if any, in social expenditure.

Answer to Question 9 (*as to effects on future savings*).

12. I do not attach much weight to the suggestion that, after a levy, saving would be checked by the fear of its repetition. The fear of repetition would not, I think, be so strong as the fear of imposition is now.

13. I am in general agreement with the following statement by Mr. W. L. Hichens (*Observer*, February 8th, 1920):—

> "The fear that a Capital Levy would discourage saving is, in my view, unwarranted. I believe it would have precisely the opposite effect. A high Income Tax does far more, in my opinion, to discourage saving, than any other form of taxation. One continually hears it said that it is not worth while saving when half the interest goes in taxation, and that it is better, in such circumstances, to spend one's money on a diamond necklace or some other form of luxury. If as a result of a Capital Levy the Income Tax should be reduced, the inducement to save would, I think, be increased."

Answer to Question 10 (*as to effects on national credit at home and abroad*).

14. Beneficial. The supply of gilt-edged securities being reduced, their price would tend to rise.

Answer to Question 11 (*as to effects on sale of securities*).

15. No. Even if the levy was paid mainly in cash, the demand of those paid off would balance the offer of those realising. I contemplate, however, that the bulk of the payments would be made by handing over securities, without the necessity for their sale.

Answer to Question 12 (*as to extent of deflation involved by levy*).

16. I take "deflation" to mean a reduction in the general price level owing to monetary influences. If the levy tended to cause deflation, such a tendency could be checked by introducing a corresponding degree of inflation. To determine whether, in fact, there would be any tendency towards deflation, we must make some assumption as to monetary policy. Under a gold standard, our price level would be linked to that of the United States and a fall in prices here would be automatically checked by a favourable movement of the New York exchange and an inflow of gold. Under a managed paper standard, aiming at stability of prices, the check to a fall in prices would be in our own hands, without reference to America. The psychological effect of a levy, if imposed in the early stages of a trade boom, would be, not so much to cause deflation, as to prevent inflation.

Answer to Question 13 (*as to net annual saving effected by levy*).

17. Even if there were no net annual saving, there would still be certain advantages from the levy. For

(*a*) it would lessen the risk of a large increase in the real burden of debt, through a fall in prices;

(*b*) it would tend to raise British credit, and hence to facilitate conversion operations by reducing the supply of gilt-edged securities;

(*c*) it would lower the marginal rates of taxation on the larger incomes and estates (since these, being diminished in size, would be less heavily taxed even under the existing graduated scales), and hence any discouragement to work and saving due to these high marginal rates would be diminished;

(*d*) it would allow of some reduction of taxation through the temporary suspension of the Sinking Fund and its subsequent re-establishment at a lower figure than before;

(*e*) it would do something to satisfy that section of public opinion, which resents the continued existence of War debt on the present scale.

(*f*) it would do something to simplify an artificial situation.

18. In fact, however, some net annual saving is certain, though its precise amount is uncertain and depends upon the scale of levy adopted. Assuming the Labour Party scale, I estimated in 1923 (see my *Capital Levy Explained*, pp. 80-85) that a net annual saving of £70,000,000 a year might be anticipated. This estimate, of course, took no account of reductions in the Sinking Fund. In the same book I explained that all such estimates by persons without inside knowledge must be tentative and provisional, owing to the inadequacy of the published statistical data. Appreciation of capital values and new saving since 1923 have operated to raise both the yield of the levy, on any particular scale, and also the net annual saving which may be anticipated. The only estimates to which I should be inclined to attach much weight would be those prepared by officials of the Treasury and Inland Revenue, having access to unpublished information regarding the distribution of wealth, &c. I assume that the Committee will have caused such authoritative estimates to be prepared, and I hope that several alternative scales of levy will have been taken into consideration.

ANSWER TO QUESTION 14.

19. (Section *a*) (*as to methods of valuation*).—As for Estate Duty.

20. (Section *b*) (*as to finality of valuations*).—Yes, But I hope that all possible steps would be taken to keep prices steady during the next few years after the imposition of the levy.

Uncertainty as to the date of death is part of the price of mortality. In connection with the levy, as in connection with other economic events, premature (or post-mature) death will disturb expectations.

21. (Section *c*) (*as to method of payment*).—(1) (*in cash*). To a very small extent, except where payment by instalments was permitted;

(2) (*a*) and (*b*) (*in War Loan and other Stock Exchange securities*). I anticipate that the great bulk of the levy would be thus paid; (*c*) (*in other forms*) to a very small extent.

22. (Section *d*) (*as to payment by private businesses*). Where a person, liable to the levy, had nearly all his capital invested in a private business, and had insufficient other means of payment (cash, War Loan or other acceptable securities) to meet his liability promptly, payment by instalments should be permitted. Such cases are shown by the Inland Revenue Commissioners' classification of property liable to Estate Duty to be comparatively unimportant.

23. (Sections *e* and *f*) (*as to extent of payment by instalments*).—Payment by instalments might also be permitted to life tenants under a settlement, where these could show their inability to meet their liability forthwith. Generally, if not universally, liability should be based on initial valuations. If any subsequent modifications were allowed, they should be confined within the narrowest possible limits.

24. (Section *g*) (*as to order of debt repayment etc.*).—I do not advocate that powers should be taken compulsorily to redeem debt before maturity. In general, repayment of maturing debt, including Floating Debt, should take priority over purchase in the market. There would, of course, be some purchase in the market, the general effect of which would be to improve the national credit and facilitate conversion.

ANSWER TO QUESTION 15 (*additional points*).

25. It is sometimes said that a levy would "take money earning a high rate of interest in industry and use it to pay off debt at a lower rate of interest," and it is suggested that this is an uneconomic operation. This argument appears to be based on a misunderstanding. Some industrial shares would change hands, but this would not affect the earning power of the companies. Where payment by instalments was permitted, payments would be made out of income.

6838: *Chairman*: Will you read your paper, and then questions will be put on each paragraph by members of the Committee?—(*Paragraph* 1 *read.*)

6839. *Sir Josiah Stamp*: Is that expression of regret real regret on your part?—Quite real.

6840. You would not really expect that people were going to surrender part of their wealth, would you, unless everyone else did the same?—No; I was assuming the possibility of some kind of concerted movement. It depends on the state of public opinion, clearly.

6841. *Chairman*: Would professional men have to give up three months of their year to the State?—You mean in respect of my hint at a voluntary levy. There again I wanted to leave it quite vague. My feeling simply is that there was a chance at one time that Mr. Baldwin's very notable example would be followed on a large scale, and that evidently would have eased our problem very much, had it been done. It is difficult to lay down precise rules, but if public opinion among wealthy people had been along that line, it might have been done.

6842. *Sir Josiah Stamp*: It is one thing to praise a thing that has been done virtuously, and another thing to regret that everybody is not doing something that one would hardly expect would be done. It is the word "regret" I am referring to?—I do not want you to read too much into the word "regret." I do not want to read moral censure into it at all. But I do literally regret it, in the sense that if it had been possible at the time when Mr. Baldwin took the lead, that other people should have followed it, the problem we are dealing with now would have been very much easier.

6843. If you had said it was praiseworthy, I could have followed you.—It is only a question of emphasis.

6844. But I suggest it savours a little of cant.—I am sorry that it has so struck you.

6845. *Professor Hall*: How far do you think the acceptance of a Capital Levy in a good spirit—a spirit of willingness to meet the demands of the State—would be likely to affect the successful working out of the scheme?—Very greatly.

6846. But you would not say that opposition to a levy would be a good reason for not adopting it?—No. I should say that it is clearly better to get voluntary co-operation. But it is not usually accepted that, if a minority is opposed to a law that has been passed, that law should not be enforced. That has never been a principle of our public policy, and I do not think it should be in respect of the Capital Levy.

6847. You do not think that the difference of spirit would have any really serious effect on the working out of the policy you recommend?—I have said later that, if there really is going to be organised opposition, it will make it more difficult to carry out a levy; but it will not, in my view, make it impossible nor undesirable, if on other grounds it is desirable.

6848. *Mr. Hichens*: As a matter of fact, really big reforms are seldom carried out, are they, unless there is a large public opinion in favour of them? Would you not say that most of the big reforms, for instance, in regard to the franchise, were carried by the Tory Party generally?—I cannot charge my memory with the details of the cases. Many clearly were. The last one, in 1918, was carried by agreement between the three parties.

6849. On big measures like that, do you not generally have to get some agreement of that sort?—I remember that Harcourt's Death Duties, which were very important in the development of our public finance, were carried by a very small majority in

the House of Commons, against very passionate opposition. That is a closer analogy to this.

6850. *Sir Josiah Stamp*: You are not thinking so much of the majority in the House of Commons, are you, as of the majority of public opinion?—That is so.

6851. *Mr. Hichens*: I was merely thinking that for an important measure, if it were to be successful, one would expect to get a largely preponderant public opinion in favour of it, because goodwill would be required in working things out?—It would be very greatly facilitated by good will, but I cannot admit that it would be rendered impossible by the mere opposition of sectional ill will.

6852. *Sir Josiah Stamp*: Would you draw a parallel between a levy and the Land Value Duties? Do you regard this as more difficult administratively than the Land Value Duties?—I would hesitate to express an opinion upon that, because I have not studied in very great detail the administrative problem of the Land Value Duties. I did form the view that they were unduly complicated in the provisions of the 1909 Finance Act. That is another issue, perhaps; but I think that, if they had not been hung up in the Courts, largely as a result of ambiguous drafting, a lot of revenue could have been got which was not in fact got.

6853. Do you not think that any tax, however drafted, would fail if it met with the amount of organised opposition point by point in the Courts, that that tax did?—Yes; but opposition point by point in the Courts is only possible with a badly drafted Statute. I do not want to go off too much into this question of Land Value Duties, but my recollection—I have not read it up lately—is that there were gross ambiguities in the clauses of the Finance Act imposing the duties, that the Judges themselves frequently differed as to what the Act meant, and certainly the interpretations of the Judges were quite different from the interpretations of Mr. Lloyd George in the House of Commons when the Bill was going through and he was accepting amendments.

6854. Does that not apply in all legislation connected with real property? There is an example, I think, in the public reception given to those duties as compared with the Excess Profits Duty in regard to questions of practicability and impracticability, and the amount of opposition that there was?—The less organised opposition there is, the more practicable it is. But if we are going to pronounce a thing impracticable on the ground that some people do not like it and will not assist in carrying out the law, that seems to me a very dangerous principle—to say that because a certain section of people do not like a law which has been passed, therefore it should not be carried out.

6855. I only go so far as to say that a section of the people will not oppose what is the considered opinion of a large body—the point with which Mr Hichens started. *Mr. Hichens*: What I want is to know your view as to whether, in any country, legislation must not be to a large extent a matter of compromise; that you must ascertain the strength of the opposition before you determine whether it is expedient to pass a measure or not. In a case of this sort, for instance, it is not necessarily so much a matter of moral turpitude or rectitude, as a case of what is most expedient; and what is most expedient must depend largely on the goodwill of the people concerned. Therefore, if that is so, it would be a factor of very considerable importance if the people who were going to pay this tax were almost unanimous in saying: "We recognise that the bill has got to be footed, but we would very much rather do it through Income Tax than through a Capital Levy". That would require, just for that reason, very serious consideration, would it not?—(*Witness*) Yes; I think that if the people, or those representing the people, who would have to pay the Capital Levy, were to come forward and say: "We do not like the Capital Levy; we would much prefer high annual taxation", and by annual taxation meant taxing high enough to provide a Sinking Fund of say £100,000,000 a year, with some cumulative element in it such as I suggested in my last evidence—that would be a matter worth very serious consideration. But that is not a contingency which has ever yet arisen. The kind of thing that we have now is not an expression of willingness to stand higher annual taxation for the purpose of reducing the debt; it is a demand for lower annual taxation irrespective of the debt.

6856. But there are many people, are there not, who say: "We are prepared to face a Sinking Fund of £50,000,000 a year", which is something quite unprecedented in the annals of this country?—Not relatively to the amount of the debt to be paid off.

6857. I do not know. Is it not large relatively to the Sinking Fund immediately after the Napoleonic Wars, seeing that the Sinking Fund was nil at that time?—I agree, but it is not large relatively to the Sinking Fund pre-war, when from 1906 onwards we were paying off debt at a much more rapid rate.

6858. But you would agree there is something in the argument that, just as after the Napoleonic Wars people were given time to recuperate before the Sinking Fund became operative to its full extent, so after this crushing war you must give Europe time to settle down and our trade time to settle down before you determine the ultimate extent of your Sinking Fund; and I suggest that if you put on £50,000,000 for a start, it is arguable on that analogy that you have done a good deal?—Yes. But I take the view, for reasons that I do not want to repeat now because we had them fairly out on my first appearance before you, that the debt is doing great damage all the time. We did not quite agree about that, but given that I take that view, as I honestly do, I do not feel that it is safe or reasonable to postpone too long—in fact I think we have already postponed too long—a more vigorous policy with regard to debt reduction. But I should like to repeat that if the situation were, what hitherto it has not been, a real offer from those who can speak for what we may roughly call wealthy people—I am not using that phrase in any invidious sense at all—if the wealthy people were really to come forward and say: "We do feel this debt has got to be cleared off; we do not like this Capital Levy; we object to it on all sorts of grounds; but we are prepared to stand a heavier Super-tax, heavier Death Duties, heavier annual taxation of other kinds", I think that would shift the basis of the discussion on to new ground; but up to the present that course has not been taken.

6859. Mrs. Wootton, for instance, put a question to Mr. McKenna, who was here this morning, as to which he would prefer—a Capital Levy or another 1s. on the Income Tax. *Mrs. Wootton*: Assuming that the net yield was the same. *Mr. Hichens*: Assuming that the net yield was, say, £50,000,000. Mr. McKenna said that he would prefer the 1s. Income Tax, under those conditions. If that was the general feeling of those who had to pay, you would respect it, would you not?—(*Witness*) I would certainly take it into account.

6860. As an important factor?—Yes, not necessarily as a decisive factor, but as an important factor. (*Paragraph 2 read.*)

6861. *Sir Charles Addis*: At what point of income do you suggest that the additional tax on "brain capital" should come into play?—I do not make any precise suggestion on that; I merely am somewhat impressed by the argument from equity; that if you are going to take something off an elderly person, say, with £5,000 or just above £5,000 of savings and no earned income then in the case of a man with a large earned income—such a case as a leading counsel at the Bar, and so forth, who perhaps has not got a large capital, but who has a very large earned income—it is perhaps a little inequitable that he should contribute nothing. But I cannot imagine a capital valuation of earning power that will really be satisfactory. It seems to me, that if you are impressed by that point of equity, as I am to a certain extent, you have to tackle it on the lines of a supplementary Income Tax for a term of years.

6862. *Sir Josiah Stamp*: Could you actually approach it from the point of view of capacity? After all, there is probably as much capital invested in the unsuccessful barrister, or the man who is humble in his profession, as in a leader at the Bar, and if both of them have had, in their University education and in the long period waiting for briefs, £5,000 invested in them, why not tax that £5,000 on that basis, say, £250 a year?—I do not think that would work well at all. We speak in a general way about "ability to pay"; however you define that more precisely, you clearly have to take some account of the man's earning power as indicated by what he earns.

6863. *Mr. Hichens*: According to Mr. A. M. Samuel, every boy and every girl that is born into the world alive has £400 of capital spent upon him or her. Therefore on your suggestion, I suppose you would assess everybody on that amount.—*Sir Josiah Stamp*: You are trying to bridge by analogy the gap between the man with capital and the man who has only got earning power. I ask, can you carry your bridge further as between the two professional men?—(*Witness*): I doubt whether you can; I doubt whether I can, at any rate.

6864. If you had a just tax, should the man who is earning £5,000 a year at the Bar pay at the same rate upon a certain surplus of his income as a man earning £20,000? That is my point. It is a question of graduation?—I should look to see some progression in the rate of such a tax. After all, if you have two people drawing very unequal incomes from investment, it may be that they both started at the same level, but one has invested wisely and much and the other has invested foolishly or spent up to the limit and saved nothing. I think when it comes to taxing those two men, you have to take account of the different uses they have made of the same opportunities, and to stress the difference in use rather than the equality of opportunity.

6865. *Sir Charles Addis*: My question really was directed to another point on which I wanted to get your opinion. It has been represented to us that an additional tax, such as you refer to here, would be unsatisfactory, since one at least of the main objects of the levy is to render possible a reduction of rates upon marginal work and marginal saving. Since the yield would be comparatively small and the technical difficulties great, doubt has been expressed as to whether such a tax would be really worth while. Have you any comments to make upon that?—Clearly, if you put on such a tax for a term of years, the people liable to it would not, during that term of years, get a reduction in their marginal rates of tax. They would be put on much the same footing as people paying the levy in respect of material capital under the instalment system, the man who has capital in a private business, and so on. Clearly they will not get the full advantage of reduced taxation, whatever that full advantage may turn out to be, until the period of payment of the special tax has elapsed.

6866. Do you regard that as a serious objection to the tax or not?—Not, I think, a serious objection. I should not like the term of years to be too long. It is a matter of degree very largely. If you impose such a special tax for five years, they would see daylight at the end of the tunnel. Anticipation as to future rates of tax has a great bearing on one's present activities.

6867. *Sir Josiah Stamp*: They might see daylight, but they might get choked in the meantime. *Mr. Hichens*: Or the daylight might disappear; the margin might fall?—(*Witness*): I have only introduced this paragraph 2 (*b*) tentatively. I consider that there is a good deal to be said for such an additional tax, as a concession to equity, but I think that equity ultimately has to take the second place. I do not mean that you should do anything that is widely thought to be inequitable, but ultimately you have to consider economy rather than equity, as Professor Cannan has put it.

6868. *Sir Charles Addis*: To pass on to sub-paragraph (*d*), have you made any estimate of the proceeds of a levy on the scale suggested by the Labour Party? It has been suggested that at present values the yield would be considerably in excess of £3,000,000,000. What is your view upon that?—I did make an estimate, which I refer to later in my evidence. I do not want, however, to attach undue weight to my own estimate, nor, with great respect to Sir Josiah Stamp and other people, do I attach very great weight to any of the estimates which were made before the getting up of this Committee; because I think they have all been made by people who were conscious of not having full information. But I think we are now, for the first time, in a position to get really accurate estimates prepared by the Inland Revenue and the Treasury.

6869. That is to say, an estimate of the proceeds of a levy on the scale adopted by the Labour Party?—Yes, or on any other scale.

6870. I should like to confine it to the scale of the Labour Party, if you would begin with that?—Yes, but I shall decline to be wholly confined to it, because, as I say under paragraph (*c*) I have quite an open mind as to how the scale ought to be graduated, and the scale which is commonly called the Labour Party's scale was only put forward as a broad illustration. I do not think any members of the Labour Party—I certainly did not—ever pledged themselves at all tightly to the details of that scale. It was really for rough illustrative purposes.

6871. My questions for the moment are not at all directed to the merits of the scale, but to the results of it?—Taking the scale as it stands, I did work out in my little book on the Capital Levy a yield of about £3,100,000,000, but it is only right to explain that in that estimate is included a certain element for interest on deferred payments where persons were allowed to pay by instalments and also for interest obtained by the Government on approved securities other than War Loan handed over in payment and held for a while pending realisation. Including those two, and on a number of other assumptions, which are to some extent arbitrary, I got a yield of just under £3,100,000,000. I think Sir Josiah Stamp, on the same scale got a lower estimate and Mr. Pethick-Lawrence tells me (I have not seen his figures) that he got a higher estimate than mine on that same scale, but my estimate, for what it was worth, was £3,066,000,000; that was in 1923.

6872. *Chairman*: What do you estimate would be the saving to the nation if the yield were £3,100,000,000?—All my remarks about estimates of yield apply equally or perhaps even more strongly, to estimates of saving. I am not at all wanting to be a pundit or to pose as being authoritative on this point; I do not think anybody is entitled to do so, but in the estimates I worked out at that time I put the saving at £70,000,000 a year.

6873. *Sir Charles Addis*: Have you taken into account there the recent increase in values?—That estimate was made in 1923. My little book on the subject was written in 1923, and at the present time I should anticipate that, whatever yield was right in 1923, is too low now, because since 1923 there has been on balance an appreciation of capital values, and there has also, one presumes, been a considerable amount of new saving; therefore whatever was right in 1923 is an under estimate now.

6874. The amount ought to be more than £3,000,000,000?—If my estimate was right then, it ought to be more now.

6875. *Sir Josiah Stamp*: As to your suggestion that we are in a position to obtain a better estimate from the Inland Revenue, would their superiority over the outside investigator lie in the use of superior methods or better material?—I was thinking solely of material there

6876. In what respect would they have material that is not available to us?—I may be wrong, but I presume that they have a good deal more material

than is published through the Inland Revenue Commissioners' Reports, about the distribution of capital and income.

6877. Do you mean the grading of capital?—Yes, the distribution of capital and of income.

6878. You know the table of estates?—Yes.

6879. Do you know the table of the Distribution of Total Income assessed to Income Tax and Super-tax in the various grades of income?—That is only given to the public in fairly broad strata. Clearly, to build up the strata they have more detailed information.

6880. But the tables show as many classifications as are needed in dealing with the scale of levy usually put forward. In what way are they in a superior position than, granted their methods are no better than yours?—I did not say their methods are no better than mine. I said the methods were not necessarily superior to those of other people; they might be or they might not be.

6881. In what way are we to expect them to have a real advantage over us if the classifications that they give us for those to be taxed are as detailed as we need?—I doubt whether they are as detailed as we need. With regard to estates we have certain figures given to us about the distribution of estates changing hands through death, but I apprehend that they have a lot of valuable material which is not given to the public about the distribution of estates among the living.

6882. You are aware of Sir Bernard Mallet's work on the multiplier?—Yes, I read it some time ago.

6883. At that time he was in charge of that Department?—What was the date of that?

6884. Just after the War began there was a statement made by him in conjunction with another gentleman?—Yes, in the Statistical Journal.

6885. Both of them were officials of the Inland Revenue and both of them put into it all the work they could. Can you suggest anything further that there can be in the possession of the Inland Revenue that would help on this?—Of course I have no inner knowledge of the Inland Revenue, and your question seems to be designed to suggest that they have not such a wealth of information as I had hoped.

6886. I am only asking you if you can say what would be useful for them to have—and then we will find out afterwards if they have it—to make those estimates which have been put forward more reliable. In what respect do they fall short of the material needed for reliability? If you had said we had only got the published figures for three grades of income and we want 30 I would have said: "Right; let us ask them," but on that point there seems to be sufficient detail. If you had said we have no grading of the Income Tax or no grading of the Estate Duties and we want supplemental information, we could have dealt with it. I want to know what are the desiderata of the problem?—To estimate the yield of the levy you clearly want a pretty close classification of the amounts of wealth held by different persons.

6887. What machinery have they got for getting that? They do not get it by the Super-tax, because that deals only with income?—But a great deal could be inferred from the Super-tax returns, I should have thought, if they were all under one hand.

6888. Do you suggest that the capital value of fortunes should be calculated through the machinery of the Super-tax returns?—I think that is one thing that might very well be done.

6889. How does that help you in the wide field of life interests?—Super-tax returns clearly do not give you a great deal of light with regard to life interests, but they may give you a great deal of light in other directions.

6890. Supposing you had an income from mining properties in South Africa or Bolivia?—You are then met with the difficulty of valuing a wasting asset.

6891. That means more uncertainty?—Yes.

6892. I am only asking you whether you could expect the Inland Revenue to give us a closer *ad hoc* estimate of the yield of the levy than can be derived by outsiders from the material that they provide?—If I were a member of the Committee I should already have asked them whether they were in a position to give this, and I should have asked hoping that they would say yes. As I am not a member of the Committee and I have not had the opportunity of asking, I cannot tell.

6893. We will take that as a hint to the Committee?—Perhaps I may say, in further reply to Sir Josiah Stamp that what I apprehend is this. If you are inside the Inland Revenue you will get a number of streams of information regarding Death Duties, Super-tax, Local Rating, Excess Profits Duty, and so on, and I should have thought that there was quite a considerable scope for correlating all those streams of material that you have got and using them to check and counter-check one another.

6894. If you had said that what we really lack is correlation between the Super-tax statements and the corresponding capital, and the Inland Revenue ought to get at that by a sample investigation, I should have understood that as a tangible suggestion; but there was a sort of vague idea that they had a great superiority of material, and I wanted to see where you thought that really lay?—They have raw material which might be worked up and checked in various alternative ways, so as to give more information than is given in the very excellent reports that the Inland Revenue Commissioners publish year by year. For ordinary annual purposes that is not necessary, but for this special purpose I should have thought the material was capable of further and more fruitful treatment.

6895. *Sir Charles Addis*: I wish to put a general question which might come under paragraph 2 (*e*). I should like to know whether in your opinion the Capital Levy is to be regarded primarily as a means for reduction of the debt or for clearing the way to increased expenditure, especially on social objects?—Primarily for the reduction of debt. Then, as the result of the reduction of debt and a consequential reduction in expenditure greater than the consequential reduction in revenue, whatever that may be, you clearly would have a certain balance, and I have stated in paragraph (*e*) that I think it should be left open as to the precise proportions in which you would allot your balance either to reducing the rates of tax or to expanding social expenditure. I have suggested here that the greater part of the balance should go to reduce taxation, but I am impressed with the urgency of the need for increased social expenditure in various directions, and I should certainly not like to bar out the possibility of expending some part of the balance on that.

6896. *Sir Josiah Stamp*: Before we leave paragraph 2, I should like to refer to sub-paragraph (*c*). Under (*b*) you put something forward on the ground of equity, and then abandon it on the ground of administrative difficulty?—I do not abandon it.

6897. You said it was qualified on the ground of administrative difficulty?—Yes.

6898. Would you apply the same principle to (*c*)? Have you introduced any thought of equity in that? Why should you stop at the limit of £5,000 on the ground of equity?—No, that is not put forward on grounds of equity, but on grounds of economy.

6899. Supposing you are assured that the principles of valuation having been settled, and all the difficulties that can arise, arise in any case on estates over £5,000, and that if you lowered the limit to £1,000 it is merely a matter of clerical staff which would pay for itself, would you then resist a lower limit on administrative grounds?—I should be very much astonished if that statement was made.

6900. I put it forward as a hypothesis and I want to see how far you take equity into account in this?—I do not take it into account at all under (*c*) for the reason that I gave just now, that I think equity should always take a second place to economy.

6901. I am just assuming for the moment that the economy point is met. Where do you stand on the ground for equity then under (*c*)?—If it could really

be shown that it would be economically advantageous, or rather, not economically ruinous to bring it down to £1,000——

6902. If it were merely a matter of additional staff that would pay for itself out of the tax?—If that could be shown, and I do not for one moment believe it could, then I should be prepared to see it go down to £1,000. But I wish it to be emphasised that I do not for a moment believe it could; but if, *per impossibile*, it could, then I would be willing to go down to £1,000.

6903. You would not be influenced at all on political grounds? You remember the widow who has got £75 a year derived from £1,500 of War stock; she is a voter and you have now brought her into the Capital Levy?—I am not quite sure in what capacity I am supposed to answer that question.

6904. *Mr. Lees-Smith*: In fact did not the War Wealth Committee impose a limit of £5,000 on grounds of general practicability?—They did, and it was from there as much as from anywhere else that I derived this figure.

6905. *Mrs. Wootton*: We have two general views of the Capital Levy put before us. One is based on what has been called the toothache argument; that is, that it is better for the people who are bearing the burden of taxation to bear it in a different form —to have their teeth out. The other argument is that it is better to have a Capital Levy because you actually shift the burden, since by means of a levy you will be redistributing wealth, and your taxation will tend to a more equitable distribution. Can we know broadly on which ground you support a Capital Levy?—Partly on both.

6906. Is that possible?—I think so. It is difficult to get a form of words which will carry on the analogy of the toothache. But I think that the total burden will be less and that the lesser burden will be better distributed.

6907. What you do with the saving resulting from a levy evidently affects the matter. On the one argument you give it all back to the people who pay the levy; on the other argument you give it to other people?—I have suggested that you give some of it back to the people who have paid the levy and some of it you give in remission of food taxes to people who have not paid the levy, and you leave it open to use part of it, though the smaller part, in increased social expenditure, which will, on the whole, be to the immediate advantage of people who have not paid the levy, although there is an indirect advantage to those who have.

6908. Do you attach much importance to that argument? Do you think that speaking generally to have a Capital Levy rather than a high annual tax is a more convenient form in which to carry the burden?—I think it depends on psychological considerations and varies from one person to another, but on balance, from what I can judge of the psychology of different people, I should think there is something in the argument. I refer to that in one of my later paragraphs

6909. I was wondering how far that desire to make the burden more bearable on the people who are carrying it weighed with you as compared with the desire to redistribute the burden?—They both weigh with me.

6910. You cannot give me any estimate of their relative proportion?—No. I think any such estimate would be misleading, and I think they are both of distinct importance. (*Paragraph* 3 *read.*)

6911. *Sir Charles Addis*: To suspend the Sinking Fund for a few years would have the effect of reducing the rate of taxation?—Yes.

6912. Would it then be practicable to impose sufficient taxation to secure the Sinking Fund of "a less amount than £50,000,000" or is it your view that reviving industry would itself supply sufficient revenue to cover it?—I am not sure as to that. It is very difficult to prophesy, since the yield of taxes in general depends on the state of trade, the movement of prices, and all sorts of other factors. My feeling is that during the two or three years after the imposition of the levy, while the bulk of it was being collected, it would be reasonable to ease the situation by cutting the Sinking Fund out altogether; and that would mean the possibility of reducing taxation during that period. Then we should have to see how much debt had been cleared or was in reasonable prospect of being cleared, when we had got some idea of how many people were going to pay by instalments, and how long it would take and so on. Then we should have to consider the Sinking Fund policy in the light of the situation as it emerged. I find it very difficult indeed to anticipate. Of course the question of the automatic loss of revenue from the levy is relevant to this. One does not see very clearly, since there are many uncertainties in the subsequent Budget, but I do feel quite strongly that you would have to re-establish a Sinking Fund, though it might be at a lower level than £50,000,000, and that you ought to make it cumulative, as soon as the first period of difficulty in administration had been passed through.

6913. And if necessary you would be prepared to impose additional taxation for that purpose?—Yes, if it were necessary, certainly.

6914. *Mr. Hichens*: If the estimate of the annual saving to be effected by the Capital Levy, £50,000,000, is right, then at the present time and for the next few years at any rate we are doing as much with a Sinking Fund of £50,000,000 as you would do under the Capital Levy scheme, and, provided that after a few years the existing Sinking Fund were increased a bit, financially we should be doing much about the same? Supposing you keep the Sinking Fund on instead of remitting it, and do not have a Capital Levy, you would be in just the same situation as you would be for a few years with the Capital Levy and no Sinking Fund, would you not?—But you are in a very different situation at the end of a few years.

6915. At the end of a few years you might in any case increase your Sinking Fund of £50,000,000?—When I was before the Committee last time I suggested that if we are not to have a Capital Levy we ought to have a Sinking Fund of at least £100,000,000 a year at once.

6916. But why, on your own showing here? I cannot see that?—Surely the consideration for waiving the Sinking Fund for a few years is that we get the levy. If we are not to get that consideration, then there is no ground for waiving the Sinking Fund or indeed for not increasing it.

6917. I thought you said in answer to an earlier question of mine that if those who had to pay preferred the Sinking Fund arrangement, or an annual payment, to a Capital Levy, their view would at least have to have very serious consideration?—Yes, but I was very careful to explain that what would have serious consideration would be an offer on behalf of the wealthier people to submit to higher rates of annual taxation than at present, in order to enable the present Sinking Fund of £50,000,000 to be raised to £100,000,000. But there would be no consideration for waiving the levy in saying they would like to go on as they are.

6918. But the payers would say: "We are prepared to continue paying this £50,000,000 a year," which you suggest remitting under this clause?—I suggest remitting it for a few years on the condition that you are able to wipe out a large amount of the debt by the levy.

6919. Then if at the end of that time an additional Sinking Fund were put on of perhaps a less amount than £50,000,000, you would be contented, I gather? —If I get the levy now.

6920. No, without it. If the £50,000,000 was continued for a few years on the existing basis and at the end of that time there was the same increase in the Sinking Fund as you postulate—you talked of something less than £50,000,000 as being imposed after a few years?—I guarded myself there, I hope you will notice. I said it might perhaps be reasonably started at a lower initial figure. It would depend

on the magnitude of the debt outstanding. If we were to have a Capital Levy and if it turned out that the yield of whatever scale was adopted was less than was thought, then I am not sure that I should feel prepared to support less than a £50,000,000 Sinking Fund. In other words, I feel that a figure of less than £50,000,000 Sinking Fund after this transition period depends upon really having got a satisfactory yield out of the levy, on whatever scale it is imposed.

6921. You have *ex hypothesi* got your £50,000,000 a year?—You mean the saving?

6922. Yes, the saving or the substituted Sinking Fund. That is the first stage. You have said we must have a Capital Levy or a substituted Sinking Fund. Suppose a substituted Sinking Fund is chosen. At the end of a certain term of years it is a question of how much it is desirable to put on, and you suggested that it should be something under £50,000,000, I gather; I was wondering whether perhaps £25,000,000 more would meet your point, and whether an ultimate Sinking Fund of £75,000,000 might not do all that is in your mind?—You will notice that I say the subsequent Sinking Fund must be fully cumulative; that is to say, it must go up each year by the amount of the interest saved, in my judgment. I have dealt with that point before. I am anxious not to take up the time of the Committee by repeating things that I have said before. When I was before you last time I gave certain arguments in favour of a fully, or at any rate a partly, cumulative Sinking Fund as a possible alternative to the levy. It is not to be thought of as just £75,000,000 or whatever the figure may be, but it is to be thought of as a Sinking Fund starting perhaps at that figure and rising fairly rapidly as the debt is reduced.

6923. *Mrs. Wootton*: Has what you say in paragraph 17 any bearing on this point? You indicate there certain advantages which would result from the reduction of the debt even if there were no net annual saving. In the proposition put by Mr. Hichens, during the few years the Sinking Fund is suspended you are financially in the same position; you are getting £50,000,000 a year net saving out of your levy, and you have given up £50,000,000 a year Sinking Fund, but you have also on the plus side, have you not, these factors that you mention in paragraph 17?—Yes. I do not want to be referring too much in answering questions to later paragraphs, but that is so. I do think that there are certain advantages in having a Capital Levy over and above anything represented by the net annual saving in the sense in which Sir Josiah Stamp and other people have used that phrase.

6924. *Sir William McLintock*: Assuming there are many disadvantages which flow from a Capital Levy the position Mr. Hichens suggests is perfectly simple, as I understand it. On the assumption that the saving after the levy will be £50,000,000, and that the new Sinking Fund is, say, £25,000,000, Mr. Hichens' suggestion is to go right on from now with the existing Sinking Fund plus an addition of £25,000,000. Does that not commend itself to you?—Does Mr. Hichens propose that that should be cumulative?

6925. *Mr. Hichens*: Yes. I really wanted to know your mind on that point?—There are certain advantages in clearing the debt rapidly. That is a point that I refer to later on; Mrs. Wootton has referred to the paragraph. If I begin speaking in detail about paragraph 17, I may confuse the procedure. I am in your hands, Mr. Chairman. *Chairman*: We will deal with that when we come to paragraph 17.

6926. *Professor Hall*: During the years in which the Sinking Fund is suspended, do you anticipate the remission of taxation?—Yes.

6927. That would be a benefit to the Income Tax payers who have not necessarily borne any portion of the levy?—It would.

6928. When the Sinking Fund recommences would you find it necessary to reintroduce taxation in order to raise that Sinking Fund?—In reply to Sir Charles Addis I thought there were so many uncertainties in the situation that it is very difficult to say. I think probably you would. It would mean that there was an immediate remission while your Sinking Fund was suspended, but of course there are all sorts of other factors in the Budget. It might be that during that period you would be able to negotiate a large reduction of armaments; I just mention that as an example of other possibilities. You might be able to avoid any subsequent increase in taxation at all, you might through reductions of expenditure in other directions and through buoyancy of trade, be able to get the Sinking Fund started again without any increase of taxation. On the other hand, you might not.

6929. Would you think it would be a good thing to have taxation on a certain level and then reduce it, and then re-impose it?—The whole history of our public finance is very largely that—ups and downs.

6930. But not generally so rapid as that would be?—No; I am assuming that if you accepted the levy you would have an exceptional state of things, and in order to ease that through the critical period when the bulk of payments were being made under the levy I think it would be reasonable to give whatever reduction of taxation you could through the suspension of the Sinking Fund, simply to ease what would admittedly be a rather difficult period.

6931. It would bring benefits to the salary earners who have not borne any part of the Capital Levy?—Yes, but they, in my view, are very heavily taxed now owing to the existence of the debt. That again I spoke of last time.

6932. There is no reason why they should not continue to pay their present tax, is there; they would not have been hit by the Capital Levy?—No, but they have been hit by the debt ever since it was rolled up during the war period.

6933. Would you say that was justification for relieving them during these years?—Not for relieving them exclusively, but I do not think the argument that they have not paid the levy is a reason for not letting them share in the general benefit of the reduction. If you assume a reduction in the standard rate of Income Tax, for instance, that would benefit both the people who were paying the levy and people who were not paying the levy. It would benefit, of course, to a much greater extent the people who were paying the levy, because they would be richer.

6934. I gathered that your reason for abandoning the Sinking Fund during these years was to meet the special difficulty of the people who had been subject to the Capital Levy; but the benefits are going to extend to another class as well?—Yes, they are to some extent.

6935. *Mr. Lees-Smith*: Is there not this fact to be taken into consideration with regard to the Sinking Fund, that it is a question of balance of advantages. There are many practical difficulties in the way of a Capital Levy, as has been pointed out, and the Sinking Fund is proposed as an alternative, but in fact is not the Sinking Fund itself an impracticable proposal? Is it not the fact that Sinking Funds are never maintained and that we tried to pay off the Napoleonic War debt by a Sinking Fund, with the result that it was practically as high when the last war broke out as at the beginning. We have now a Sinking Fund which we have maintained for 18 months, which is a very great achievement, but if a little war broke out anywhere again the Sinking Fund would disappear. Is it not a fact that a Sinking Fund is not a practical alternative?—My view is that the Sinking Fund is very difficult to maintain for political reasons. I am not absolutely confident that Mr. Winston Churchill will not raid it next month in order to get 6d. off the Income Tax. That is just a guess that I make from the outside; I do not know. But I do think that one of the advantages of the Capital Levy as compared with a prolonged Sinking Fund is that if you can

get the necessary political and economic conditions for carrying out the Capital Levy the thing is, to a great extent, finished and done with and is no longer imposing a continuing strain upon the economic rectitude of politicians. I think that is so. That is one of the reasons for trying as far as we can to make a big effort of an emergency character.

6936. *Chairman*: I have heard a great many economists, and I am associated with a number round this table, but I have never yet heard one give a moral reason why there should be a Capital Levy?—In order to preserve the virtue of the politician.

6937. *Professor Hall*: I thought that Dr. Dalton gave us something of the sort when he compared the sacrifices of the people who had gone out to fight?—I mention that later, because you ask me a leading question in your questionnaire.

6938. *Sir Charles Addis*: In paragraph 4, where you refer to a reduction of Income Tax and food taxes, do I understand you to say that you do not favour any suggestion that the proceeds of the levy should be used to reduce the taxation of those who in the main pay the levy? That is what I understood you said just now. When you talk about the relief of food taxes, is it to be understood that the relief is to be limited to indirect taxation on food and not to indirect taxation generally?—By food taxes I mean of course the duties on sugar, tea, coffee, cocoa, dried fruits—that particular group of indirect taxes.

6939. You exclude the reduction of any other groups of indirect taxation?—I think the case for reducing those indirect taxes is much stronger than the case for reducing any other indirect taxes. I do not think there is a very strong case for reducing the tax on alcohol or on tobacco. But I think it is important to reduce the food taxes, partly on the ground which I think I mentioned when I was here before, and which will be familiar to the Committee—Sir Herbert Samuel's estimate about the regressive character of our tax system at the bottom, which is almost wholly due, of course, to the existence of these taxes. Then that is dealt with in paragraph 4. (*Paragraph 5 read.*) I would like to say on paragraph 5 that I should not have reintroduced that line of discussion had it not been for your question about equity. I had a very full discussion with some members of the Committee about this on a previous occasion, and I do not suppose that either I or they have changed our views since then.

6940. *Mr. Hichens*: I do not wish to renew the discussion, but there is one question I should like to ask you. Do you think that this argument becomes of decreasing importance as the years go by?—Yes, I am afraid it does.

6941. You are not glad; you are sorry?—I am sorry in this sense——

6942. You like a grievance?—No, I do not like a grievance, but I do not like to see people with a grievance growing old without it being remedied. I am thinking there of the ex-service men.

6943. To some extent the argument for a Capital Levy is diminished by the fact that it has been put off for six years. It would have been more effective, perhaps, if it had been put on at once?—If you are on effectiveness, I will deal with that.

6944. More equitable; I will put it that way?—On the ground of equity I agree, if you wait till all the ex-service men are dead, the case on equity practically vanishes.

6945. It is not so much the ex-service men as the elderly plutocrats. When they perish your grievance ceases. Their wealth may be inherited by somebody who fought in the War. You cannot carry your grievance beyond the grave. Seeing that they are the elderly people, they are people who are dying off yearly?—I agree that if justice is not done soon in this sense, it will be too late to do it ever.

6946. But in so far as there is any force in the argument that those who did not fight in the War made fortunes, and that those who did fight are paying, it is of diminishing importance every year, because wealth is shifting from one person to another—some are dying, many of those who fought in the War are very likely making fortunes themselves and are contributing in that respect?—Yes, I agree it diminishes with time.

6947. It diminishes quite importantly, I take it. There must be a substantial difference, must there not, in that respect between this year and the year immediately after the War?—I do not know that I should expect it to be very great over that period. It would be very great over the next 30 years, but it is still true that a large number of ex-service men are paying heavy taxation to provide interest which is to a great extent received by people who did not fight in the War, but who came out of it richer than they went in.

6948. Of course the converse is also true, is it not?—What is the converse?

6949. That a large number of elderly and wealthy people are paying for those who did fight in the War?—Paying for them, you mean, in respect of unemployment benefit, and so on?

6950. Pensions and unemployment benefit and the rest of it?—Yes, to some extent, I agree.

6951. *Chairman*: Is there not the same difference as regards those men who were working on very big wages in this country while the soldiers were fighting on a small wage?—It is a difference of degree so great as to be almost a difference of kind. If we are thinking now of capital wealth, no doubt part of those wages have been invested, but of course the greater part was spent. There was that inequity at the time, I agree, and many people felt it very keenly. One sees in retrospect that it was a distinct inequity. How far it would have been practicable to avoid it then, I am not discussing.

6952. *Mr. Hichens*: Would you nurse this grievance for another 30 years, or would you drop it after 10 years, or what? It is obviously dying. When would you put it in its grave?—Not, I think for thirty years. I do not accept your phrasing of the thing, but answering you in your own language, that is the answer. (*Paragraph 6 read.*)

6953. *Sir Charles Addis*: It appears to be your view that no real guarantee can be given against the repetition of a Capital Levy?—No; I do not feel that any of the proposals so far made or any other that I have been able to think of, would really be effective—simply because you cannot bind the future.

6954. Do you think that the fear of repetition is an important element to be considered in the case of the Capital Levy, particularly with regard to its effect upon the accumulation of savings?—It is so much talked about that I think there must be some reality in it, although, as I have suggested here, it is not fair simply to speak as though the choice were between no Capital Levy and no fear on the one hand, and on the other hand a Capital Levy plus a fear of repetition. There is presumably now some fear of the imposition of a Capital Levy; and I have suggested here that, if a Capital Levy on the kind of scale I contemplate were carried out, and if the existing generation of politicians, particularly of politicians in those political parties which favour the levy, pledged themselves, and if their party pledged itself against repetition, so far as the individuals at present comprising it were concerned, I should have thought the fear of repetition then would be distinctly less than the fear of imposition is now.

6955. *Mrs. Wootton*: We had a witness this morning who, if I followed him rightly, argued in this way, and I should like to have your opinion on the argument. Either a Capital Levy is good or a Capital Levy is bad; if it is bad, we ought not to have it; and if it is good, it is a great shame to guarantee that we should not have it again. Therefore we ought not to aim at a guarantee?—The offer of a guarantee against repetition, like the offer of a reduced Income Tax, is the price which many of us who are in favour of it are willing to pay, if thereby we could get it.

6956. In fact, there is something to be said for the argument that, if it is good, it would be desirable to have it again. Unfortunately, you have to pay the price. Is that your view?—My view is, that a Capital Levy is appropriate to the reduction of a large dead-weight debt. It is not appropriate for many other purposes in public finance for which we want funds. It is not appropriate for a housing scheme.

6957. The initial assumption, either that a Capital Levy is good, or that it is bad, is perhaps too simple?—Yes, I think it is. It depends upon the purpose. If you had no National Debt, or only a very small National Debt, there clearly would be no point in talking about a Capital Levy. For dealing with a large dead-weight debt, it appears to me to have great advantages. For dealing with other financial requirements, it does not appear to me to have advantages.

6958. *Sir Josiah Stamp*: You would not advocate a Capital Levy for the purpose of the redistribution of wealth?—No.

6959. Nor for the purpose of getting its beneficial effects to trade for five years?—No. I think sometimes I should threaten it, when a boom was on, but without the intention of carrying it out.

6960. *Mr. Hichens*: Nor for destroying profiteers?—No; only for destroying undue confidence. (*Paragraph 7 read.*) I have already referred to one of the points here, in reply to an earlier question. In regard to this last sentence, I do not think it is reasonable that those who believe that, on the merits, the Capital Levy is the right way out, should abandon that opinion or the propagation of that opinion, merely because they find a certain number of people in opposition to them.

6961. *Sir Josiah Stamp*: I take it you mean by this, that if the imposition of the levy has some damaging effects at the time, they are not inherent in the levy itself, but that they must be due either to people's lack of courage or to their wilful misrepresentation and panicmongering?—Broadly, yes. I have pointed out in the first sentence, and I deal with it again later on, that there are a number of what I have called here "abnormal cases." I have given grounds later on for supposing that they are not very numerous and that they are capable of special treatment, and I am assuming that the scheme of a levy is framed so as to deal in a reasonable way with them.

6962. You have practically taken all those fears that people have about unloading gilt-edged securities and the general lowering of tone, and so on, and ruled them out in your hypothesis?—I have assumed that they can be met by appropriate details in the scheme. I do not want to assume that those fears are irrational at all, but I want to suggest, and I suggest in more detail later on, that all those fears can be met by detailed provisions. What you cannot meet by detailed provisions are wild misstatements such as we had when the thing was a political issue, that everybody was going to be robbed, and going to be robbed every year, and so on. But I think all reasonable fear can be met by reasonable precautions.

6963. You say that all real difficulties inherent in the scheme can be met by provisions in the scheme itself?—That is my view.

6964. And therefore any ill effects of its imposition must be residually due either to lack of faith or courage or to wilful misrepresentation?—Yes, or perhaps to sheer stupidity, in a few cases. Some people will not understand even when you make it quite clear to them. But, broadly, I believe that these various difficulties which cause genuine and *bona fide* fear and panic, can be got over by detailed arrangements.

6965. *Sir Charles Addis*: Assuming that there is the organised opposition of which you speak, would you still consider it practical politics to carry out the Capital Levy now, or are we to understand that the Capital Levy would then be postponed and that the efforts of those who advocate it should be devoted to the better education of public opinion and the conversion of opponents? In other words, would the levy precede the conversion or follow it?—Looking at the thing in political terms, clearly the levy could not happen until you had a Parliamentary majority in favour of it. If you had a Parliamentary majority in favour of it, there must have been a very considerable conversion of opponents. You would still very likely have a considerable section of opponents, and possibly of influential opponents.

6966. It was your expression "organised opposition" that struck me. Had you in view the banks?—No; I do not think, in the last resort, the banks. I am thinking more of the Press. I do not want to seem unduly flattering, but I do not believe that the bankers, in the last resort, would be among the opponents at all. I think it is relatively easy to make an arrangement with the bankers. That is my feeling; and I think that supporters of the levy would be able, at a certain stage, to get the co-operation of the bankers in dispelling absurd nonsense, because it obviously is going to hurt the banks as much as anybody if the absurd nonsense is believed. (*Paragraph 8 read.*)

6967. *Mr. Hichens*: Do you suggest that most business men, or all business men, alternate between excessive hopefulness and excessive gloom?—I am quoting there from other authorities. I have not myself published anything on this, but there is a large concensus of opinion, including, by the way, Lord Leverhulme. I remember him saying, in an address he gave a year or two ago, that the state of trade was very largely a state of mind, and he quoted some lines of verse in illustration of that: "Weep, and the world weeps with you; smile, and you sell your goods." He is clearly a great authority on this matter, and there are various economists, especially members of the Cambridge school, who have stressed this aspect of the thing very much, and I should have thought it had great importance.

6968. *Sir Josiah Stamp*: Is it not rather that it is the aggregate that is important, rather than the individual? If a business man never risked a loss, he would never make a profit, would he?—Broadly, no; but I am simply quoting a fairly generally accepted idea.

6969. *Mr. Hichens*: It struck me because you attribute a unanimity to business men which I never come across?—I do not suggest anything which you could call unanimity, but there are, are there not, wave movements?

6970. According to newspaper proprietors and economists, there are?—And according to Lord Leverhulme.

6971. There is the danger of over-stressing that particular side of the question?—Yes, I think, perhaps, I might say, arising out of the point that Sir Charles Addis put just now, in a sense you have got to have political conditions favourable before you can impose a levy; that is to say, you have to have a Parliamentary majority in favour of it; but, so far as you can pick your time in relation to the trade cycle, it would be very advantageous to have it in the early stages of a boom, as a brake. How far it would be politically possible to exercise that degree of nicety in the choice of time, I do not know.

6972. *Sir William McLintock*: Having come to a period of acute depression, would it not mean an additional amount of opposition?—I am assuming that the best time is when the trade boom is under way but not yet too far gone.

6973. *Mr. Hichens*: If you could tell me when that was, I would give you £20,000 a year?—I am suggesting that, as far as this argument is concerned, we should wait and see, and that when the boom really does manifest itself, that would be the time.

6974. The difficulty is to know when the time is. Before it has manifested itself, it is over, is it not? *Sir William McLintock*: You would only

know after it is over, that it had been on?—(*Witness*): In 1919 it was pretty evident.

6975. *Mr. Hichens*: That was a fairly prolonged one, but there have been a number of occasions of recent years when people have said: "See here, see there, the Spring is coming," but it never came?—I know. I sit on a Committee which is supposed to try to make prophecies. I do not regard myself as an authoritative member of that Committee, but I notice other people, whose judgment I respect, continuously being wrong. I agree it is most difficult to foretell.

6976. It is not easy to select a time at which it is expedient to put on a levy on the ground that the boom is fairly under way. It is a very difficult thing to say, is it not?—Yes, it would be difficult, I agree.

6977. *Chairman*: There is often very great shortness of money while a boom is on. The boom takes all the money which you have on deposit at the bank or in reserve, and there is not much money to pay a Capital Levy?—That is so. (*Paragraphs* 9 *and* 10 *read.*)

6978. Have you any idea how many years it would take to get in the payments of a Capital Levy of £3,000,000,000?—My view is that you could get the bulk of it in within one or two years, and for the rest you would have your instalment arrangements.

6979. Would not your valuation take much longer than that?—What I have contemplated (I have not put it here, but I have put it in my book), and what is contemplated, I think, in the scheme of the Labour Party, is that the owner would himself be invited to put in a first provisional valuation, and would be assessed on that, and the levy would become payable on that, and then you would take time, if it was required, to check that and make subsequent adjustments. The bulk of the money you would get in by a valuation put in by the person liable for the levy, himself, and that, I should have thought, would not take long.

6980. Have not some of your friends said that it might extend over four or five years, and suggested giving the power to pay over that period?—I would be willing to give a power to pay in certain cases over a longer period than that, in the case of money in private business, and so on, but I should have thought, in so far as you are getting payment in War Loan stock and other securities, you could get nearly all the payments made within a year or 18 months at the outside.

6981. I agree in the case of War Loan, but in the case of vast industrial concerns and private businesses, where capital is not in money but is in machinery and buildings, all those things would take, I fear, a great many more years?—The private business I mention in a later answer. My feeling is that although there would be a number of cases, it might amount to a fairly large number of actual individuals, who would be paying the whole or some part of their levy by instalments, that would not represent a very large fraction of the yield of the levy. The greater part of the yield, I think, you would get in pretty quickly by the handing over of securities.

6982. *Sir Charles Addis*: I would like to refer to one point. What steps have you in mind should be taken with a view to prevent a sharp fall in the price level?—I had in mind the kind of policy that Mr. Keynes suggests in his last book. You would lower the bank rate possibly and there might be a change in the arrangements for the fiduciary note issue during the period. This is repeating what I say in reply to a later question; but, in effect, if you found some deflationary tendency following, you would introduce an inflationary counter move to counter it. (*Paragraph* 12 *read.*) In paragraph 13 I say that I am in general agreement with the statement made by Mr. Hichens. I did not quote that out of malice. Mr. Hichens; I do not know whether you still hold this view.

6983. *Mr. Hichens*: I do.—It did seem to me to express the position extremely well. I have quoted it in my little book and elsewhere because of your authority behind it, and because, for the lucidity of its expression, I could not better it. (*Paragraphs* 13 *to* 15 *read.*)

6984. *Chairman*: A levy could not be paid in cash, could it?—No, clearly not. A great deal of the current misunderstanding of the proposal is based upon the notion that it is all going to be paid in cash, which, of course, was never proposed.

6985. *Mr. Hichens*: What proportion did you estimate would be paid in War Loan itself? Did you make an estimate of that?—Yes, I estimated about one-third or a little more, on the £3,000,000,000 basis. It would depend, I think, rather upon how far you could work what Lord Arnold, the initiator of this proposal, called the exchange arrangement, under which corporations and institutions not subject to the levy who hold War Loan might be encouraged to exchange their War Loan for other good class securities held by private persons. If you could work an exchange on a large scale on those lines, then a great deal more than one-third could be paid in War Loan direct. We see estimates sometimes of the relatively small proportion of War Loan held by private individuals, and in so far as a series of exchange operations of that kind was possible you would increase the amount that could be paid considerably in excess of the figures that we get from time to time for the individual holdings. (*Paragraph* 16 *read.*)

6986. *Sir Charles Addis*: I understand you to mean by that, that if the gold standard were restored there would be no need for the corresponding inflationary action to be taken in order to counteract the deflation produced by a levy?—No, I do not think there would, but there might be need for it under the Keynes scheme, of course.

6987. Have you considered the difficulty that might arise owing to the decreased demand for credit as part of the result of a Capital Levy?—Yes, I have thought about that. But would there be a decreased demand in the aggregate? Would it not rather be a redistribution of the demand for credit?

6988. I want to get your view on that, and whether there might not be a considerable intervening period where there was a lag in the demand. I am assuming that distribution takes some time. I merely wanted to get your view as to the importance of that?—I think that the amount of War Loan and these other securities that is held as collateral is often greatly exaggerated in discussions of this matter. After all, a large number of retired people who happen to be wealthy and who would pay a good deal of the levy under these scales do not use their holdings as collateral; they simply use them as a source of income; and many others who might come within the levy scheme have a certain amount of holdings which they do not use as collateral. I think you will be able to take a much more authoritative view of this particular point than I should, but my impression is that the amount of potential good collateral in existence now is far greater than can actually be used, far greater than the banking system can afford to lean upon. In so far as the levy involves the surrender of a large amount of War Loan and other good securities, the amount of potential good collateral would be reduced. But there is a very big margin, I fancy, between the amount of actual collateral which is the basis of bank advances and the amount of potential good collateral. The amount of potential good collateral has been enormously magnified since 1914.

6989. The view was that although there would be this enormous potential capital still left in the form of other securities, it would take some time before that drifted into the other hands, and you might have sporadic shortness here and there which would reduce the demand for credit; but you do not consider it a very vital element?—I should have thought not, assuming that the details of your levy in other respects are reasonably well devised. If the position

were that the general principle were accepted and one were considering the details, that is the kind of point where I think advice from bankers would be extremely valuable.

6990. *Mr. Lees-Smith*: The figures we have had show that actually there is only £2,500,000,000 of the debt held by private individuals, the rest being held by banks, insurance companies, etc.?—Yes.

6991. I suppose it is the case that they do not use it as collateral to the same extent as private individuals?—No, and even if they do it would not matter, because they would not pay the levy at all; they are not affected. It is the private trader who would be affected, and he in many cases would, under my suggestion, pay by instalments; so there would be no need to realise or withdraw his collateral. If he could show, for example, that he had indeed a considerable amount of War Loan but that it was all being used, or largely being used, as collateral for a bank advance, that would be strong presumptive evidence of his right to pay by instalments.

6992. *Professor Hall*: Do I assume correctly that the whole of the argument on paragraph **16** is that there would be no deflation? There are two or three "ifs" in that paragraph, and I am not quite clear about that?—I think you have to distinguish between the gold standard and the managed paper standard. Now, under a gold standard, my view is that any slight tendency to deflation would be automatically corrected; it would never become real; it would be automatically corrected by the movement of exchanges and the inflow of gold and the adjustment of prices. Under a managed paper standard you would have in your hands the means to counter it. According to the general plan Mr. Keynes sets out in his latest book, by movements of bank rate, and so on, you would be able to check it.

6993. So that, under the gold standard, there would be no deflation, and under the managed currency scheme you might have it. But you could counteract it?—Yes, that is my view. (*Paragraphs* **17** *and* **18** *read.*)

6994. *Sir Charles Addis*: We have had different estimates of the net saving which might be expected to result from a Capital Levy, but without entering into those, I should like to get your opinion on the general ground as to how far the amount of the net saving to be expected from a levy has a direct bearing on the question as to whether it is really worth while?—I have enumerated in paragraph **17** certain advantages, which seem to me to be quite solid advantages and which are independent of the amount of the net saving.

6995. It was the relative degree of importance to be attached to the net return that I wanted to get from you?—Clearly, unless we get some appreciable net saving, it would not be worth while. But I regard these others as quite solid things; they are not just debating points. I do attach importance to these things in paragraph **17**, and I think they reinforce the advantages of the net saving, but I should certainly be very unhappy if I did not see a net saving. I get a net saving of £70,000,000 a year on my estimate, but, as I said in reply to Sir Josiah Stamp, I do not attach any more importance to my estimate than I do to his or anybody else's outside the Inland Revenue.

6996. The other things would not be sufficient if the net saving were not considerable?—No, but I should like to add to that, that if on the Labour Party's scale the net saving appeared to be too small, then my first inclination would be to adjust the scale so as to make the net saving larger. (*Paragraphs* **19** *to* **23** *read.*)

6997. Would you propose to make any adjustment of the levy in the case of persons paying by instalments whose wealth had substantially increased or diminished during that period of payment?—I start with a very strong prejudice against making any adjustment of that kind. It seems to me a case where, unless you stick pretty closely to your initial valuation, the administrative possibility of the thing will be swamped by a mass of detailed claims for alteration. I think there is a great advantage, from the point of view of removing uncertainty, in an individual liable to levy knowing from the start what his liability is and knowing that it is independent of his subsequent efforts and activities. Then on the kind of point that Mr. Hichens' quotation was designed to illustrate, if you aim at lifting the burden from a man's future activities and saying that the fruits of what he does in the future shall be taxed at a lower rate, clearly you do not completely do that if you say: "Now this initial valuation is going to be modified according to the results of your future proceedings." I quite realise that there may be some extreme cases where you will not be able to stick absolutely tight to your initial valuation, but looking at it from the administrative point of view, I should say, keep these cases down absolutely to the minimum. The machinery I contemplate you would have would be some appeal tribunal to which people could go who wanted to pay by instalments, and you would clearly want to put competent people on that, including competent business men and bankers, and you would want to give them rather wide and elastic powers, I think, to deal with hard cases, but you would want to give them the general direction that as far as possible they were to stick to these initial valuations and not admit changes.

6998. That would be your plan for mitigating any inequity which might arise between the payer by instalments and the payer in a lump sum?—Yes. I think you would have to have an elastic residual power, so to speak, in your appeal tribunal. (*Paragraphs* **24** *and* **25** *read.*) I think paragraph **25** is an important point, because I think that argument is plausible; it is one of the most plausible arguments against the levy, but I do not think, as far as I understand aright what is meant, that there is anything in it. I do not admit that you would be taking money out of industry.

6999. The paragraph appears to refer to limited companies. Would you hold the same view in the case of a private partnership?—I should contemplate that there you would get a good deal of the instalment arrangement operating.

7000. Industrial shares I can understand, but how would that operate in the case of a private partnership?—In many cases the partners in question would have other forms of wealth which they would not be using as collateral for bank advances; they would not have all their eggs in their own partnership.

7001. I think the argument rather takes the line that in those partnerships which are earning a high rate of profits, that profit may be taken as a measure of their competence?—Yes.

7002. And if you take it away from those and redistribute it among others, the probability is that you are reducing the earning power of capital and thereby incurring economic loss?—These people either pay the levy forthwith or they pay it by instalments, or possibly both. If they pay forthwith, they pay by handing over War Loan or other approved securities. If these are not being held as collateral for bank advances, that does not diminish their earning capacity; they merely part with certain sources of investment income. If, on the other hand, they pay by instalments, the notion underlying that arrangement is that the instalments are adjusted so that they can be paid out of income, as if it were an additional Income Tax for a period of years. I do not see how in either case you are taking money out of their business.

7003. You may have a net reduction in the capital of the partnership, which would diminish their power?—In the capital of the partnership as distinct from the capital held by the partners? That would be a case to be considered by the tribunal that I was suggesting.

7004. The object of my question is to show that there is a distinction to be made as the argument is applied to a limited company, and as it is applied to individuals or to private partnerships?—Yes, I

agree that where you get individual traders or a private partnership, you must be careful not to cripple them.

7005. As a practical question, would it be possible to make your instalments so low as to enable them to be paid out of income? It would certainly be very difficult, would it not?—When I try to contemplate the scheme in working, I am quite prepared to see a certain number of people being allowed to pay by instalments for 10, 15 or 20 years, only I do not believe the number would be very great. I am prepared to see a long period in certain cases, because I believe that the aggregate importance of those cases would be very slight.

7006. *Mrs. Wootton*: Have you considered at all the desirability of making allowance for family responsibilities?—I have thought about it, but it would be an additional complication, and my inclination is rather against it. I think it is one of many administrative improvements which may be suggested, but which would really overweight the ship. That is my feeling. I am not fixed in my mind about that, but my initial reaction is against it.

Chairman: Thank you very much.

(*The Witness withdrew.*)

(*Adjourned to to-morrow morning.*)

TWENTY-SECOND DAY.
Wednesday, 1st April, 1925.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman.*
SIR CHARLES ADDIS, K.C.M.G.
MR. J. W. BOWEN.
PROFESSOR FRED HALL.
MR. W. L. HICHENS.
SIR WILLIAM McLINTOCK, K.B.E., C.V.O.
SIR JOSIAH STAMP, G.B.E.
MRS. BARBARA WOOTTON.
MR. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

MR. H. GORDON SELFRIDGE, called and examined.

EVIDENCE-IN-CHIEF handed in by Mr. SELFRIDGE.

1. One cannot see evidence of the National Debt in itself affecting the supply of credit, nor does its simple existence seem to affect the permanent supply of capital. Of course *the payment of the interest*, which causes practically the doubling of our taxes, at once affects both of these important items. But inasmuch as we have incurred the debt it must be paid, and an enormous Sinking Fund of 50 million sterling per year is one which we must all get accustomed to. While this Sinking Fund seems gigantic, the debt itself is gigantic. We cannot have a war without paying for it.

2. I think that I should be inclined to treat this debt from a national standpoint as I would *try* to treat it in an individual business, and I think that a minimum of, say, 50 million sterling per annum must be looked upon as necessary. Also I should be inclined in a business, after a good big year, to make the reduction still larger, though it would be difficult to convince the tax-paying public that this was wise.

3. But with the difficult times such as we are having at present it seems hardly desirable to apply any Budget surplus to the repayment of debt. The present very large taxes—and I may add high rates—have, of course, subtracted large sums from the annual savings of many businesses, but the effect on the individual has been even more disastrous from the standpoint of *reducing seriously his purchasing ability.*

4. One cannot say that the existing taxes act as a deterrent to the individual or the company from *trying to save* and trying to increase the surplus, but of course it has a very serious effect *on the result of that effort.* If a company uses its money simply to pay out dividends, and the dividend is less as a result of the high Income Tax, the individual shareholder suffers to that extent, but if the company uses the extra profit for adding to its surplus, then the expansion of the business is limited by just that amount.

5. Income Tax can hardly be said to enter into the fixing of prices in the business which I am most familiar with, but in the manufacturing and export business where the Income Tax adds a serious percentage to the expense account, there is no doubt but that it does affect the prices which the manufacturer can quote to his customers abroad and thus forces him to become a little less sharp competitor than he would otherwise be.

6. Death Duties, when used as part of the income of the country to pay the expenses of the Government, seem to me extremely unfortunate. In my judgment, when this country can afford it, Death Duties should be used entirely to reduce the public debt rather than act as an assistant to the Chancellor to pay the current expenses of the country. Furthermore, it certainly seems as if Death Duties were far higher than they should be.

7. Stamp Duties should not be a very serious matter. Of course they are annoying and they do increase our expenses which most people think should not be increased, but they do not seem to me to be an appalling item.

8. I think that that tax is best which is, as far as possible, hidden or indirect and which *touches every pocket* rather than a few. The Sales Tax, which puts a tax upon all sales of, say, 1 per cent. is perhaps the fairest of taxes, because the possible addition of 1 per cent. in the cost of the article to the consumer is impossible to discover. This tax has certain difficulties and certain possible serious dangers, but, aside from that, it would seem to me an extremely fair way of raising a lot of money which no one would feel. I should be glad to explain this system if members of the Committee are not familiar with it.

7007. *Chairman*: Will you please begin, Mr. Selfridge, and read your first paragraph? Members will ask you questions upon each paragraph after it has been read. (*Paragraph 1 read.*)

7008. *Mr. Bowen*: Do you think the Sinking Fund of £50,000,000 can be regarded as gigantic when it is related to a debt of over £7,000,000,000, representing as it does about ¾ per cent. of the debt?—I have tried to say that it was not gigantic as compared with the debt, but in itself it is a gigantic sum for any nation to pay £50,000,000 sterling per annum. No matter what the debt is, there is £50,000,000 sterling to collect from the comparatively small number of taxpayers in this country. It is a gigantic sum even if the debt is 50 times as much. When the debt is incurred it must be paid, and

therefore with that splendid reputation for integrity, for which I have the greatest admiration and for which people across the ocean also have the greatest admiration, this nation, when it incurs a debt, recognises that there is a time for paying as well as a time for making. It is the only nation in the world that has done it, and therefore, while £50,000,000 sterling is a very large sum, the taxpayers of this country have got to get used to it, in my judgment.

7009. *Sir Charles Addis*: Would you amplify your statement that the payment of the interest on the debt affects the supply of capital; why does it do that?—It withdraws from every business a very large sum every year. It withdraws from those who have sufficient financial ability to pay anything towards the debt a certain percentage every year. That practically is capital, whether it is personal savings or for their business. When we take a very large sum from my business, if you please, and put it into the Treasury, or it is sent across the ocean or somewhere else, it withdraws capital from business.

7010. Would you apply that to the payment of the internal debt in the same way?—All payment of taxes withdraws money from capital, but when there is an excessive payment it becomes more or less arduous after a while and irksome. The payment of all taxes and the payment of all expenses withdraws money from the capital of the business, but it is recognised as a necessity. If a business could get along without paying rent it would be that much better off, and be able to save that much more money in its capital. But it must pay its rent, it must pay its pay roll, and it must pay its proportion of taxes. When those taxes are increased it withdraws a still larger sum from the capital of the business. The withdrawal of money from capital has become irksome in this country because taxes are so very high.

7011. What does the Treasury do with money so withdrawn?—It pays the expenses of the management of the country, and pays interest upon its debt.

7012. So far as it pays interest, which is the question before us, on the internal debt, is it not merely a transfer of money from one set of the community to another?—If you are speaking entirely of the internal debt, that is true, but whether that is to the advantage of the individual business or not is quite another question. It may be that it goes into individual pockets, but it withdraws it from the capital of business.

7013. Then your statement would have to be qualified to this extent, that so far as the payment of the interest is on the internal debt it involves no reduction in the capital of the country?—In the capital of the country, no. I was speaking of the capital of the individual enterprise. The capital of the country is only affected by the stuff which is destroyed.

7014. Your statement is as to the permanent supply of capital. I understood that to mean the capital supply of the country, but you mean the capital supply of individuals?—I was speaking of the capital supply of individuals.

7015. Then you agree that so far as the national capital is concerned, it is not affected at all?—I agree that the national supply of capital is not affected, but, if you were to say it did not matter, I should disagree, because the payment takes capital from that which is producing and oftentimes puts it into the hands of that which is not producing; but still, that is a detail perhaps.

7016. *Chairman*: I think now we may pass to paragraph 2. (*Paragraph 2 read.*)

7017. *Mr. Bowen*: Regarding your parallel between the national standpoint and the standpoint of an individual business, it has been put to us that owing to the uncertainty of the future, and perhaps the possibility of another war, it is urgent that we should make a more rapid repayment of the debt; what is your view on that?—Of course, there comes a limit as to what a nation can pay, just as there comes a limit sometimes as to what an individual can pay. As a man of business—take my own business, for example—I would say that I should pay off that debt just as quickly as I could possibly do it. When it comes to a nation, it seems to me that the payment of £50,000,000 sterling in reducing the whole thing to practically nothing in 50 or 60 years is rapid payment, and is rapid enough.

7018. Do you not agree that we are now suffering because our forefathers have not done their share of repayment?—Oh, I do not know about that. The country grows, you know; the world grows. Do you realise that money decreases in its purchasing ability 1 per cent. per annum, or, perhaps, ¾ to 1 per cent. per annum? In other words, 100 years ago money would buy just twice as much as what it will to-day; so that a debt which is to-day an important matter, in 100 years from now ought to be paid off twice as easily. The buying ability of money, historically judged, decreases 1 per cent. per annum, so that if an endowment which will take care of an institution to-day is left to that institution, in 100 years it will only half take care of it, unless the endowment has been added to. That is a thing that creditors often do not quite appreciate.

7019. That is purely speculative so far as the future is concerned, is it not?—I do not think so. It has been history for the last 500 years. I think we can pretty nearly go on history. It is quite true, and all you have to do is to read the history of it, and you will see that the buying ability of money was at least 500 per cent. more 500 years ago than it is to-day.

7020. Do you say that, if we held it for 300 years, we should have little to pay at all?—I should say it would be very much less proportionately.

7021. Would you regard that as a sound business proposition?—No, because nobody is going to loan you money on that basis. If you could get somebody to let you have a very large sum for 300 years without interest, I should take it by all means; but you cannot get anybody to do it.

7022. But we do come back to a business proposition?—It is a business proposition. To start with you asked me if these people ought to have paid this National Debt off a long time ago.

7023. I was asking you to compare a National Debt with a business debt. You would regard it as being essential to pay off a business debt; would you not regard it as being exceedingly urgent to pay off the National Debt, too, because the existence of a National Debt must affect your business?—There is a little difference. In a business debt there is a personal pride, and that may be an extremely important item. In a National Debt it becomes a question of touching each person's pocket, or at least a small proportion of the people in this country who are affected by taxes, because a very small proportion pay all the taxes. Those people do not feel quite the same in the way of personal pride, or most of them do not, as one does in business.

7024. *Professor Hall*: On a question of fact, whilst it may be true that compared with 100 years ago the purchasing power of money is less than it was, have there not been during that 100 years long periods when the purchasing value has been going the other way, and when we should have had to be repaying our debt when prices were falling?—No; there have been no long periods. There may be momentary periods of short duration when perhaps prices have fallen particularly, or whatever you choose, but that has been much more made up by the tremendous drop in the paying ability of the sovereign during this War. This War has thrown an entirely different complexion on the whole thing. If it had not been for the War, the sovereign would have gradually decreased in its buying ability, but the War put it down at once and made a great bump. There have been no serious exceptions in history, that I can read of, showing a prolonged increase in the strength of the sovereign or the dollar.

7025. What do you mean by a prolonged period: would you say 25 years?—I should not say it had been anything like that; it may be for one or two years when for some particular reason there may

have been an undue jump. It may interest you to know that just after the War I engaged a statistician to make me a series of charts showing the fluctuation of prices after various wars. I have those charts still, and if they are any advantage I will be glad to show them to you. They show that after the Napoleonic Wars, after the Wars of Rebellion in America, after the Franco-German War and after the South African War—I do not remember any others just now—how much prices went up and then came down. I expected to get a great deal of information out of those charts and paid quite a sum of money to have them done. I have never obtained much information out of them, but they are more or less interesting.

7026. Have you seen the chart in Mr. Layton's book?—No, I do not think I have.

7027. I think if you follow that chart you will find that for a period of 25 years prices have fallen, roughly from 1820 to 1845. (*Book handed to the Witness.*)—Yes, prices fall, but how about the value of the sovereign?

7028. I take prices to be representative of the value of the sovereign?—I have been doing business more than 25 years, half of it in America and half of it here—I do not know what these items include—and I have not been able to discover that either the dollar or the sovereign increased in buying ability in those 25 years; it has rather gone down.

7029. I think you will find the facts given in that book are pretty conclusive, and that roughly from 1820 to 1845 prices were falling; from 1845 to 1870 or thereabouts prices were rising; and then from 1870 or thereabouts to 1895 or 1897 prices were falling again, and were rising after 1897. I think you will find that that chart bears out that statement?—Yes, but what is this on? Is it on everything, or is it on the things we eat or the things we wear, or what?

7030. It is on general commodities. You will find in the book a number of tables showing the percentage rise or fall of various commodities like iron, cotton, wool, and so forth—the principal staples?—I should be glad to get this book and look it over, because I am very glad to be educated on these things, but until I have been convinced of it I should question it.

7031. I think you would be convinced after seeing the facts?—Yes.

7032. There are some of us who are rather apprehensive about the burden of the debt if prices should fall?—What is going to make prices fall?

7033. Well, that depends partly upon the increased productivity of industry, and the general increase of demand for money and the supply of gold?—Is there an increase in the productivity of industry?

7034. It depends upon that. There have been periods when there has been a great increase in productivity, say, from the middle of the century to 1875, and then a still greater increase from 1875 to 1900, owing to new machinery, better organisation of industry, and so forth?—Yes.

7035. I think you said that if we went on with the £50,000,000 Sinking Fund we should have reduced the debt to almost insignificance in 50 or 60 years?—So I have read; I have not figured it up myself.

7036. Were you thinking of any addition to that £50,000,000 of, say, the interest saved? The debt is, roughly, £7,600,000,000, let us say; 60 years at £50,000,000 a year is only about £3,000,000,000. It does not wipe off one half the debt?—Well, I have not figured that up, but I have taken it for granted that the statement which was made at the time the debt was substantially paid or agreed to be paid—that we would be saddled with a £50,000,000 tax for the next 60 years—was correct.

7037. That is the repayment of the American debt, I think?—That is what I am talking about; that is the chief debt; I do not mean the internal debt.

7038. That rather alters it?—If we pay it to ourselves, it does not make very much difference. There is nothing in the world like compound interest. I do not know whether they figured on compound interest or not. The most interesting single thing in figures in the world is compound interest, as, of course, we all know. They tell a story, if you would allow me to take two minutes of your time, how if, when Columbus discovered America, he had put £1 or one dollar at interest compounded 6 per cent. annually, the Duke of Varagua, who was the remaining head of the family, would not have been requiring money as he did at the time of the Exhibition in America. The question is how much £1 at interest for 400 years amounts to compounded annually at 6 per cent.; it amounts to £13,250,000,000.

7039. *Mr. Bowen*: Where does the interest come from?—It is a matter of figures; it is not a matter of doing it. It makes one want to become a Wandering Jew, put a few pounds at interest, and then wander around.

7040. *Professor Hall*: The purport of my question is really this: Do you look upon this £50,000,000 as being a fixed amount, or do you look upon it as being an amount that has to be added to by the interest saved owing to cumulative redemptions of debt?—I have looked upon it as a permanent amount which included the interest and the amortisation. I have not figured that up, but I have taken the matter, which I read at the time that the debt was adjusted, as being final.

7041. It would take us about how long—150 years—to wipe off the debt at £50,000,000 a year?—I have not figured it up. Why did they tell us 60 years, then?

7042. That was the American debt, I think?—Well, that is the one I am talking about.

7043. But we are speaking about the whole of the debt?—What our debt is to ourselves does not make so much difference. That is another thing. The money is not going out of the country. This country can only live, as I figure it, by getting money from outside itself; it cannot live on itself; and if we keep on paying money out from this country we are that much poorer. What we pay to ourselves may be annoying or irritating, but it is not vital. The money that we are giving to America is taking it right out from our efforts to become again a wealthy nation. I do not care so much about the local debt.

7044. Should I be right in putting your view in this way, that so long as the debt is held internally, you do not attach very much importance to its existence?—Not so much. Of course, no one likes to pay more taxes, but if we are paying the taxes, the people are again going to build up business, so it is not so serious. I venture to say that, though it does take it away from the capital of business, it puts it into the hands of those who are again likely, by their being in the country, to assist the man of business to add it to his capital again.

7045. You do not think the business man is adversely affected by the existence of the internal debt?—I think he is adversely affected by anything that makes him pay interest, but not so much so. Of course, if we were out of debt, as Germany is, it would be a much simpler thing.

7046. You do not think it affects the rate of interest he would have to pay for borrowed money?—I have not discovered that it does up to now.

7047. It is held by some people that it does. I am only asking your view; you do not think it does?—I cannot discover that it does up to now. Our rate of interest has been increased because America is trying, as I understand from bankers and financiers, to retain the present standard of values, being afraid that when prices go up she will have to make another advance in this impossible rate of wages which she is paying, and rather than let the gold be taken in this country it was necessary to do that.

7048. *Chairman*: Are you in favour of wiping out part of the National Debt by a Capital Levy?—I cannot see anything practical in a Capital Levy at all. What is a Capital Levy? Here is a man with

a million pounds' worth of beautiful pictures; how are you going to take 10 per cent. or 25 per cent. of them? Here is a man with a big farm; how are you going to take 10 per cent. or 25 per cent. of that and sell it to anybody? I think a Capital Levy is a Socialistic description of mirage. I cannot discover a single grain of intelligence in the thing called a Capital Levy. What is it? I have a business. How on that business are you going to take 25 per cent.? Who are you going to sell it to? Really a Capital Levy is an absurd thing. We can be taxed; we have discovered that. We have discovered a lot of things during the War, and one thing that we have discovered is that the country can tax one out of existence. I did not know it; I did not realise it, but we find we can be taxed until we cease commercially to exist. But when it comes down to taking a quarter or a tenth or any proportion of that business up there or any other, it is no good. You can take a certain amount of silks and bring them down here, and if anybody wants to buy them you can pay your debt with those silks or with those pictures; but I have not been able to discover any reasonable description of what a Capital Levy is, except a talking point from the more or less Socialistic standpoint.

7049. Have you read any of the literature on the Capital Levy?—No, I have not. I have tried to think out myself what a Capital Levy is. I have tried to be reasonable on these things. I am personally extremely proud of the fact that I am living in a country where the people have determined to pay their debts, and I am happy to pay my share. Then I have tried to think out how we can do better, and that is another thing I should be glad to be enlightened on—how a Capital Levy is practical. It has not been practical anywhere yet that I have been able to discover in any country in the world. Where can I get something on the Capital Levy which will relieve me of these very fixed ideas?

7050. *Mr. Bowen*: Have you come across any cases where people have been taxed out of existence in this country?—No, but during the War it became a pretty serious thing. The most atrocious tax that was ever instituted and carried on was the Excess Profits Tax. I bought during that time several branch businesses in the country, and I discovered in every one of those branch businesses that they had taken the entire pressure off the expense account, and said: "What is the use? We have to pay it anyway; we may as well let it go here, there, and everywhere else." It was an unsound tax. It might have been necessary during the War, and we all paid it gladly, but when it was continued after the War it was a poor piece of business. Excess Profits Duty proved that we could be taxed out of existence.

7051. *Chairman*: Could not they have taken some precautions about disallowing foolish expenditure?—It is a very difficult thing; it is a terribly complicated thing with 100,000 traders, with little places here and there. It really is not quite a practical proposition, and if you are going to get into an expense account and control the details, then you have got to have an army of people doing the business who are perhaps intelligent and perhaps not, and it becomes impracticable. It is unwieldy; it cannot be done. I bought a little business in a nearby town, for instance; who is going to watch that little business, one of a thousand up there? Those people said: "We do not care anything about expenses." They did not say it to anybody else, but they said it to me. No, it does not become possible. I do not like the word "impossible," but it is an impossible thing.

7052. *Mr. Bowen*: But it was not impossible for you to buy this business?—Of course it was not impossible for me to buy this business. Why should not we buy this business?

7053. I have not the least objection.—But why should we not buy it? We worked very hard, and we should have bought other businesses; if it had not been for this Excess Profits Tax. I do not wish to talk personally, but we keep our money in our business and reinvest it in that thing that we know the best.

7054. If the country in which your business exists is heavily in debt and all your customers are heavily taxed in one form or another form, reducing their purchasing power, does not that have any effect upon you?—It has very great effect upon the purchasing ability of the public, and we have to work that much harder to win that number more customers, because the individual customer cannot spend the money which he or she did before. Nearly every one of my people up there in Oxford Street, or three-quarters of them perhaps I may say, are paying Income Tax. That deprives them of that much money which otherwise they would either save or spend, and in that way reduces their buying ability. This is a serious thing for the business of the country.

7055. I am sure you will not take this as being personal?—Not the slightest.

7056. Suppose instead of your buying those businesses you had been called upon to contribute to a Capital Levy, reducing the debt of the nation, do you not think it would have been beneficial to your business and to your purchasers that they should have been relieved of that incubus?—I should hardly think so if it has taken a certain percentage of the available money-earning ability of the country to do it.

7057. But it is not your money-earning ability only. You are forgetting the earning ability of the people who have nothing to spend?—But if I am affected, or any company with which I am connected is affected, it seriously affects the ability to meet the pay-roll, and necessarily pulls that down.

7058. You would not have the extended pay-roll if you did not buy the business?—Well, each little individual business has taken care of itself, but if you are taxing yourself, or being taxed to the point that you cannot afford, you reduce your pay-roll, and you reduce your expenses.

7059. If I know Selfridge's I would not say that about them?—No, because we are a very progressive business. I am taking the average business of the country. I was saying to the Secretary, when I was waiting, that I tried to telephone to see where this meeting was, and I discovered that there is nothing doing across the way there until half-past ten in the morning. Personally I object to that sort of thing; I think it is poor management. I think the business of the Government ought to begin at 9 o'clock in the morning, as we begin, and work till 6 o'clock at night. That is what I think, and if I were in a position of control I would see that it was done. Work is what counts. It is all very well to have half a million people here who are being paid wages and salaries, but if they do not get around till half-past 10 or 11 o'clock and go away again at 3 or 4 o'clock in the afternoon, they are not doing their share.

7060. There are some people who start at 4 o'clock in the morning.—They start at 4 o'clock and stay till 12; that is another matter. We have such people in special posts.

7061. *Professor Hall*: I think Mr. Bowen's point was this, that, if the debt could have been reduced by some form of Capital Levy, the Income Tax which you now have to raise to pay interest upon the debt could have been reduced, and thus your purchasers would have been assisted, and from that side you would be benefited?—Yes, I know that theory, but you cannot take a tremendous chunk from the producing ability of a country and relieve yourself of part of the Income Tax by this means, and at the same time have the same producing ability. It cannot be done. This Capital Levy business is—well, no matter; you know what I think of it. You cannot reduce the strength of an undertaking, whatever it is, by a certain percentage without affecting the real ability of that undertaking to lift its weight. If you reduce any business 25 per cent. or 10 per cent., or whatever you choose, you deprive that

business of that much strength, just exactly as though you take the strength of that arm and reduce it by 25 per cent., you cannot lift as many lbs.

7062. *Sir William McLintock*: Suppose in your business that it was agreed to accept payment of the Capital Levy from you by taking a proportion of the share capital which is held, that would not have any effect on the business as such; the stock remains the same, and the debts and all the assets are untouched?—Then the theory would make the State a part owner in various businesses.

7063. Yes, certainly?—That I object to on general principles.

7064. *Mr. Hichens*: You are aware, are you not, that it was not proposed to place a Capital Levy upon limited liability companies at all; you have heard that?—Well, I do not know what the theory of the Capital Levy was, because I have looked on the whole thing as ridiculous.

7065. It is no use discussing it if we do not know what we are talking about?—Capital Levy, gentlemen, between us all, is perfectly ridiculous, but let that go. It is an absurd theory without anything to go on.

7066. *Mr. Bowen*: Of which you confess you know very little?—Of which I confess theoretically I know very little, but practically I think I know a lot. You cannot reduce a stream by a quarter and turn as many mill wheels as if you had not done it. Because you have amused yourself by taking off 25 per cent. of that stream, or whatever it is, and have not had to pay quite the same, you assume you are relieved of that, but you are not at all, because you have reduced the strength of your stream to turn your wheels that much. There is also the element of human nature, which is a very vital thing, which Committees, as a rule, and Parliaments, as a rule, and Governmental Offices, often fail to recognise. It is a very important item, and it is a delicate thing. If, for example, you take from me 25 per cent. of my business, I am irritated, but I say, "All right, all right." When you take it from most people, they say: "What is the use; we will stop trying." It is an element that must be considered. It is not just simply mathematics and theory; it is fact. How would you all feel if somebody came round and took 25 per cent. of everything you have got? Would you not say: "Well, I do not like this a bit"?

7067. To some of us it is being done now?—It is being done to me by my Income Tax, and more than that, but that is a different thing; I am able to earn it. This Capital Levy is proposing to take away my earning ability.

7068. *Professor Hall*: The capital of the country as a whole is not reduced by a Capital Levy?—It is individually reduced. The money-making ability of the country is reduced by a Capital Levy.

7069. It is taken from one set of individuals, and possibly a case might be put up that the capital is better in the hands of those from whom it is taken than in the hands of those to whom the debt is repaid?—But who is going to decide?

7070. Is the total capital of the country less?—The total working ability is less, yes.

7071. What becomes of the amount that you pay as a Capital Levy?—It may be distributed round. One may be relieved of certain expenses in the future, but that is not quite the most agreeable way, is it?

7072. Those who hold the debt would receive repayment of the debt. If the Capital Levy were applied for the purpose of repaying the debt, the debt-holders would then want an outlet for what has been paid back to them?—Yes.

7073. There is no reduction in the total capital of the country?—No, not of the country, but you take it away from somebody, for instance, and give it to somebody else across the street.

7074. That is another point; I think you might be able to make a case out there?—You may be handling the capital better than that fellow driving that cab out there.

7075. *Mr. Bowen*: Or *vice versa*?—Or *vice versa*, but if he can do it, why does not he get it to do it with?

7076. He has not got it?—He has got the entire privilege to get what you have got, but he does not get it.

7077. It does not follow?—It does pretty nearly.

7078. *Professor Hall*: Do you think there is an absolute reduction in the total capital of the country, or that the transference from the taxpayer to the debt-holder is a bad transfer?—I think it is a bad transfer. You can take everything from all of us if you choose and keep it in this country, and it is here just the same, but nobody thinks it will be wise. You can take anything that any of us in this room, or in this house, have got, and put it into the Treasury, but nobody thinks it will be wise. I think just the same about the 25 per cent. of the value. I try to be pretty broad on these things, but I cannot find anything to sympathise with in that fantastic thing called a Capital Levy.

7079. *Chairman*: Now we may go on to No. 3. (*Paragraph 3 read.*)

7080. *Mr. Bowen*: Which do you regard as being the more burdensome, rates or Income Tax?—Well, we consider the Income Tax is much the worse, because we pay a very large Income Tax. We pay Income Tax on our preference shares, which is unusual.

7081. *Sir William McLintock*: In effect it is really just a higher rate of interest?—It is a higher rate of interest.

7082. *Professor Hall*: It does not fall upon the business unless you have a profit?—No.

7083. But the rates do fall upon you whether you have a profit or not?—Yes, but I am looking at it from my standpoint. Of course, we have a profit, and we see to it.

7084. But take the business that has no preferred shares, would you say that in that case the rates might be a greater burden than the Income Tax?—It depends where they are. Some rates are very high, and some reasonable. We have not much to complain of as to rates. Rates are being reduced except in Poplar and a few such fantastic places as that. It is another case of the Municipal or the Borough Committees not seeing to it that they get enough value for what they are paying.

7085. Is it not also a case of having to pay very high rates of interest for the capital they borrow for municipal purposes?—Well, not wholly. Most of the boroughs, I think, are paying low rates of interest. Marylebone, where we are, are not borrowing any money now, but the pay-roll is bigger. They are doing it pretty intelligently. For example, only the last week or two they reduced the electric light price. These things are to be applauded, because it shows thought, and it shows intelligence; so we applaud them and write them and say: "That is very excellent." People are human; they like the compliment.

7086. *Mr. Bowen*: Which do you regard as being more important, to add to the reserves of a business, or to increase the purchasing power of the customers?—I do not think that anything that any individual business could do would increase the purchasing power of the people. I think in the circumstances I take a selfish view and answer: "By adding to the reserves," because it gives me greater ability to work for a greater number of people whose purchasing ability is reduced. There is no one business, or no thousand businesses, which can increase the purchasing ability of the people until we get to trading with our neighbours across the seas, in my judgment.

7087. Are you thinking of the effect of the Income Tax upon purchasing ability?—Yes; all taxes and all rates, but Income Tax particularly is a very serious thing. A very high Income Tax is perhaps the most irritating of any.

7088. But if you have taxation for dealing with questions of unemployment, Old Age Pensions, and

such things as that, do you agree that it would improve purchasing power and generally be of advantage to business?—Of course, if I had my way I should begin to abolish this dole from the time we started. Old Age Pensions are something we have probably got permanently, but they ought not to be increased. But the most objectionable thing of all in this country to-day is this dole.

7089. What would you put in its place?—I should leave a vacancy there, as far as I am concerned.

7090. You would not have anything to live on at all?—Well, I should reduce it gradually; I certainly should not increase it.

7091. Well, reducing it gradually means that you wipe it out ultimately?—Yes, and it ought to be wiped out. Have we got this thing for ever?

7092. No, I do not say that we have, but my point is this: as we are passing through this transitory period of great distress——?—It is eight years, you know, already.

7093. Well, we never had such a war as we have had?—Quite true.

7094. Do you think that the wiping out of the dole will have any effect upon purchasing power at all, would that be good or bad for business?—It would help to reduce our taxes and in that way would be a good thing, yes. I think the sentimental effect of the reduction of the dole would be a good thing.

7095. Who would be affected by the sentiment?—The public, recognising that we were getting out of this terrible weight of unhappy payment to people, many of whom are not entitled to it.

7096. But who are the public?—Do you not know who the public are? The people constituting the community are the public.

7097. A large proportion of them are those people who have no work?—No, not a large proportion. There are 1,000,000 people out of work. There always are 500,000 people out of work. Statistics prove that in this country, and in every country, there are a certain proportion of people who through laziness chiefly, and through inefficiency and drink, and this, that and the other, are always out of work. There are 500,000 people in this country who are receiving the dole who, in the most prosperous times, would still be out of work. Look at the statistics. Read Stoddart's book on the revolt against civilisation, in which he discovers that 40 per cent. of the people in America have only the intelligence of a child of 10 or 12 years.

7098. Can you give us any statistics, or any authoritative statement, which will show that a large proportion of the unemployed people are those who have got into that condition owing to their excesses?—I think this book of Stoddart's, if we are very much like the people of America, and I think we are.

7099. I am taking Great Britain, if you do not mind?—I do not know that any similar book to Stoddart's has been written.

7100. That is about America?—It refers to America, and it is perfectly plain that there are inefficients, there are lazy people who will not work if they can help it, and they do not.

7101. Would you find that in the higher strata of life, as well as in the lower strata of the people receiving unemployment dole?—Perhaps in what you call the higher strata of life there is not the necessity. They have perhaps been taken care of by their own people, or what you choose. There is no dole in America, and never was, because there a lazy, inefficient or dissipated man is looked upon as a waster and good for nothing, and his people have to take care of him.

7102. Do you not agree in those cases when they become a drag upon society that they eventually have to be provided for out of your business?—No, I do not discover that. They are taken care of by their people, and they go to what we call over there the poor-house. If I were going to have anything to do with it, I should immediately reduce the dole to the women. You cannot get a house servant because they are all getting their dole. I think it is an iniquitous thing. Politicians did it because they had to do something; something was necessary; but it ought not to be continued indefinitely and for ever.

7103. Would you give us something besides Stoddart's book to justify your statement?—About what—the unemployed?

7104. Yes.—I have not anything at my hand's end, but I do not think it would be very difficult to find it. I have not found it necessary, because I was very glad to believe that fact.

7105. You were waiting for it, were you?—Oh, yes, of course; because I know it is true.

7106. So you were prejudiced before you read it?—It is not prejudice; it is one's own experience.

7107. It is not experience, surely? If the unemployed people go to the workhouse they become a charge upon the rates?—Yes, but very few go to the workhouse.

7108. Some of them have to go, and some of them have gone in very large numbers; but they become a charge upon the rates, do they not?—Yes; I think the percentage is very small.

7109. Do you agree that they would be more costly in the workhouse than they would be by receiving the unemployment dole?—I think that the small number comparatively that go into the workhouse would be very much less expense to the State than the million and a quarter getting the dole, half of whom are not entitled to it at all. I am against this dole.

7110. *Mrs. Wootton*: Have you formed any idea of the saving on the taxes which would result if the dole were abolished?—No, not at all. I do not suppose it would amount to very much, and what if it did? My individual taxes are a matter of no particular moment. We are paying these taxes with perfect goodwill; but I think the dole is a bad thing for the country.

7111. *Mr. Bowen*: You are talking about the dole as something which you object to politically?—I object to it socially and sentimentally.

7112. Apart from that, do you think it has any effect on purchasing power, and the propagation of business?—How much are we paying for the dole?

7113. I have not the figure in my mind?—Probably £30,000,000 or £40,000,000 sterling.

7114. *Mrs. Wootton*: The total cost per annum is of that order, but of that only a proportion, one-fourth to one-third, is paid out of the pocket of the State?—Well, we are all the State, are we not?

7115. I thought you meant the charge on the taxes; that is what my question was directed to just now. I understood you to say at the beginning that one reason why you wanted to abolish the dole was in order to relieve the burden on the taxpayer?—I did not say that. I think perhaps the absence of the dole would help to reduce one of the various things that increase the taxes, but it seems to me not half so important as the sentimental effect on the State of 1,000,000 men and women, or more, getting that dole many of whom are not entitled to it. Some of them have to; we all have them; we have them in our business, and we know how it is.

7116. About one-third of the cost of the dole is provided for out of deductions from wages; about a third of the cost of the dole is provided by the workpeople themselves?—That is a matter of book-keeping, is it not?

7117. It is a matter as to which the figures can be verified, but I think you will find it is the case that the so-called dole is financed by the contributions from employers and workpeople and a subsidy from the State. The subsidy from the State is much the smallest part of it, and about one-third comes from the workpeople?—You collect so much from the workpeople which you put in the Treasury, and then you pay out the dole, and, if you wish to make it a matter of book-keeping, you say that a certain part goes to paying the dole, or you can say that a certain part of the death tax goes to pay the dole; it is purely a matter of book-keeping. I do

not think it follows because you are collecting a certain amount from the workpeople that that particular part is going to pay the dole. They paid that before the dole was inaugurated.

7118. I am not referring to the general contributions of workpeople to the general tax fund; I am referring to the specific contributions made by way of stamping their cards by workpeople to the Unemployment Insurance Fund out of which the dole is paid. I think you will find that about one-third of the cost of that comes out of those deductions from wages?—We have not had any reduction.

7119. *Professor Hall*: I would like to take up another point, if I may. You made some reference to ability to put to reserve. Do you favour any differentiation in tax upon amounts put to reserve as distinguished from amounts paid out as dividend? It has been suggested, for example, that businesses would be assisted if amounts put to reserve were exempted from tax, or if they were charged to tax at a lower rate; what is your view upon that as a business man, both as to desirability and practicability?—I do not know that I have any idea on that; it would not make a bit of difference to us, and I do not know that my judgment on that would be good for anything. A business which needs reserves ought to put them to reserve if it is well-managed, instead of paying out any dividend, but there is always an inclination to pay out as much as you can in dividend. In our business the ordinary shares are owned by myself, and therefore it does not make any difference how much I pay to myself out of the profits for the ordinary dividends. I can put a large sum to reserve and depreciation every year, which will keep it up. I do not know that I would be quite intelligent on that, because we are so independent in what we do.

7120. You pay tax on the whole of the profits, whether distributed or put to reserve?—Yes.

7121. And you do not feel that there is any burden by reason of the fact that you have to pay on that part that goes to reserve??—I do not think so. As far as we are concerned, we are pretty indifferent to these things.

7122. *Sir William McLintock*: In paragraph 3 you say quite distinctly: "The present very large taxes have, of course, subtracted large sums from the annual savings of many businesses."—Quite true.

7123. That is the point. The suggestion that is being made is that the annual savings of the business which at present pay 4s. 6d. might be assessed, because they are set aside for future development at, say, half the full rate?—Yes.

7124. We wanted to get your view on that particular point, whether it was a desirable or a practicable thing to give some relief on that portion of the profit that is set aside?—If the taxes are so large that the profits are reduced and the ability to save a certain amount is limited, of course, it affects the business, but it does not make any difference with us. I am speaking individually, because we do as we please about that thing, and we shall. I cannot talk intelligently on the relief from taxation on the amount put to reserve, because we put to reserve whether we are taxed on it or not. This is the first time I have thought of it, but it looks to me rather like getting down to the small detail of this thing when you talk about relieving certain amounts put to reserve of a certain amount of taxes. The shareholders are calling for dividends in public companies all the time, and they want as much as they can get, but I do not think there is much gained—at least, there would not be, as far as I can discover.

7125. It is put forward quite seriously by traders as a whole that this is a form of relief that they ought to get?—Yes, perhaps so.

7126. They say: "We cannot develop and extend our businesses because the sum of money which we usually set aside for the purpose has to be depleted to the extent of 4s. 6d. in the £."—Yes.

7127. Does it seem to you to be a material point?—Of course, it would be a relief, but it seems to me rather a detail of not much consequence. It would make quite a difference to us because we put a large sum to reserve, but we are not at all inclined to stress that matter.

7128. It is the only burden that falls on a limited company at all, because they take the rest of the tax off the shareholder?—Some of them do, and some of them pay the Income Tax themselves, as we do.

7129. That is only a matter of description. You talk about a tax-free dividend, but it is not really that; you are paying a higher rate of interest. One man pays 5 per cent. free of tax and another pays 7 per cent. less tax, and the result is roughly the same?—Yes; well, you can call it so if you choose. It really is paying Income Tax, and when the Income Tax comes down the amount we pay is that much less.

7130. Your rate of interest fluctuates with the tax?—Quite.

7131. *Chairman*: Now may we go to paragraph 4? (*Paragraph 4 read.*)

7132. *Mrs. Wootton*: We had a witness yesterday who told us rather emphatically that high rates of taxes are a deterrent to the individual who is trying to save; they do destroy the incentive to save?—Well, it may act that way sentimentally; it does not with us.

7133. It is not your view that it does act as a deterrent?—I presume it might sentimentally, but I was thinking more of myself, and our indifference to those things. I was thinking, perhaps, more from a personal standpoint.

7134. You have not found it acts in that way in your experience?—Oh, not at all with us; of course not.

7135. *Chairman*: Now, may we pass to paragraph 5—(*paragraph 5 read.*)

7136. *Mr. Bowen*: You say: "Income Tax adds a serious percentage to the expense account." How can it add to the expense account when it is only levied on net profits?—Well, is not that the same thing? What is the difference? One has to pay it out at the end of the year.

7137. *Mr. Hichens*: Not if a loss is made?—No, but a business man has to pay it if he makes a profit, and he has to figure that, in figuring his estimates with people in other parts of the world.

7138. He may be in competition with somebody who is working at a loss?—He may be.

7139. He has to take the world price or the market price, whatever it is?—Yes.

7140. That may conceivably be fixed by a man who is paying no Income Tax at all?—It may be. It is a little difficult for the man working at a loss to compete, though.

7141. Well, if you had any experience of the export trade, you would know that it was being done?—Yes. It is a little difficult to make good.

7142. I was wondering how far you could say in a manufacturing export business that Income Tax adds a serious percentage to the expense account. I do not see why it adds a serious percentage to the expense account any more in manufacturing than it does in any other form of business?—Manufacturing business, as I understand, should be done, at least in my judgment, on a very competitive basis if we are going to beat Germany and the rest of these countries, and that item is a serious matter. With us, we are competitive, but we are not so competitive as a manufacturing business. As I read it, these intelligent people who are patriotically inclined who are trying to compete in South America and elsewhere, say they have great difficulty in doing it, and one of the items of great importance to them in their tax; I assume, therefore, that they are telling the truth. We pay our taxes, and it is an important matter, but it is not vital with us.

7143. *Professor Hall*: If the tax goes on to the price, then the consumer is going to pay?—The consumer abroad is going to pay if he gives the order; if he does not give the order, he will not pay.

7144. But it goes on to the price; that is your presumption?—It must necessarily go on price; somebody has got to pay it.

7145. If the exporter can get a higher price because he is more highly taxed, why did he not get a higher price previously? Presumably he is always trying to get the highest price possible?—He is not getting as much as he should. We are not selling the stuff that we should. We are not competing as sharply as we should, in my judgment. I would like to see this country get all the export business, but it does not—far from it. We get what we can, but we have to compete.

7146. Then he cannot put it on the price?—He has got to put it on the price, otherwise he is coming out at a loss. He does put it on price, and probably loses the order.

7147. But how can he come out at a loss if the tax only falls on his profits?—He assumes that, and it is fair to assume it, because that is the record of his business. A man cannot assume he is going to make a loss, and not count it in.

7148. Have you had any experience of the manufacturing and export trade?—No. We have 30 or 40 little factories, but they are nothing of any consequence; they are only in connection with the departments.

7149. In speaking about the business you know most about, you say that Income Tax hardly enters into the question?—Not quite "hardly"; I said it was not vital.

7150. It can hardly be said to enter into the fixing of prices, you say, and yet in regard to the business you know least about you are more dogmatic?—Because I believe what these people say. They are as good citizens as we are; is it not fair to believe what they say?

7151. *Mr. Hichens*: They do not all say it.—Most of them say it; I do not know of any that do not.

7152. Well, I do.—Of course—in your business. I have something to say about your kind of business when it comes down to it.

7153. Are you going to put on to the price of your commodity 4s. 6d. or 2s. 6d. in the £, or what?—I should think people would put it on the basis that they are obliged to pay. We are not sure that Mr. Churchill is going to reduce it, are we? Is he going to reduce it this time?

7154. I should have thought the ordinary individual would have charged as much as he could for his goods?—Can he get a business if he is going to do that?

7155. He charges as much as he can to get the business?—Of course, you know that as well as any man in London. You know exactly how sharp you have to be with figures.

7156. You get as high a price as you can?—To get the business; but you do not want to keep on losing the business.

7157. It may be for all you know that one of your competitors is making no profit at all, and therefore will have no Income Tax to pay?—Yes.

7158. If you are going to put Income Tax on to your minimum price, and he is not, you will lose the business?—Yes.

7159. Therefore, it does not enter into your calculations when you are making your prices?—I should think it would, because you know you have to pay it if you make any profit. It is part of your expense, and you have to try and make a profit.

7160. But you also know you have not got to pay it if you do not make a profit?—But you assume that you do make a profit, otherwise you would not apply for the job.

7161. What you do is, you get the best price you can. If the price you can get is 5s., you do not say to yourself: "6d. of that is Income Tax." You say: "I can get 5s.; therefore I must charge 5s.," or, "I can get 5s. 6d.; therefore I must charge 5s. 6d"?—You have some sharp competitors. Do you not say: "Hold on; I have got to pay certain expenses. I can make that, if I can get these workmen to work,' which is very difficult nowadays. "If I can get them to do this work it will cost so much. I have to pay this everlasting blessed Income Tax; I will tack that on. I think I can do it for 4s. 9d." You do not say: "I am going to charge 6s.," because if you do, you will not get the job.

7162. But if you think you can get 4s. 9d., you would put that price on, whether you pay any Income Tax or not?—Perhaps you would, but instead of the figure of 4s. 9d. you would get it as low as you could consistent with your principles of doing business in order to get the business, if you are competing with those fellows across the North Sea.

7163. Therefore, Income Tax does not enter into your calculation when you are fixing your price?—It is part of your expense.

7164. No, it is not?—It is part of my expense.

7165. It comes out of your profits if you make any?—Yes; that is part of the expense. We pay our Income Tax each month—at least we make it part of our expense account. Perhaps we keep our books differently, but we know we have to pay it; therefore we do not take it out of our profits at the end. If you have read our balance sheet you would see that our Income Tax is paid as we go along, and is part of the expense. I think that is the most conservative way to do it; you know you have to pay it.

7166. *Sir William McLintock*: Is it part of the expense of any company to pay the Income Tax which the shareholders pay? It is the shareholders who pay a very large portion of the Income Tax?—They do not in my business.

7167. Well, they do. You choose to call it "free of tax," but as I have said already you are simply paying them a higher rate of interest. Each of those shareholders of yours can go to the Government, and if his income is below a certain amount, can get the tax back. They can go to the Inland Revenue, and say: "There is my dividend from Selfridge's," and if the income is below a certain figure they can get their tax back. There is no known figure, as Mr. Hichens says, that any manufacturer or limited company can add for taxation. We have not had a single manufacturer here who makes the same statement as you do who can state definitely that in his costs of the article that he is producing or selling there is a sum put for Income Tax?—I feel that the Committee is not in accord with my judgment on this thing; I quite recognise that. They are manufacturers, and I am not. I have gathered from what I have read of my friends' remarks at their meetings, and so forth, that it did affect prices; perhaps it is wrong.

7168. *Mr. Hichens*: You put in your rates, because those you have to pay; they would come in your ordinary overhead charges; but there is all the difference between that which is a known sum, which you have to pay anyhow, and Income Tax, which is an unknown tax, which you may not have to pay at all?—We know exactly what we have to pay. Come down and I will show you some time.

7169. *Professor Hall*: Is not the point rather with business men that the Income Tax reduces the net return that they get from their business?—I think that is just the same as increase of expenses.

7170. No, not of expenses?—What is the difference?

7171. It is reducing the profit from the business?—Is not that just the same thing as increased expenses? If we make a quarter of a million a year and we do not have to pay Income Tax, we would make £60,000 more; I do not see the difference.

7172. The expense is something you have to pay whether there is a profit or not?—Yes.

7173. Something which you have to pay only when there is a profit cannot be considered an expense in the same sense?—Well, I do not know that. I am not quite capable on that, because we insist upon making a profit. I do not know that I am quite able really to discuss that matter.

7174. *Chairman*: Now will you take paragraph 6? (*Paragraph 6 read.*)

7175. *Mr. Bowen*: What do you mean by the phrase, "when this country can afford it"?—I mean when we get into a reasonably prosperous condition again, and it is not just taking all the strength of the people to pay taxes to meet the current expenses plus the interest. If we could have prosperous times in this country, reasonably good times, there would be very much less difficulty in paying these taxes.

7176. Do you mean that the Death Duties should be used for debt reduction and not for current expenses?—I say Death Duties should only be used in reducing the debt. Again that is a piece of book-keeping. To take the savings of a lifetime and apply them to the pay-rolls over here in Whitehall, I think is a great mistake.

7177. *Sir William McLintock*: Assume that the income from Death Duties is £50,000,000 on the receipts side of the account (this is pure book-keeping) and on the other side of the account the payment of Sinking Fund is £50,000,000, would you suggest that the Death Duties had gone for any other purpose than the reduction of capital?—I think perhaps I am a little technical on this; I think it is really a matter of book-keeping; but I object to taking so much money from the savings of the people for the Treasury. With your permission I will quote just three or four lines of what Mr. Coolidge said the other day on the Inheritance Tax: "To take an excessive proportion of the estates in this way for the cost of the Government can only mean that the Government will be living off the capital of the community. This we should seek to avoid. To pay Inheritance and such taxes in cash, executors must sell the property which comes into their hands at what is equivalent to a forced sale with the usual consequence of lessening the value," and so forth.

7178. *Mr. Hichens*: That is to say, you would make the Sinking Fund the amount of the Death Duties with a minimum of £50,000,000?—No, I do not mean that. I mean that I should tick off the Death Duties as not to be applied in any way to the expenses of running the country, but would emphasise the fact that they were towards the reduction of the debt, whatever it might be.

7179. You would not have them over and above the £50,000,000 Sinking Fund?—No, not at all.

7180. What I mean is this: Supposing the Death Duties, as they do this year I think, amounted to some £59,000,000, would you say that the Sinking Fund should be £59,000,000 on that account?—I should not say that the debt should be paid at present more than £50,000,000 sterling, but I would let the Death Duties do their share in paying the debt rather than in going to pay the pay-rolls over here.

7181. *Sir William McLintock*: Is it not the same thing in the end? If you were keeping these Government accounts on ordinary commercial lines you would probably place the revenue from Death Duties to one account, and against that you would charge the capital payment such as the Sinking Fund, and the Sinking Fund is not the only capital payment of the Government expenditure; there is any amount of capital expenditure under the other heads?—You are quite right; it is really a matter of book-keeping, but there is the sentimental nature of it. People think that their estates are being taken to pay the pay-rolls in Whitehall.

7182. You do not think that?—I do not, but the public do. I should emphasise the other thing. I admit it is purely a matter of book-keeping, but I do think it is a matter of sentiment, and I do think that the amount required of large estates is too big; that is a personal feeling.

7183. *Mr. Bowen*: Have you any view as to what the standard should be?—I think it should be very much reduced; you can say anything you choose.

7184. *Sir William McLintock*: Where do you suggest you would get the revenue which is required at present?—I should relieve that item one of the first, as a matter of not using the capital of the country.

7185. Suppose you cut it down by half?—We cannot do that yet. This is a little jump in the future that I have ventured here.

7186. That is, you would leave the Income Tax at its present high rate and relieve the Death Duties?—No, not yet; I said, after a while, when we could afford it. I think the first thing to take care of is the general effect on the public as a whole, not only our own public, but the world's public, in the matter of the reduction of Income Tax. The effect on the mind of the man in California, in Buenos Aires, and Bombay that this country not only pays its debts, but at the same time is able to reduce its Income Tax by 6d. even, I think is very favourable, and I think those things should be played on as much as possible.

7187. If you reduce the Income Tax by 6d., that probably means £25,000,000?—I thought it was about £15,000,000, but no matter; I do not know.

7188. You also suggest a reduction in Death Duties later on?—No, I do not; I suggested that they should be reduced when it can be done. I only ventured to say that they are too high, in my judgment; I do not say they ought to be pulled down to-day at all. Let us pay them for a while, but I think, on general principles, for a country like this, the Death Duty percentage is too high; it is a serious matter.

7189. It is not too high in times like the present?—Not at the moment; not at all. (*Paragraph 7 of Evidence-in-Chief read.*) I presume, gentlemen, that my kind of business is as much affected by the 1½d. stamp as anybody's, but it is an item of expense, and I think that perhaps there is too much fuss made and too much talk made about reducing it to 1d., because it cannot be done. I have been on that Post Office Committee, and I know it cannot be done without a serious loss, and I do not think we ought to consider it.

7190. *Sir William McLintock*: And the consumer pays?—The consumer pays.

7191. *Professor Hall*: Is that the question that is asked here? It is not about postage stamps, surely?—"Stamps" is one of the things.

7192. *Sir William McLintock*: I think it covers the lot?—Postage stamps and stamps on cheques, and everything.

7193. *Professor Hall*: This is really directed to the other kind of stamps, on legal documents and transfers of shares and cheques rather than to postage stamps?—All stamps seem to me to come under more or less the same category. Stamps are an added annoying feature, but I do not think they are appalling. (*Paragraph 8 read.*) I do not know whether you gentlemen are familiar with the Sales Tax or not.

7194. Might I ask one question on the first sentence before we go on to discuss the Sales Tax: Would you agree that a tax on textiles would be hidden and indirect?—I do not know that I should pick out textiles particularly; it is part of the general scheme. I should not pick out textiles specially any more than furniture, or anything else.

7195. We want to get at the virtue you attach to a tax being hidden and indirect?—The virtue I attach to that is that everybody pays his share. Out of 47,000,000 people, how many people are paying taxes in this country?—a very small percentage.

7196. It has been accepted by a great many people that it is extremely desirable in the interests of good government that a taxpayer should know what he is paying?—Wait a minute. Does that necessarily follow? Who says so? What makes you think so?

7197. A great many people hold that view?—But let us talk it out for a minute. Why should it be necessary for a man to know? Who cares as long as it is hidden? Are you any happier because you know you are paying something that you do not like to pay than if you did not know?

7198. But it tends to inefficient government if Governments can get the money without the taxpayer knowing how much he is paying for the goods, and how much he is paying in tax?—The Government is stating just what it is receiving. I see no advantage in emphasising the amount a man is paying in tax. Take the hat on that lady's head; that has cost her 1 per cent. more, and she does not know the difference, and nobody can tell whether that hat is worth so many pounds, or so many more pounds. Nobody can tell. The manufacturer cannot tell; we cannot tell. If we take 1 per cent. from her on that, I do not see that it is necessary to tell her of it.

If I may take two or three minutes upon this, the Sales Tax affects a business like ours perhaps more unfavourably than any other business, because our kind of business comes in direct contact with the households of the land. It is a very intimate business. But if we can make that man driving that cart pay a certain percentage of the tax, I think we are better off than if we only let 2,000,000 people, or whatever the number is, out of the whole great public pay all the taxes of the country. I think we should distribute these taxes and make him do his share in paying for the civilisation and advantages which he gets by living in this country.

7199. *Mr. Bowen*: How can you call that a hidden tax?—Because you cannot discover it. That watch chain of yours may cost so many shillings or so many pounds; 1s. more or £1 more and you do not know the difference

7200. I recollect when I paid for this watch and chain the man who sold it to me put a 2d. receipt stamp on the receipt. I should imagine in every sale you would make at your shops you would require that your sales people should put a revenue stamp on each voucher you issue?—No; that is only £2 and more.

7201. It may be anything; it makes no difference. You are not hiding it. The fact is that that stamp would be there on that voucher?—There is no stamp used—oh, no.

7202. Pardon me. It is a question of ways and means, I agree. I cannot imagine that any Government would allow any shopkeeper or proprietor to inflict the tax without accounting for it in some form. (*Sir Josiah Stamp*): I take it that Mr. Selfridge is referring to the way in which the Sales Tax is administered in those countries that do it without a stamp, but do it entirely by reference to the books of accounts of the company and make them pay a percentage on the turnover. (*Mr. Bowen*): That may be so, but I have other countries in mind where they use a stamp. (*Sir William McLintock*): Might Mr. Selfridge elaborate his scheme and let us see?—(*Witness*): I do not know of any country where they use a stamp.

7203. *Sir William McLintock*: They do in Brazil. (*Mr. Bowen*): They do in Belgium, I think.—(*Witness*): Only on luxury stuff, I think.

7204. *Sir William McLintock*: In Brazil it is put on for every purchase.—There is a luxury tax in France, but it is only luxury stuff.

7205. *Sir Josiah Stamp*: There is no stamp in the German system; it is done on the books?—Yes. The Sales Tax means the placing of, say, 1 per cent. on the value of the article that goes to the consumer. The exception made in Canada is certain articles of food, which is probably general from a taxation standpoint. The difficult question is to decide whether it should be done at the source or at the point of distribution. There are many points that are very difficult, and it means the increasing of certain articles by a microscopic per cent. which nobody can discover. Whether *that* bag is worth 30s. or 35s. nobody on this green earth can tell; it is purely a matter of competition and comparison. Nobody can tell exactly what that is worth except by competition. Nobody can tell what *that* suit of clothes is worth; the manufacturer cannot tell. Suppose this suit costs £12, or £11, or £10; it is all the same. The possibility of clearing a large sum of money by a Sales Tax is therefore very great, and nobody knows the difference, which I think is a desirable thing. I cannot see any advantage in telling people that they are being bled. The trouble with it is that when a Government discovers it can get money so easily it keeps adding to it as they have done in Canada. They started in Canada with 1 per cent., and now, I think, they have got it up to 4½ per cent. the last I heard. Of course, it becomes very iniquitous and very difficult.

Then the other difficulty is to decide whether it shall be at the source where the goods are manufactured, which is the fairest way, or at the point of distribution where they simply take a percentage on our annual returns, and let it go at that. But the Sales Tax *per se* is the best hidden tax; they tried to put it through in America but could not do it.

7206. *Chairman*: How would it work with cotton? You first of all manufacture a cotton piece, and 1 per cent. would have to be paid?—It is not cumulative; it is only in one place. That is the trouble in Germany. In Germany they do put it on here, and there, and everywhere, until they have got about 12½ per cent., which is a very great difficulty.

7207. I was only thinking that 1 per cent. on some of these export cottons would make a difference where the piece is sold at only 1 or 2 per cent. margin?—There may be cases like that where it is extremely difficult.

7208. There are some articles where the 1 per cent. is of no value, but if you take it on the manufactured article first, the cotton piece, then you take it on the dyed piece, then on the finished piece, all the same process, when do you pay on it?—It must be the first or the last, in my judgment—either at the source of supply, where the article is ready for the market, or where it is finally distributed to the consumer.

7209. *Sir William McLintock*: Take your own business: you buy at a certain price, and you are suggesting to us to put the tax on your buying price?—I would suggest putting it on our selling price.

7210. If the tax is put on your buying price it is probably one-third less than if you put it on your selling price?—You have got the estimate pretty high, but let it go.

7211. *Sir Josiah Stamp*: Let us assume that you do some work on it; that you have the material, there is a lot of work done with it, and you subsequently sell it for a much higher price, and there is additional profit on the extra work?—Yes.

7212. *Sir William McLintock*: Then the tax must be put on. If you put the tax on the raw material, say, for a suit of clothes, and then afterwards make it up, do you have any additional tax?—You cannot put it on in both places; you have to have one or the other, otherwise it is not fair.

7213. *Sir Josiah Stamp*: How do you get over the cumulative difficulty? In Germany at the time when the turnover tax was 2½ per cent., complaints were made that it resulted in an addition of 10, 12½ or 15 per cent. to the consumer. Wherever it was the practice for an article to be sold in a separate form it was imposed. The consequence was that you got this roll up of the tax. They said: "It is very unfair, because it plays into the hands of the large integrated businesses"—the Selfridges of Germany—"who can do everything from the raw material to the finished article. They get the full benefit of that cumulative addition, and they only have to pay once to the Revenue"?—I think the German system is entirely wrong, and I think they think so themselves, but they cannot get out of it.

7214. How can you get out of it?—I would only have it at the point of distribution, or a higher tax at the point of origin. You have to decide what is the point of origin—whether it is the dyed article ready to sell.

7215. Will you take the case of putting it on at the point of distribution? How can you avoid the advantage accruing to a large integrated concern that

does a number of processes itself when its final product is in competition with something that comes through a number of different firms, each of which sells to the other at an advanced stage?—But the point of distribution is the final point of consumption; that would eliminate the wholesalers.

7216. Take this by way of illustration: I go into a shop and ask for gas mantles. I ask for a dozen; six of them are for use in my shop, which is not the final point of consumption, because they are part of my working expenses in my business, and six of them I use in my parlour and my bedrooms, which is the final point of consumption. How do you determine, for all those articles which may be used immaterially for business or personal purposes, which is the final point of consumption?—It is assumed that if you use six of those in your own establishment you charge them to yourselves, because you do not take them out of your stock; it is a matter of book-keeping: that is the point of distribution. If we have 12 gas mantles and put them in stock, and I use six of them, I pay for that six, or it is entered in my account. The house pays 1 per cent. on those six when they have sold them to me; in other words, it is the point of consumption.

7217. When I am in the shop and ask for the 12 mantles, does the man add on the whole tax at that stage?—No, because you are buying, presumably, to sell again.

7218. I do not know; I take 12 mantles?—If you are in the business then you do. If you just go in and buy them, you pay at the time, but if you are going to sell them again, that is another thing.

7219. I say: "You must not put the tax on half of those things; I am not going to consume them finally"?—Yes.

7220. *Sir William McLintock*: You say: "I am going to put 50 per cent. profit on before I sell them"?—That is one of the points that is not very difficult. You buy something for a business; if you are privately buying it they charge you 1 per cent. If afterwards you sell six of those mantles, not being in the business, then you take the chance of being caught doing something you ought not to do.

7221. *Sir Josiah Stamp*: Supposing I am a vendor of bicycles and a man comes to me and asks for two bicycles and says: "I will pay the duty on one because I am going to ride it myself, but I am not prepared to pay the duty on the other because that is going to be used by an errand boy in my butcher's shop"?—That does not make any difference; you would have to pay it whether you charged him with it or not; it is a detail. When the Government comes to you and says: "How many bicycles?" you pay it on the two.

7222. Then I sell the two bicycles to him and charge the turnover tax, but can you say that that is the final point of consumption?—Well, there is something traded afterwards, but when a woman buys a table it is presumably for use in her household.

7223. It may be, or may not?—She may swop it with her next door neighbour, but you do not care much about that.

7224. Nobody can tell when he sells an article whether the purchaser is the final consumer or not?—99¾ per cent. of them are. There may be small items, of course. We used to swop jack knives when I was a boy. I bought that knife to use, but if I swop it with a school mate, that is a detail.

7225. Supposing you sell steel rails to a railway company, is that the final point of consumption?—Yes. If the railway company is in the business of selling rails then that is another matter.

7226. It buys steel rails, but it sells them in the form of railway tickets?—But it is not in the business; if it is in the business it buys them wholesale.

7227. *Mr. Hichens*: If the railway company makes its rails for itself it will not pay?—Yes; it is up to them; they consume them.

7228. *Sir Josiah Stamp*: Does it not pass on the tax in the price of the tickets?—It is a sale to itself, because it is in the business. This matter of this Canadian business is very informing, and if it is thought to be of any value at all it certainly is worth looking into. A man could find out from Canada more in a day than I know altogether. It does seem to me to be worth thinking about. We could get £50,000,000 sterling from this thing without very much trouble, and everybody would pay his share. We all make him pay his share. I venture to make that suggestion because, while it makes us a lot of trouble and it would be very difficult for us to get one per cent. more for our stuff in competition, I think we could do it; we should simply say: "We must add it on," and nobody would know the difference.

7229. *Professor Hall*: This would require every shopkeeper to keep books?—Yes; he keeps his returns; everyone does, as it is.

7230. But do they?—Yes; he knows how much he sells.

7231. Oh, no.—If he does not, he must be made to do it.

7232. *Sir Josiah Stamp*: Every hawker would have to be licensed and his licence taken away if he did not provide books?—Yes.

7233. *Sir Josiah Stamp*: That would be a most inquisitorial form of taxation. (*Professor Hall*): How would you guarantee his honesty?—(*Witness*): How do you guarantee any honesty? If you catch a man, lock him up.

7234. Is there not a vast difference between checking your returns as recorded in your books and checking the returns of the corner shopkeeper?—Yes, but I think one man could check Marylebone in a week; there is not much trouble about it.

7235. *Mr. Bowen*: How would you tax the costermonger?—What do they say in Parliament when you have to get information to answer a question later—"I require notice of that question." I do not know how I would tax a costermonger; perhaps I would not tax him—I do not know. It is a simple matter. These things are not appalling.

7236. But we are getting at the ways and means?—I do not think it would be very hard to think it out.

7237. *Sir Josiah Stamp*: It would not be a very small matter for the shops?—It would not be a difficult matter.

7238. Small shopkeepers would not regard it as a small matter?—It is like selling chocolate or tobacco after six o'clock; it is a small matter. It makes one tired.

7239. *Sir William McLintock*: How would you tax the farmer?—I would not tax a farmer on what he sold, unless he sold directly to the consumer.

7240. He sells a cow or a steer, or whatever you call it, and that animal is used for all sorts of purposes. Its horns may be used for making buttons, its hide for leather, and its flesh for food?—Each one of those individual items pays at the point of consumption.

7241. *Sir Josiah Stamp*: Not the whole animal?—No. They do not tax food in Canada, but I would tax food a little. The meat and the hide and everything else pays at the point of consumption. Somebody has to pay when he buys his pair of boots.

7242. *Sir William McLintock*: But the farmer would not have to pay at all?—No.

7243. *Professor Hall*: In some towns, of course, the farmers sell their milk direct to the consumer?—I would make him pay; it is a very small matter.

7244. In some cases their customers are restaurants?—Yes—well, that is all right. The farmer has paid his tax on the milk and the milk that goes into the tea is not an item, but the tea the man is serving is charged to him by the wholesaler who sells him his tea.

7245. *Sir Josiah Stamp*: Quite a lot of the farmer's produce would be sold at the point of consumption and taxable through him?—Yes.

7246. And quite a lot would be things not taxable through him?—Yes.

7247. *Professor Hall*: If he is going to be taxed upon the milk that he sells, how are you going to distinguish between the milk that he sells to the individual consumer and the milk that he sells to the restaurant keeper? If you don't make the distinction you are going to tax your milk twice, once in the hands of the farmer and once in the hands of the restaurant keeper?—I do not know how you would do that thing; it has got to be thought out a little, whichever is the most reasonable and least expensive way of doing it. The expense of collecting a tax is the very great feature, and this thing is so simple. It would create difficulties, but still I am inclined to advocate it because of the method of getting in a great many millions sterling.

7248. If we adopt your recommendation, we have got to meet all these criticisms, and we want the answers to them?—Why do you not say, if you think it is worth while, "This thing seems worthy of attention, and one of us will go over to Canada and come back and tell you all about it"?

7249. *Sir Josiah Stamp*: I may say I spent many months examining this project?—Why do you not recommend it?

7250. Unless you were prepared to face the consequences of the roll up and what that meant to a large combine in the way of extra profit, you would have to give the thing up. This idea of putting it on the final point of consumption could not be worked; that is the conclusion I came to.—How do they do it in Canada?

7251. They have a mixture; they simply do not carry it through; in the main they have a roll up?—I did not quite understand that, but suppose you do have a roll up, is it anything very serious?

7252. No, it is very nice for the large business which does all the processes itself?—I cannot quite see how we get a roll up if we pay on our annual returns.

7253. *Professor Hall*: I know a business which has farms and raises cattle, which makes its own leather and makes its own boots, and does its own wholesaling and retailing; would there not be some rolling up there?—No.

7254. If it is taxed on each process?—No; it must not be taxed on each process, but at the final point of consumption. It disposes of the stuff somewhere. It either disposes of it retail, in which case it pays the 1 per cent. or 1½ per cent., or it sells it wholesale to somebody else who does the distribution; I do not see any roll up.

7255. *Sir Josiah Stamp*: The question is this: Suppose there are two ways in which an article is brought to the market, an article that passes through five distinct stages which is usable at any one of those stages; each one of those separate sellers has a tax on his turnover?—A Sales Tax?

7256. Yes?—No, he must not, unless he is dealing with the consumer.

7257. I am telling you how the roll up occurs. The roll up occurs because at each point where it is bought it is sold commonly to consumers and commonly to people who do something more with it, and it bears the tax. By the time the final consumer gets it it has passed the fifth stage, and it is five times taxed. Now comes along a large integrated concern which does all those processes itsef. Its turnover tax is computed on its final turnover. It is in competition with everyone in the market and has the benefit of the price which is brought about by that five-fold roll up, and it pockets a large part of that difference itself?—I have difficulty in understanding how that wholesaler or that manufacturer that is selling to this small fellow pays any tax. The little fellow pays his tax and the big fellow pays his tax, but the man who cuts that stone, or whatever you choose, pays no tax; it is the final consumer.

7258. It is the ultimate consumer that you are proposing——?—Why is not that the best system?

7259. Because I think it is impracticable?—Everything is finally consumed, is it not, otherwise it would not be made. At that point you charge 1 per cent.: then you get the advantage of very easy collection, and, furthermore, you get the advantage of the 1 per cent. on profit.

7260. You do not see any difficulties; that is your evidence?—I see difficulties, but I see a great reward for it, and I do not care much what difficulties there are in this world. Who cares about difficulties? I do not think there is anything impossible in it.

7261. You would replace the Income Tax and the Super-tax with this, or relieve them with this?—I think I would rather recommend it with reference to making the Income Tax less.

7262. Not the Super-tax?—Oh, yes, the Super-tax. I think the Super-tax ought to be reduced with reasonable regularity in connection with the Income Tax, but one is careful about saying that, because one pays Super-tax, and a big one, and one does not want to seem to be selfish.

7263. It would be in relief of the two taxes?—Yes.

7264. *Professor Hall*: Would you charge the Sales Tax on furniture?—I would charge it on everything I possibly could, because I want that man over there, who is not paying any taxes and is enjoying the advantages of civilisation, to pay his share; he is not doing it.

7265. *Sir William McLintock*: But if he drinks and smokes he is paying something?—That would make him pay his share, and he would never know it; I would not tell him it either.

7266. *Professor Hall*: You would charge it on furniture?—Why not?

7267. Would you charge it on buildings?—I would charge it on everything I possibly could. When you take the whole list with the thousands of items in it, you might find something that you could not charge, but I would charge it on everything I could. I would charge it on food, although of course there would be a lot of talk about the dinner table and all that sort of thing, but they would never know the difference.

7268. If I were erecting a building, you would put a 1 per cent. charge on that?—Yes, I think I would at the point of consumption. It is a building to consume. You can think of 50 things while we are sitting here, which you would perhaps trip me up on, which I should have to think out. There is that statue over there; I would put it on that statue; that is the point of consumption.

7269. If I had a man who came into my house to make bookcases for me, would you put it on that?—Yes; as long as you are going to use them, why not?

7270. I am just asking you?—In the first place, you do not have a man come in as a rule; you go to somebody in the business who pays the 1 per cent. If you have a man, it is entirely outside; that is an extreme case, and it may be a little difficult, but what of it? £50,000,000 sterling is worth it.

7271. These extreme difficulties are the ones that will be put up to us?—All right; say: "These little nuts are small nuts, and we can crack them as we come to them." It is not very difficult. I believe that the collection of a small tax at the point of consumption, while it would quite likely be opposed by many of my neighbours, of course, and by all the little fellows, still if it could be discovered that it would raise a great sum of money which we want now without anybody knowing it, would be a good thing.

7272. There is another side to it: what effect do you think this might have upon wages?—I do not think it would have any effect at all, because it would not be noticeable. You know really there is nothing that any of you have that you have bought with regard to which you know within 5 per cent. what it is worth.

7273. *Sir Josiah Stamp*: What do you think this 1 per cent. would bring in?—I have seen it estimated that it would bring in £50,000,000.

7274. At the final point of sale?—I should think so, at least.

7275. *Chairman*: Does that include exports?—No, I do not think so.

7276. *Sir Josiah Stamp*: You estimate then that the final point of sale value at the point of consumption of everything that is sold in a year is £5,000,000,000?—There are 47,000,000 people: is £100 apiece too much for those people?

7277. Including women and children?—Yes.

7278. Oh, yes; much too much?—Is it—£100 a year?

7279. Yes, certainly?—If it was £100 a year it would make £4,700,000,000, so you would have got enough to go on with there, £100 a year would be £4,700,000,000. I think £10 a year would be safe enough. We figure that we ought to sell, and we are not doing our duty unless we sell in our business, on the average £4 per annum per inhabitant. That gives us an amount which we ought to sell in this place in Oxford Street £40,000,000 sterling, and we have not got there yet. That is what we figure, £4 per inhabitant; but if you figure up food, clothing and everything else, all the people in this country at £10 per annum, it is pretty cheap, less than £1 a month.

7280. We know pretty closely what the final value of the production of the country is as consumed; that is known pretty well from the census of production and other figures. Supposing it were £5,000,000,000; 1 per cent. on that would yield your £50,000,000?—Yes.

7281. But if it is very much short of £5,000,000,000, you would not get your £50,000,000?—All right; you would get less.

7282. You agree with that?—Yes, but we are not taking the point of production. The point of distribution is very much more than the production, because you have got your distributor's profit, which somebody said a few minutes ago was 33⅓ per cent.

7283. *Sir William McLintock*: I was referring to gross?—Yes, to gross.

7284. *Sir Josiah Stamp*: People cannot spend more than the total income in the year?—No.

7285. If you take the total income of everybody in the country, that will give you the outside limit, apart from what they save out of it?—Yes, and that takes in a good many things. The class of merchandise which we are selling in what is called dry goods is from 16 per cent. to 20 per cent. of the income, the food is something like 40 per cent or 50 per cent. of the income. We have figured that all out time and again; whether it is nearly right or not one does not know, but that is roughly it.

7286. Would you think that the national income, including savings, and before taking off taxes, is somewhere between £3,000,000,000 and £3,500,000,000 at the present time?—I do not know, but out of the 7,000,000 people, whose income has been stated, 3,500,000 have got less than £150 a year income.

7287. I do not quite agree with your figures, but the proportions will do. Unless you can get the figure up higher than £3,000,000,000 you cannot get more than £30,000,000 at the very outside for your tax?—That is so; I had not figured that up.

7288. I wondered how you would get the £50,000,000 yield. It is really a sort of figure that you fancied you would like to get?—I ought to inform myself a little more, but I have seen several articles on this subject. The fact is that I gathered a tremendous lot of data on this, when I was keen about it a couple of years ago, from America, Canada and everywhere else. I gained the impression that by putting the thing into effect here we would get £50,000,000 sterling, but perhaps that is wrong. They have tried very often to pass the Sales Tax in America, and some of their biggest papers are for it, but of course you know how difficult it is to bring about an arbitrary result, no matter how good it may be, in a democratic government elected by universal suffrage.

7289. I have discussed this many times with American millionaires?—Are they not for it?

7290. The millionnaires are all for it, yes?—Well, what more do you want?

Chairman: Thank you very much, Mr. Selfridge for coming and telling us your views this morning.

(*The Witness withdrew.*)

TWENTY-THIRD DAY.

Tuesday, 5th May, 1925.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman*,
SIR CHARLES ADDIS, K.C.M.G.,
SIR ALAN G. ANDERSON, K.B.E.,
SIR ARTHUR BALFOUR, K.B.E.,
MR. J. W. BOWEN,
PROFESSOR FRED HALL,
MRS. BARBARA WOOTTON,

MR. G. R. HAMILTON, *Secretary*,
MR. G. ISMAY, *Assistant Secretary*.

MR. E. B. TREDWEN, SIR KEITH PRICE and MR. HORACE BARRETT, representing the London Chamber of Commerce, called and examined.

EVIDENCE-IN-CHIEF handed in by MR. TREDWEN.

Witness will state:—

1. I am Senior Partner of Gilbert J. McCaul & Co., Australasian Shippers and Merchants. I have had a wide and lengthy experience of the Australasian trade, and also of trade with other countries. I am Treasurer of the London Chamber of Commerce, and Chairman of its Merchants' and Australasian Sections.

GENERAL.

2. I have been requested by the Merchants' Section of the London Chamber of Commerce to give evidence on one or two points which may not have been dealt with in evidence from other quarters, and am desired in the first place to state that the Section fully endorses the evidence given before the Committee by Sir James Martin, J.P. (a Vice-President of the London Chamber) on the 4th November, 1924, on behalf of the Chambers of Commerce as a whole.

3. The Section desire me to emphasise the following points:—The resources of a trader for the development of his business are limited by the extent of the taxation on that business, and where he conducts an export business, his ability to compete in the world's markets is weakened in proportion to the amount of the tax. When there is competition from abroad, a considerable proportion, if not the whole of the tax, falls on the merchant or the manufacturer, who is unable to pass on the burden to the consumer as the price is determined by the cost to his foreign competitor.

4. The tendency on the part of Dominion and Colonial Governments is to abolish or to reduce the basis of preference hitherto given to British goods, unless any reciprocal tariff arrangement exists, so that with the high taxation per head in this country as compared with foreign countries, British exporters are finding themselves less able to compete with foreign exporters, even in Dominion markets.

The Effect of Taxation upon British Firms established abroad.

5. There are many firms and companies in England who are practically foreign firms with headquarters in London. These firms were originally established here when expenses and taxation were low and communications and transhipments were more easily conducted from this country than elsewhere.

6. These conditions have now changed. Apart from the handicap of our high taxation, shipping is at least as easily effected from foreign ports.

7. As an instance may be mentioned the Portuguese wine trade. When trading facilities in England were very favourable, competition from Portuguese firms was almost non-existent. Firms domiciled in England have now, through high Income Tax, high rates, and Super-tax on partners and shareholders, to compete under most unfavourable conditions, with British and foreign firms domiciled in Portugal. The latter are making large fortunes from being free of British taxation, whilst a firm which is established in both countries, with all its profits, wherever made, being brought to England, are in a much less favourable position and less able to compete with the above-mentioned firms.

8. British firms of the kind referred to are disinclined to extend their business so long as practically half of any profit has to be paid in taxes, and some of them are seriously considering whether it would not be of advantage to move the headquarters of their business from England. In one case to which my attention has been drawn, two-thirds of the business pass from one foreign country to another and do not come to this country at all, but the profits on this business are subject to British taxation.

9. It must be remembered that such firms are subject to the same taxation in foreign countries as are their competitors domiciled in those countries.

The Effect of Super-tax on the Business of Merchants.

10. The present system of imposing and collecting the Super-tax, falls very heavily upon import and export merchant firms, whose partners, instead of making heavy personal drawings from profits, have re-invested them in the business. This sacrifice has enabled firms to add to capital account every year a considerable sum which, being part of trading profits, has been assessed to, and has paid, Income Tax.

11. The extra capital has enabled the owners to carry on a larger business both export and import, and also to extend their region of action. This has resulted in increased exports of British manufactured goods, and enlarged imports of Dominion products and minerals required in iron and steel works, thereby creating employment in this country, and increasing the buying powers of the Dominions and Colonies.

12. The result of adding to capital in this way is that the business not only pays Income Tax on a larger income than the previous year, but is also assessed for Super-tax on the extra capital added the previous year, which had already paid Income Tax.

13. It is admitted that the method of arriving at the sum to be assessed may be perfectly in accordance with the law governing the Super-tax, yet the effect is to penalise firms who endeavour to extend and develop their businesses by re-investing their profits in those businesses.

14. In the case of companies profits retained in the business escape Super-tax, and it is submitted that an anomaly exists which should be removed by placing private firms on the same footing as companies, in so far as the assessment to Super-tax is concerned.

7291. *Chairman*: Mr. Tredwen, I think you are the first witness. If you will kindly read your paper, it will help us to concentrate on it; you may be asked questions on the various paragraphs?—(*Mr. Tredwen*): Yes. (Paragraphs 1, 2, and 3, read.)

7292. *Sir Charles Addis*: Are you including Income Tax in taxation on business —Yes.

7293. When you say that where there is competition from abroad, and the merchant is unable to pass on the burden of taxation to the consumer, do you suggest that in normal circumstances he is able to pass on the burden of Income Tax to the consumer?—He is obliged to do so, because the Income Tax is a part of his costs.

7294. That is a very much laboured question; would you just amplify it a little and explain to us by what means he is able to pass on to the consumer his Income Tax?—By charging a price sufficient to cover the costs of manufacture and the Income Tax which he has to pay. Because in the profit he makes he has to cover the profit for himself and the Income Tax which he has to pay to the Government.

7295. *Sir Alan Anderson*. By aiming at a rather higher profit?—He has to aim at a higher profit to cover taxation.

7296. *Sir Charles Addis*: I do not doubt that he aims at it; the difficulty is to know how he obtains it. Is not the price governed by competition?—Yes; that is where the British manufacturer stands at a considerable disadvantage compared with the merchant or the manufacturer in France or in Germany, where taxation is much lighter.

7297. Take the case of two businesses, one of which is on a small scale and on which therefore the tax falls at a low rate, and the other where it falls at a higher rate. How is the price determined there? Is the man who pays the higher tax enabled to put a higher price upon his article as compared with the man who pays a lower tax?—I take it that in making up his costs and adding his profit he has to consider what taxation, Income Tax for instance, he has to pay, and he has to consider the rates and all the other taxes that he has to pay; that makes up his costs; then he puts on a margin of profit for himself, and of course it is his profit that is subject to the direct Income Tax, and if he wants to get a sufficient reward for his own exertions, he must put on an addition to his price sufficient to cover the profit to the Government as well as the profit to himself.

7298. Will you indicate at what point the tax enters into price, in the case of two competitors, one paying at the full rate of 4s. 6d. on his profits and the other paying at 2s. 3d.?—When they make the price to the buyer, the one who has to pay the smaller taxation naturally has not to cover the same amount for taxation as the one who pays the higher rate.

7299. That is quite clear. My whole point is: how is he able to exact the higher rate from the consumer. If you take two competitors, one of whom on the hypothesis pays no Income Tax at all and the other pays the full rate, how is it that the latter is enabled to compete with the one who pays no tax? Would not you have two prices in that case?—Probably the one who pays no tax would get the order and the other man would not.

7300. Would not that determine the price?—The prices quoted by the two men would determine who got the order.

7301. Would that determine the price?—As I have said, the calculation of the costs that enter into the price has to be made, and if those costs are higher in the one case than in the other, the man with the lower costs naturally is more likely to get the business than the one with the higher costs.

7302. So that in that case the man with the higher costs would only be able to pass on a part of the Income Tax?—Yes, because if he gets the business, he will have to cut it fine and make a very small profit for himself compared with the other man.

7303. *Chairman*: Do you add the Income Tax to your standing charges?—One has to consider it.

7304. It is a tax on profit, you see?—Yes.

7305. Do you calculate so much per cent. estimated Income Tax before you quote your prices?—I am not a manufacturer; I am a merchant.

7306. In making up your price, including the amount of profit, do you include something for Income Tax?—It works in this way. In many cases I have declined to do business because the reward for doing it would be inadequate.

7307. *Sir Charles Addis*: That I see; you may not be able to do the business at all; that is quite clear; but I do not think you have really made it quite clear to me how it is that where you do the business, you are able to pass on the Income Tax as against competitors who are not under a similar disability. (*Sir Alan Anderson*): Is not the answer this: that if British firms were competing among themselves, without any outsider, they would all be paying this high direct Income Tax, and their desire for profit would be on a higher scale because of it, so all their prices would go up?—(*Witness*): Yes.

7308. But when they are competing with the outside world, they are not enabled to put up their prices to cover this extra tax; and they may be deterred from entering into competition?—That is exactly it; it means declining to do the business.

7309. It seems to me very much like the difficulty about standing charges. A man who has got heavy standing charges is not enabled because of them to get a higher price for his article, but he must get a higher price if he is to supply?—Quite so.

7310. *Professor Hall*: Following that argument, you would say that higher Income Tax leads to higher prices?—Yes, undoubtedly.

7311. And some of it then is passed on to the consumer?—Yes.

7312. Would you say that it equally follows that a reduction in tax is going to mean lower prices?—It would mean lower prices, because it would reduce costs.

7313. Do you think that manufacturers and merchants, because the Income Tax is lower will voluntarily reduce their prices, or what is going to bring about the reduction?—Of course it is a gradual process. It is a process that may not be very conspicuous, but naturally with the decreasing costs of working a business, you can do the business for closer prices, of which the consumer will get the benefit.

7314. Do you mean that with lower taxation you may be induced to accept orders that otherwise you would not accept?—That is so; as I said just now, I have refused orders frequently because the reward on them would be inadequate.

7315. But if you are now getting orders in the world's markets with the present high rate of taxation, there is nothing apparently to prevent you continuing to get that trade, and, if the tax is reduced, the saving would go into your pocket as manufacturer or merchant. Would that be correct?—I find that a great deal of business that we used to do is being done now by Germany especially, and France, because I think they can do it under less taxation than we are. We lose business in that way.

7316. Simply because the inducement to you is not sufficient by reason of the high taxation?—Yes. In every bit of business that you do there is some element of risk. It may be very small sometimes; but when you are doing business you have to consider: "How much am I going to get out of this and what is the risk"? If you find that what you are going to get out of it is very little indeed, it is not worth taking the risk of it.

7317. I can see that, but it is a question of how far and for how long this fall of prices will go through a reduction in Income Tax. You say it takes some time before the price does come down as the result of a fall in the Income Tax?—Yes.

7318. *Sir Alan Anderson*: Do you think that traders are being hampered just now by a scarcity of capital in the trade you are dealing with?—Yes, that is so, because through the very high rates of taxation it is impossible to accumulate the capital in one's business that one would in the ordinary way and that one used to accumulate before taxation was so heavy. An increase of capital enables one to do a larger business, and to take more risk than one will when capital is not being increased, as at the present time in many cases it is not being increased.

7319. *Chairman*: Sir Keith Price and Mr. Barrett, if you like to interject any remarks on the evidence of Mr. Tredwen, the Committee will be quite agreeable for you to do so.—(*Mr. Barrett*): Thank you, my Lord. In confirmation of what Mr. Tredwen says, I would just like to remark here that this condition bears more hardly on the manufacturer probably than on the merchant. Mr. Tredwen spoke of refusing business. A merchant can do that to a certain extent but it is impossible for a manufacturer to do that on anything like the same scale; because as a rule he has a very much larger organisation to support and keep going; he has a factory and he has a large number of factory hands and machinery which must be kept going, and in very many cases he has to accept business whether there is an adequate profit on it or not.

7320. *Chairman*: Then your next paragraph, Mr. Tredwen?—(*Mr. Tredwen*): (*Paragraph 4 read.*) I might amplify that a little by saying that I have noticed in the indents which we have received from Australia and New Zealand during the last few months a steady increase in the proportion of German, Austrian and other foreign goods which we ship, and consequently a lessened quantity of British goods. The preference helps us a great deal, but the policy of all our Dominions appears to be to manufacture for themselves everything that they possibly can, and, although they give us a preference, the Customs duties which they charge on our shipments are so high that it gives very great assistance to the manufacturer in Australia or South Africa, and of course an equal disadvantage to the British manufacturer shipping.

7321. Some people in Australia say that the German traveller's method of doing business is better than that of the English traveller. They get their goods put up in a better form and more saleable. Is that true?—It may be to some extent. It probably was much more true a few years ago than it is to-day. In my own experience most manufacturers are very thankful to receive from their customers suggestions for the improvement of their goods or the get up, the way in which they are packed and presented to the public. We very frequently have recommendations of that kind from our clients abroad which we invariably pass on to the manufacturers, and I think in almost every instance we have found that the suggestions have been received very gratefully and have been adopted.

7322. On a Commission where I was sitting some time ago one man said that if a foreign customer asked for certain things to be made up in a certain manner, English people said: "That is our way of making it up and we shall not change for anyone." He said that if he gave his orders to Germany or to other countries they would immediately do anything in that form. Is that you opinion?—Twenty years ago I should have said there was a great deal of truth in that. To-day I do not think there is much.

7323. *Professor Hall*: How far do you think the alteration in the proportion of foreign goods to which

you refer is due to the recovery of the countries on the Continent and not necessarily to any defects of organisation in this country?—I think the recovery on the Continent is largely due to the lower taxation which they have to pay.

7324. But how far is this alteration of proportion of trade with Australia and South Africa due, do you think, to the recovery of the Continental countries?—They, like ourselves, could not manufacture very much during the War, but now they are manufacturing and recovering very well, and they are regaining trade, especially in steel goods. I have noticed this week very large orders for cutlery of various kinds, all kinds of tools for engineering trades, and tools for agriculture, and other things—all those kinds of small hardwares are very largely coming now from Germany, whereas a few years ago they went from here.

7325. Do you think that is partly due to the recovery of Germany; she is in a better condition to-day than she was four or five years ago to do trade of this character?—Yes, and I think the German Government has been able, through not paying its fair share of reparations or anything else, to assist their industry very largely. To-day they appear to have spent the whole of the loan that was recently given them, and that has gone, I think, largely in assisting manufacturers and shipping companies and various trades which directly compete with us. Then they have reduced very greatly their railway charges. Now that is a very important matter, because here we suffer from very high railway rates. The Germans have been reducing their rates very considerably, especially on exports.

7326. On the general question, of course, you would probably agree that unless Germany had some export trade and some prosperity our prospects of getting adequate reparations are rather remote?—Yes, but I think their prosperity at the present time is much greater than ours. I should not call ours prosperity at all. Ours is adversity. Theirs is prosperity.

7327. The point I want to bring out is that during the last few years there undoubtedly has been a recovery in Germany?—Yes.

7328. And this increase that you have mentioned in the exports from Germany may be partly a regaining of the position occupied by Germany before and not necessarily stealing an advance upon us?—Some of the orders I was looking at this week certainly contain a great many items which even two or three years ago we should have been buying in this country.

7329. Would you mind comparing the position with pre-war days?—I should say that in pre-war days Germany was making great strides in the export trade and more particularly in the heavy lines. Germany and America had practically captured the whole of the bar iron trade, wire, wire nails, fencing wire, and so on, which we used to get from this country many years ago. Germany, Belgium and America had practically captured the bulk of that trade.

7330. Would you say the proportion of your indents from Australia that you obtain to-day from Germany is greater than the proportion you obtained in pre-war days?—No, I think not, because the preference given to British goods in Australia prevents Germany getting such a big share as before. To give you an illustration—I think it will appeal to Sir Alan Anderson—before the War my firm paid more freight to the German-Australian line and to the Norddeutscher Lloyd Line than we did to any line in this country. That was because they had a great share in the iron and steel business at that time.

7331. *Sir Charles Addis*: You refer to the damaging effect on British industry of high taxation in this country as compared with other countries. But in order to institute a fair comparison would you not have to take into account the relative wealth of those countries?—That is a question which I have not considered very closely and I should not like to give an answer to it. (*Paragraphs* 5, 6 *and* 7 *read*).

7332. Do you propose any particular relief for British firms operating abroad, or do you merely put forward their case as a general one against taxation?—I will give you one illustration—Sandeman's, the port wine shippers. They are a Portuguese house, you may say, because their wine is made in Portugal, and they could ship from Portugal direct to other countries, such as Belgium, Germany, and Northern Europe; but if their profits on that business are brought to this country and subject to our taxation, they are in a very unfavourable position to compete with a firm domiciled in Portugal and doing business direct with those countries.

7333. I understand that. Then do you propose any relief for those firms?—It appears to me that they should only be taxed upon the profits made in this country, not on the profits made practically in Portugal doing business with other countries. And the same would apply to other businesses.

7334. You are aware that the Royal Commission on Income Tax made recommendations with regard to that?—I cannot say that I am aware of it. (*Paragraph* 8 *read*). People are inclined to transfer their business abroad and carry it on from there rather than in this country, by making subsidiary companies to carry out the business in those foreign ports instead of making their headquarters here. That is a tendency that I have seen in several instances.

7335. *Mr. Bowen*: Have you any idea what would be the relief to business and the reduction in the amount of revenue if your suggestions were adopted?—I could not tell you the number of businesses that would be affected by it. I look at it in this way. If we drive business firms out of this country we have not got the opportunity of taxing them here; and if the taxation is moderate and not so immoderate that they are tempted to go abroad, then that amount of tax is for the good of the country.

7336. Have you anything in mind as to what is a moderate taxation?—If the tax were half what it is to-day I think that would be something more reasonable.

7337. But even then, according to what you have told us, your business people would not pay that Income Tax; they would pass it on?—We try to.

7338. Then what is the objection of the business men? Where do they pay their Income Tax?—They pay their Income Tax in this country. That is the tax we are objecting to.

7339. And still they pass it on?—They are bound to pass on a good deal of it—all they can.

7340. In effect then they pay no Income Tax?—The consumer has to pay ultimately.

7341. *Chairman*: Can you suggest to us any means whereby that difference can be raised in this country? What other taxes would you have in order to make good the reliefs you suggest?—I think it is easier to suggest reductions of expenditure, economies rather than increased taxation, because everything almost is taxed now to the utmost—more than it ought to be.

7342. Have you given any thought as to new methods of taxation or to any definite scheme of reduction in expenditure?—It appears to me that we are spending a great deal too much on education, for one thing. Education is a very good thing, and very desirable, but I do not think that the very high education that we are paying for to-day is of very great advantage to the community. If I may cite my own case, I was in business when I was 16. Now they talk of carrying on education much further. I have never found any disadvantage from the fact that I began so early. I have not found that the education was insufficient for the work I have to do and the place I have to fill; and when you come to people who do not have to enter into the managerial side of business, but are labourers—and we must have labourers—then I think it is unnecessary to give them such very high education as is being given now at such an enormous expense to the country. We are spending far too much on it. We cannot afford it, and just as a father now cannot perhaps afford to send his sons to college and has to take them away from school earlier than he would like, so I think it has to be passed down the

scale through all the nation. We are spending too much on it. Then there are many other things on which we could economise. I believe Labour Exchanges do no good to the country whatever, but they are very expensive. The Civil Service, if I may say so, costs very much more than it did, and while everyone in the country, through taxation, has to live on a smaller income than before, I do not see why the Civil Servant should not have to do the same. In business we cannot make the profits we did, and we all feel the pinch, and it appears to me that the Civil Service might be very considerably reduced; at any rate, we are spending more than we can afford on it.

7343. There are three things on which you suggest expenditure might be reduced; Labour Exchanges, Education, and the Civil Service?—Yes.

7344. Have you gone deeply into that matter?—No, I have not. It has not been part of my business.

7345. *Mr. Bowen*: You would not suggest that education is purely education for business purposes and business purposes alone, would you?—No, but I do not think that the sons of the working classes in this country require the education that is being given to them at the present time.

7346. I suppose you take up the attitude that what was good enough for us fifty years ago is good enough for our sons to-day. Is that the idea you have in your mind?—Perhaps I should not go so far as that, but the education that is being given, I think, is often of very little practical use to the boys in after life. They are being taught things that will not really be useful to them in after life; and education for the masses really should be education that will make them useful in future life, and it should be with a greater view to their business capacity and their capacity for work, than anything else.

7347. You just produce them to work; nothing more?—Quite so, just as I work and just as each one should work in his calling and be educated in proportion.

7348. The whole outlook on life must be practical and nothing more?—We have to work harder than we had to; there is no question about that.

7349. You say you went into business at 16?—Yes.

7350. Would it surprise you to know that I left school at 11 and went into business at 11. Can you tell me that my education was complete at 11?—I do not think my education is complete to-day; but there is where it is: the education that I have been getting and which you have been getting, if I may be allowed to put it so, is the education of the world of life and not the School Board education that I think is too expensive at the present time.

7351. You and I may have had very exceptional advantages which we seized; but would you regard that as being the proper general level for the country to look forward to? Are you not up against all the educational experts in the country?—If you look at the syllabus that is taught in the schools, there is a great deal that is unnecessary and not of any practical use.

7352. What would you call of practical use in education?—For instance, the decimal system of arithmetic, without which you cannot get on in engineering or anything of that kind; really good arithmetic and really good writing and English, are the most essential things, I think, for the boys of the masses to-day.

7353. That is all; you want just to adopt a system of decimals and a little arithmetic?—I think a boy should be able to do any arithmetical calculations. That is most important.

7354. *Sir Alan Anderson*: Are we not getting into rather more detail than is necessary on the educational points?—*Mr. Bowen*: I was trying to find what is in Mr. Tredwen's mind, because I want to do him justice. If Mr. Tredwen will tell us exactly what he means by the restriction of education, we should better understand his point?—*Witness*: I really did not come prepared to give evidence on that question.

7355. *Professor Hall*: Are you now expressing the opinion of the London Chamber of Commerce or your own individual opinion?—The *précis* of evidence that I have put in is the considered opinion which has been approved by the Chamber of Commerce, but when you ask me questions here round this table, I am bound then only to give my individual opinions, because I have had no opportunity of asking such questions of my colleagues.

7356. I ask this about education because I believe the London Chamber of Commerce interests itself in education?—Yes.

7357. Has the Chamber of Commerce itself increased expenditure upon education during the last twenty years?—We have not increased our expenditure very much in recent years, because it is not the expenditure of the Chamber itself; it is subscriptions. We have an Education Committee, and the subscriptions to that amount, I think, to about £600 or £700 a year, and that we expend; but we do not expend very much of the funds of the Chamber on it.

7358. Is your total expenditure on education something less than £1,000 a year?—Yes, I should imagine so; I have not got the figures with me.

7359. Having regard to the scope of your educational work, I should have been inclined to doubt that figure, but I do not know the facts?—May I explain that the Chamber does no education itself: it holds examination and gives prizes for pupils, but it is not an educational body itself.

7360. It encourages education?—It encourages commercial education.

7361. The point I want to ask is whether you think education should be a training for citizenship or just a training for industry and commerce?—I think for industry and commerce, first, because the education for citizenship comes in their after life, as it has come in ours. (*Paragraphs* **10** *and* **11** *read.*) I do not quite agree with the logic of the last part of paragraph **11**. The way in which it has increased the buying powers of the Dominions and the Colonies is that the increased capital in the business enables one to give greater facilities, in credit and other ways, to the Dominions. (*Paragraphs* **12**, **13** *and* **14** *read.*)

7362. On paragraph **12**: is the position not just the same as the position of a man who may have money invested, say, in War Loan, who does not spend the whole of his income but invests that which he saves and, as the result of that investment, increases his total income? Does he not become subject to Super-tax in just the same way?—I think I have not considered that question sufficiently to answer.

7363. I ask that because you seem to think the business man is suffering some injustice because he is taxed to Super-tax on account of his having a larger income, because he has saved and invested in his business?—Yes.

7364. I want to suggest to you that the man who saves from investments in gilt-edged securities is in just the same position?—That I have not considered at all, because I have been looking at it entirely from the trading point of view, and not from the point of view of the investor who lives on the income from his investments.

7365. *Sir Arthur Balfour*: Is the real difficulty this? You might leave money in a business to-day and, by arrangement, the Government might not charge Super-tax on that, but what guarantee could they have that it will remain in the business? Is not that rather difficult?—You cannot guarantee that the capital you have in your business shall remain intact. You may make losses.

7366. Or you might draw it out in two years' time in another form?—You might have to draw it out to put it into some other subsidiary business that would also bring in income.

7367. Then you would draw it out as capital. Is not that the difficulty of the Inland Revenue? —Yes.

7368. *Sir Alan Anderson*: Apart from the recent law which restricted the rights of small private limited companies, those firms limited under the law as it was two years ago or so, were allowed to keep their reserve profits in the business without being assessed to Super-tax?—Quite so.

7369. Is there any real reason why a large number of those private firms should not come under the law of limited liability companies?—I think that the private firm and the company should both be treated in identically the same way.

7370. But, if you do that, you get into the difficulty that has been put to you, that the private person is also forced to pay Super-tax on reserve profits which he does not spend. So that if you went back to the position we were in two years ago, or whatever it was, of limited companies, even private companies were entitled to reserve their profits without paying Super-tax on them. Now they are not. The question I was asking you is whether there is any reason why private firms should be shy of limiting? Would they not carry on their business just as well if they were limited companies?—I do not think so. In regard to my own firm, I have always said I would never make it a limited company, because a limited company has no soul to be saved or body to be kicked, as I think Sidney Smith remarked. In my own experience, a private firm is better liked by the people with whom it does business, than a company. There is not the same personal touch in the case of a company, or the same associations as in the case of a private firm.

7371. You think there is a real point in keeping them unlimited?—Yes, there is a reason.

Chairman: Thank you, Mr. Tredwen.

EVIDENCE-IN-CHIEF handed in by Sir KEITH PRICE.

Witness will state:—

1. I am Chairman of Messrs. Price and Pierce, Ltd., Timber Agents; Chairman of the Committee appointed by a Conference, convened by the London Chamber of Commerce, of associations and individuals interested in the question of the liability of agents for the Income Tax on the profits of their non-resident principals; and, as Chairman of the Anglo-Finnish Section of the Chamber, am a member of its Council.

2. I desire to urge upon the Committee the imperative need for an alteration in the law governing the liability of agents for the Income Tax of their non-resident principals, in the interests not only of brokers and general commission agents but of the national exchequer.

3. At the outset I should remind the Committee that, although the question was before the Royal Commission on the Income Tax which reported in 1920, the only evidence given came from the manufacturers' agents, as the subsequent action of the Inland Revenue Authorities in attempting to extend Rule 10 of the General Rules for the Income Tax, to cover brokers and general commission agents, was not anticipated.

4. Section 41 of the Income Tax Act, 1842, re-enacted in the Income Tax Act, 1918, renders liable to Income Tax the profits of a non-resident arising "from any trade . . . . exercised within the United Kingdom."

As non-residents are not within the United Kingdom jurisdiction, in practice they escaped taxation; the Section remained for many years a dead letter.

In some instances where foreign traders had branches and stock in the United Kingdom the goods were invoiced from abroad at a price which did not permit of any visible profit being made and, consequently, they escaped liability to Income Tax.

5. To meet the situation thus created, Mr. McKenna (Chancellor of the Exchequer) introduced a Section into the Finance (No. 2) Act, 1915, (Section 31). This was subsequently incorporated in the Income Tax Act, 1918 (General Rules 5-11). The Courts have decided that this legislation does not create a fresh charge, but is purely administrative.

6. If a foreigner was not previously liable to Income Tax he could not become so under this Section but the important point was that agents were rendered personally liable for the Income Tax of their principals under certain conditions.

7. General Rule 10 is as follows:—

> Nothing in these rules shall render a non-resident person chargeable in the name of a broker or general commission agent, or in the name of an agent not being an authorised person carrying on the regular agency of the non-resident person or a person chargeable as if he were an agent in pursuance of these rules, in respect of profits or gains arising from sales or transactions carried out through such a broker or agent.

8. Mr. McKenna, on 7th December, 1915, speaking in the House on Clause 31, said:—

> "If the agent is doing a bona fide business and receiving his 1 per cent., the ordinary trade return, there will be no more Income Tax charged, except on the agent's profit of 1 per cent. But if there is a collusive arrangement whereby the agent gets no profit, he will be charged in respect of the proper profit of the agent. That is what Clause 3 says. Otherwise we are not extending the existing law . . . If he comes under the Act of 1842 the question is settled; he is liable. If he does not come within the Act of 1842 he will not come under this fresh Clause. The only new effect of this fresh Clause as it relates to agents is that contained in sub-Clause (3)—that is to say—it relates only to conditions in which there is a quasi-collusive arrangement between the non-resident principal and the agent. It is the universal desire of the House that Income Tax should be charged in that case. Apart from that, the Clause does nothing so far as the agent is concerned . . . Not unless he is already liable. We do not propose to make any change in the existing law in that respect . . . It says in the Clause that a non-resident principal shall be liable. That is the only new liability which we create so far as it relates to a non-resident principal becoming liable through agents . . . .
>
> I can assure the hon. Member that we will watch the operation of this Clause with the greatest care. It cannot be long before another Budget will have to be introduced, and if we find the alarming things happen which he has predicted, we can then deal with the matter. We do not want to kill British trade; in fact, it is absolutely essential that British trade should be maintained in all its branches. The Government, equally with the hon. Member desires to bring within the harrow of the Income Tax all persons whom we are all agreed ought to be taxed and if we find that we have done more than that we shall be able to remedy it next year."

9. It is clear from the foregoing that the intention of the Government in introducing this Clause was exclusively to defeat collusive arrangements to evade legitimate taxation. It was certainly not the intention of the House at that time to interfere with the general agent and broker, and yet this is now being done.

10. The terms broker and general commission agent have never been defined. In some branches of commerce "broker" and "agent" are interchangeable; in others one or the other is employed; in others again, the agent and broker perform distinct functions.

11. Rule 10 would appear to mean that companies and firms which arrange the sale of goods for a foreigner (and this word includes the British Empire overseas) on commission and who act for a number of foreigners—the general commission agent, that is to say, as opposed to the special agent—cannot be held liable.

12. Unfortunately, the Board of Inland Revenue hold a different view and general agents are now being assessed. Their view is apparently that if a commission house, although acting for numerous shippers, acts continually for any one foreign shipper or has an agreement with him then, ipso facto, the commission house becomes a special agent for that particular shipper and is thus liable for his taxation. If this view is correct at law, Clause 10 may be considered as of no protection to the ordinary commission house, which, if it is of any importance, will probably be continually handling the same shippers' goods, and if any serious amounts are involved, is certain to have some sort of agreement with its principals abroad.

13. A number of cases have already been before the Courts (some have still to go to final Appeal) whilst many others are pending.

From the decisions already given it would seem that if the contract is signed in the United Kingdom the trade is carried on within the country and the agent is accordingly liable for the tax. Even where this is not the case and no stock is held in the country according to a recent judgment (Belfour v. Mace) liability can still arise.

Brokers and general commission agents are then apparently liable for tax in respect of every transaction carried out for, in many cases, hundreds of foreign principals.

14. The main difficulties under which agents, in general, suffer may be enumerated.

In the first place, they are often unable to say whether their principals can be said to be trading "within" the country and cannot, therefore, tell whether any liability to Income Tax exists.

In the second place, Section 29 of the Finance Act, 1923, empowered the Inland Revenue to go back over six years (but not earlier than 1920-1921) and, if held liable, it would be manifestly impossible for the agent to obtain reimbursement from his principal.

In the third place, should the agent make a payment out of funds in his hands belonging to his principal, the latter could sue him in the foreign (or Dominion) Court and attach property which the agent may (and often does) possess in that country. Furthermore, unless under special agreement, the agent cannot legally retain the monies of his principal.

In the fourth place, the amount of profit earned by the shipper is entirely unknown to the commission house.

15. But there is a vastly more important aspect of the whole question, namely, the cumulative effect upon the national exchequer.

16. The trades affected may be divided into three categories:—

(i) International trade;
(ii) Entrepot trade;
(iii) Import trade;

and (i) should be sub-divided into:—

(*a*) Sales between two non-residents;
(*b*) Sales between two non-residents with British houses intervening.

17. The Inland Revenue Authorities have expressed the view that (i) and (ii) are protected from assessment by General Rule 11.

General Rule 11 is as follows:—

> "The fact that a non-resident person executes sales or carries out transactions with other non-residents in circumstances which would make him chargeable in pursuance of these rules in the name of a resident person shall not of itself make him chargeable in respect of profits arising from those sales or transactions."

18. However, in a very large number of cases, neither the shipper nor the commission house knows the ultimate destination of the goods. In many trades the majority of the produce is sold delivered in the country of origin and the buyer is entirely free to re-sell the goods wherever he wishes; the ultimate destination would be impossible to trace. This applies equally to the entrepot trade. Foreign produce is landed in Britain and buyers come from all parts of the world to buy. Much of it changes hands two or three times before being finally exported or consumed in this country, and neither the shipper nor his agent has any means whatever of following the goods. There is a natural and very strong repugnance on the part of all merchants to disclose the names of their customers, and if any commission house attempted to ascertain the ultimate destination of its buyers' purchases, the result would usually be a blank refusal and the loss of a customer.

19. Thus, whilst Rule 11 is designed to protect international and entrepot trade, in fact it does not do so, and the uncertainty and alarm which have already been created have, to my knowledge, led to business being diverted from this country.

20. The international and entrepot trade which, it should be made clear, is done almost entirely on a commission basis, is also very much bound up with the import trade, for the larger commission houses often handle the whole of a foreign shippers' productions for world sale. If these houses have to relinquish their agencies for Great Britain—and this is bound to be the case if they are held personally liable for assessment—they will be unable to retain the agencies for other countries.

21. As regards import trade, the possibility of the Authorities making commission houses responsible for the taxation of their foreign shippers has scarcely yet been appreciated in many of the more important trades, more especially those dealing in raw materials and foodstuffs. In the trades, however, where assessments have been made, action has been taken in many cases, both by shippers and commission houses to escape the possibility of assessment. Often this can be done with ease, though the results will be scarcely satisfactory from the revenue point of view. In the case of the countries lying contiguous to Great Britain, where the post only takes a day or two to reach its destination, it is relatively simple for many traders to conduct their business without fear of assessment by following the House of Lords decision of Grainger v. Gough, though this is difficult if stocks are held in this country. Colonial shippers and producers further afield, however, cannot make use of this judgment, as the time taken in exchanging correspondence is too long for practical business purposes.

22. Authentic figures are difficult to obtain, but it may be taken as a fact that practically the whole of the raw materials, provisions and produce imported into Great Britain is sold through commission houses.

23. It is inconceivable that the intention of Parliament when passing the new Rules was in effect to place an import tax on foodstuffs and raw material coming to this country, and more especially a tax of the worst possible description, inasmuch as the parties concerned have no knowledge of the amount involved. While the Authorities might possibly succeed in collecting some monies through the ruin of the commission houses, they can only do so once, and the loss to the revenue through the elimination of these commission houses would be very serious indeed. In some important trades the disappearance of the commission houses will mean that the buyers will be forced to maintain a buying organisation abroad; this will have the effect virtually of eliminating the small operator and forcing business into the hands of trusts and combinations, which it is submitted is most undesirable.

24. It is unquestionable that the foreign shipper, rather than become liable for a high Income Tax in respect of goods which never reach the United Kingdom, or, after being shipped here, are re-exported, will transfer this business to foreign ports. His

business may suffer at the outset but in the course of time it will be handled just as well as it is now in London.

25. No foreign shipper will risk having to pay a heavy Income Tax if he can pass his business through other channels. The competition of Hamburg, Amsterdam and Havre is already severe. I know of an actual instance in which a Java shipper has already opened an office in Calcutta in order that this Income Tax liability may be obviated.

26. The difficulty arises mainly from the interpretation placed upon Clause 10 and, to sum up, unless this is remedied the results will be incalculable harm to business and to the national finances.

What the commission business entails may be summarised:

(1) The financing is done with British banks.
(2) The shipper's chartering business is centred in London.
(3) The insurance is effected in London:
(4) The agent's or broker's commission is earned.
(5) Employment is given to thousands in all these connections.
(6) Large sums in the aggregate are expended by the business people from all over the world who come on account of the concentration of business here.

The possibility of retaliation on the part of foreign countries cannot be overlooked.

I append particulars of a few cases which illustrate my case.

EXAMPLE I.

Australian colliery owner (A) makes contracts through London agent (B) with various British and Continental ship owners for the bunkering of their vessels if and when in Australian waters. Contracts arranged and signed, and payments made, in London.

(B) has received an assessment for (A)'s profits on these transactions. Apparently Rule 11 will protect (B) in respect of sales to foreign ship owners, but not to British ship owners.

Observations:

It will probably be quite impossible for (B) to collect from (A). If the Authorities succeed in collecting from (A), the latter will certainly alter his selling arrangements and arrange that his business will not pass through London for the future, or alternatively charge a higher price to British owners than foreign. In any case, if this class of business is going to be assessed, the tendency must be for it to leave London, with the resultant loss of business to the country and profit to the revenue.

EXAMPLE II.

Danish butter merchants (A) sell butter packed in special tins through a Liverpool agent (B).

Formal contracts are not made; orders are obtained by the agents and transmitted to the principal. Payments are made to the principal abroad by the buyers either direct or into his account in England. A small stock is held in England for small urgent orders, but the bulk of the business is f.o.b. foreign port.

Tinned Danish butter is never sold for consumption in this country, but is used by residents in the tropics.

(B) has received an assessment for (A)'s profits on this business, although, presumably, Rule 11 releases (B) from liability entirely.

EXAMPLE III.

Swedish pulp mill owner (A) sells through London agents (B) to British papermakers (C). Contracts and payments are made in London in accordance with long-standing usage of the trade. Delivery is either f.o.b. or c.i.f.

(B) has received an assessment for £50,000 for the years 1919 and 1920 respectively on account of (A), who refuses to pay or give any information as to his profits.

Observations:

Wood pulp is an essential raw material to British industry. If the Authorities take up a harsh attitude, they might conceivably get part of these assessments from (B), who would certainly, however, resign the agency, with consequent loss to the revenue. It is most improbable that the Authorities would ever be able to collect from (A) under any circumstances, but if they could (A) would undoubtedly add the cost of his tax to his quotations to the British mills as opposed to his net quotations to the competing foreign mills. In effect an import duty would be imposed, which under present circumstances would be disastrous to British papermakers.

EXAMPLE IV.

Large sawmillers and papermakers in Canada (A) have sold their timber for many years for world distribution (except U.S.A.) through London agents (B). Contracts and payments usually made in London. Chartering, insurance and finance usually arranged in London. Delivery at port of shipment in Canada.

(B) has received assessment notices for £50,000 for the years 1919 and 1920 respectively on account of (A), who refuses to accept liability or disclose profits. (B) is a leading firm of general agents, representing many timber shippers all over the world. Sales only made to importers. The annual commission earned in London on this account varied from £5/10,000 for pre and post-war periods until assessment.

Since assessment (A) has passed no business through (B).

Observations:

This is a very typical case of important business leaving London, and will undoubtedly be followed by many others if commission houses continue to be assessed on behalf of their shippers. For instance, it is just as easy for (A) to pass their River Plate business through New York, their Spanish business through Barcelona agents, etc., etc., as it is to work through London, and as (A) are disinclined to pass their British business through (B) since assessment, the foreign business passes also.

The sale on which it is believed the original assessment was made was for goods to the value of over £300,000 sold on f.o.b. terms. It is impossible to say where many of these goods were consumed, or trace them to their ultimate destination.

7372. *Chairman*: Sir Keith Price, will you please read your paper?—(*Sir Keith Price*): Yes. (*Paragraphs* 1 *and* 2 *read.*)

7373. Will you explain that a little?—This is a very large question. Recent cases which have come before the Courts, have suddenly made the question of trading "with the country" and "within the country" a very serious matter. Until quite recently it was thought that there were two kinds of trading with this country, one was trading with the country and the other was trading within the country. Naturally, when people are trading within the country, everybody concerned should be taxed; but in recent decisions—some of which are quite recent—an entire change has come over the whole situation. I believe I am correct in saying that these cases have gone far beyond what the Inland Revenue Authorities expected. The present position, according to law, apparently is that in the case of any contract signed or made in Great Britain—it need not even be signed in Great Britain, if the acceptance is made in Great Britain—the foreign shipper who makes that contract

is trading within the country; that is to say, the old distinction between *within* and *with* the country, has disappeared to-day. In any contract made or accepted in this country, the foreign shipper becomes liable for taxation.

7374. *Sir Arthur Balfour*: By *accepted*, do you mean accepted by one party or the other?—Accepted from this country; in a recent case it came down to a question of where a letter was posted. If the letter of acceptance was posted in Italy, the shipper was not responsible for taxation; if it was posted in this country, he was responsible.

7375. *Sir Alan Anderson*: Do you mean that if I am a merchant here and I write to France for some scent, the French maker of the scent will be liable for Income Tax on the profit?—Certainly.

7376. But if I go over to Calais and post my letter there, he will not be liable?—Yes, I think that is right. I might come to that point later, perhaps. (*Paragraph 3 read.*) Perhaps I might give a little explanation there. The law was altered in 1915, when this question came up. At that time there was a great discussion in the House of Commons and it was pointed out by many members that nobody quite knew what the effect of the Rules as drawn up would be. I think anybody who reads Hansard would clearly follow what was in Mr. McKenna's mind, which resulted in Rule 10 being drafted; this was supposed to cover and protect the position of brokers and agents. When the Royal Commission (1920) met and evidence was taken that Rule was understood by the general traders to mean exactly what Mr. McKenna said it was going to mean, that is to say, it was protection to general commission agents and brokers; and it is only since 1920 that that understanding has been questioned. When the Royal Commission met in 1920, the matter generally was considered of very little importance in the City of London, and no one took the trouble to attend, with the exception of one or two agents representing foreign manufacturers who gave evidence. So really when that Commission met, they had no evidence of any serious nature before them.

7377. *Chairman*: I think I remember that a whole day was spent on that particular point?—If I may say so, I think the two witnesses, who I believe were the only ones who were examined, were representatives of Italian silk merchants, a relatively unimportant branch of our import trade.

7378. Supposing you represent a Swiss company, they send you the goods and all their business is done here; who pays the Income Tax on the profits of that business?—If it is a regular agency, that is to say, if the agent is really carrying on business in this country for a foreign firm, he is certainly responsible. I do not think there is any question about that if he is not a general commission agent.

7379. Supposing the foreign firm has a man here who does all the transactions in this country and makes a large profit, and that profit goes to the man in Switzerland, he is not liable for Income Tax, you say?—The foreigner is liable but it was impossible to collect the tax, and that is what the new Rules were brought in to prevent, and rightly so, too, in my opinion. Many American shippers who were shipping goods over here were showing no profits at all. There were very many cases, and Somerset House perfectly justifiably brought in legislation to protect themselves.

7380. I think the point was that a number of firms, instead of having agents, sent their own man to do all the agency work in this country; he got all his business here and paid no Income Tax at all?—It is extremely easy to do, and that is what I wish to point out.

7381. *Sir Arthur Balfour*: Evasion is perfectly simple?—You can escape the British taxation with the greatest ease; there is no difficulty whatsoever about it.

7382. *Sir Alan Anderson*: How is the profit ascertained? Take the person in Switzerland who manufactures there and sells his goods here. He has to pay Income Tax on the whole profit he makes, has he not?—It is very complicated; really there is absolutely no method of ascertaining his profit. They assess him.

7383. *Sir Arthur Balfour*: And he is asked to prove that the assessment is wrong?—Yes.

7384. *Sir Alan Anderson*: That is done quite easily, I suppose, by invoicing the goods to the agent here at the price at which the agent will sell them, so that there is no profit?—Of course, if it is a genuine commission house, the agent makes his commission on it.

7385. Then the agent pays on the commission. That is what Mr. McKenna said was the intention, was it not?—Yes, he has to. The Revenue try to discriminate, I understand. It is extremely difficult. I do not think the authorities quite know themselves how to do it. Take a foreign manufacturer; the authorities try to discriminate between the manufacturing profit and the selling profit. They say if a man markets his goods in this country, he ought to pay Income Tax on the extra profit he has made by marketing the goods in this country.

7386. *Sir Arthur Balfour*: The profit must be the difference between the cost of the goods and the price he has sold them at, less his expenses in this country?—Yes.

7387. That is the only profit that can accrue in the way it is being put now?—Yes.

7388. *Sir Alan Anderson*: That is the commission agent's profit. What I am trying to get at is how we get Income Tax out of, say, the Swiss manufacturer on goods which he manufactures in Switzerland and sells here. I understand from you that we try to do that?—Yes.

7389. How do we ascertain what the Swiss manufacturer's profit is?—That is one of the difficulties. He is not, as I understand it, liable for his manufacturing profits, but he is responsible for his marketing profit, and Somerset House have to discriminate between the two. You cannot expect the foreign manufacturer, because he sends these goods, to pay on the whole of his manufacturing profits. I do not think Somerset House go so far as that, but they say on the marketing profits.

7390. *Sir Arthur Balfour*: His marketing profit is the profit that I have just said: it must be the difference between the price at which he invoices the goods from Switzerland and the price he obtains from the consumer, less any local expenses?—Then it comes down to just the question of at what price does he invoice his goods.

7391. That is where the evasion takes place?—Quite. (*Paragraphs 4 to 7 read*). Nobody has ever quite decided what General Rule 10, which I give in paragraph 7, means; it has never been argued in the Courts. There is absolutely no question to anyone who reads the discussions in the House of Commons, what it was intended to mean, it was meant to be protection for the general agent and brokers, and it has been accepted as such until quite recently. But the view of Somerset House is that it does not protect them. They take this line. They say: "Yes, you may be a general agent or broker; you may be the biggest broker in the world, but what are your arrangements with your principal? Have you an agreement in writing?" I venture to submit that in all the leading trades—I do not mean to say the small affairs, but when you run into millions of pounds or hundreds of thousands of pounds—that there is an agreement in writing. If there is no agreement in writing, I decline to believe it to be a *bona fide* case. That is one thing. They say: "If there is an agreement in writing, then you cease to be a general agent or broker; you become a regular agent"; or further, if you invariably sell the same people's goods, that is to say, if the foreign shipper always places his goods through the same British commission house, then again he becomes a regular agent and so personally liable to the Income Tax of the shipper. In general, if that view is accepted by the Courts—and it looks as if it may be—that clause is of no protection, that means that practically every commission house in the City is liable. (*Paragraph 8 read.*)

7392. *Sir Alan Anderson*: If the clause succeeded in doing what Mr. McKenna apparently wanted to do, you would not disagree with it?—Then that would be protection. What we require is protection for the general commission agent and broker. If the authorities' view is good at law, it means the elimination of practically all the commission houses in this city and in Great Britain, because it is clearly perfectly impossible for a commission house to collect—I do not say in small trades, but in the major trades where you run into millions of pounds—it is perfectly impossible to collect from one's shippers scattered all over the world. Not only that, but this liability runs for six years back. The figures probably run into hundreds of millions of pounds. (*Paragraphs* 9 to 11 *read.*)

7393. *Chairman*: If you are a broker and have a turnover of two millions and you get 2 per cent. on it you are liable to the Income Tax on that 2 per cent.?—Yes.

7394. *Sir Arthur Balfour*: Less expenses?—Yes, less expenses.

7395. *Chairman*: There is no complaint on that score?—None whatever.

7396. *Sir Charles Addis*: Is the distinction between the tax as assessed upon the profit made by the agent and upon the commission made by him?—I am really only dealing with commission houses.

7397. There is no objection, from your point of view, to the tax being levied on the commission agent?—None whatever, on the profits made by the agent, less his expenses.

7398. That is to say, the marketing profit of the goods that he has sold?—No, I think it must be on the particular profits of the agent only. I do not consider that the commission houses should be made personally liable for the debts of their foreign principals, unless they are quasi-collusive, or unless they are a tied house.

7399. Yes, I follow that?—But, of course, the agent here must pay on his profit—his commission less his expenses.

7400. *Chairman*: Did not the point arise in this way: to take Switzerland as a case again, the Swiss manufacturer and the English manufacturer were both selling in the London market. The Swiss manufacturer did not pay any Income Tax on the profits made by the whole of the distribution of his business in this country. The English manufacturer was subject to Income Tax on all his profits. The complaint was that the English manufacturer could not compete against those foreign people sending goods into this country because of the Income Tax which he had to pay?—One quite follows that.

7401. Do you suggest that that can be dealt with; the business is done here, and the Swiss profit is made here?—The marketing profit is made here; and I think in all those cases you will find that the foreign manufacturer has a house here. If they are doing retail business here—and it follows from what you say, that they are doing retail business here—they must have an organisation here which can be taxed on such profits.

7402. *Sir Arthur Balfour*: I want to see what your answer to another case is. A Swiss house sends to its agent here £100,000 worth of goods, and says, "We will allow you 1 per cent. commission, but we will also agree with you that if you can get from the consumer higher profits, we will divide the differences with you; if you can sell those goods at £120,000, you shall have £10,000 of it and we will have £10,000 of it, you getting your fixed commission of 1 per cent. on the original £100,000." How does that come into the Income Tax question?—That is perfectly simple; that comes under the old 1842 Act, and the commission house is personally responsible if in receipt of the profits and gains derived from any transaction.

7403. He is responsible for the £20,000 as well as his 1 per cent.; that is the two added together less expenses?—I think he would be.

7404. I myself think he is, but I wanted to see what your answer would be?—Speaking for my Committee, we would have no objection at all to taxation in those cases, because that clearly is a case of trading in the country.

7405. *Chairman*: The whole £20,000 would have to be taxed in this country?—Yes, and it is so. I am quite sure that that can be done at present under the 1842 Act.

7406. *Sir Arthur Balfour*: That is to say, although £10,000 of it goes abroad, the whole £20,000 is taxed, plus the 1 per cent. commission on the £20,000, less the local expenses of selling the goods?—Yes, I think it would be done in this way. I think that the agent would be taxed for the 1 per cent. less his expenses and his share of the £20,000, and the foreigner would be taxed certainly upon his £10,000 and probably upon some additional amount.

7407. How? That is what I want to get at?—Through his agent.

7408. If he did not pay, the agent would have to pay?—Certainly. The agent has always been responsible, since 1842, where he is in receipt of the profits or gains on any transaction.

7409. *Sir Charles Addis*: There is no way of getting it except through him?—But I do not think in other cases it is necessary that the agent should be personally responsible. I think he should be where he is in receipt of profits, because that is a tied house.

7410. *Sir Arthur Balfour*: Profits other than commission?—Yes, I think you then have a tied house.

7411. Just for my information, will you say what you mean by the other cases as opposed to the case I have just put?—You cited a case where the agent was making a profit over and above his commission. That is quite a distinct category, because, after all, there are very few cases of that description. The majority of the cases are clean commercial cases; they are the only cases I am dealing with.

7412. *Sir Alan Anderson*: The Swiss manufacturer sends his goods in here; they are sold by a commission agent; the commission agent is quite prepared to pay Income Tax on his own profit, which is his commission less expenses, but he resents being made personally responsible for an alleged profit which his principal makes by sending the goods here to be marketed?—Yes.

7413. *Sir Arthur Balfour*: So there are those two kinds, the kind that I cited and the kind that Sir Alan Anderson cited?—Yes, except, if I may say so, that you have taken a case which, of course, appeals to everybody, that is to say, Swiss watches, which are sold and retailed here. But I am really not looking at such cases at all. I am looking at the cases of the great produce trades and the great raw material trades, which are never retailed here at all—goods which come here and which the commission house often never sees. It is documentary work almost entirely. We talk about Swiss watches, but when we come to the raw material, such as provisions, cotton, wool and timber in bulk, these are the serious matters.

7414. *Chairman*: Swiss embroidery is a very big trade; the mention of "Swiss" was only to illustrate it?—Yes. My feelings are rather strong with regard to Swiss watches, which are retailed here. It really comes to the question of retail and wholesale.

7415. How can the Government get hold of the profits of the Swiss manufacturer if they do not come on to the agent?—Take the case which Sir Arthur put, where they ship £100,000 worth of watches. If you can assess through the agent you can come down on those watches without making the agent personally responsible.

7416. *Sir Arthur Balfour*: You cannot do that, because before the transaction is completed they are the property of a third party. You cannot possibly do that. When they have been sold to people in Bond Street you cannot go and say: "We want those watches because the people have not paid the tax"?—If they have a judgment for that amount he cannot ship any more watches.

7417. *Mr. Bowen*: Would not the better way be very largely to increase the Customs and Excise arrangements and have a tax on those things before they get out of bond?—It would be a much better way to do it.

7418. *Chairman*: The foreign exporters may only have a very small capital in this country. I want to find out from you, as an expert, how you would get hold of the tax?—From the foreigner who is retailing?

7419. *Sir Arthur Balfour*: The tax which we all admit is legitimate? — I think you must make the agent responsible for it. I do not dispute that. I say if you have a regular special agent, as in all these cases of Swiss watches, and so on, where you are bound to retail the goods, then in every instance you have a tied house on this side of the market and you can make your tied house responsible. But I say where you have your general brokers and commission agents who are doing the great wholesale import trade of the country, if you made them responsible you would ruin half the trade of the City of London.

7420. *Chairman*: Then how can we get hold of the money from those people whom the big broker represents?—Let us leave Swiss watches and come to the real things that matter, sugar and such things. What profits does the foreign shipper make here? Supposing he sells his goods f.o.b. Why should he be responsible for British Income Tax and how are you going to catch him?

7421. That is what we want to know?—You cannot catch him.

7422. *Sir Arthur Balfour*: And you say we ought not to catch him?—I really think so—if foreigners sell their goods f.o.b. or before they reach this country, and they are never handled by the commission agent at all. The importer buys and you would have your taxation from the importer.

7423. *Chairman*: But where is the profit made? Is it not made by the brains of the people in this country getting the profit? I am asking you as a broker? Do you not make the profits of that manufacturer by the energy and skill that you display in this country?—But I get paid, and well paid, for my skill, and the authorities take a very large amount of Income Tax out of me.

7424. But the proportion may be as 1 to 10; the profit of the manufacturer may be ten times more than you are allowed as broker. How are we to get hold of that?—I maintain that it is absolutely impossible in the cases of the big trades, where the goods are never passing through the agent's hands. You may make the agent responsible, but he will disappear to-morrow.

7425. I want you to suggest, if you can, how we can get hold of the tax from those people?—I have seriously considered this matter, and I do not think you can do so.

7426. How do you suggest that we should amend the law?—I do not necessarily want to amend it. I do not go so far as that. All I say is that if we could take Clause 10 to mean what the House of Commons wished it to mean, that would be sufficient protection; but at the present moment in all your major trades you are faced with the idea that the commission houses may be ruined to-morrow; and I submit that is a very serious matter.

7427. *Sir Arthur Balfour*: You said if the foreign manufacturer delivered goods f.o.b. you thought he ought not to be liable?—No, I do not think he should.

7428. But suppose he is held to be liable to Income Tax, will not the next move be that the British buyer will simply buy those goods at the works in Switzerland, or in the Argentine, or wherever it is?—That is what in a great many cases they are doing at present.

7429. That is what will happen, of course?—Yes.

7430. *Professor Hall*: Supposing goods were sent here on consignment and the agent credits the foreign seller with the proceeds of sale, how can you ascertain the profit he has made on that transaction?—It is quite impossible in all these cases to decide what the foreign shipper's profit is. It is absolutely impossible. In thousands of cases the foreign shipper could not possibly tell you himself. Take the case of the big timber people, for instance, in Canada. How can they tell you what profits are on their shipments to England as compared with their shipments to other countries?

7431. Is there any method by which we could ascertain that profit?—No, it is absolutely impossible.

7432. *Sir Arthur Balfour*: You could assume a profit?—Yes.

7433. *Chairman*: The law does assume profits?—Yes.

7434. *Sir Charles Addis*: Am I right in thinking that the general object that we all have in view is to equalise the tax between the foreign manufacturer and the British manufacturer? Would you agree with that?—Yes, I do not see much objection to that.

7435. The difficulty is to find the means for doing so?—Yes, if you can arrive at a formula, without doing the trade of this country very material harm. It is extremely difficult to come to one.

7436. It has been suggested, for example, as you know, that it might be done through a Customs duty. Would you agree with that suggestion?—I have not heard that suggestion.

7437. It was suggested in the House of Commons during a debate in July last?—I have not considered that. I do not quite see how the Customs could do it.

7438. The difficulty there would be to get some relation between the tax on the imported goods and the Income Tax paid by the resident trader in this country, would it not?—Yes, it raises so many difficulties I do not quite see how you are going to do it.

7439. There would also be the difficulty of excluding contracts which may be made abroad?—It is so wrapped up with international and entrepot trade that really I think it is an impossibility.

7440. You think there is nothing to be explored in that line?—I do not.

7441. *Professor Hall*: Can you tell us how foreign countries treat us in regard to goods sold abroad on consignment? Do they ascertain the profits for assessment purposes?—I am afraid I cannot tell you. I sell a large quantity of goods to European countries as a commission agent, and there has never been any question of taxation on profits.

7442. *Sir Alan Anderson*: Sir Charles Addis said to you just now that we all started by wishing to find a means of equalising the tax on the foreign manufacturer and the British manufacturer, but I rather understood that in dealing with these big trades, timber and grain, and so on, you thought it was quite hopeless to attempt it?—Perhaps I put it wrongly. Sir Charles said the foreign *manufacturer*. That brings to my mind manufactured goods. When you come to raw materials I say it is suicide to tax them because you come down absolutely to this—you cannot escape it—that it is in effect an import tax; it is nothing else. I submit in the case of an essential raw material it is suicidal.

7443. It would be very difficult to draw the line between manufactured goods and raw materials?—Very.

7444. They slide off into one another?—Yes.

7445. *Sir Arthur Balfour*: On the other hand, if the method that Sir Charles Addis suggested were put into operation the effect would be, would it not, that the foreigner would add the tax to the price and we should have to pay a higher price?—That is absolutely what it has come to. In the case of raw materials we certainly should have to pay a higher price.

7446. Need we speculate as to who pays? Who paid in the case of the 26 per cent. Reparations Duty on manufactured goods that came to this country?—We all have different views, I think.

7447. We know that the money had to be paid out at this end before we got the goods?—We paid it in most cases. (*Paragraphs* 12 *and* 13 *read*). In that case of *Belfour* v. *Mace* there was no contract made in this country; it merely became a question of where the letter was posted. The agent unfortunately posted

the letter in this country instead of it being posted in Italy, with results that probably cost a few thousand pounds.

7448. *Professor Hall*: Supposing a contract was signed in London by which somebody in Finland bought goods from somebody in France, would the agent in that case become liable for the tax on that transaction?—May I bring up that point later on. That is a very serious point; I will bring that up later.

7449. Certainly. It is on this point where you were speaking about trade within the country?—Yes. (*Paragraph* **14** *read*). In fact we may say that it is absolutely impossible for the general commission house (I do not say the tied house) to collect Income Tax from his foreign principal.

7450. *Chairman*: You have not made inquiries, have you, as to the method adopted by America and France in this particular case?—It was started, I believe, in the State of New York, but was dropped almost at once. My firm do a large commission trade in New York. We had to alter our methods of business temporarily, but went back to the old methods very soon.

7451. *Sir Charles Addis*: Up to this point you have been speaking about brokers and general commission agents, and now in paragraph **14** you appear to have entered upon a new phrase, "agents in general." Am I right in thinking that you would like to have the law amended with regard to brokers and commission agents and not with regard to agents in general?—I tried to follow the wording of the Act. The Act says: "in the name of the broker or general commission agent."

7452. I take it that what you mean here is, the special agent?—Yes. All agents.

7453. May not there be a difficulty, if the law were amended in that way, through changes from one class of agent to another?—I maintain that it would be perfectly easy for the authorities to differentiate between what one may call the regular tied house and the general commission agent and broker. Perhaps certain difficult cases would squeeze through, but I do not believe they would really be serious. I believe if the authorities would work with the trade organisations—practically all the large trades have organisations of their own—there would be no difficulty in ascertaining whether so and so was really a recognised agent or broker, or a tied house. In the leading cases which have come before the Courts to date, dealing with cotton and sugar, in the cotton case the agent, I believe, was really a tied house, and was not a member of the Manchester Cotton Brokers' Association, and in the sugar case he was virtually a tied house also.

7454. If brokers and commission agents were exempted it would be a simple matter, would it not, for other agents so to alter their methods as to secure exemption also?—For a tied house: I do not think so; I think it would be very difficult; that is my view. After all, the general commission houses are usually of many years' standing. It is very difficult to pick up other agencies when known to be a tied house.

7455. Of course, a special agent is no more protected by the rule that you referred to than the broker with regard to international and entrepôt trade?—That is covered by Rule 11. (*Paragraphs* **16** *and* **17** *read.*) At a meeting of my Committee with the Treasury, Mr. Guinness gave a clear ruling that in no circumstances would he assess international trade or entrepôt trade. I venture to suggest, however, that I should be very sorry to have to go to the Courts on Rule 11 in most cases of international and entrepôt trade, because while I imagine Rule 11 covers sales between two non-residents made in this country, so much of this trade consists of sales made by a non-resident to a British house for delivery abroad, and I personally fail to see where Rule 11 protects one in those cases. And in so many cases it is perfectly impossible to know where the goods are going to. One makes a sale for forward delivery, so many tons of sugar f.o.b. In many cases neither the seller nor the commission house knows where the final destination is. It is very difficult. And in the entrepôt trade also it is impossible to know the ultimate destination of the goods. Somerset House suggested that you could obtain a rebate for any goods which went abroad, but it is quite impossible to tell what goods go abroad. Unfortunately in trade everybody always has a very great dislike to disclosing his customer. If you ask for the name of your buyer's customer the buyers will not like it at all; they will think you are going to go behind their back. So I submit that both international trade and entrepôt trade will be very seriously affected, and in fact are being so now. (*Paragraphs* **18** *to* **21** *read.*) That really covers the question about manufactured goods, because the manufacturers are practically all taking very good care to get behind *Grainger* v. *Gough*. That covers the Swiss watches. It is perfectly easy for the ordinary foreign manufacturer in countries close at hand to get behind *Grainger* v. *Gough*.

7456. *Professor Hall*: Would you mind explaining that case briefly?—*Grainger* v. *Gough* was a wine case and it describes what is trading with and trading within the country. In that case it was decided that where the acceptance comes from abroad and where payment is made abroad the trade is not within the country, but outside the country. Of course, if I may say so, it is a perfect farce, but it is sufficiently good at law. It is a great hardship on the Colonial people, because it can only be done where the post takes a day of two. That is what it really comes down to. (*Paragraphs* **22** *and* **23** *read*). Amplifying that, if I may, when we were a deputation accompanied by the Members of the City of London and the representative of the Banker's Association, visiting the Treasury, the representative of the provision trade put forward what I thought was one of the most powerful arguments that I have heard. He said: "We may be liable for our shippers' Income Tax, we are not quite sure, but are you going to attack us? Are you going to destroy the whole of the present arrangement for the distribution of provisions in this country? At present provisions for London come chiefly to Tooley Street and district; there is practically a free market for small people in the country to go to Tooley Street, and buy on the very best terms. If you destroy the commission houses and destroy that method it means that the buyers will have to go abroad to escape the effect of taxation and buy abroad. That means the elimination of the small buyer almost entirely, and you will get the provision trade in the hands of big trusts the same as you have got the meat trade."

7457. That paragraph seems to suggest that the agents for business in foodstuffs and raw material are being assessed by reference to some provision in the Act of 1915. But if they were in receipt of profits, they were liable all along under the old Act?—With practically all of them it is pure commission work.

7458. That is to say, the comparison is not fair because they are not in receipt of profits?—They are in receipt of profits only in respect of commission. They are general commission brokers handling foodstuffs from all parts of the world. (*Paragraph* **24** *read*). I am alluding there to the entrepôt trade. Just taking a branch of my own trade, the mahogany trade, which is an important trade in this country, used largely to be centred in Hamburg. During the War we managed to eliminate that and now Liverpool is I should say the centre of the mahogany trade. It is an important trade. If there is any question of taxation it will very largely go back to Hamburg without any question. This country will lose the trade if the authorities commence to tax it.

7459. Do you think there is anything in the superior dock facilities afforded abroad?—Yes, they are cheaper. We have got the entrepôt trade here; the market has been better here than it has been

abroad. Probably the major part of the goods which come here stops here. A cargo of mahogany comes here and the major part of it will probably be left here and the remainder will go abroad. Germany rather dropped out because they did not consume very much themselves. On the whole I agree that I think facilities are certainly cheaper in Rotterdam and Hamburg than in this country.

7460. Would you consider the taxation an important element?—Taxation frightens the foreign sellers. They do not know what they have got to pay. If you tell a man he is going to pay 5 per cent. on everything, he knows what he will have to pay, but when you say: "There is an unknown tax; we will tell you later when you have been assessed," it frightens people; they do not know what it means at all.

7461. It seems, from what one hears, that a great deal of importance is attached to it?—I agree the tendency is for the entrepôt trade to go abroad, and if you commence to tax foreign shippers here it will go abroad at once. The position is bad already.

7462. It is the last straw?—Yes. (*Paragraphs* **25** *and* **26** *read.*) I would like to say that I do not know what the commission earned by the British commission houses amounts to. In the Board of Trade return it is put down in the invisible exports as forty million pounds. I believe that is a very low estimate; I do not believe it is correct; I believe it is very much more than that. Then at the end of my paper I give you a few particulars of specific transactions. I do not know if the Committee would like me to read them.

7463. *Chairman*: We shall be glad to hear a couple of cases?—(*Example* I *read.*) That is to say, if the contract is made in London, British ship owners will probably have to pay more for their coal in Australian waters if the tax is added, which it probably would be. It seems extraordinary. I would like to draw your attention to Example IV. Assessments were received in that case for £50,000, and the business was worth £5,000 or £10,000 of commission earned in this country for 40 years. That has absolutely been taken right away; and I think in every case where assessments have been made, unless there has been some unknown reason, the business has left the country. I submit it is very serious.

Chairman: Thank you.

EVIDENCE-IN-CHIEF handed in by Mr. BARRETT.

Witness will state:—

1. I am Managing Director of J. & E. Atkinson, Limited, Perfumery and Toilet Soap Manufacturers, of Eonia Works, Southwark Park Road, Bermondsey, S.E. 16. My Company have various branches in London and also in Paris. I am the immediate Past Chairman of the Perfumery Manufacturers' Section of the London Chamber of Commerce (Incorporated) which comprises all the principal manufacturers of British spirituous perfumery.

THE EFFECT OF THE INCIDENCE OF THE EXCISE DUTY ON SPIRIT.

2. The British perfumery industry desire to direct your attention to the very prejudicial effect upon their industry of the existing high excise duty on spirit used in the manufacture of their products.

The perfumery trade is even more highly taxed than the potable spirit trade for the reason that potable spirits are placed on the market at about 30 degrees under proof, and therefore in effect bear a duty equivalent to about 51s. per gallon. Eau de Cologne is about 60 degrees over proof, and therefore in comparison bears a duty of nearly £6. The effect of this on the perfumery trade is staggering, and to illustrate this it may be mentioned that five times as much capital is now required as compared with pre-war days.

3. The point may be urged against the trade that the danger of using perfumes for potable purposes is too great. Perfumery manufacturers are convinced that, firstly, there is no greater risk than with medicines; secondly, that the price, even with duty at the pre-war figure, would always be higher than the usual potable spirits; and, thirdly, that in America, notwithstanding prohibition, the components are regarded as a sufficient denaturant, and spirits are supplied for perfumes quite freely.

4. The British perfumery industry have urged continuously since 1921, that a rebate should be granted on alcohol used in the manufacture of perfumery and toilet preparations equal to that which is to-day conceded to the manufacturer of drugs, viz., 59s. 3d. per proof gallon, subject, of course, to all the safeguards and guarantees which His Majesty's Customs would require.

The position of the perfumer as compared with the druggist may be seen from the following table:—

	Manufacturing druggists per proof gallon.	Manufacturing perfumers per proof gallon.
	s. d.	s. d.
1902 to 1910	... 11 0	11 0
1910 to 1915	... 14 9	14 9
1916 to 1917	... 14 9	16 3
1918 to 1919	... 14 9	31 6
1919 to 1920	... 14 9	51 6
1920 to 1921	... 14 9	74 0

5. The circumstances which place French manufacturers of perfumery in an advantageous position in competing with British manufacturers in this market, and also in markets abroad, exist mainly in consequence of French manufacturers being allowed to manufacture with duty-free alcohol, both for home and export trade. British manufacturers are forced to use duty-paid alcohol for their home trade.

USE OF DUTY PAID ALCOHOL BY BRITISH MANUFACTURERS.

6. The following is an instance of the manner in which the use of duty paid alcohol, upon which an excessive duty is imposed, reacts on the export perfumery trade. It is the practice of many countries (especially the United States of America) to levy import duties on the home consumption value of the goods imported. This practice also operates in certain of the British overseas Dominions. In consequence of the high duty paid by British manufacturers the home consumption value of their products approximates 100 per cent. above that of the French manufacturers. The result is that twice the amount of duty has to be paid by the British manufacturer. The French manufacturers also occupy an advantageous position over manufacturers in this country in consequence of obtaining spirit for manufacturing purposes without paying the duty, until the finished article of perfumery is withdrawn from bond. In other words no duty is payable until the product leaves the manufacturers' hands and this enables them to store the perfume for the purpose of maturing it, which is a very important factor in the manufacture.

It is impracticable to do so in this country as the whole of the duty has to be paid when the spirit is taken into the manufacturers' premises. The perfumery manufacturers of the United States also carry on their businesses under more favourable conditions. They are permitted to utilize the normal ingredients of the finished product as denaturants for their alcohol thus obtaining their spirit at approximately 2s. per proof gallon. It would appear therefore that the policy of some countries is to foster their perfumery industry, in the first place by the imposition of a high tariff and, secondly, the granting of concessions to the home producer.

7. That this is not a manufacturers' question only is shown by the fact that the Perfumery Section of the London Chamber of Commerce has received a large number of resolutions from Pharmacists' Associations all over the country complaining of the falling off in trade in all articles in which rectified spirits form the principal raw materal, which is due, in their opinion to the high prices it is necessary to charge owing to the excessive taxation in alcohol.

TENDENCY TO USE A SUBSTITUTE FOR SPIRIT.

8. The high cost of spirit consequent upon the excessive Excise Duty is naturally an incentive to use a substitute for spirit. The use of this substitute is increasing, due solely to the very heavy duty imposed on spirit. The result is that an impression is created in the minds of the public that British perfumery is very much inferior in quality to that of French manufacture.

CONCLUSION.

9. It will be seen from these considerations that the British manufacturers are working under a very grave handicap. The result to-day is a gradual decline of the industry and of the employment it might afford, and it will probably eventuate in something like collapse in the near future unless some alleviation is granted by the Treasury.

10. The losses in alcohol in process of manufacture are considerable, amounting on the average to say 10 per cent. As far as their home trade is concerned, all these losses have to be borne by the British manufacturer on duty paid alcohol. Permission to manufacture in bond for home trade is the only means of avoiding these losses thus placing British manufacturers on equal terms with their foreign competitors.

11. Relief on the lines referred to in paragraph 4 would confer considerable benefit upon the people of the country. Perfumery products would be brought within the reach of the whole community, and a considerable augmentation of the number of employees engaged in the manufacture of British perfumery would take place.

7464. *Chairman*: Mr. Barrett, what are the points you wish to put before us? Will you please read your paper?—(*Mr. Barrett*): If you please. (*Paragraphs 1 and 2 read.*)

7465. *Sir Charles Addis*: You mention that Eau de Cologne bears a duty of nearly £6 per gallon. There is a specific import duty on perfumery of £6 or thereabout per gallon, is there not?—Yes.

7466. It is the case, is it not, that the strength of imported perfumes is a good deal less than of Eau de Cologne, is it not?—Oh, no.

7467. Is it higher?—It would be about the same. I am aware that the Board of Customs produce some statistics which would seem to bear out your statement.

7468. That the strength of imported perfumes is on average considerably less; that is the statement, is it not?—Yes. We have not the slightest idea where they get those figures from, and we do not agree with the statement. They evidently include some goods that we do not class as first class perfumery at all. They were unable to explain how that arose. I may say that the Customs statistics are not at all good in our trade.

7469. You would say that the strengths are about equal?—Yes.

7470. In that case where is the staggering blow which you refer to, seeing that there is an import duty of about £6 a gallon on Eau de Cologne and on something else, the strength of which you say is about the same?—One of the staggering blows is the fact that for our home trade we manufacture with duty paid spirit. We pay the duty before we get the spirit. The goods have to be matured for a considerable time. We have considerable manufacturing loss, amounting in all to something like 10 per cent., and on the whole of that the high duty has to be paid. Now the French and German manufacturers manufacture in bond with spirit that costs him 2s. or 3s. a gallon. He sends the goods here, and the duty is not paid until they are cleared from bond, quite a short time before he receives his money.

7471. That is what you mean by the staggering blow?—Yes. (*Paragraph 3 read.*)

7472. Can you tell us what is the average strength of the spirit used by manufacturers and perfumers in this country?—About 60 over proof.

7473. Then what proportion roughly does the duty bear to the total charges which make up the price of the manufactured article?—I am afraid I have not got that figure here. The duty is £6 a gallon. In a fancy trade, such as the perfumery trade, it depends entirely on the amount of money which is expended on the packing, which may be very small in some cases and very high in others; so it is almost impossible to generalise on that.

7474. In that case the proportion of duty on the spirits would be relatively small where the packing charge is large?—Where the packing charge is large, the proportion borne by the duty would naturally be small. In the case of an article like Eau de Cologne the packing charge, of course, is small, and consequently the charge to be put down to duty is relatively high. I might say, to give you some idea, that before the War the price of a 4 oz. bottle of Eau de Cologne was 2s., and to-day one may say that it is 8s.; it is nearly all duty that has done that.

7475. That is to say, your price is multiplied by four?—Yes. The figures are given a little lower down. You will see a comparison of the duty. (*Paragraph 4 read.*) It is suggested that the spirit should be supplied to the perfumery industry on the same terms as to the druggists. The machinery exists; it is simply a matter of writing a few words on a piece of paper to carry it out. (*Paragraph 5 and paragraph 6 down to the words*: "The result is that twice the amount of duty has to be paid by the British manufacturer" *read.*) That means that you do not get the advantage of having them produced in bond for export to the American market; that is to say, if we export to America in the first place we charge our export price, and we then have to declare our home trade price and the duty is levied on that, and the British home trade price being so enormously higher than the French home trade price, it has to bear a very much higher duty, nearly double.

7476. You speak of the possible collapse of the perfumery trade in the near future. How do you reconcile that with the considerable increase in exports year by year?—You are referring, I take it, to the figures, which I have here, of the net yield of Customs Duty. I do not understand those figures.

7477. I do not know that you have these. These are official figures of exports; 33,000 gallons in 1921, 42,000 gallons in 1922, 53,000 gallons in 1923, and 55,000 gallons in 1924. Have you those figures before you?—No, I have not those. I have the net yield of Customs Duty, which roughly comes to the same thing.

7478. It does appear to be the fact that the export trade is increasing?—I am afraid I could not accept those figures without further evidence.

7479. Perhaps you would look into those?—We have endeavoured to look into these figures which have been furnished us on several occasions, and we have never been able to arrive at a satisfactory conclusion. I do not know what is classed as perfumery. I have two columns here: net yield of Customs Duty. This is from a reply by the Chancellor. They are absolutely unintelligible to anybody in the trade. He has got two columns to start with: No. 1, perfume spirits, and No. 2, perfumery containing spirits. I do not know what that means; nobody can tell me what it means. There is no difference. One goes up and the other goes down. I may say that we have complained to the Board of Customs on several occasions that the statistics which they have are very meagre and very unreliable; and they have in a quite friendly manner quite frankly admitted that that is so, and they have then stated that they cannot get any better statistics, because the Treasury will not give them the money to get them with.

7480. I will not pursue that. It is the case, I suppose, that the luxury trades in this country generally have not been doing well of late years; they have had a bad time?—I am afraid I can only speak for my own trade. I am not here to discuss trade generally or even only luxury trade. I have only actual knowledge of my own trade.

7481. You would rather not give an opinion as to the general trade position?—No.

7482. Do you consider that as strong a case could be made out for a rebate in the case of spirit used for perfumery as in the case of spirit used in necessary drugs?—Perhaps not quite such a strong case. Of course one knows exactly why the rebate was given to the druggist. The rebate was given to the druggist for this reason. The Health Insurance was introduced with certain fixed charges for drugs, and that point, I believe, entirely escaped the Chancellor when he increased the duty on spirits. It was then brought to his notice that the Health Insurance Act could not be conducted if the duty on spirit was on the higher scale that he had introduced, and he therefore immediately produced a rebate for the druggist in order to allow the Health Insurance to go on.

7483. I only wanted to get your opinion as to whether there should be some differentiation between the tax on spirit used for necessary drugs and on spirit used for making perfumes, or whether you think they ought to be on the same basis?—I think they ought to be on the same basis.

7484. *Professor Hall*: And it is an accident that they are not on the same basis?—Quite.

7485. *Chairman*: But is it quite an accident. Is not one a luxury and the other a necessary?—The reason I have given was the real reason.

7486. I was wondering whether you would agree that there was a difference?—I think that is probably the reason why the difference exists to-day, or at any rate one of the reasons. Of course outsiders generally regard the whole of the perfumery trade as the production of a useless luxury, which is generally consumed by a lot of idle persons who had better not buy it. That is the general impression that we find ourselves encountering when we make these petitions. But that is not quite so. The bulk of the perfumery trade consists in selling what I should like to describe as some of the minor amenities of life; say, Eau de Cologne, lavender water, hair washes, and that sort of thing, which a very large proportion of the population use; and that trade has been seriously crippled and diminished.

7487. *Sir Charles Addis*: Just one point more with regard to the state of your trade. Not only have the exports been increasing but apparently the imports from France, for example, have been decreasing. It is difficult for me to reconcile the two with the danger of collapse that you speak about or the staggering blows inflicted?—I do not admit for a moment that the imports from France have been decreasing.

7488. The official figures are: In 1914, 11,000 gallons; in 1918, 6,000 gallons; in 1922, 5,000 gallons; in 1923, 5,000 gallons; in 1924, 7,000 gallons. It has decreased from pre-war figures by roughly 4,000 gallons?—It is common knowledge that the import of French perfumery into this country to-day is immensely larger than it was in 1913.

7489. *Professor Hall*: That is an impression?—I say it is more than that; it is common knowledge.

7490. *Sir Charles Addis*: Can you give us any figures?—No, I am afraid I cannot.

7491. You see, it is very difficult for us, with the official figures put before us, to accept a different impression?—I quite see that.

7492. I hope you will not think I am putting that by way of cross-examination?—Not at all. I regard those meagre and deficient statistics in this trade that the Customs have, as being very serious for us; in fact I think we are already arranging for a special deputation to the Board of Customs in order to tell them seriously, as a foundation for all our further applications and statements of our case, that we cannot go on any longer until we have actual figures.

7493. *Chairman*: Is there anything else you wish to say?—I do not think there is anything else.

Chairman: Thank you for your evidence, Mr. Barrett.

(*The Witnesses withdrew.*)

Lieut.-Colonel W. RIGBY, D.S.O., called and examined.

EVIDENCE-IN-CHIEF handed in by Lt.-Col. RIGBY.

I am in receipt of your letter of January 12th, 1925, and as you are aware of the Capital and Increased Capital Tax in Czecho-Slovakia, will simply give details of the operation of those taxes.

1. Firstly: The Capital Tax and Increased Capital Tax cannot be treated alone but must be considered in conjunction with the "Boden Reform (Land Reform) Laws" passed in November, 1918, and April, 1919, which confiscate all land in excess of 150 Hectares (Approx. 375 acres) together with buildings, land industries (such as sugar factories, distilleries, breweries, saw mills, etc., etc., etc.). The object of all these laws is punitive and intended to deprive the landlords (mostly Austrian) of the whole of their property in land or money.

2. *Method of procedure.*—On the Capital Tax Law coming into force every inhabitant of the country had to state the amount of his total possessions in (*a*) land; (*b*) money; (*c*) investments. The total of this amount was taken at pre-war value and multiplied by a variable figure from 5 to 10 and a varying amount up to 50 per cent. charged as Capital Tax. The original pre-war figure was then taken and deducted from the assessed value, the difference being "Increased Capital," which was further assessed at approx. 30 per cent. for tax, so that, say the pre-war unit was 1, the value is assessed at 10—tax 50 per cent.=5, deduct 1 from 10 leaves 9, 30 per cent. tax=3, total tax 8. Now we have the catch of the whole thing. The Government having assessed the tax at 8, promptly confiscates the land and buildings and pays pre-war rates, viz.: 1, so that the unfortunate owner has lost all his property and owes ? times the pre-war value of his property.

3. That is the matter in so far as land is concerned, the land is in theory divided up amongst the peasants.

Where land is given to peasants they pay 10 times the price received by the late possessor, to the Government, and as they have no stock, seed nor implements, and a very little knowledge of crops (having worked as labourers only), they cultivate very little and the land goes out of cultivation.

4. In the case of factories many bankruptcies have occurred, but the German or Austrian owners have in many cases succeeded in leaving their properties in the hands of the banks. The Czechs were only too anxious to try and get the Austro-German element out of the country and these people took advantage of this to obtain overdrafts on their factories or mortgages, and, under plea of buying raw material, removed all the money out of the country, following it up by leaving with their books and commencing opposition factories in Austria, Hungary or Germany.

The banks in the meantime are left with empty factories and must continue them at a loss or add to the number of unemployed. The Government meanwhile seized the factories for Capital Tax, only to be told that the banks must close their doors, so that in addition to losing the Capital Tax the Government were faced with the possibility of a financial crisis. Of course they had to climb down, but it was actually proposed that 5 per cent. should be deducted from all credit accounts in other banks to reimburse banks who lost money.

5. I have forgotten to mention that at the time of the commencement of the Republic 50 per cent. of all money in the banks was confiscated to improve the exchange and the most stringent rules made about the transfer of money. Transfers of money can only take place on application to the Government and no money is permitted to be removed from the country unless in purchase of goods.

I do not think the manner of collecting the taxes and the impossibility of obtaining any refund of overpaid taxes would be relevant, but the fact that all taxes must be paid in advance and that 10 per cent. interest is charged on all *due* taxes might.

6. Turnover Tax.—With further reference to the Turnover Tax which is now advocated by Lord Leverhulme, I can also give evidence in the matter as this very tax of 2 per cent. on all transactions is one of the causes of the present dear living in Czecho-Slovakia.

For instance a farmer sells a fat beast to the butcher, who has to pay 2 per cent. turnover tax in addition to other taxes and fees; he in his turn sells the skin to the tanner, again 2 per cent; the tanner tans the skin and sells it to the wholesale bootmaker, again 2 per cent. Boots are made and sold wholesale, again 2 per cent; the wholesaler sells to the retailer, again 2 per cent., and the eventual purchaser again pays 2 per cent., so that the actual extra charges amount to approx. 50 per cent. on the original cost of the hide and about 16 per cent. on the cost of the boots.

7494. *Chairman*: We have your paper before us; perhaps you would kindly tell the Committee the number of years' experience you have had in Czecho-Slovakia and then amplify the points in your paper?—I have had four and a-half years in Czecho-Slovakia. I was administering a very large estate out there of 35,000 acres. To start with, the Government confiscated all property over 150 hectares, on the Declaration of Independence.

7495. *Sir Charles Addis*: What date was that?—That was 28th October, 1918. In 1919 they brought in a Capital Tax Law and imposed a Capital Tax on the property which they had already confiscated.

7496. *Chairman*: After they had taken it?—They had not actually taken it away from the owners. They left the owners in residence, and until such time as the Government required the property, the owner could put someone into it and was allowed to remain on the place and to obtain the usufruct of whatever was obtained from the place. The Government imposed a Capital Tax in 1919 and 1920. In 1919 the Capital Tax was imposed, (afterwards there were extra laws made in 1920), part of which was a Capital Tax varying up to 50 per cent. on a value of 50 million Czech crowns capital. The tax rose to 50 per cent. of the value; it went in a ratio varying according to the value of the property. Actually the pre-war value of the property was taken and multiplied by a figure varying from 5 to 10 to reach an estimated post-war value. From this post-war value they then assessed a varying figure up to 50 per cent., as Capital Tax. In addition they deducted the original figure, i.e. the pre-war value, which we will say was 1, from the post-war figure, say 10, leaving 9, which represented the increased profit made by the fall in the exchange, and they demanded up to 30 per cent. of that increase as an Increased Capital Tax. So that, actually speaking, some people were mulcted in the amount of about eight-tenths of the post-war value of their property.

7497. *Sir Charles Addis*: Can you say what the depreciation of the currency was at that time? What was the real difference?—The Czech crown was at that time about 75 to the £. The pre-war value was 22 Austrian crowns. Of course, the Czech crown never had any value, because it did not exist. It actually was about 75; it is now about 164.

7498. So that, roughly speaking, it was multiplied by three?—Yes. Then by the time they had made the assessment for Capital Tax, the crown had fallen to 380, and they multiplied it by 10. They multiplied it by a variable amount, according to the fall of the exchange.

7499. I am not quite clear what the real value was at the time the tax was imposed?—The particular estate that I was administering was valued pre-war at 10 million crowns. The Czechs valued it, for the purpose of the Capital Tax, at 49 million odd crowns; they gave us the advantage of a few crowns so that we should not have to pay 50 per cent.

7500. *Sir Arthur Balfour*: Was that at the time when the crown was at 380?—It was valued at the time when the crown was at 380. For the purposes of valuation the crown was fixed at 72, so that actually speaking the property was valued at £700,000 at 72.

7501. *Chairman*: How do they collect that tax?—The tax is assessed and it is collected principally by confiscation of the property. As they require the property to divide up amongst the peasants and various other people, they take portions of the property and they give credit for it on pre-war valuation, leaving the owner owing them a large amount for Capital Tax. In practice they reduce the Capital Tax on the land that they have already taken down to the value of what they have taken. If they pay you less than the Capital Tax valuation, they demand less Capital Tax from you.

7502. Would you work it out for us. Supposing there was an estate worth £5,000 pre-war, how would that be classified?—An estate valued at £5,000 pre-war would be assessed at anything from £50,000 downwards.

7503. *Sir Arthur Balfour*: According to the arrangement which you could make?—Yes.

7504. *Chairman*: Let us assume £50,000?—From that £50,000 they would want about £15,000 Capital Tax; that is a little over one-third.

7505. How would they collect that £15,000?—That Capital Tax would be collected by the taking of land, buildings, or houses, breweries, distilleries, saw-mills, or anything you may have on your property, to that pre-war value. They did take these various industries or buildings which were on the land.

7506. And sell them to the peasants?—Sell them to the peasants, or they would float companies. What usually happened was that they floated companies of which the Government took 12 per cent. The Government took the property, floated a company and took 12 per cent. from the company.

7507. *Sir Arthur Balfour*: What happened afterwards to the companies?—The companies were in the hands of peasants and people like that, who subscribed.

7508. What has been the result?—The result has been a fiasco. There have been no profits shown. What usually happened was this. In the case of German industries, which had woollen manufactories and leather manufactories and machine works and so on, they obtained an advance of money from the bank. The Czech Government were very nationalistic and they wished to get rid of all the German and Austrian elements out of the country. The banks were only too anxious to mortgage these properties, thinking they could foreclose on them. They advanced money to the German and Austrian nationals who owned these properties. Under the pretence of buying raw material outside, the money was got out of the country and then the merchants retired with their books and started opposition works in Germany, Austria and Hungary. The result is that the industries have stopped and the people in those industries have become unemployed and the Government have to pay out money to find employment for the people. The Government tried to take the factories from the owners, but the banks stepped in and said: "No, you cannot do that; we have a first mortgage on this property." The Government said: "We do not mind that; we are going to take them." The bankers said: "All right, then we will go smash;" and the result was that there was financial chaos in the country.

7509. *Sir Arthur Balfour*: The Germans and the Austrians were the only people who got away with their money, really?—Yes.

7510. *Sir Alan Anderson*: What the Government set out to do was to take payment in kind, really?—What they set out to do was to take payment in cash.

7511. I think you said if you had a place, they put a tax of one-third on to that and they would take one-third of the land?—Only because they could not get the cash; but the point of the thing was that the land had previously been confiscated and then they tried to get the tax, which they said was a tax on the profit made in the War, then they enhanced that because of the decreased value of the crown; and not being able to get the cash, they took the property. Had they been able to get the cash, they would still have taken the property and paid you the pre-war value.

7512. *Chairman*: Did they confiscate the whole of your property?—They confiscated the whole of the property, 35,000 acres.

7513. *Sir Charles Addis*: Did they actually enter into possession?—Yes.

7514. *Chairman*: I thought they only took one-third of that 35,000 acres?—According to their laws, the whole of the land is confiscated with the exception of the 150 hectares which may be agricultural or it may include everything according to the whim of the Land Department.

7515. But did you not have possession given you of the 35,000 acres?—No.

7516. It was confiscation of the whole of your land?—It was confiscation of the whole of your land and your capital.

7517. *Sir Arthur Balfour*: What is the net result to-day in Czecho-Slovakia?—The net result, as far as we are concerned, is that the whole of our property has been confiscated and we have received nothing by way of compensation.

7518. *Chairman*: Have they not acknowledged any liability at all?—They have acknowledged no liability.

7519. *Mrs. Wootton*: Is this complete confiscation due to the fact that your property was in land? Did it arise solely from the Capital Tax or did it arise from land reform?—It arose in two ways. It arose principally from land reform, but this particular property was an industrial undertaking. It consisted of a sugar factory, distillery, brewery, saw mills, brick kilns, and so on. It was absolutely self-contained. There were 25,000 acres of forest, and 10,000 of agricultural land. There were 3,000 people employed on the place; and a lot of intellectuals—people with university degrees in forestry and agriculture were employed there. Generally on all estates in the country those people are now being turned off and the properties run by peasants who have never had any experience in farming or in forestry; the consequence is that the forests, being divided up into small portions amongst the villages, are being simply hacked down and the natural consequence will soon be a shortage of timber.

7520. The whole thing is confiscated including all the plant?—Yes.

7521. How does that work in with the calculations in paragraph 2, of your paper. You say a varying amount up to 50 per cent. was charged as Capital Tax, and then a further 30 per cent. was levied on the increased value. I do not see how that is equivalent to 100 per cent.?—If you had a property valued at £100 pre-war they value it now at £1,000. They take £500 in Capital Tax and £300 in Increased Capital Tax. That is £800. They then take your land and they give you £100. The result is that you are £700 deficient on a property which started at a pre-war value of £100.

7522. I presume that prices have gone up in Czecho-Slovakia?—Prices have not gone up in Czecho-Slovakia, for the simple reason that no dealing was allowed in land, and therefore there could be no increase in value.

7523. What about the price of land; was that at pre-war level?—The general price of land previous to the War was about 50 hellers—shall we say about 5d.?—per quadrate metre; that is about a square yard; but that was the price of agricultural land. The best land you could get was 50 hellers. The Government confiscated building land in the middle of villages and towns and for that building land they paid out sometimes as little as 10 hellers per quadrate metre, and that at the depreciated currency so that what was worth 5d. pre-war was credited at ¼d., that was land which in this country would be worth £200 or £300 an acre. We got something like £5 an acre for it—at least we did not get that; that amount was credited to the Capital Tax which we had to pay. So the result of the whole thing was that when you had paid your Capital Tax and they had taken the whole of your land you were in a state of minus, because you had nothing.

7524. *Sir Arthur Balfour*: And in effect the owner of this property has nothing to show for that 35,000 acres?—He has nothing.

7525. *Sir Alan Anderson*: He has a liability still?—He has a liability, of course, to the tax.

7526. *Sir Arthur Balfour*: He has a liability which they cannot collect?—Which they cannot collect, of course.

7527. I presume that has absolutely killed any desire of foreigners to invest any money in Czecho-Slovakia?—Naturally. The only people who have invested money in Czecho-Slovakia are people who invested in the Skoda works, and that sort of thing, which are guaranteed in England or America.

7528. *Mrs. Wootton*: Does it boil down to this. Leaving the land out on one side, if you take the value of the plant and so on, they would take the pre-war value and multiply it by a certain figure which you say varied from 5 to 10?—Yes.

7529. The existing value of that plant at that date was much less than five to ten times the pre-war value?—The existing value was non-existent because there was no market for it; you could not sell it; you were not permitted to sell land; you were not permitted to dispose of anything in the country. You were not permitted to remove money from the country; you could not draw your money from the

bank; your money was detained in the bank and held up and you could not get it.

7530. *Sir Arthur Balfour*: But that did not apply only to the land; that applied to everything?—Exactly, to everything.

7531. *Mrs. Wootton*: Did the Capital Tax have relation to your business and other businesses as a going concern?—Actually it did not, because our business, as far as that was concerned, were sequestrated by the Austrians during the War, and the Austrians had it until such time as the Czechs took it away from them. The Czechs took it away from them and gave the Austrians no receipt for it, and the Czechs then remained in possession of it, and we could not get it back.

7532. It seems that the origin of your difficulties was a good deal earlier than the Capital Tax?—Of course it was.

7533. If your property was already valueless before the tax that is a different matter?—The property was valued at the pre-war valuation.

7534. I understood you to say that the property, even before the imposition of the tax, was very low owing to the machinations of the Austrians and the Czechs?—No, I did not say so. As a matter of fact we are making a claim against Austria now for one million £ sterling for possession of the property which they did not return to us, as required under Article 249 of the Peace Treaty.

7535. If there were no confiscation would your objections still apply to the Capital Tax?—If there was no confiscation of the land it is possible that one might be able to do something, I think, but even so the total amount of Capital Tax that they require on the estate would work out to £250,000 on a presumable value of £500,000.

7536. *Sir Arthur Balfour*: I understand the reason they had to have a Capital Tax was because they did not tax themselves during the War at all. The Capital Tax and the taxes paid during the War, put together, do not equal our direct taxation in this country?—Of course they were under Austria during the War.

7537. They were not taxed?—I do not know about that. The fact remains that so far as their Capital Tax is concerned, that is what happened. I will give you one incident which may explain things to you. One of the men on this estate was an Austrian, and his godmother was English. She left him 10,000 Austrian crowns before the War, worth then, we will say, £400. They left the money in Vienna. When the tax came into operation everyone had to declare what money and what property they had. He declared he had 10,000 crowns. They said: "Very good; you have got 10,000 crowns in the bank at Vienna; that 10,000 crowns is now worth 100,000 crowns. We want 50,000 crowns Capital Tax from you for that": the increased capital being 90,000 crowns, 30 per cent. was 30,000 crowns, and he was assessed to pay a Capital Tax and Increased Capital Tax of 80,000 crowns. In the meantime his 10,000 crowns which had remained in Vienna are worth 6d., and he has to pay 80,000 Czech crowns, worth £500.

7538. *Sir Arthur Balfour*: In effect they have not been able to carry it out?—They have not been able to carry it out. President Masaryk himself made a statement, which was published in the papers, that they had not been able to collect more than 50 per cent. of the Capital Tax, and he was afraid they would never get any more.

7539. *Chairman*: Have you any other remarks to make?—No, I do not think so, unless anyone has any question to ask. I do not know if you wish to know anything on the subject of the Turnover Tax.

7540. It would be very interesting?—The Turnover Tax is a tax of 2 per cent. on all turnover, on all business, no matter of what kind. If a farmer sells grain to a merchant who deals in grain he has to pay 2 per cent. tax. When he sells that grain to a retailer he has to pay 2 per cent. tax. When the retailer sells it to the miller he has to pay 2 per cent. tax. And so with the miller to the baker, and the baker to the customer.

7541. *Sir Charles Addis*: How is it imposed—by a stamp?—On all business that you do, you are bound to collect 2 per cent. and credit it to the Government.

7542. Is there much evasion of the tax?—There cannot be much evasion, because you must keep books, and they go through all your books, and on every transaction which has taken place charge you 2 per cent. In fact, so far have they gone that they actually charged us 2 per cent. on timber we cut in the forest; they charged us 2 per cent. on the transport to the saw mill, and they charged us 2 per cent. on the work in the saw mill, and they charged us 2 per cent. when we sold it to buyers.

7543. You think generally it was not much evaded?—No, it was not much evaded except in this way, that many people got permits, for instance, in the way of exporting raw sugar, and it was evaded under the Export Tax. And very often things were very much decreased in value. For instance, from Roumania there was brought petrol, and it was described as paraffin oil, and paid a less Turnover Tax.

7544. *Sir Arthur Balfour*: I take it the big Skoda works, where they carry on a long series of operations, also escaped as compared with the small manufacturer who had to have processes done outside?—Yes, and every time the thing changed hands they had to pay.

7545. *Professor Hall*: I understood you to say that in your own case you had to pay upon each department?—Yes.

7546. *Sir Arthur Balfour*: But they were all separate concerns, were not they, invoicing to one another?—It was the same industry. When a transfer of material was made from one department to another they charged me Turnover Tax.

7547. Did you invoice it?—No, we did not invoice it at all.

7548. *Professor Hall*: Did the tax extend also to professional people?—Professional people had a peculiar sort of tax of their own, which they called a Profit Tax. If a girl, we will say, was a schoolmistress, she would pay her Income Tax not only on her income that she had, but if she had free housing, or free lighting, or free food, she had to pay Income Tax on whatever her total income was, whether it was in food or drink or light or fuel, or whatever it was; and if she went out after her school time was done and gave lessons in English or French or music to anyone else, that was a profit outside her legitimate occupation, and she had to pay a Profit Tax on it.

7549. I wanted to take this case. The baker buys flour, and he sells bread; he pays a tax upon the sales of bread?—Yes.

7550. The sale price includes a good deal of labour. Was the labour of the hairdresser and the solicitor and the other such persons also submitted to tax?—Yes, they came under the Profit Tax, not the Turnover Tax; the Turnover Tax only applied to industries and the Profit Tax applied to professions.

Chairman: We thank you very much for giving us this information.

(*The Witness withdrew.*)

(*Adjourned to to-morrow morning.*)

TWENTY-FOURTH DAY.

Wednesday, 6th May, 1925.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman.*
SIR CHARLES ADDIS, K.C.M.G.
PROFESSOR FRED HALL.
SIR WILLIAM McLINTOCK, K.B.E., C.V.O.
MRS. BARBARA WOOTTON.

MR. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

Mr. J. M. KEYNES, C.B., called and examined.

EVIDENCE-IN-CHIEF handed in by Mr. KEYNES.

1. It would not be reasonable to introduce a new and disturbing form of taxation, such as a Capital Levy, except for an important and definite purpose. I am not aware that any reasons could be advanced in favour of the levy which would satisfy this criterion, except the following:—

(1) In order to redeem the National Debt more rapidly than would be possible otherwise.
(2) In order to change the incidence of taxation as between different types of taxes.
(3) In order to effect a redistribution of wealth as between different classes in the community.

Since different taxes generally affect different classes unequally, there is no sharp line of division between the second of these objects and the third.

2. Let me take them in order:—

(1) Circumstances might exist in which the rapid redemption of the dead-weight debt was a matter of primary importance. I see, however, no reasons for supposing that this is the case at present. Indeed, on the contrary. If the demand for new gilt-edged investments was exceeding the flow of savings into those channels, there would be a *prima facie* reason for expediting debt redemption. But at present, in my opinion, the opposite is true. Indeed, I think it unlikely that there would be a strong argument for a more rapid redemption of debt unless (1) we were anticipating a war at an early date, or (2) the Government or other public bodies were embarking on new capital expenditure of a productive kind on a somewhat large scale.

(2) The object of changing the incidence of taxation made me in favour of a Capital Levy in 1920. At that time the Income and Super-taxes had reached what seemed to me to be the limit of what was tolerable, and perhaps to have passed it. At the same time I felt doubtful whether the Budget could be balanced without some additional taxation. I was in favour of a Capital Levy in order that the standard rate of Income Tax might be reduced. The effect of a Capital Levy, provided that its proceeds were used in this way, would be to throw more of the burden of taxation on the holders of wealth already existing at the date of the levy, and less on current profits and on the fruits of present effort. It would transfer some part of the burden of taxation from the brain worker and the earner of profit on to those who were rentiers and capitalists at the date of the levy. It seemed to me better to do this than to lay what was becoming a crushing burden upon salaries and profits. In existing circumstances I am no longer in favour of the levy on this ground, partly because it is now probable that the Budget can be balanced without raising the Income Tax to an oppressive level, and partly because the arguments put forward by Sir J. Stamp have convinced me that the amount of the relief which could be obtained from a levy of given amount is appreciably less than I used to think. I can, however, conceive that circumstances might still arise in which a combination of reasons, arising out of (1) and (2), would again cause me to advocate a levy. I limit myself to saying that sufficient arguments in its favour do not, in my opinion, exist at present.

(3) As regards the third possible object of a levy, namely, to effect a redistribution of wealth, it is sufficient perhaps to say that if this measure is to be on a scale which would take it out of the category of a mere modification of the incidence of taxation, it ought to be the last, rather than the first, step in any transition from individualistic capitalism to a new order of society. If the State had taken over the main responsibility for future savings, and was at the same time involved in large capital expenditure for State-operated concerns, the case would be changed. It is not necessary, however, that I should expatiate upon a measure which would belong to a late rather than to an early phase of purely hypothetical developments.

3. The most important arguments against a levy may be summarised under the following heads:—

(1) Any new tax to which taxpayers have not adjusted themselves is a bad tax. Unless there are strong, positive reasons for a change, it is always better to continue with the existing taxes than to introduce new ones.
(2) Exceptional disturbance is likely to be caused by a non-recurrent tax.
(3) Experience shows that taxes on capital present exceptional difficulties of valuation.
(4) It is commonly held that a non-recurrent tax on capital is essentially unjust because it upsets reasonable expectation and thus discourages future savings.

4. The first three of these arguments all have, in my opinion, some weight, but rather less weight, I

think, than is often attached to them. I do not believe that a Capital Levy is unworkable. And, in so far as its results would be worse than those of any other new tax, I think that the ill consequences would be due to psychological rather than to economic or technical causes. I should not, therefore, regard these counter-arguments as conclusive, if a state of affairs was to recur in which the positive reasons for a levy appeared to be very strong.

5. To the last of these objections I attach only such weight as must be attached to any ground of opposition which is widely held. This argument is always adduced against an unfamiliar tax and could be urged just as strongly against the rates of Income Tax and Super-tax to which we have already submitted, and against the existing rates of Death Duty, as against the Capital Levy. I see nothing more unjust or injurious to the saving motive in a tax on capital than in a tax on income. Indeed, a very heavy tax on income may be more injurious not only to saving, but also to earning, than a moderate tax on capital.

6. In conclusion, one point is perhaps worth mentioning, namely, the tendency to attribute any misfortune which occurs to any recent and unfamiliar innovation. The first introduction of iron ploughshares into Poland, Sir James Fraser tells us in "The Golden Bough," having been followed by a succession of bad harvests, the farmers attributed the badness of the crops to the iron ploughshares, and discarded them for the old wooden ones. If we had had a Capital Levy in 1919 and had used the proceeds to reduce the Income Tax, it is possible that the net results might have been very good. But even though important advantages had accrued from such a measure, we certainly should not have avoided entirely, merely by that means, the slump of 1921; and if a levy in 1919 had been followed by a slump in 1920-21 all the misfortunes of that slump—from which, with no Capital Levy to explain it, we even still suffer—would certainly have been attributed to the operation of the levy, and the opponents of the levy would be now maintaining that all their fears and warnings had been more than justified.

7551. *Chairman*: Would you like to amplify the paper you have given us?—I assume in this evidence that minor considerations for or against can be neglected, because no one would advocate new taxation of this kind except for some large, clear and well-defined purpose.

7552. *Sir Charles Addis*: With regard to the objects of a Capital Levy that you mention, would you mind saying a word upon the point how far you would consider that increased expenditure on social services would be a justification for a Capital Levy?—If the expenditure of the State, under any heading whatever, had to be unavoidably increased, I should be prepared to consider this tax, amongst others. If the choice was between a Capital Levy and raising the Income Tax to a materially higher level, I should prefer the Capital Levy. I regard that, however, simply as part of the problem of how to meet new unavoidable expenditure. The fact that it is for a social service makes no difference compared with war expenditure, for example.

7553. If there was a Capital Levy, say, to the extent of half the debt, as has been proposed, you would then have a certain amount of revenue on the present basis free for social expenditure?—I should simply regard that as the choice of a particular form of taxation, falling upon a particular class of taxpayers, in order to meet that expenditure. I would prefer to treat it as part of the general Budget problem.

7554. You would prefer that, for example, to increasing the Income Tax?—If I was so much in favour of the new expenditure that I felt we must commit ourselves to it, and if the choice was between a Capital Levy and a very material increase of the Income Tax, I should prefer the levy.

7555. *Chairman*: Supposing you had the alternatives of an increased Income Tax or a Capital Levy, with the dislocation which it would cause, which would you choose to-day?—I should prefer a Capital Levy. I think that the disadvantages of a very heavy Income Tax on current effort are most serious. I think there are disadvantages in a Capital Levy, too—there are in any new tax. It is a choice between two sets of disadvantages. If I was limited in my choice between a Capital Levy and, say, doubling the Income Tax, I should prefer the Capital Levy. That is all I am saying.

7556. *Sir William McLintock*: Repayment of £3,000,000,000, which is a figure that has been taken, would give a gross saving of, roughly, £150,000,000 a year?—Yes.

7557. It has been estimated that, with the loss of Death Duties and Income Tax and Super-tax, you might probably have a net surplus of £50,000,000. Assuming that figure to be as near as one can get, it is equal to 1s. additional Income Tax?—Yes.

7558. Would you still suggest that if a sum of £50,000,000, or thereby, is all that is required for any additional expenditure, the disturbance of a Capital Levy would not be a much more serious matter than simply 1s. on the Income Tax?—If that is the choice, I am against the Capital Levy, as I have explained here. I am very much impressed by that argument which you have just outlined, which I think was first elaborated by Sir Josiah Stamp, that a Capital Levy approximately of such magnitude as you have mentioned would have very disappointing results. In the earlier discussions of the Capital Levy I do not think anyone was quite alive to that—I certainly was not—and the force of those figures is very great. I think it would be much better to have 1s. extra on the Income Tax than to have the disturbance of a Capital Levy, which would amount to £3,000,000,000 gross and yet would not be equivalent to more relief than 1s. on the Income Tax.

7559. *Chairman*: Will you now go to the next paragraph in your paper?—I might perhaps elaborate my first point a little more. It is connected with the evidence I gave before the Committee last time I was here. Paying off Government debt means taking money from the public at large, or from capitalists at large, and using the proceeds to give cash to holders of gilt-edged securities in exchange for their gilt-edged securities. Those investors will want to invest the money which they receive in a similar manner, that is to say, in other gilt-edged securities. Therefore a very important consideration in my mind is how far there is a demand for capital in that particular form. If the Government was engaged in big productive works so that they needed the money themselves on a huge scale, and if the natural supply of the investment market for that sort of investment was inadequate to the demands, then I think you would have a certain argument in favour of the levy. In the opposite case if the gilt-edged market is congested with available funds and new opportunities for investment in gilt-edged securities are mainly overseas, then I hold there is no object in rapidly repaying the National Debt, but the contrary. It is much better to leave the resources in the hands of people who are free to use them in any way, rather than to transfer them to the hands of people who are limited to using them in a particular way.

7560. *Sir Charles Addis*: That is on the assumption that the people who are paid out would demand the same kind of security?—Presumably they would. They do not hold Government debt by accident; they hold it by choice, which means that they have some motive for preferring that particular form of investment to others.

7561. Have you considered, when you take account of the enormous amount of the whole stock, whether

that argument can be quite followed throughout?—I think it holds in spite of that.

7562. With regard to other changes, do you attach much importance to increased expenditure by Local Authorities, for example?—If it involved heavy borrowing, yes. In 1920, in the early days of the housing programme, it was involving heavy borrowing; at present it is not.

7563. In some industrial enterprises under the Trade Facilities Act, for example, there has been another channel opened up?—They have not in fact come to much. My belief is that for the last year and a half, say, the new home trustee securities available, minus the debt paid off, are far short of the natural accumulations seeking an outlet of that kind.

7564. Yes, that is so; but I rather thought there was a growing expansion there to which one might look in the near future?—Unless there is a change of policy, I see no reason to expect a great acceleration.

7565. You attach a great deal of importance to the argument that it would be diverted abroad?—If we change our policy and our Local Authorities embark on great road schemes and port schemes and the like, the situation would be changed. I see no probability that we shall do these things in the near future; I should like to do them, but we are not doing them at present.

7566. Nor is there much expansion of investment abroad at present?—There are certain hindrances of an artificial kind in the way of that.

7567. To that extent the argument is weakened with regard to investment abroad?—Not in the slightest, because my argument depends on the lack of outlet at home. If you choose to put our export trade in difficulties by cutting off foreign loans and not putting home ones in their place, you are doing the maximum amount of damage in every direction.

7568. Is there not a reactive effect on investment at home if you discourage investment abroad?—There might be. If you keep it going long enough you would affect the rate of interest, but I do not think that there is very much in the difference between 4¾ per cent. and 4½ per cent. What would happen if you kept up your artificial methods long enough would be that the people would find ways of defeating them.

7569. In your view is there any way of testing the annual amount which we might pay off without the adverse results which you fear? Is there any criterion?—I do not think there is any criterion that you could lay down now which would hold good for the next ten years. I think it is a thing you ought to budget for in the light of the circumstances of each year. I think that at the moment there is no argument for paying off more than a small amount of debt, but that might rapidly change if we embarked upon important new schemes. When enterprise of this particular kind is dead, for whatever reason, political or economic, the argument for paying off debt is diminished. As soon as the Government or public boards, or public authorities, have an active policy of productive investment, then the argument for paying off the debt rapidly is quickly increased; so that it is a thing you must think over afresh almost every year.

7570. How far, in your view, is the argument that we ought to anticipate a renewal of war at an early date an argument for repayment?—Personally, I do not anticipate a renewal of war.

7571. You do not think that can properly be taken as a test of the amount to be annually paid off?—I think it ought to be considered, but I think even if one did anticipate war, say, ten years hence, the extent to which one could be armed against it by an increased Sinking Fund is very small. If I foresaw a war ten years hence, I would rather spend the money upon the fighting services than upon the Sinking Fund.

7572. As we are going now, we are paying off £50,000,000 a year. At the end of 20 years we shall only have paid off £1,000,000,000 of debt; so that at the end of 20 years we should still be in a very serious position, so far as concerns the argument from the possibility of a war in the near future?—I agree.

7573. Therefore, you do not consider that possibility of much importance as a test of the amount that ought to be paid off?—No. I attach almost no importance to it.

7574. *Professor Hall*: I would like to ask how your view regarding repayment would be affected if deflation were taking place rather rapidly and the real burden of the debt charges were increasing in consequence?—I think that would be an additional reason, probably, against. But I do not think I should attach so much importance to that argument as to the question of the demand for capital in the form of gilt-edged securities. If deflation was proceeding, I should be more, rather than less, against paying off debt, because we should be repaying the lenders in an appreciated currency.

7575. You would not think it desirable for that reason to get the debt cleared off quickly before the burden increased enormously?—But I do not look forward to progressive deflation lasting over years.

7576. But I am assuming that it is taking place, and continually taking place?—Then I should say the game was up, anyhow.

7577. *Sir Charles Addis*: With regard to your change of view since 1920, concerning a Capital Levy, to which factor do you attach more importance—the amelioration of the existing burden of taxation or the comparatively small net amount which would result from a Capital Levy?—It is hard to say; at that time Income Tax was 6s., and I thought it quite possible that it might rise to 8s. or 9s. or 10s., and at that time I thought that a Capital Levy might perhaps make 3s. or 4s. difference. Now the rate of Income Tax is 4s., and the type of Capital Levy under discussion would be worth only 1s. of Income Tax, so the two things together entirely alter the situation, in my mind. What I wanted to avoid was an Income Tax in excess of 6s., and the argument for avoiding Income Tax in excess of 6s. is quite different from the argument for reducing Income Tax from 4s. to 3s.

7578. But do you not consider that existing taxation is exerting a very depressing effect upon industry, in restricting enterprise particularly?—I think that it is dangerous to have a very high tax on profits, including in that term the reward of risk-taking. The Super-tax, together with the Income Tax, is a deterrent to a rich man who contemplates taking a risk, or rather taking a risk which is an isolated risk, or one not easy to average. To that extent I agree. I also think that a great part of saving is generally done by people of big fortunes who make large profits, and if you tax them very heavily you interfere with saving to a certain extent. On the other hand, the argument that Income Tax and Super-tax are responsible for the general lethargy of trade is greatly exaggerated, in my opinion. I think that there is extremely little in it.

7579. If the present burden of taxation were to fall once for all upon the accumulations of past efforts rather than on current income, would the result not be a very considerable incentive to enterprise and to risk-taking?—If you used the proceeds for an important reduction of Income Tax and Super-tax, yes. My difficulty is that unless you are going in for a very huge tax, which we are not discussing at the moment, the relief to enterprise is so very small. If, by a not unreasonable Capital Levy, I could reduce the Income Tax and Super-tax to something like the pre-war level, I should be strongly in favour of it; but I do not believe that 1s. off the Income Tax would make a significant difference to enterprise.

7580. Would you on general grounds be in favour of any kind of tax on capital, say a small annual tax, especially for debt redemption? Would there be anything to be gained by exploring in that direction?—The best way of doing that is by increasing the

Income Tax on "investment" income. The experience of the United States in a tax on capital is rather discouraging. It is practically impossible to have an annual valuation of capital. The result is that you tend to tax realised capital profits only, and that works out in all sorts of unequal and inconvenient ways. I believe that, if you want to relieve current effort and to tax more heavily past accumulation, the way to do it is to increase the tax on what used to be called unearned income, and is now called investment income. The objection is that you mix up the rentier with the profiteer. But the tax on capital has exactly the same effect, if it is an annual tax. There is no difference whatever in incidence that I can see between a tax on capital and an increased tax on unearned income, and the latter is much easier to collect.

7581. *Sir Charles Addis*: They both tax past accumulations?—They both tax the accumulations up to the beginning of that year.

7582. *Sir William McLintock*: You mentioned that you would be in favour of a Capital Levy as compared, say, with doubling the Income Tax?—Yes.

7583. Taking the figures we have already had of a levy for £3,000,000,000 (yielding a net £50,000,000) being equivalent to 1s. Income Tax, it would follow that a levy equivalent to a 4s. tax would produce about £12,000,000,000?—Yes.

7584. So that that figure indicates a sum far in excess of any requirements we are ever likely to have?—Well, I do not know.

7585. Assuming there is not another war?—Sir Charles Addis was suggesting that there might be new social expenditure of a very heavy kind. I am not in favour of a heavy increase of expenditure. I should resist heavy increased expenditure, but suppose I was either compelled to accept or was convinced of the necessity for heavy increased expenditure, and if I was limited to a choice between doubling the Income Tax and very heavy Capital Levy, I should choose the Capital Levy. But that is all very hypothetical and contingent.

7586. The suggestion with regard to social expenditure was made by a witness who was assuming a net saving of £150,000,000 a year from a Capital Levy to produce £3,000,000,000.—He was simply mistaken in his arithmetic.

7587. He said he would spend probably £20,000,000 or £30,000,000 on social betterment schemes, and the balance would be saved. So he was assuming that he was going to have a very large fund available, something to reduce the current rates of Income Tax and something for social schemes at the same time?—His arithmetic was not correct.

7588. *Sir Charles Addis:* I would like to ask you one more general question. On the last occasion that you were here, I think you considered that a Sinking Fund of £50,000,000 in the present circumstances was enough. I just want to ask you once more, have you considered whether a non-cumulative fund of that amount is sufficient effort for us to make for the purpose of repayment of debt?—I see no object in reducing the debt as such. Your question assumes that there is something desirable in extinguishing the debt sooner or later.

7589. Would you go so far as to say that was not desirable? On general grounds it is a desirable thing, is it not?—I think it is a matter almost of indifference.

7590. So that you would confirm the opinion expressed before that a non-cumulative £50,000,000 a year is an adequate amount?—I think the argument for extinguishing the National Debt is partly an æsthetic argument, that it looks nice to have a clean balance-sheet, and I think it is partly false analogy from private account keeping; an individual likes to be out of debt. But for a nation as a whole it is merely a book-keeping transaction.

7591. *Chairman*: That is a very interesting opinion.

Sir Charles Addis: I find it very difficult to follow that, partly, I dare say, from the prejudice of which you speak. It is very difficult for me to regard it as anything but a bad thing.

7592. *Sir William McLintock*: Do you not think the average individual who might be liable to a Capital Levy, if he could be assured of a permanent annual relief in his current taxation, would be quite ready to part with some capital?—I think so. I have never seen any objection of principle to the Capital Levy on that ground.

7593. One of the difficulties is that he can have no guarantee that, having made a capital contribution and got a temporary relief of the annual burden, say on Income Tax and Super-tax, that relief will be continued to him?—I do not think he has any right to any such guarantee.

7594. And so long as he cannot get that guarantee, he will not be in favour of a Capital Levy; he will not take kindly to it. (*Professor Hall*): Rightly or wrongly, a great many people are psychologically affected by the existence of the debt, and is there not among a section of the community a very strong feeling that they are being overtaxed in order that interest may be paid upon the debt? Rightly or wrongly, that feeling exists?—(*Witness*): I think that the matter is widely misunderstood.

7595. You think it is a matter of which no notice should be taken?—I think there is no end to it if you set out in your legislative programme not to produce the best results but to get rid of unfounded misapprehensions in the mind of the ignorant.

7596. But Parliament has to take some account of public opinion?—It takes account of nothing else.

7597. And if public opinion demands a certain policy, Parliament may be forced along a certain line?—It will certainly be so. That does not affect the question whether it is wise.

7598. No; but I wanted to know your view of how that position should be met?—It is a difficult question. You are assuming a state of affairs in which public opinion is pressing Parliament to do something foolish. If I knew the remedy for that, I should know the remedy for many of the evils of society.

7599. What I am asking you to give us, really, is some argument that can be put up against that expression of opinion, to show how foolish it is. You said it is simply a question of book-keeping. Well, that does not convince people when you tell them that?—I cannot, at short notice, think of a very brief platform way of putting it. I do not think it is more difficult than a great many other economic questions which have gradually been made plain to the big public. All these matters are hard at first, but there are many of them which, in the course of years, the public get to understand, so long as good sense is talked to them in a reasonably lucid way, year after year. That is the only method, I think.

7600. Do you think that this statement of yours, published in the evidence, will do anything to correct that feeling?—This was not prepared from the point of view of the platform.

7601. No, but it may be read by thoughtful people, who may be able to interest others from the platform?—I think it would need a good deal more elaboration.

7602. The statement that it is merely a matter of book-keeping may be acceptable to us; we may see it quite clearly; but I think the outside public would want some arguments to show that it was merely a question of book-keeping?—I should argue in some such way as this. This is not a proposal for confiscation, nor is it a proposal to increase savings; it is a proposal that the holders of the National Debt should hold some other form of security; that is to say, that they should receive the same income as before. A certain proportion of the fruits of industry would go to those individuals, exactly as hitherto, but they would not first be collected from industry by the Government and then handed to the *rentier*; they would reach him by some more direct channel. Now there is a large class of investors who like to have the Government guarantee for the security of their income, and they will accept a smaller income if they have that guarantee than if they have not.

So there may be some positive advantages in their income reaching those individuals through the hands of the Government out of the proceeds of taxation, and with the guarantee of the Government, rather than more directly. But whether that be so or not, it does not affect the total wealth of the country nor the total burden of anyone, whether their income reaches them direct or through the channel of the Treasury.

7603. *Sir William McLintock*: Of course, the holders of National Debt would not have the same income as before. You said that they would, from a different form of security. All those having capital above the minimum amount would have a portion of their national investment taken from them as well?—Certainly the Capital Levy is a form of taxation. I was answering the point whether paying off the National Debt as such, apart from laying a new burden upon a particular class of taxpayers, was any relief. That was the question I was answering. If your method of paying off the National Debt is by a Capital Levy, then you are placing a new tax upon a particular class of the community, and therefore reducing their wealth. That is quite true.

7604. *Chairman*: It is a striking statement that Mr. Keynes makes to-day, which makes one feel more reassured and more comfortable. What Professor Hall wanted was that there should be some argument to present to the minds of the people who are looking at this debt as a very dire and oppressive calamity?—I think that a person who is in favour of repaying the National Debt rapidly has two indirect reasons for it, both of which have some force. The first is that all Chancellors of the Exchequer have a natural disposition to cut their Budgets rather too fine A substantial Sinking Fund, therefore, provides a margin and it is a corrective to that natural tendency of Chancellors of the Exchequer. Suppose anything goes wrong with the Estimates, the result is that we have not repaid quite as much debt as we expected, but we have not positively got into arrears, and I think it is right to wish for some margin of that sort. I have supported a moderate Sinking Fund for exactly that reason—that it is a good practical method of seeing that there is a margin on the Budget. The other reason is that they believe that it will increase the aggregate saving of the community, because in so far as the Government repays debt, it is taking away money from the taxpayers, not all of which will be saved, and using it to repay holders of Government debt, who will probably save the whole of it. So that the point is not to repay the National Debt, but to increase the national savings, a result which would be achieved equally well if you had used the proceeds of taxation, not to repay the National Debt, but for productive capital expenditure. I think it is very hard to decide how much you should favour saving. We may, sometimes, be inclined to exaggerate it. We assume too lightly that more saving is always the most desirable thing. But no doubt with an increasing population there is a powerful reason for increased savings, and therefore there is a ground for using the Sinking Fund as an indirect way to promote saving. I am not now disputing either of those reasons. I agree that there ought to be a margin on the Budget. I think that it ought to be a matter of anxiety for the State that the community saves an adequate sum each year. But such reasons are distinct from those for paying off the National Debt as such. They can be met without paying off the National Debt; and I intended to limit my remarks to the desirability of paying off the National Debt as such, apart from any effect it might have in stimulating saving or in enforcing on the Chancellors of the Exchequer prudent finance.

7605. *Professor Hall*: While you feel that it is a matter of indifference whether we repay the debt rapidly or not, you do not think the existence of the debt is a good thing in itself, as some people sometimes suggest?—I am not sure that it is not a good thing that there should be a considerable volume of capital available for investment, the interest of which is guaranteed by Government. There is a large class of investors to whom that is an advantage, but it would be much better if the debt was productive debt, instead of deadweight debt. I do not believe that the National Debt will ever be greatly reduced. I should be surprised if it ever stood below, say, £5,000,000,000; because, after a certain point, demands for productive capital expenditure are likely to arise. It is just possible that the debt may appear to fall below £5,000,000,000, because the new debt will be raised, not by the Treasury, but by other public bodies. But taking the public debt in a wide sense, I should anticipate that in the future there will be some reduction but that it will not actually fall towards nothing at all. As soon as so much debt has been repaid that there is a distinct shortage for investment purposes, there will be a strong swing of opinion against repaying it faster. The arguments which I am now advancing in an abstract way will then have practical force.

7606. That assumes, of course, that there are not other available opportunities of investing in public securities?—If there are, I should say that there was no net reduction of the public debt, but only of the deadweight debt.

7607. *Chairman*: What do you think of the case for a reduction in the rate of interest upon the National Debt?—I think that the power of the Treasury to reduce the rate of interest on the National Debt below the world rate of interest on first-class securities is very limited. In the years immediately succeeding the War, the rate of interest on the debt was probably above the true rate of interest, and prudent finance has had its reward in bringing the rate of interest down to somewhere near the true rate of interest. But once you have achieved that, you cannot achieve much more. You cannot proceed, by prudent finance, to reduce the rate of interest from 4½ per cent. to 3½ per cent. and then to 2½ per cent., merely by paying off debt, irrespective of what the rate of interest is in the outside world. The most you can do is to get into a situation where you are an absolutely prime borrower and need never pay more than the international rate of interest for a prime borrower; and I should say that we have practically achieved that already, and that the rate of interest on the National Debt in future, assuming reasonable prudence, will depend upon the general movement of the rate of interest rather than upon the particular policy of the Treasury.

7608. *Professor Hall*: I forget whether you mentioned this point in your previous evidence; do you attach any importance to hypothecating the receipts from Death Duties for debt reduction purposes instead of for current expenditure?—Not the slightest. I see no connection between one particular form of taxation and the Sinking Fund.

7609. *Sir William McLintock*: If you come down to a mere matter of book-keeping and take the national accounts, you could quite easily find almost an equivalent amount of capital expenditure on the one side of the account as against the revenue from Death Duties, which is considered a tax on capital on the other: but the public accounts are prepared in such a way that they do not bring that out clearly?—Yes, very likely that is so.

7610. I think it could be shown every year that the capital expenditure on the one side is almost equivalent to the amount raised from Death Duties on the other; the difference is not material?—I think there is no more force in the argument for equating the two than there would be for equating the proceeds of the Sugar Duty with the cost of meals for school children, so as to be able to say that the amount you spend on meals for school children exactly equals the receipts from the Sugar Duty.

7611. But if there is any point in the argument against using Death Duties for current expenditure there is nothing left in it when you come to analyse that current expenditure, and find that an equivalent amount of it is truly capital expenditure?—I have not worked that out myself. I am not at all surprised. Summing the whole matter up, I feel, at

any rate in the present circumstances, that the sort of moderate Capital Levy which has been under discussion is not worth while, and that the advocate of the Capital Levy is probably wanting it as a first instalment of a radical redistribution of wealth. My feeling about this is that, assuming such a policy, I doubt whether this is a wise way in which to take your first instalment. If I were considering a completely different order of society in which saving was looked after by the State, so that you had not got to pay much attention to encouraging or discouraging saving by private individuals, then measures of this sort might be worthy of serious consideration. But, to begin at this end, to take steps which might interfere with the private motive to save, before you had established in operation a thoroughly efficient alternative method of saving, would be to make a mistake, from any point of view. This is the dilemma: that if the Capital Levy is part of a new social order it is not the thing to begin with. If it is not, if it is meant to be something which is quite compatible with our present order of society, then it is not worth while.

7612. *Professor Hall*: You differ, then, from one of our witnesses who has suggested that a Capital Levy of £1,000,000,000 might be desirable, and would not really be disturbing. You do not think it is worth while, and the smaller the amount the less worth while it is?—The Capital Levy is extraordinarily disturbing in proportion to its magnitude—far more so than any other tax. You are insulting, by it, a set of very strong irrational feelings in men.

7613. *Sir William McLintock*: Have you considered the other aspect of it—that the payers of the levy in many cases would have to hand over an interest in their business to the Government, to hold in the form of shares?—I believe that there are ways round all these technical points. I admit that these grounds of objection are troublesome, and that therefore no one would undertake to meet them except in connection with a large and important scheme; but I do not think they are insuperable.

7614. Then there are people who earn substantial incomes with very little capital. Would they escape?—Yes, they would; but they are just the people I should wish to let off. If the object is to put more burdens upon owners of accumulated capital in order to relieve those who are earning big current incomes and making big current profits, the result you indicate is just what is sought.

7615. The suggestion has been made that those with incomes of a certain size and very little capital should have their contribution commuted in some way. Then it comes back to an Income Tax?—Yes, I have heard that suggestion. If you think that, I see no object in not doing it by Income Tax. Of course that has constantly happened in experience. The Capital Levies which have been proposed in foreign countries have generally been elaborated and whittled away until they were practically additional Income Taxes. If all the payers of a Capital Levy proceeded to set up a sinking fund, out of their current income, in order to replace what the Capital Levy had taken from them, it would then be equivalent to an Income Tax on the holder of the capital at the date of the imposition. But even then it would not be a general Income Tax, because not all the Income Tax payers would be paying it.

7616. There is no other method left to them?—Even so, you still achieve your object by transferring the burden from the Income Tax payers as a whole to a particular section of the Income Tax payers, namely, those who own capital at the date of the levy.

7617. *Professor Hall*: Should I be right in saying that you think a Capital Levy is practicable, but in present circumstances undesirable?—Yes, and not worth while. That is the aspect I should emphasise.

7618. It is practicable. The question of valuation does not trouble you at all?—It troubles me a little. I think it is quite a serious and difficult matter and an argument against the Capital Levy unless you are achieving a big object. But if you have a big object in view, I think that these valuation difficulties are capable of solution.

7619. It is not an insuperable obstacle?—No. After all, if there was no Income Tax, it would be an objection to the Income Tax that you would have to set up the tremendous machinery of Somerset House.

7620. *Chairman*: Have you any further point, Mr. Keynes?—There is one point upon which I have not said anything, but which you emphasised in the questionnaire sent me. That was the question of the effect of a Capital Levy in producing inflation or deflation. My view of that is that a Capital Levy would set up two tendencies. There would be some people who would be so much alarmed that they would sell out securities beyond what they required for the purpose of the levy, and would keep money in their banks. That effect would be deflationary. There would be other people who would be either unable or unwilling to sell out their securities, and who would try to obtain part of the amount of the levy, partly by using their bank balances up to the hilt and partly by borrowing additionally from their bank. That would be inflationary. If we had a managed currency there need be no effect on balance because it would be easy to counteract the net effect of those two influences. If we had a currency in which we took no steps to counteract tendencies towards inflation or deflation, then it would depend upon which of those two sets of motives was the stronger. I should have supposed that the tendency to borrow would be incomparably stronger than the tendency to hoard, and that consequently the net effect would be inflationary rather than deflationary.

7621. *Mrs. Wootton*: When you say a managed currency, would that include a managed gold standard?—You can have a gold standard that is to a great extent a managed currency. I am not assuming the absence of a gold standard; I am assuming the presence of a standard which has been worked on managed lines, although it may have a gold basis. It is too soon to predict along what lines these things will develop. Recent talk has been to lay stress upon the amount of gold reserves as governing credit policy. If we were to manage our credit by reference to the inflow and outflow of gold, then it would be impossible for us to counteract such influences as these.

7622. Either way?—Either way. Suppose that we did not pay too much attention to gold and attended mainly to credit influences at home, then in spite of the gold standard we could do a good deal to counteract these influences.

7623. If we had an entirely unmanaged standard?—If we had a gold standard of the kind which the orthodox gold party advocate, we could do nothing.

7624. We could do nothing, but the gold standard would do something in time?—Yes, but what it would do would be a matter of chance.

7625. *Professor Hall*: What would you do with any repayments that come to us from France or some other of our debtor countries? Would you utilise those amounts for repayment of debt?—I think that there is a strong sentimental and psychological argument for doing that, just as there is for using reparation receipts in that way, but I do not know that there is much in it, really. I should take the money into my Budget, and, whatever I might say, the effect would be to ease the Budget situation as a whole.

7626. *Sir William McLintock*: If they do not budget for those reparations, as has not been done the last year, will they not automatically go to the reduction of debt, if anything comes in?—The Treasury budget for a certain amount of reparation receipts this year, and I should suppose that, as soon as the reparation receipts can be accurately foreseen, they will be budgeted for. The only reason for not budgeting for them is the fact that the Treasury is not quite sure how much they will be.

7627. *Professor Hall*: But since we have borrowed for the purpose of these loans, does it not seem that

on grounds of public policy it would be desirable to utilise the repayments for repayment of the capital burden?—We could say we were doing that, just as we can say that we are using the Death Duties for this purpose; but I should not increase the Sinking Fund above £50,000,000 merely because we had got an extra £5,000,000 from France.

7628. *Sir William McLintock*: The same principle has been operating every year in the sale of War stores. We are treating the proceeds from sales as current income?—Yes.

7629. *Professor Hall*: Taking the choice between reducing Income Tax and increasing the amount of the Sinking Fund above £50,000,000, would you suggest that it would be better to apply the money received to reducing the Income Tax?—I should bring it into the Budget as a whole and treat it very much like other receipts in deciding how I should use it.

Chairman: Thank you very much for your most interesting evidence.

(*The Witness withdrew.*)

(*Adjourned.*)

TWENTY-FIFTH DAY.

Tuesday, 2nd June, 1925.

Present:

The Rt. Hon. LORD COLWYN, *Chairman.*
Sir CHARLES ADDIS, K.C.M.G.
Sir ALAN G. ANDERSON, K.B.E.
Mr. J. W. BOWEN.
Mr. W. L. HICHENS.
Mr. H. B. LEES-SMITH, M.P.
Sir JOSIAH STAMP, G.B.E.

Mr. G. R. HAMILTON, *Secretary.*
Mr. G. ISMAY, *Assistant Secretary.*

Mr. Randle Holme and Mr. L. B. Carslake, representing the Council of the Law Society, called and examined.

Evidence-in-chief handed in by Mr. Holme and Mr. Carslake.

1. The Council of the Law Society have considered the list of subjects submitted by the Secretary of the above Committee. Most of the subjects are of so general a character that the Council do not feel that they can usefully offer evidence upon them. However strongly the members of the Council may individually feel that the heavy rate of taxation now prevailing is detrimental to the well-being of the country and its industries, these are not matters which, generally speaking, concern solicitors as a profession. Stamp duties, however, and duties of a similar character are matters with which solicitors are constantly dealing in the ordinary course of their practice, and accordingly they welcome the opportunity of expressing their views on certain of these duties. It is not to be inferred from their mentioning certain duties only that they consider none others require reconsideration. The subject is so vast that they feel compelled to confine themselves to points of outstanding importance.

Ad Valorem Duties Payable in Respect of Limited Companies.

2. It is a commonplace that the system of limited joint stock companies has been beneficial and has stimulated the growth of trade and industry. The system undoubtedly has been abused, but the abuses are infinitesimal in number and importance compared with the benefits which have resulted. Consequently, while the formation of limited companies affords a legitimate opportunity for raising revenue, that opportunity should not be made use of so greedily as unduly to hamper this beneficial form of business.

3. At present this is the case. The *ad valorem* duties payable in the case of limited companies (generally at the time of their formation) are far too heavy. It is true that the number of companies formed in recent years is large and shows no sign of diminution, but, were it not for this heavy impost, the number of registrations would undoubtedly be larger.

4. The fact that the system of limited companies is sometimes used for unworthy objects is no argument to the contrary. Heavy taxation does not deter the formation of such companies, and a reduction in such taxation would not materially increase them.

5. By the Finance Act, 1920, the Capital Duty on companies, previously 5s. per cent., was raised to £1 per cent. In the case of large public companies, where large figures are involved, this impost results in an almost intolerable burden. In the case of private limited companies, although the figures involved are generally smaller, the burden is proportionately heavy.

6. But the hardship does not end here. Where, as is almost always the case, the company is formed to acquire some property or business, there is a further payment of Stamp Duty on the agreement for sale, or on the conveyance or transfer, to the company. This duty on agreements for sale or conveyances used to be at the rate of 10s. per cent., but was increased to £1 per cent. in 1910 and is chargeable on the consideration so far as it is in respect of immovables in this country, book debts, goodwill, and indeed every kind of property except land abroad and movables.

7. Though these additional burdens are borne in the case of a public company which invites the public to subscribe by being in effect paid by the shareholders, they are often prohibitive in the case of a private company formed to take over the business of a private firm. Very often such transactions amount to little more in reality than the addition of the word "limited" to the name of the firm, and, although the firm as the result of the transaction acquires the benefit of limited liability, the impost of approximately 2 per cent. on the value of the assets is far too high a price to pay. The result is that in many cases either the transaction is abandoned, or some legal but inconvenient subterfuge is adopted in order to reduce the amount payable.

8. Take a simple case of conversion of a private business into a private limited company. The value of the assets is £250,000. It being desired, quite rightly, that the capital of the company should be approximately equivalent to the value of the assets which it is to acquire, the nominal capital of the

company is £250,000. The Capital Duty of 1 per cent. therefore amounts to £2,500. The agreement for sale or conveyance to the new company is for a consideration of £250,000 in fully paid shares, of which £30,000 represents movables. The balance of the consideration, viz. £220,000, involves a stamp duty of £2,200—a total *ad valorem* payment of £4,700, an amount which is quite out of proportion to the benefit obtained by the transaction. The parties will therefore be driven either to abandon the conversion altogether, whereby the revenue will receive no payment at all, or some device must be adopted for reducing the figures, resulting in some less desirable proposition.

9. The present duty is particularly hard on companies formed to start new business, develop mines, patents, etc., and it undoubtedly deters many foreigners from forming companies here and also drives Englishmen to register abroad, instead of here, companies formed to carry on business abroad.

10. It is understood that, where a reconstructed company is being formed to take over the business of the existing company, and where the shareholders in the new company are the same and hold shares in the same proportion as those in the existing company, the *ad valorem* duty is not claimed by the Inland Revenue on the agreement for sale or conveyance. If this is so, it is difficult to see any reason why the concession should not be extended to the case where a private business is converted into a private limited company, and where the shares are taken up by the vendor or his nominees. But the concession (if made) in the case of reconstruction is made without statutory authority, and nothing could be more objectionable than that the Board of Inland Revenue should have it in their power to give or withhold concessions, like an oriental potentate scattering largesse at his pleasure.

11. The matter should be dealt with by statute. In the opinion of the Council no *ad valorem* duty at all should be payable on a conveyance or agreement for sale from one company to another for fully paid shares when the shareholders are substantially the same in both companies, or in the case of a sale of a business to a private company, where the vendors take by themselves or their nominees substantially all the shares.

12. In addition it is submitted that the rate of Capital Duty on the original or increased capital of companies should be reduced to the figure which prevailed before 1920 of 5s. per £100.

Ad Valorem STAMP DUTY ON CONVEYANCES AND TRANSFERS.

13. It is submitted that in all cases *ad valorem* duty on conveyances and transfers and agreements for conveyance or transfer should be reduced. Before the year 1910 the rate was 10s. per cent., but by the Finance (1909-10) Act, 1910, it was increased to 1 per cent. except in transactions where the consideration did not exceed £500 and except on transfers of stocks and shares. In 1920 the increase was extended to transfers of stocks and shares by the Finance Act of that year (without any exception in cases where the consideration is less than £500). In the opinion of the Council it should be reduced in all cases to 10s. per cent. It is probable that the loss to the revenue would be compensated for by an increased volume of business, resulting also in increased revenue from Income Tax and similar sources.

COMMISSION TO SOLICITORS ON GOVERNMENT LOANS

14. The Council have repeatedly urged upon the Treasury the desirability of allowing to solicitors a commission upon subscriptions to Government loans made by clients through their solicitors, in the same way as such allowance is made to bankers, stockbrokers and financial houses.

15. The principle of allowing commission to solicitors was admitted in paragraph 13 of the rules made in pursuance of the National Debt (Conversion) Act 1888 with respect to the conversion of New 3 per Cent. Annuities and the exchange of Consolidated 3 per Cent. Annuities and Reduced 3 per Cent. Annuities. That paragraph provided that solicitors lodging assents on behalf of clients would be paid a commission of 1s. 6d. per cent.

16. The only occasion on which a specific reason was given for refusing to allow such a commission to solicitors was in 1915, when the then Chancellor of the Exchequer stated that it was not practicable to offer commission except to bankers and brokers, but that he understood it was the practice of bankers and brokers to divide the commission which they received with other agents who introduced the business. He stated with regard to the 1888 conversion that it differed from War Loan in that while the former had been undertaken in the interests of the Exchequer, the then conversion was intended to confer a privilege on subscribers to the new loan.

17. The Council submit that the fact that brokers divide their commission with solicitors amounts to an acknowledgment that solicitors do a substantial part of the work and that present-day loans and conversions are undertaken in the interests of the Exchequer to at least as great an extent as, if not to an infinitely greater extent than, the conversion of 1888. They are convinced that such an allowance would be in the public interest as tending greatly to facilitate and assist the success of future Government issues.

18. Solicitors are in the position of being able to render valuable service to the State in connection with such loans. They have charge of numbers of trusts involving an immense sum in the aggregate. The trustees are, as a rule, quiescent, and the management is in the hands of the solicitors. The supervision of investments and the arranging for any changes necessarily throw a large amount of work upon solicitors. In order to influence investments in Government loans they have to examine trust papers, look up uninvested balances, enter into considerable correspondence with clients and trustees to recommend, and obtain the consent to the proposed investment of the tenant for life, and two, and sometimes more, trustees, fill up all the forms, obtain the necessary signatures, arrange for the drawing of cheques, payment of instalments into the bank, and many other details.

19. All this involves the expenditure of a large amount of time and trouble, and cost to the trust estate; and it is to meet such costs that it is considered only right that solicitors should be included among those who receive commission.

20. Solicitors are men of affairs and have many opportunities of influencing and directing the investment of money. The brokerage offered is of a dual nature: it is not only remuneration for work done, but also an inducement to direct the flow of money into the coffers of the person, company, or department offering the commission. It is obvious that solicitors earn this commission equally with bankers and brokers.

21. The aggregate of money passing through the hands of the profession for actual investment is very large, and it is well recognised that solicitors on placing debentures, etc., are entitled to, and do receive, the commission which is usually offered to bankers, brokers, and underwriters. They disclose the fact to their client, and such commission is treated in lieu of, or in addition to, professional remuneration, according to circumstances.

22. Payment of a commission to solicitors would in no way diminish the amount received by the nation. The only result would be that instead of bankers or brokers receiving a share of the commission in respect of applications made by solicitors, the solicitors would receive the whole of the commission. A very large proportion of the applications made to the Treasury by bankers and stockbrokers emanates from the solicitor. Almost the whole of the service has

been rendered by the solicitor, but at present the remuneration paid by the State goes to the broker or banker. There can be no doubt that the clients would be perfectly willing that their solicitors should be paid by commission for his efforts and attention to their interests; they are principally concerned that the trust estate should not be charged. At present any charges, if made by the solicitor against the client, would have to be borne by the client, and it is not an inducement to the latter to invest in this class of security if he has to pay solicitors' costs.

23. Unless the solicitor is remunerated, he cannot be expected to bestir himself or to undertake all this work, and it is clearly in the national interest that the source of money in the control of solicitors should be tapped.

RESIDENCE FOR INCOME TAX PURPOSES OF COMPANIES CARRYING ON BUSINESS AND CONTROLLED ABROAD.

24. The Income Tax Act, 1918, is a consolidation of earlier Statutes which were passed at a time when limited companies were less in number and importance than they are now. Income Tax liability to a large extent depends upon *residence* in this country, and the draftsmen of the earlier Acts used that word, having, of course, the case of an individual in mind, and oblivious of the fact that it is not an apt word to apply to the case of a limited company, which can have no physical residence. It has consequently fallen to the Courts to apply that word to the case of limited companies as best they can. Shortly, the result of cases, until the decision about to be referred to, has been that a company resides for the purpose of Income Tax in the country where it is controlled. To use the words of the latest text book on the subject (Konstam's Income Tax, 2nd Ed., p. 116, written before the decision above referred to), "Attempts have, however, been made to establish the contention that a company resides in the country in which it is registered or incorporated or in which its registered office is situate; these attempts have always failed," though the learned author adds in a note—"With the possible exception of John Hood and Co. *v.* Magee (1918), 7 Tax Cases, 327" (an Irish case).

25. The view so taken by the Courts has been an advantage to the revenue of this country, for it has been possible to register a company in this country, and therefore pay in this country the Capital Duty and other payments required on registration of a company, and yet to avoid paying Income Tax on, at any rate, some of its income not remitted to this country, by arranging for the control, as well as the business, to be situate abroad.

26. Unfortunately, this state of affairs has come to an end, for the House of Lords (Lord Atkinson dissenting) has upheld the Court of Appeal which held (Lord Justice Atkin dissenting) in the recent case of the Swedish Central Railway Co. *v.* Thompson (1924) 2 K.B., 255, that the company was to be deemed resident in this country, although practically the only ground for the decision appears to have been the fact that it was registered in this country. The company was in receipt of a rent from a railway in Sweden and was held to be liable to tax on the whole of the rent whether remitted to the United Kingdom or not; whereas if not resident here it would have been liable only on so much of the rent as was remitted here. This seems to be a perfectly gratuitous present to the foreigner at the expense of our Inland Revenue. The word "residence" is so inapt when applied to a limited company that almost any construction of the word was open to the Court. The decision will render liable to tax all income from foreign securities, rents, stocks and shares, whether remitted to this country or not, even though the company is wholly controlled abroad, and thus prevent the formation of companies in this country for the purpose of carrying on business abroad if they are likely to have any income other than trading profits. This will deprive the revenue of a corresponding amount of Capital Duty on registration and incidental payments, and at the same time take away opportunities for employment which such companies at present afford to persons resident in this country.

INCOME TAX ON DEBENTURES HELD BY FOREIGN RESIDENTS.

27. The provisions in the Income Tax Act which oblige a company to deduct tax from debenture interest is a great hindrance to the investment by foreigners in the debentures of English companies. In the United States debentures can be, and often are, issued "free of all United States taxes." In England the obligation to deduct the tax can only be got round in a complicated manner. It is difficult on business grounds to see why a borrower should not be able to contract to pay his interest "free of Income Tax." It is believed that if tax free debentures could be issued, a considerable amount of American money would be invested in such debentures of sound English undertakings.

EXEMPTION OF SUPERANNUATION FUNDS FROM INCOME TAX.

28. Under Section 32 of the Finance Act, 1921, pension funds for employees and ex-employees can be exempted from Income Tax, but under this Act the Inland Revenue Authorities will not exempt a fund which provides benefits for the widows and other dependants of deceased employees.

29. It is submitted that very often the best workmen do not want to give up work when they are of pensionable age. They do not want a pension themselves, but prefer to go on working until they die, if they know that their wives and dependants will be adequately provided for. The result, however, of the existing law is that pension schemes in order to obtain exemption from Income Tax must be so framed as to provide benefits only for the employee, thus encouraging men to retire when they reach pensionable age, or if the scheme covers widows and dependants, the funds have to pay Income Tax.

STAMP ON SCRIP CERTIFICATES TO BEARER.

30. It is the practice of the Inland Revenue to stamp these with 2d. (the Finance Act 1920 having raised the stamp from 1d. to 2d.). But this is done as an act of grace, seeing that it was decided in *Rumball v. The Metropolitan Bank* (1877) 2 Q.B.D., 194, that a scrip certificate by which it is certified that after payment of certain instalments the bearer will become entitled to be registered as the holder of shares is, by usage amongst banks and on the Stock Exchange, a negotiable instrument transferable by delivery.

31. As scrip certificates to bearer consequently fall under two categories they may be assessed under either class at the option of the Government (*Speyer Bros. v. Inland Revenue Commissioners*, A.C. 1908, page 92). It is not desirable that the business community should be left in doubt as to the course which the Inland Revenue Authorities may at any time take at their discretion in any particular instance.

SUMMARY.

32. For the above reasons the Council desires to express the opinion;

(1) That the duty on the capital of Limited Companies should be reduced from £1 per £100 to the figure at which it stood before 1920, namely 5s. per £100. (*Paragraph* 12.)

(2) That the Conveyance Duty should be reduced from £1 per £100 to the figure at which it stood before 1910 namely 10s. per £100. (*Paragraph* 13.)

(3) That no conveyance *ad valorem* duty should be charged in the case of companies under certain conditions, namely, where the vendor and purchaser are substantially the same, so that the transaction is a sale in name only. (*Paragraph* 11.)

(4) That commission should be allowed to solicitors on Government loans and conversions. (*Paragraphs* 14 to 23.)

(5) That legislation should be introduced to provide that for Income Tax purposes the residence of a company is the place where its real business is carried on irrespective of where it is registered. (*Paragraphs* 24 to 26.)

(6) That provisions should be made for debenture interest to be paid, without deduction of tax, to non-residents. (*Paragraph* 27.)

(7) That the exemption from Income Tax should be extended to pension schemes which provide benefits for the widows and dependants of deceased employees, and should not be limited to pension schemes which provide benefits only for the employees. (*Paragraphs* 28 and 29.)

(8) That the Stamp Duty on scrip certificates to bearer be fixed by Statute exclusively at 2d. (*Paragraphs* 30 and 31.)

7630. *Chairman*: You attend this morning as the representatives of the Council of the Law Society?—(*Mr. Holme*): Yes.

7631. I believe the Society are celebrating their centenary to-day, and I understand, Mr. Holme, that the founder was an ancestor of yours. We are very glad to see you here to-day?—Thank you.

7632. We will take your evidence paragraph by paragraph. I understand you will speak as to the Stamp Duties, Mr. Holme?—Yes. (*Paragraphs* 1, 2 *and* 3 *read.*)

7633. *Mr. Hichens*: I was wondering whether you thought that the additional number of registrations would be very much larger?—That, of course, in any case is only prophecy.

7634. It is only prophecy, but it is important?—The best way I can answer you is this, that in my own practice, and as I know from discussions with my colleagues on the Council of the Law Society in their practice, it frequently does happen that a company which would have been formed is given up on account of these heavy imposts.

7635. Even companies with substantial prospects of success?—Certainly.

7636. It is an extraordinary thing to give them up, is it not?—(*Mr. Carslake*): I can give you one instance—I will not mention the particular industry—where I was asked to report on the possibility of fusing together all the companies in one industry; there were about eight or nine of them.

7637. Yes; that is, an amalgamation?—Yes. That comes on the Capital Duties. The Capital Duty was so heavy, as well as the Transfer Duties, that it was dropped.

7638. I could understand amalgamation being frustrated. Indeed, I have often thought I would make a certain reorganisation myself if it were not for the Stamp Duty expense, but with regard to a new company it astonishes me that its formation should be in any way prevented by these duties?—If it is to take over an existing business you have got 1 per cent. Capital Duty, and you have got 1 per cent. Transfer Duty; it is 2 per cent. that you have to pay, and it certainly does hamper things very materially. One tendency is that companies are formed with, I was going to say, nominal capital, sometimes—with one shilling shares—in order to get over the Capital Duty. I have done two recently. That is not good finance.

7639. It is simply to avoid the duties?—Yes. (*Mr. Holme*): When I referred to companies having been given up, which seemed to surprise you, I was thinking of private companies where a man, an owner of a business, desires to convert it into a limited company. That is the kind of case which I have known given up on account of the expense, simply on the ground, as I say later in my evidence-in-chief, that, as all you are gaining by the conversion, is to add the word "limited" to your name, it is not always worth paying several thousand pounds for that benefit.

7640. *Sir Alan Anderson*: Do you think it is a good thing for a private firm unlimited to turn itself into a limited company?—Well, I do. I use the phrase in my evidence that it is a commonplace that it is an advantage.

7641. To the community, do you think? Of course, I see the advantage to the private firm?—(*Mr. Carslake*): One of the disadvantages of the private firm and the advantage of the company is in case of death; it is so much easier to keep continuity of management and distribute the estate without having to sell the whole business.

7642. *Mr. Hichens*: Would you prefer another penny or twopence on the Income Tax for instance? One assumes that the money has to be found somewhere, and it is a choice of evils, is it not?—(*Mr. Holme*): Of course, if my evidence is correct, that is not so. If to make it easier to form a limited company is beneficial to trade and industry, more income will be earned and more Income Tax paid in that way.

7643. Surely the benefit to trade and industry will only be in respect of those companies who do not register to-day?—Yes.

7644. That number, I do not think you have contended, is very large. There are certain amalgamations or big absorptions which might be made, but I did not understand you to think that they were very many, or that they were going to electrify the industries of this country?—It is impossible to say to what extent.

7645. *Mr. Hichens*: The industries that I know would scarcely feel a change of this sort. It is true that if you were going to have a big amalgamation of all the steel interests, for instance, the duty payable would be large, but it is extremely doubtful if anybody would be deterred from doing it on that account; if they were, I could understand that under such circumstances relief from duty might help trade, but as I know it I can only think of trifling instances where people are deterred owing to the Stamp Duty from this action. *Sir Alan Anderson*: As I understand Mr. Holme, he says as a matter of business if the Government charge 5s. instead of £1 they would make more money. *Mr. Hichens*: What I want to know is, are there going to be very many more registrations, because that surprised me. I did not gather from you that there would be three or four times as many registrations, because that is what it comes to. (*Mr. Holme*): But there are two advantages: First, there will be more registrations, and second, new companies will be relieved of this unduly heavy burden, which is so heavy a burden on them and which hampers their start. As I say later on in my evidence, apart from the question of registration or non-registration, there is the millstone hung round the neck of a newly-born company which is really a detriment.

7646. Then your contention would be, would it, that the loss in duty would be made up (*a*) by increased registrations, and (*b*) by increased profits?—Yes; whether it would exactly meet it, is a mathematical proposition which I do not attempt. *Mr. Hichens*: I should be very much surprised if that is so.

7647. *Chairman*: Will you now pass on to paragraph **6**?—Yes. (*Paragraphs* **6**, **7** *and* **8** *read.*) I may say that the figures in paragraph **8** are taken from a case in my own practice, a very recent case; I have just made them round figures.

7648. *Sir Alan Anderson*: A device for reducing the figures means having a nominal capital?—Well, there are several ways of doing it.

7649. That is one way?—That is one way, and an objectionable way. You have a business worth £100,000 and sell it to a company with a nominal capital of £10,000; that is one way of avoiding the stamps.

7650. What is the objection?—There are great objections. In the first place, supposing I am the owner of this business; I sell it to a company for 10,000 fully paid shares; supposing I want to raise further capital, if I issue shares for cash it is obvious that the subscribers come in on terms which are most unfair to me, because every one of my shares is really worth ten times more than its nominal value. That is one objection; it absolutely hampers the raising of further capital, though of course there are ways round it.

7651. That is just what I was getting at. If the owner of the private business is wanting to sell it, or to get further capital, or something of that sort, I should have thought this tax was a comparatively small thing. If he is going to retain the whole business in his own hands and go on just as he did before, then he can put a nominal figure on it because no one is interested except himself?—But times may change. At the time of the formation he may be the only person interested; in a few years' time he may find it necessary to raise further capital and he will be very much hampered. Another reason is that it is not very good for the credit of the company to have a capital which is unduly low. People who are ignorant of the circumstances form their opinion from the nominal capital, and it does the company no good to have the nominal capital unduly low. You suggested that the natural way would be to have a low nominal capital, but there are other ways, of course, of avoiding the duty but which are undesirable. Supposing I am the owner of a business with freehold property, say, a brewery with licensed houses; if I sell that concern to a company there has to be consideration of the full value involving this large duty. One way out of it is that I would not sell it but lease it; the owner of the premises would remain the freeholder and the company is the lessee of the property owner. In that way you avoid the conveyance duty but it is a less desirable proposition, obviously. (*Paragraphs* **9** *and* **10** *read.*) In the case of a sale to a private company where there is an absolute change of ownership I would not suggest this concession; I am only referring to a case where a man sells a business to a company and himself holds the shares in it. (*Paragraph* **11** *read.*) Our view is, if I may put it shortly, that there should be no *ad valorem* duty on a conveyance where the vendor and the purchaser are really the same person so that there is no real change of ownership, although legally there is. There are two cases; the first is where company A sells to company B and the shareholders are the same in each. There is a change of ownership as a matter of law, but as a matter of fact there is not, and that is the case where, as I understand, the Inland Revenue, without statutory authority, as a concession allow the duty not to be paid. The other case is where a man is himself the owner of a business, sells it to a company and takes all the shares. There again there is in law a change of ownership but in fact no. (*Paragraphs* **12** *and* **13** *read.*) When I say "in all cases" at the beginning of paragraph **13**, I mean not only in companies but generally.

7652. *Chairman*: With regard to the next paragraphs, **14 to 24**, I was thinking perhaps you would like to address a few words to the Committee upon those, instead of reading them through?—Perhaps I may first of all refer to the last paragraph that I was reading on the question of the *ad valorem* duty, paragraph **13**. The value of money having gone down and figures generally having gone up, of course in the case of a conveyance for that very reason larger Stamp Duty is payable. If at the same time the rate is increased, as it is, the taxpayer is hit twice, first by the increase of prices owing to the economic change, and secondly, by the increase of Stamp Duty.

7653. Would you like now to say a few words to the Committee upon the point of "Commission to solicitors on Government loans"?—When the Government make an issue or convert, they allow a commission to bankers and brokers, but for some reason, and no reason which appeals to me as of any value, they decline to give that similar commission to solicitors. In my opinion, not only are solicitors equally entitled on general grounds to be paid for such work and such introductions, but also they are probably, speaking generally, in a position to influence money in the direction of Government loans even more than bankers and brokers are. My difficulty on this subject is to see what possible answer there can be to the suggestion that what is fair for a banker and broker is fair for a solicitor in the way of this humble commission of 1s. 6d. per cent. I cannot see what the answer is. The only answer given by the authorities is the one set out in paragraph **16** where the Chancellor of the Exchequer in 1915 stated that it was not practicable to offer commission except to bankers and brokers. I cannot see why it is impracticable; moreover, it is not true, because in 1888 it was done, and therefore it is rather hard to understand how he could say it was impracticable when only a few years before the very thing was done. It is certainly not impracticable; it is obviously practicable. The other reason was this: "He stated with regard to the 1888 conversion that it differed from War Loan in that while the former had been undertaken in the interests of the Exchequer, the then conversion was intended to confer a privilege on subscribers to the new loan." So this reason is that he will give a commission to bankers and brokers in all cases but to solicitors only if the conversion is a conversion in the interests of the Exchequer. In the first place, I cannot see the reason for that distinction being drawn. If it is right for a banker and broker it is right for a solicitor and *vice versa*. Also I should say, and I think there can be no doubt about this, that most Government issues are in the interests of the Exchequer and most conversions are in the interests of the Exchequer, otherwise the Exchequer would not do them. So, if that is the only reason given, that the conversion is to be to the interests of the Exchequer, it does not seem to me to be a reason at all: therefore I am at a loss to understand on what ground the Treasury make that distinction and allow these commissions on introductions by brokers and bankers and not on introductions by solicitors. As I cannot understand the reason I have no more to say about it. I cannot see any possible reason; I wish somebody would suggest one.

7654. Have you anything to say upon that, Mr. Carslake?—(*Mr. Carslake*): I think Mr. Holme has covered the ground.

7655. *Sir Alan Anderson*: Do other issuers of loans give commission to solicitors?—(*Mr. Holme*): Yes; I do not say all, but in my experience, yes.

7656. It is common for a solicitor to get commission, is it?—Yes, I think so.

7657. Does he have to disclose that to his client?—Yes; that is dealt with, certainly.

7658. I suppose you would agree that a solicitor is in a more confidential position towards his client than a stockbroker?—Yes; that is why he has a really better means of influencing the investment of money than a stockbroker.

7659. That is why it is more dangerous to give him an inducement to influence it?—(*Mr. Carslake*): He has to disclose it.

7660. But still, as you point out, his business is to act for people who are largely quiescent, and he is in an extraordinarily confidential position, and it is a very dangerous one in many ways. Surely it is open to objection that he should be influenced by

a money payment given by someone who is not his client?—(*Mr. Holme*): Do you suggest that it can be dangerous to advise a man to go into a Government loan? We are talking here of War Loan.

7661. I do.—Can it really ever be said to be dangerous that I should advise my client on a choice of investments instead of going into some industrial that he should go into War Loan? How can that be dangerous?

7662. I think the business of a solicitor is to advise his client according to the interests of the client, and the business of the person who draws a commission from some other person is to exert himself for the interest of that other person; I think that distinction is a perfectly obvious one?—Perfectly true, and I entirely accept it, but what surprises me is that anyone can suggest that it could ever be dangerous or wrong to advise a man to go into War Loan.

7663. But surely if it is always the best thing to do to put all your money into Government loans, you would not need any advice; you have the things offered to you. If your client is largely quiescent—you have widows and orphans and so on—you are in quite a different position, it seems to me, from the stockbroker?—I wonder why you say there is a difference.

7664. Because your business is to guard the interests of those people who trust you, who are not the people issuing the loans, and here you say you ought to be paid by the prospective borrower of these persons' money to do something to help him.—I should have thought the same argument would have gone against the broker and banker also. If they are asked to advise as to a proper investment in a particular case, is it not their duty also to consider the whole thing quite impartially?

7665. I think you have put it very well when you say you are in a much more confidential position and you have much more power to influence the money; people trust you more; and just for that reason it seems to me it would be quite wrong for the Government to go out of its way to put you in the same position as bankers and brokers. Of course, if it was done by every other person who issued loans, then the Government would say: "All these other people are giving the solicitors something, and they will give wrong advice to their clients against our interest unless we give them the same bait that these other people give them." I think the whole thing is bad. It seems to me that the people to pay you are your clients.—(*Mr. Carslake*): There is just that question of payment in connection with it. If the solicitor does not get any commission and the broker or banker does, the banker does not share the commission with the solicitor; he keeps it for what he does; but the solicitor has to be consulted and the client has to pay him as well.

7666. He gets his advice?—He gets his advice, but if the solicitor got the commission, that commission would go to pay for the advice; the solicitor would not keep that and charge.

7667. As you say, it is advice induced by a commission; that is not the sort of advice I should want from my solicitor?—I hope you have a solicitor who would not be induced to give different advice by that commission.

7668. Still, that is not the point of this argument; I was just trying to state some of the objections to Mr. Holme?—(*Mr. Holme*): I am much obliged to have learned one. As Mr. Carslake was saying, surely the solicitor should be paid anyway for what he does.

7669. I think that is between him and his client. I do not think that solicitors are paid too much at all; I think they do their work extraordinarily cheaply; but I do think, as you properly point out, that their position is one of great confidence between them and their client, and I think it is wrong for some third party to start giving baits to them. I should dislike it very much if my solicitor was advising me about investments?—I find it quite difficult to follow the argument, but I will not pursue it further. (*Paragraphs* 24, 25 *and* 26 *read.*)

I should like to add a word or two, if I may, on that point. As the evidence points out, Income Tax liability to some extent depends on residence. The Income Tax Acts use the word "residence." It would have been quite open to the Courts originally to have held that a company had no residence, and therefore relieved them from liability, and if they had done so, Parliament would have had to step in and say what they really meant. Instead of which the Courts unfortunately have struggled to apply the word "residence," although inapt, to the case of a company, and the result has been a large number of decisions more or less inconsistent with one another and finally the decision mentioned here. Still, up till now, it has not much mattered because the conditions applied have been that if the company is controlled abroad it is resident abroad. But the result of this last decision will be that you will have no chance of holding the company to be resident abroad if it is registered here, and the result will be that where a company trading abroad is controlled abroad it will no longer be possible, as it has been, to register here, unless you are prepared to accept Income Tax liability.

7670. You have read what the Lord Chancellor said upon that, have you not?—Yes, I have it here. In such cases registration here has really been a matter of sentiment or convenience or habit, but if the indulgence in that is to result in Income Tax liability, nobody will register any more. The result will be, we fear, that a large number of companies which might have been registered here will be registered abroad.

7671. *Sir Charles Addis*: Will that be the sum of the disadvantages, in your view—the loss of the Capital Duty and the small employment given?—Well, I suppose it will.

7672. Is that all?—That is all that occurs to me. yes

7673. I should like you to develop that a little; there must be indirect consequences of that?—That is the only one that occurs to me, but there are other disadvantages no doubt.

7674. There are no doubt indirect disadvantages. There will be a tendency, for example, for orders that might be placed here to be placed abroad?—(*Mr. Carslake*): I think those are the direct disadvantages.

7675. The direct are not very serious, but the indirect disadvantages are very serious?—I think the general feeling that the company is registered here would tend to bring business to this country.

7676. Equipment, material, and so forth?—Yes.

7677. *Mr. Hichens*: If the control is centred abroad, would that be so?—Yes, I think even then, because although the control is centred abroad you may have the shareholders centred here.

7678. *Sir Alan Anderson*: As I understand this very difficult question of taxation in other countries, we have always gone until lately on the principle as to the company whose control was here, that when the brain of the company is resident here, we have taxed them even if they were registered abroad?—Yes.

7679. But some other countries—America, I think was one of the others—went for the place of registry. When you had two conflicting principles of that kind both at large and operating over the world, it was possible for some companies to escape everywhere and for other companies to be taxed in a number of different countries. Obviously that is wrong. It seems to me that it is very important to have the thing cleared up one way or the other, but I cannot think it is worse for us to discourage the act of registration in this country than to discourage the settlement of the central brain of a concern in this country. If we continue our past practice, which is to tax according to the residence of the central brain of the company, we obviously discourage people from maintaining the central brain of their concern here, and they are going to operate abroad. It is more likely that business will flow from the residence here

of the brain of the company than from the mere registration, I should have thought?—(*Mr. Holme*): I entirely agree. (*Mr. Carslake*): I entirely agree; I was only dealing with the recent change.

7680. We must go upon one or other of those principles; we cannot have it both ways; because every other country will admit it both ways too. It is a very difficult thing, but I do not think you solve it if you say we are wrong to tax according to registration, because then you get thrown at once at you the only other known way of taxing, as far as I know, of going for the brain?—(*Mr. Holme*): But the Inland Revenue will have it both ways if the decision stands.

7681. But they cannot?—If the company is controlled here they will certainly tax them.

7682. That will be cured at once by all the other countries in the world doing the same thing?—Which they do already; so you pay twice over.

7683. Then we get into diplomatic disputes and it has to be cleared up; we have to choose one or the other?—I was only dealing, of course, with this one decision. I do not say by any means that things would be perfect if the decision had not been given—far from it—but this decision is the last straw on the camel's back; it adds one more to the various factors if you cause residence here to depend on the place of registration, which as I say is one step worse than we were before.

7684. *Secretary*: There is one sentence at the conclusion of the Lord Chancellor's Judgment which seemed rather to imply that a certain amount of doubt is still left as to the meaning of registration. "I am not at present prepared to say that registration in the United Kingdom would itself be sufficient proof of residence here; that point does not arise in this case, and I express no opinion upon it. But however that may be, I am satisfied that the fact of registration together with the other circumstances which were found by the Commissioners to exist, were sufficient to enable them to arrive at their finding"?—That is quite true, and Lord Buckmaster at the very end of the report said this, which I think will show that the thing is important: "The reference to the registered office is important; it is, to my mind, one of the critical facts in determination of residence in this country, but not necessarily the sole and exclusive fact." In the face of that I fail to see how any company registered here will have much chance in future of avoiding being held to be resident here. Of course, if Sir Alan Anderson's suggestion should be pursued and it should be held, by legislation or otherwise, that a company might be resident abroad although controlled here, that would be infinitely better still, but I had not the bravery or the courage to suggest that.

7685. *Sir Alan Anderson*: That is the American plan, I believe. We have been having a great dispute about double taxation of shipping. We were told that there were the two principles.—If I may say so, I am sure the Council will entirely agree with that. Registration is a detail compared to the control, but we had not the courage to ask for the alteration of what has been the law here so long, namely, that the control is the guiding principle, but if that could be done we should, of course, welcome it. (*Mr. Carslake*): I was going to say upon that, that if one could tax not the company but the shareholder, that would be the real way out. It is the shareholder in this country who takes his share of the profits, and if resident here should be taxed.

7686. Of course, a great many other countries are not satisfied with that?—No.

7687. And we are not when there is an American company operating here?—Quite so. It is a very difficult thing to see any way out satisfactorily. (*Paragraph* **27** *read.*)

7688. *Mr. Hichens*: You issue tax free debentures?—Only in a very roundabout way. Your covenant to pay interest must be to pay, say, 4 per cent. interest plus further interest at such a rate as is equal to the Income Tax on the whole of the interest, and a foreigner does not understand that.

7689. *Sir Charles Addis*: That has got to be stated in the debentures?—Yes; you can do it; but in a silly way.

7690. *Mr. Hichens*: You would merely simplify what in effect can be done to-day?—That is it. It is illegal to-day; the contract is void.

7691. But there are a good many tax free preference shares?—Preference shares are different.

7692. It only applies to debentures?—It only applies to debentures. Your preference share is simply a division of the profits; you can do it there, but not in the case of a debenture.

7693. *Sir Alan Anderson*: Does a foreigner, a person resident abroad, have to pay Super-tax?—Yes.

7694. *Chairman*: Now the next paragraph?—(*Paragraphs* **28** *and* **29** *read.*) What we say here is a little bit contrary to the views about the new Government Pension Scheme, but it is so in a good many cases. Of course, it depends on the trade or business. Your most experienced men, your most valuable men, are very often those who are over 60. They are just as good for the particular work they have to do and they prefer to go on; I have had that said to me by more than one employer. I have just had to alter a pension fund which is a fund really for the dependents generally, and it nearly always went to the widows. Now that has got to be altered. In that particular company the best men stop on long after pensionable age.

(*Paragraphs* **30** *and* **31** *read.*) Paragraph **30** shows that scrip certificates to bearer have technically to bear a very heavy stamp.

As regards paragraph **31**, the only safe way is to ask the Inland Revenue Authorities whether they will pass the particular set of scrip certificates, and you have to do that before you issue your prospectus; it takes time and the result is that scrip certificates have a good deal gone out of use.

7695. *Chairman*: Now will you deal with the summary, please. (*Summary read.*)

Chairman: Thank you for the evidence which you have given us.

(*The Witnesses withdrew.*)

MR. J. ST. LOE STRACHEY, called and examined.

EVIDENCE-IN-CHIEF handed in by MR. STRACHEY.

1. Our first duty towards the public creditor is to determine that, come what may, the nation shall pay its debt and keep faith with those who have helped it. That is not merely the path of honour and of truth. It is the path of safety. If we were to repudiate the debt, or to indulge in any policy which partook of the nature of repudiation, the ruin of the nation would be assured. We should break the confidence upon which our economic strength is founded, and with that break in confidence would come a commercial ruin which would literally mean for us a famine and an agony as great as, but even more intensified than, that which now holds Russia in its grip.

2. The talk about the weight of the debt is greatly exaggerated. We can endure it perfectly well if we have the strength of character to face it, and not to be frightened at its portentous figures. The vast debt means no doubt very heavy taxation for all classes, and that of course is a burden, but it is a burden which can be borne. For good or ill, the National Debt was incurred, and we cannot now get

rid of it by any quick repayment scheme, or rather, to put it in another way, such schemes are merely a transfer of property from one set of capitalists to another.

3. But, though we shall not increase the wealth of the nation by paying off the debt any more than we increased that wealth by creating it, we may for the present generation incur very serious and dangerous sacrifices—sacrifices enough to cripple the nation for years, if not, indeed, to destroy it. To put it in another way, the burden may not be at all too great for a pack-horse to carry over a pass if he is kept at it steadily for a number of years, but if you try to heap up an undue burden on him in order to get the stuff carried over in one year, or two or three years, you may very easily kill your animal.

4. Indeed, I think it is not too much to say that the real national danger involved in the National Debt is that it may invite people to make frantic efforts to pay it off, efforts which are injurious to the present generation, and efforts which disturb that stabilisation of values and sacrifices which we all desire, and finally—and this is a very important point—efforts which give the public creditor, not that pound of sterling flesh to which he has every right, moral, legal and economic, but a good bit more than his pound. To put it plainly, I do not want the National Debt to be paid off in a way which will break the taxpayer's back, or again, which will give the creditor more than he deserves, which will, in effect, pay him back in full sterling value what he lent in depreciated sterling value, or, as somebody has put it brutally, "We don't want to feel that we have borrowed in paper and have paid back in gold."

5. Translated into plain words, this means that debt becomes dangerous in a high degree if we frantically raise from the existing taxpayers fifty millions sterling every year in order to get a better quick lunch, so to speak, for the creditor than he has any legal right to expect. If, instead of paying off fifty millions a year of National Debt, we had some other scheme for amortization, we should have been just as virtuous repayers, but we should do it in a scientific, non-injurious, instead of a rough and ready and injurious way.

6. Consider for a moment what it would mean if the Chancellor of the Exchequer were able to remit fifty millions a year of taxation. In the first place, by doing so he would do more to reduce unemployment than any other conceivable method for treating that dreadful evil. Next, the money now taken by the Exchequer would begin to fructify in men's pockets, and fructification would mean employment here. It would mean it best, of course, if the money were used for development here, but even if it were used for development abroad we must gain, for the people who would owe us money would have to send us goods and would have to take goods back in exchange—in a word, a thousand balls would be set rolling.

7. Again, the waste which comes with high taxation would be eliminated. And here we should get an indirect advantage. If our taxation was reduced in amount, it is as certain as anything can be that in many cases we should gain more by the extra volume of trade than by the apparent reduction of the debt. Taxation taken off sugar, tea, and tobacco would almost at once give us a greater proportionate yield than the existing high rates. Again, it is highly probable that if we reduced the charges on the postage, made a really cheap parcels post, and also reduced telephone charges, we should have given a legitimate subsidy to trade which would have vast results.

8. Again, think of the effect on health if we used some of the money we now absorb by a hectic effort to pay off debt in cleaning our skies of their pall of smoke. Subsidies for schemes for low carbonisation of coal and also subsidies for cheap electrical power and heat would be a far better national investment than the rapid paying off of debt. The only commercial advantage of the rapid paying off of debt occurs in the case of a money-lending nation. But, though money-lending is a good thing *per se*, and often a profitable thing, it is not the first consideration of a country with forty million inhabitants who must starve if they cannot work.

9. In the case of the repayment of the debt what I favour in a system which I believe always attracted Mr. Pitt, though he was not able to carry it out, a system which does not exactly create a Sinking Fund, though it partakes of that nature. Above all, it is a system which is automatic in its action, and yet does not impose an intolerable burden on the men and women of the present for the benefit of the men and women of the future. What I desire and what in my opinion we ought to have done before now, is to adopt a system of borrowing in terminable rather than in perpetual annuities. We could have done this if we had chosen, and we could do it even now for a very large portion of the debt. It is one of the commonplace paradoxes or, to speak more accurately, facts, of our economic life that a man will pay practically as good a price for a ninety-nine years' lease as he will for a freehold.

10. In all probability, then, if the State had only offered to borrow on the principle of London leaseholds—*i.e.*, for ninety-nine years rather than for perpetuity—it would have got almost as good terms as it actually did get. It could easily have shown the prospective lender that it was doing him no injury by its offer. The State would say: "Don't be alarmed at your annuity coming to an end in ninety-nine years. There will be practically no depreciation in the first thirty-five years, and after that the depreciation will be so gradual that you and your heirs will not notice it. Besides, if you are scrupulous about the matter, you have only got to make a Sinking Fund. This can be easily arranged for you."

11. At the present high rate at which money can be invested, only a very small sum a year has got to be put aside to make a fund which in a hundred years will produce £100. If the Government were to add 1s. 7d. to the existing interest given on every £100 of the debt, but at the same time to turn the perpetual annuity into an annuity for one hundred years, they would be doing no harm to the creditor of the State; that is, they would be keeping their bond with him, only as it were returning him a small piece of the loan each year.

12. The figures of course are so big that even the addition of only 1s. 7d. to the interest paid on every £100 throughout eight thousand millions of the National Debt would increase the burden of the debt by, say, £6,000,000 a year; but that, it must be admitted, would not be a very large amount to devote every year to the repayment of the debt. Yet I hold it would be sufficient. For the first thirty-five years no doubt we should appear to be doing nothing in the way of reducing the capital sum of the debt. But as soon as the National Debt had only sixty-five years to run, the Government would begin to find a certain relaxation; and by the time there were only thirty years of the terminable annuities to run, it would be extremely easy to deal with them in such a way as to reduce the burden of interest. Large sums of money could be raised to get an extension of, say, another twenty years, just as is done in the case of Crown leaseholds.

13. And here it may be noted that as long as the present rate of taxation was maintained in Income Tax, Super-tax, and Death Duties, the burden of the State in increasing the rate of interest, though nominally by £6,000,000, would not really be more than, say, some £4,000,000 a year. That, however, I admit, is a somewhat delusive, and therefore dangerous, form of calculation.

14. Before I proceed, and in case I have not made my point clear to the plain man, I may give shortly another method of exposition. Let the plain man of my thought turn in any book of reference to the section which deals with savings, compound interest,

and the making of Sinking Funds, and he will probably find a table headed "Present value of a lease or annuity." The table will tell him what is the present value of an annuity of £1 accumulated at various rates of interest for a varying number of years. If he takes the 6 per cent. table, he will find that a terminable annuity of £1 which is to finish in a hundred years is worth £16·62; whereas a perpetual or unending annuity of £1 is only worth £16·66, or in other words practically equal.

15. If we assume a Government converted in principle to my scheme of abandoning formal Sinking Funds, or the purchase of the State's own stock spasmodically or at regular intervals, what is the method on which they should act? Whenever one of the fixed periods named in one of the new contracts with the State creditor arrives, whether in the case of actual War Loans, Saving Certificates, or War Bonds, the Government should say to the State creditor: "We propose, instead of funding your £100 Bond or £100 block of War Loan by giving you a perpetual annuity, to give you a terminable annuity for one hundred years. In addition to giving you 4½ per cent. on each £100, we shall add to each annual payment of interest made to you such a sum as will produce £100 one hundred years hence. If you are dissatisfied with this arrangement, you can make out of the extra interest a Sinking Fund for yourself. And if you say this is not fair we will set up a Statutory Commission entitled 'The Sinking Fund Commission,' which will undertake the work of founding a Sinking Fund for you, provided you give us an order to pay the extra rate of interest to the said Commissioners rather than to yourself."

16. Another, and perhaps a better, way (for I keep always before me the absolute necessity of maintaining complete faith with the national creditor) would be to tell him that he still can have a perpetual bond if he wishes it. We would, however, in that case make a strong appeal to all patriotic people to take the terminable annuity rather than force the Government to issue perpetual stock. If the able men who now arrange the loan advertisements were to put the matter plainly before the public as a patriotic duty, I believe that there would be a general willingness to fall in with the Government scheme, and to accept without any further demur, as a complete carrying out of the State's bargain, the amount of additional interest required to amortize the loan in a hundred years, and so to do all, to use a Hibernianism, that the silent voices of posterity can demand from us.

17. I have one more suggestion to make in regard to the loan. It is that in addition to using the ninety-nine-year or hundred-year terminable annuities, the Government should introduce an attractive form of short terminable annuities with high rates of interest, and again popularise these by a wide system of advertisement. The increasing Death Duties are turning men's minds very much to the purchase of annuities, and it is just as well that the Government should have a share in, and benefit by, this new development as well as the insurance companies. In my opinion, the Government should not merely sell life annuities, or annuities for a fixed term, but should also sell what would prove very popular—*i.e.*, annuities which should run for life or for a fixed term of years, whichever should be the longer.

18. I believe that a good many childless men, or men who had provided otherwise for their wives and children, would be very willing to give up their capital in exchange for a life annuity under an attractive rate of interest, especially if they knew that by doing so they were helping to diminish the National Debt. When the life annuity fell in the money should pass, not into the general Exchequer, but to the Commissioners for the Reduction of National Debt. This is of course a form of amortization which has long been in use. All I suggest is that the new power which the Government have discovered in large advertisement should be employed in the work of loan reduction.

7696. *Chairman*: Perhaps you will read your paper, paragraph by paragraph; the Committee may ask you questions at the end of each paragraph?—Yes, my Lord. (*Paragraphs* **1** *and* **2** *read.*)

7697. *Sir Charles Addis*: Do your remarks in paragraph **2** apply only to schemes of quick repayment, or would you agree that any form of repayment of debt involving taxation in some form or other would carry with it a transfer from one set of capitalists to another or from one section of the community to another?—Yes, I think that is so.

7698. You are not expressing it as peculiar to schemes for early repayment?—No, I think not. I think the next paragraph really puts my view. (*Paragraph* **3** *read.*) By that paragraph I mean that we shall not increase the wealth of the nation by paying off the debt, because that would be a transfer. We have to get the money from somewhere. We have to borrow it, or we have to deal with in in some way, or to get it from taxation, so that it is obvious that we cannot increase our wealth in that way, any more than we can increase it by an Act of Parliament. (*Paragraph* **4** *read.*)

7699. *Sir Charles Addis*: Is there not some little contradiction there in your saying that frantic efforts to repay debt would be injurious to the present generation, in view of your statement in paragraph **2** that repayment involved merely a transfer of property? In what way is it injurious, if there is merely a transfer of property?—In the first place, there is the waste which is sure to take place when you raise that amount of money by taxation. Even if there is not an absolute apparent diminution, there is a waste in the mechanism of collection and redistribution. There is also what is in the nature of a waste, an interference with that stability, which we all want to reach, through what I should call a feverish effort to raise the money to pay back debt. I think it is shown by the analogy which I put later. We all know that it is not always good business for a company to pay off its debentures.

7700. *Sir Josiah Stamp*: Does it not also rest on the extraordinarily deterrent effect of high taxation? For instance, if you take something from me specially to pay Sir Charles Addis, the deterrent effect on me is quite as great as the advantage to him?—Yes; I am very glad to be reminded of that. The psychological effect, *i.e.*, the damping down of one's energies caused by very high taxation is obviously great.

7701. *Mr. Hichens*: But supposing we took it from you on your demise, we should not very much mind whether you were deterred in the next world. *Sir Charles Addis*: My question was not intended to be controversial; it was only in order to get the point clear. I have only one other question on that paragraph, and that is with regard to borrowing in paper and paying back in gold. Is there really anything in that as between an early payment and a late payment? Is there in fact any scheme of repayment which gets over that difficulty? I mean not only with regard to War Loan, but debentures and everything else. I wondered if you had any special point in view there?—(*Witness*): I could not answer that quite satisfactorily, unless I could predict the future. It really depends upon whether we are able to maintain a higher value of sterling than that existing at the time of borrowing.

7702. *Sir Josiah Stamp*: It is nothing more than an argument in favour of maintaining prices stable at the present level. If the present level is the average level at which money was borrowed, and if you maintain the present level, no injustice will be done, but

if prices fall, there will be injustice. (*Sir Charles Addis*: There is no distinction really, that I can see, whether repayment is made at an early date or at a late date. It would depend on the future course of prices, in fact. If they are stable, it does not matter; if they rise, the effect that you suggest would take place?—(*Witness*): Yes. (*Paragraph 5 read.*)

7703. *Mr. Hichens*: Do you really think there has been anything particularly frantic in the way that taxes have been collected to pay off the debt? There was a surplus one year, which helped matters. I do not know whether there was anything very exciting about it or whether people got excited over it?—The present very high rate of taxation makes people careless and wasteful. When we had got the money in the Treasury, that was, of course, quite different. My point is that we ought not to have raised so much money. It is Peel's old idea, that you ought to do everything possible to leave money fructifying in the pockets of the taxpayers.

7704. £50,000,000, I think we may take it, represents 1s. on the Income Tax?—Yes.

7705. £50,000,000 is also less than the volume of Death Duties that is collected annually?—Yes.

7706. And neither, in themselves, is going to sink the ship, if you compare those expenditures with so many others which are much higher?—I expect it all comes back to the problem of how you cut your cloth. If you can get your remission of £50,000,000 a year of taxation in some other way, there would be far less ground for talking about feverish efforts.

7707. My only point was this, that, seeing that the Budget is £800,000,000 or more, one does not want to stress too much the effect of £50,000,000 out of that £800,000,000. It is a comparatively small sum, is it not?—It is a comparatively small sum, and yet it is a sum for the reduction of which the taxpayer would be very grateful.

7708. *Sir Josiah Stamp*: It is the last straw; that is the point?—Yes. If one were to say that a trifle of £50,000,000, more or less, does not matter, I venture to think that it would be rather a profligate way of looking at it.

7709. *Mr. Hichens*: I was not suggesting that it does not matter. I was only thinking that one does not want to stress unduly the magnitude of £50,000,000, which, taken separately, seems a large sum, but which, compared with the Budget as a whole, is not large?—No.

7710. And if one is thinking of all the various expenditures undertaken by the Government, I was wondering whether we might not pare in other directions which would be equally important perhaps, and spare the Sinking Fund?—Yes, but against that, I want to point out that, from the Government's standpoint, £50,000,000 set free would be an enormous boon. There are many desirable things that they could undertake with that. For example, there are schemes for universal all-in insurance and things of that kind, which cannot be adequately undertaken now because you cannot place any more burdens on the taxpayers. That, I think, is generally admitted, i.e., that you cannot increase the weight of taxation.

7711. Possibly not, but I take it that the increase of expenditure on education, for example, has been considerably more than £50,000,000 since pre-war days?—Yes.

7712. Would you call that feverish, too?—No, I do not think that I should personally, because I think it is probably a very good investment. Granted that it is not wasted, I think education is as good a thing as you can spend money on. Still, it may have been necessary to cut down, because it is a question of the balance between the sacrifices of the taxpayer and the benefits to the community. You have to balance between those two things, but if you have £50,000,000 to play with, it will make your balancing much easier for education and for those benefits that I want so much—benefits through which you may abolish the Poor Law and so on, and get a scheme of all-in insurance.

7713. Have you calculated how long it would take to pay off the debt by means of a Sinking Fund?—I have not calculated very accurately, but I find that an annual payment of 1s. 7d. per cent., at compound interest, in 100 years makes £100.

7714. *Sir Josiah Stamp*: I am not sure that the rate of interest is not rather high?—I have taken perhaps a rather high rate of interest. *Sir Josiah Stamp*: It will do it at 4 per cent.; that will make it amount to £100 in 100 years.

7715. *Mr. Hichens*: At any rate, leaving out the mysteries of compound interest for the moment, it is clear that a direct repayment of debt of £50,000,000 per annum would not pay off the whole debt in 100 years?—No. The debt is now £8,000,000,000.

7716. So that this payment of £50,000,000 would still leave the debt in existence for 120 to 130 years or more?—Yes; that is in favour of my scheme.

7717. We shall come to that later, but I should have thought that to pay off the debt in 120 or 130 years, or whatever it is, is not an unreasonable thing to do in itself?—No, certainly not; it is very much better than to try to pay it off in 30 or 40 years.

7718. The only question will be whether it shall be paid off, so to speak, by equal annual instalments, or whether the main part of the burden should fall on posterity?—Yes.

7719. You are going to assume that it will fall on posterity better than on you and me?—Yes. I do not mind it being put in that way, because I think, owing to its psychological effect, you should never raise an enormous sum in any one year.

7720. *Sir Alan Anderson*: It is your view that this £50,000,000 a year that we are setting aside to repay the debt is too much?—Yes.

7721. But I suppose you would reckon as part of the money we set aside to pay off the debt, any additional interest we have paid because we have raised loans on the annuity principle?—Yes; of course you must take that into consideration. But that would only apply to the present Sinking Fund. When one of the loans became due and you had to repay it or refund it, I should offer the holder his amount of new 100-year scrip, and, if he refused, I should go into the market and raise the money on a 100 years annuity instead of a perpetuity. (*Paragraph 6 read.*)

7722. *Sir Charles Addis*: A number of witnesses have told us that taxation, apart from changes of taxation, is not to be regarded as a determinant, either of employment or unemployment. Do you share that view?—It is of course a thing that one has often had to think about. I think that in a purely abstract sense, it ought, perhaps, not to make any difference, but I am afraid I shall have to take refuge in psychology again. I think psychologically the effect of high taxation is very great upon what I consider the lifeblood of commerce, that is, speculation. Speculation in its true sense means looking ahead and seeing where you can make a profit and so forth. If that were not its psychological effect, we should not have the dislike of high taxation which is now universal.

7723. It has been put to us that when a tax is once established, the psychological effect dwindles and finally disappears; we get accustomed to it. You do not quite agree with that?—It is a very difficult point. It seems to me to involve one of the most extraordinary paradoxes in economics. It might be argued that the rates are no burden except when they are increased. Suppose that the Poor Rate had got to £1 in the £ all over England in 1832 and that we had done nothing. Judged by this argument, it would not have mattered!

7724. The argument as regards employment is that sums raised by taxation become the income and the expenditure of other consumers, and so equalise the matter?—Yes.

7725. *Sir Josiah Stamp*: I would like to take up that point about this money that is going to fructify in men's pockets. The taking of money in taxation

is very often considered to effect a compulsory saving of money that would otherwise have been spent. It is passed over to somebody whose debt is redeemed and it is used in business as capital; surely therefore there cannot be anything in the fructifying point. Perhaps by taxation more is saved than otherwise would be for the development of commerce. The only point is the deterrent effect of high taxation upon producers. There is nothing in the point about the actual sum of money that is taken; it fructifies just as much where it gets to as it would have done where it was taken from?—It does not fructify so much, because the amount of the extra cost of collection of high taxation is higher.

7726. I should not have thought that made very much difference. The cost of collecting direct taxation is so very slight, and the difference between the two costs must be infinitesimal?—You mean that when the Government raises the money, it draws it up, like the sun draws up water from the sea and then it returns it in rain.

7727. You might say that there is £99 15s. out of every £100 that is collected, of the high portion?—Yes.

7728. I suggest to you there is nothing in the point about fructifying more in one pocket than in another. The real question is the deterrent effect on the original producer?—Yes.

7729. *Sir Alan Anderson*: But is not "fructifying" merely a picturesque way of talking? *Sir Josiah Stamp*: I could never understand how gold could fructify in anybody's pocket; but it is a time-honoured phrase.—(*Witness*): I admit I have to haul my colour down there. I see Sir Josiah's point entirely; but there again I think one cannot help going back to the psychological oppression of very high taxation.

7730. Supposing I have £50 and I should have saved it and put it into somebody's business; but it is taken away from me in taxation to redeem War Loan, and the holder of that War Loan puts it into the same business; there is no difference there. Supposing it is £50 that I should not have saved, but I should have spent, and it is taken away from me in taxation and it is paid away in social relief, or in pensions to somebody else, who spends it in the very same commodity that I should, surely there is nothing in the change of ownership?—It is very difficult to earmark money or to trace which pocket it comes out of. The taxpayer may have been spending too much money, and he may have to sell out stock to meet it. Then that is not any compulsory saving; it is a compulsory transfer again.

7731. He realises his capital, but there is no question of it fructifying?—No; I am afraid I must give up "fructifying." (*Paragraphs 7 and 8 read.*)

7732. *Sir Charles Addis*: By paragraph 8 you do not mean that commercial advantage is the only consideration to be taken into account in considering the rate of debt reduction?—No. (*Paragraph 9 read.*)

7733. *Sir Alan Anderson*: Is it a paradox that a man will pay practically the same for a 99 years' lease as for a freehold, because they are almost identical in value? They are within one-tenth of 1 per cent. the same?—No, I do not know that "paradox" perhaps is the right word. I admit you could not do it, for you must keep to the letter of your bond, but I mean that you would do no substantial injury to the creditors of the State if you simply passed a Statute saying that all annuities now perpetual should, after the 1st January, 1926, become annuities for 99 years only.

7734. You would not give them any extra at all?—I think you must, because I think that they may hold you to your pound of flesh. Still, suppose you imagine my law passed, would the value of the new War debt and War bonds fall?

7735. *Sir Josiah Stamp*: You could have originally raised your money on practically the same terms?—And even now, suppose you could do it loyally, would the value fall? I do not think it would; I think that is admitted.

7736. *Sir Charles Addis*: It surprises me to hear you say that the fact that men will pay practically as good a price for a 99 years lease as for a freehold is one of the commonplaces of our economic life. It certainly has not been my experience. I have found that investors in property, banks for example, make a great distinction between leasehold and perpetuity; and furthermore, I should have thought even your analogy was not quite complete, because in dealing with leasehold in land you are dealing with an area which is limited in extent as regards location, while you have a tremendously wide range of gilt-edged securities. I suggest that the analogy is not quite so complete as you seem to think?—If I may be allowed to say so, I was led to that argument by conversations with several accountants of standing in the City, who assure me that, in preparing a balance sheet, if they are dealing with leasehold or freehold premises they make no difference if there is at least 65 years to run. Perhaps I was over impressed by that statement, but one of the biggest accountants in the City told me that.

7737. There is an important distinction in what an investor will give as between a 99 years lease and perpetuity?—Then that goes against my view and against the accountant's point of view.

7738. Your proposal apparently is to give the man a terminable annuity and to raise the interest to such a point that it will enable him to restore his capital at the end of 100 years?—Yes, that is exactly what I suggest. It does not much matter whether you take 5 per cent. or 6 per cent. Call the figure x; there is an easily calculable sum. I believe that my x, if calculated on a 4 per cent. basis becomes just over 1s. 7d. or, in the case of an £8,000,000,000 debt about £6,000,000 a year. Then of course you get Super-tax and Income Tax off it, or some of it, and so I put the net burden at about £4,000,000 a year.

7739. And there would be practically no difference between the amount of the annual Sinking Fund payment required for the 100 years, and perpetuity, would there?—No.

7740. Practically the same?—Practically the same.

7741. Therefore in effect financially there is no difference between giving a man terminable annuities under the scheme you propose and providing a Sinking Fund into which the necessary contributions would be paid by the State to redeem the loan in 100 years?—Exactly the same, economically. Politically, however, I think my scheme very much the better. If you do it by a change into a leasehold security at a slightly higher rate of interest you have a Sinking Fund that can never be raided. If you give it to the individual you could say: "We are going to add a little to the annual payments of the debt in the way of interest. It will be an advantage to you to take it, because you have a sinking fund which cannot be raided, and you may even feel confident that if a Communist Government comes in, they will think twice before repudiating a terminable annuity."

7742. That is the practical advantage, but financially it is the same thing as a Sinking Fund calculated to redeem the debt in 100 years?—Yes.

7743. *Sir Josiah Stamp*: I suggest that there is considerable difference between the two ways of expressing the thing—by juggling with a Sinking Fund one way or with an annuity another, and trying to get home on what you might call social psychology. If you are merely juggling on two things that are actuarially alike there cannot be very much in it for the State, but if you are taking something that is psychological, then you have an area in which you may do something. I suggest therefore that all this talk about 99 years and perpetuity really has nothing in it; when you come to deal with an annuity for 40 or 50 years at a rate which will be acceptable to people, you have a chance of finding perhaps something in the individual psychology which will give you a profit. It is the difference between juggling with the mere mathematical way of dealing with the thing and introducing the human element?—Yes.

7744. *Sir Alan Anderson*: What is the rate of Sinking Fund to be added over 50 years? *Sir Josiah*

Stamp: If the current rate of interest is 4½ per cent. the Sinking Fund to repay £100 in 50 years is 11s. 2d. For 100 years it is 1s. 7d. at 4 per cent. or practically 2s. at 3½ per cent. But I was only suggesting that the area in which you could use this scheme probably is something between what people will expect from a psychological point of view and the actuarial point of view?—(*Witness*): Yes. I think if you used propaganda you would convince a good many people. (*Paragraphs* 10 to 18 *read.*)

7745. *Sir Josiah Stamp*: I have referred already to the difficulty of getting anything really substantial out of a thing which is merely a mathematical or actuarial equivalent of something else—merely changing one thing to another. But these last paragraphs do present the possibility of taking advantage of the individual's short length of view, for the State to get some profit which is more than an actuarial equivalent. How would you meet this objection? Supposing that the Exchequer offered a life annuity or an annuity for a period of 30 or 40 years at a rate which is going to give a profit over and above the actuarial table, but supposing the Treasury say that is taking too big a risk because long within that life or that period the general rate of money may have fallen to such a point that we could have converted the debt to a lower rate altogether; we have tied ourselves for 50 years to pay, say, 5½ per cent., whereas if we had not tied ourselves we could have converted that debt at 3 per cent. What is the answer to that?—Is not the answer "It depends whether you were born an optimist or a pessimist?" It all depends upon that. If we can look forward to the rate of interest falling to what it was when I was a young man, 2½ per cent., then the Treasury would have made a bad bargain, of course; but if one takes the pessimistic view it may be that the rate of interest will be higher even than it is now.

7746. Would it support your scheme from a popular point of view if the rate of interest were not absolutely assured for life but fluctuated with some other rate like Consols, or something like that? Supposing you said to a man: "The rate of interest for ten years shall be £x, and thereafter shall be half per cent. more or one per cent. more than some other rate"?—The difference in interest would be so little that very few young men whose expectation of life was 40 years would touch annuities of this kind. It would appeal merely to people like myself, of 65, with an expectation of 10 or 11 years. Those would be the people who would take it up. I should think they would not at all mind the possibility that if they lived beyond their term of years they would get a slight reduction. I should think that would not affect it.

7747. Have you taken into account the fact that the Government would lose in the Death Duty?—Yes; obviously one has to do that.

7748. At any rate they would get Income Tax?—Yes. I have always understood the Treasury view is that what they lose on the swings they would gain on the roundabouts, and they would not care whether they got it out of Income Tax or of Death Duties.

7749. Do you not think it is really of the essence of a popular scheme, if it is going to be popularised by advertisement, that its terms should be very clear and indisputable?—Yes.

7750. Therefore an advertisement which proceeded to say: "Deliver up your £100 and we will give you 5 per cent. for ten years, and then if the rate of interest falls it will be half per cent. less or whatever it is," would rather endanger its popularity?—I think possibly it might.

7751. It is the only way in which the Treasury can get over the lottery, is it not, the risk that they are taking of the rate of interest falling?—Yes, but do you think that is a great risk?

7752. We have had witnesses before us who look forward to conversion schemes if the rate of interest falls, as being the chief way, as it was in the Nineteenth Century one of the ways, in which the interest burden is going to be made less?—That is only if you can regard the country as one with rising prosperity.

7753. The rate of interest was very low during the 15 years of great depression of trade prior to 1894; I do not think you can be dogmatic about the rate of interest being related to prosperity. *Sir Charles Addis*: It might not be connected with prosperity; you might have a low rate from the opposite reason?—(*Witness*): Yes.

7754. *Sir Josiah Stamp*: You have this possibility, that even if conversion of the perpetual right into a life or short term period were not possible immediately, you might attach it to terms of conversion, for example, I may be asked to accept in place of something that is falling due some other stock, redeemable at the end of 20 or 30 years; supposing that the Government had an option at the end of that time, instead of redeeming the stock by a sterling payment of £100, to give me a life annuity or a 30 years' annuity, is it not possible that that would have very little reflex action upon conversion operations now?—Yes, I think so. The only thing is whether you could get the ordinary man to put his mind so far ahead as that.

7755. Is not that the position; that he will not bother with what is going to happen?—That is the difficulty. If there is too much complication, he might feel that he did not understand it, and so refuse all offers.

7756. Is it not simply that he believes he is going to convert into stock which is going to be paid to him at the end of so many years either in sterling or in annuities, and then at the end of that time the Government have an option?—Yes. No doubt his advisers, his bankers or solicitors, would say to him: "It will be more convenient to the Government to give you a terminable annuity, but it will be saleable in the market for £100 when you start."

7757. That is very fine for the individual. Now a very large amount of this stock to which the conversion offer would apply would be in the hands of banks and trustees of various sorts?—Yes.

7758. How are they going to deal with it? They would say: "I have against me a possible option of this being converted to a terminable annuity." Is not that going to destroy its value in the eyes of the bank or the insurance company?—I suppose it would. Therefore you must deal with them by the increased interest, as I said before.

7759. On what I might call the actuarial method?—Yes, the actuarial method and the Sinking Fund method.

7760. A bank or insurance company has just the same disregard of the length of human life and just the same ability to look forward 100 years as the State?—Exactly.

7761. You are away then from the individual outlook?—Yes. At the same time, actuaries are good enough to say: "It does not very much matter. If you are going to give us such an extra increase of interest as 1s. 7d. per cent. every year, we can make our own Sinking Fund with it."

7762. Frankly, I am not on the point at all as to changing one mathematical thing for another; I do not think that is going to give you much relief in the long run. I am much more on the point of what you can do with the Government, and therefore I do see the possibility of something being done, though how much it is difficult to say?—If I might venture to put a question to my questioner it would be: "How far do you think you could get people to realise what I think is a very important political fact, that they probably would be much safer with a terminable annuity, much safer from what I should call predatory attacks from people who want really to repudiate the National Debt, than they would in the case of a perpetuity"? People's minds are excited on this idea of perpetuity. The working man is told at a meeting in the park that for a thousand years his descendants will have to pay, pay, pay to the usurer.

7763. I think public opinion is going to become increasingly more tender towards life interests than towards interests in perpetuity; but it is only one degree removed in their hatred. Unearned income for life is only one degree less bad than unearned income in perpetuity. It is still hateful?—Yes.

7764. *Sir Charles Addis*: There is one psychological question which I should like to ask as we are on psychology. That is with regard to those life annuities. The main object of the applicant for a life annuity is to obtain a large income. In the case of an individual it is unlikely that he will set apart and isolate a capital portion of that income. May the result not be, therefore, to lead to increased consumption and to decreased savings from a national point of view? I wonder if you have considered that?—Yes, I have. It has always seemed to me that you really cannot ear-mark money in that way. If the man did do more spending, he would spend it on goods. But that being so, other people would be making money and saving it. It might go from a spender to a saver. No doubt it is very difficult to follow it out, but money is not altered in nature by being called capital.

7765. My own view is that anything that tends to increase the habit of saving is of the utmost importance?—Yes, quite so. I agree entirely.

7766. The question really I wanted to put to you was whether you think the psychological effect of life annuities or short term annuities, if they became general, might not be to decrease, or to have a tendency to decrease, the annual rate of national savings. I am asking purely for your view?—I suppose it might, but then at the same time the fact that people have more money to spend might stimulate saving in the producer.

7767. I must say I am very chary of that argument?—Yes. I have sometimes felt very much inclined to support a tax, not on income, but on expenditure, though I suppose it would be very difficult to put it into operation.

7768. *Chairman*: We are very much obliged to you for coming?—I am greatly honoured, my Lord.

(*The Witness withdrew.*)

(*Adjourned.*)

TWENTY-SIXTH DAY.

Wednesday, 3rd June, 1925.

Present:

The Rt. Hon. LORD COLWYN, *Chairman.*
Sir CHARLES ADDIS, K.C.M.G.
Sir ALAN G. ANDERSON, K.B.E.
Mr. J. W. BOWEN.
Mr. W. L. HICHENS.
Sir JOSIAH STAMP, G.B.E.
Mrs. BARBARA WOOTTON.

Mr. G. R. HAMILTON, *Secretary.*
Mr. G. ISMAY, *Assistant Secretary.*

The Right Hon. Lord Forres, called and examined.

Evidence-in-chief handed in by Lord Forres:

1. I am a partner in the firm of Balfour Williamson & Co., London and Liverpool, Williamson Balfour & Co., Valparaiso, Balfour Guthrie & Co., San Francisco, Los Angeles, Portland, Tacoma, Seattle, and Vancouver. I have also business connections with other places in South America and in the Far East.

My firm do principally a merchant's business. Through our branches and affiliations in foreign countries we have been interested in the establishment and management of a number of industrial concerns, including flour mills, nitrate works, sugar refineries, cement works, oilfields, etc. We have been the means of forming into British companies a number of foreign industrial concerns.

I have read the questionnaire circulated by the Secretary. On the majority of the questions I do not think I have any exceptional knowledge, or can offer the Committee any great assistance, but there are three questions to which I might perhaps usefully refer.

2. Number 9 reads:—

> "*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 profits proportionate to managing ability and to the risks of personal enterprise, and higher on the average than the rate of interest on Government Debt?*"

In businesses such as mine it is usual in partnership agreements to stipulate that the partners shall not take moneys or profits out of the firm beyond what is necessary for their reasonable personal and living expenses. It is evident that if there were no Income Tax, or a reduced Income Tax, a larger amount of capital would remain and be available to extend the business. Even if articles of partnership permitted withdrawals, in the hands of business men such withdrawn capital would in all probability be so used as to produce a rate of profits higher on the average than the rate of interest on Government debt.

3. With regard to question number 10, which reads:—

> "*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?*"

The answer to the first part of this question is comprised in what I have just stated, but I might amplify by pointing out that the system of a three years' average for Income Tax assessment is one which frequently hampers operations. When two or three profitable years are followed by years of actual loss or diminished profits, as has recently happened in so many instances, the obligation in such bad years to pay heavy Income Tax has undoubtedly limited enterprise. I am aware that such conditions could be provided against by unusual prudence in not dividing profits fully, but in practice I feel sure it would be beneficial to commerce if Income Tax could be levied upon the profits of each year separately, so that when the results were good the tax would be heavy, and when the results were bad the tax would be correspondingly reduced.

With regard to the subsequent part of the question, it is clear that the burden of Income Tax does interfere with the ability of companies to build up reserves, and tends, I think, to the policy of keeping up dividend and reducing the allocation to reserve.

4. With regard to question number 12:—

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

I think it is clear that the Death Duties affect private business very seriously and much more so than companies. It has now become a risky matter to have too rich a partner. Death is uncertain, and may come at the most unexpected time and at the most inconvenient and embarrassing moment for the firm. However considerate the provisions of a deceased partner's will may be, and even if he had a son who might succeed him in the business and become entitled to a portion of his means, the demands of the Inland Revenue must be met, usually from liquid resources employed in the firm, and, in the case of a large fortune, are so heavy as to upset and in some cases embarrass the business.

5. This drawback does not apply in the case of an enterprise carried on by a company. It is true if the deceased individual's means were mainly in the form of shares in such a company, the throwing of a large block upon the market for Death Duties might occur, and the price of the shares, and incidentally the company's credit, be affected. But the company's day to day operations would not be hampered by the death even of the largest shareholder, as would operations of a private business. The policy, therefore, of Death Duties rather favours the building up of industries and enterprise upon a company basis than upon the basis of private firms.

6. The Committee's question number 10, to which I have just made allusion, on the ability of companies to build up reserves, leads me to deal with the matter from an international standpoint. So much of the enterprise of our people is directly or indirectly concerned with business operations abroad that we cannot be oblivious to the effect on our own Islands of double Income Tax. I state broadly, for example, without fear of contradiction, that with very few exceptions it is impracticable profitably for a British concern to undertake any business or industrial enterprise within the United States of America. Few, if any, enterprises can stand the payment both of the American Income Tax and the British. Our people are suffering from a most unfair handicap, for there is nothing to prevent an American from setting up works in this country and paying only one Income Tax. As is well known, an American citizen would, in such a case, pay the British Income Tax upon the profits, but would be allowed to deduct the amount paid in Great Britain from the amount payable to his own Government on his total income. The evil of the double tax has been admitted, and has been the subject of discussion by a Committee of the League of Nations. Recommendations have been made to ameliorate the conditions, but, so far as I am aware, no definite action has been taken by our Government, except in the case of the Colonies. The imposition of Income Tax is now extending to many countries, and the double tax is having a very serious effect upon British prosperity in three ways:—

(1) It interferes with the establishment of British-owned industries in foreign countries.

(2) It interferes with the control of commercial enterprises abroad.

(3) It prevents the formation of companies in England, and the coming of much foreign money to London.

When I read articles concerning tariffs and the promotion of trade, I often wonder whether the powers that be realise even to a small degree the harm that is being done to our international trade by the present policy governing Income Tax taxation.

7. Taking the three headings seriatim:—

(1) I have just instanced the position in the United States. It is becoming almost equally difficult to establish British enterprises in some South American countries. For example, if a British company were formed to establish a cotton mill in South America, it would have to pay Income Tax there and here. Naturally, therefore, the company is formed in South America. There may be some British shareholders, but the chances are a portion of the capital would be offered to and taken up by people living in South America, and the board would, of course, be domiciled there. Orders for machinery, if it were a company domiciled in London, would probably be placed in Great Britain. Insurance would almost certainly be done here. Office rent, clerks' salaries, etc., would be paid here. But a board in South America is less directly in touch with Great Britain, and very probably will place its orders for machinery, insurances, etc., where it thinks it can do best—possibly influenced by the eloquence of the agents of manufacturers in Germany, Belgium or the United States.

(2) Merchant houses in Great Britain in times past have done much for British trade by pioneer work through branches established in promising foreign countries. It was until recently the habit to keep financial and business control of the whole enterprise in the hands of the head office in Great Britain, and it was thought prudent and advantageous to retain such control here, even although in course of time the foreign branches built up a large local trade—for example, in trading between Chinese ports, between China and Japan, or between China and Calcutta and Australia, or Buenos Aires and Rio. The claims, however, of the Income Tax authorities have been increasingly widened, and of late it has been sought to impose Income Tax upon the whole profits of the foreign branch of a British house on the ground that the ultimate control was in this country, although its operations might be entirely in, and the profits arising therefrom be entirely earned in, a foreign country, without even consulting the head office. This policy has led to a separation between what was the head office and the branches. The foreign branches of British firms are becoming independent, in order to avoid liability to British taxation as a firm. Consequent upon this independence follows the placing of many orders otherwise than in or through England, the formation of alliances and arrangements direct, and not through the old head office in Great Britain—in short, the loss to this country of the control of and the preference for all their business. To keep any close connection at all between the London house and the foreign houses in such circumstances is very difficult, and I am persuaded the weakening of the link is most disadvantageous to British manufacturers and to British trade.

(3) The imposition of British Income Tax, especially since it reached a high figure, has undoubtedly prevented many foreign concerns from registering themselves as British companies with a board in London. I know of several such large concerns, the capital fully occupied, anxious to extend

their business and issue preference shares or debentures. With this object in view, and also in order to have a freer market for ordinary shares, the owners have been disposed to turn the enterprise into a British limited liability company. But the inducement is insufficient in view of the onerous Income Tax that would fall upon the profits. When the Income Tax was about 1s., I think the advantages of forming a British company outweighed the disadvantages, but the contrary is now the case. We lose a great deal through the foreigners' reluctance to bear British Income Tax. We lose the fees for a British board, office rent, clerks' salaries, the banking, insurance, and the preference for all the commodities or equipment which have to be purchased. It is, of course, obvious that the same desire to avoid payment of our heavy tax influences the coming to London of a great deal of foreign money. It would be a surprise to what an extent London would become more powerful financially if we changed our policy. In my opinion, we would gain a great deal more than we would lose by taking a bigger view of this question.

8. It is not my province to find a remedy, but rather to point out the disadvantages of, and the injury caused to trade by the present double taxation. Everyone, I think, will agree that the profits of an international trade between two countries should pay an Income Tax. My view is that, where Income Tax can be claimed on the same income by two countries, it should be paid once and once only, and that at the higher rate.

9. There is no doubt our authorities know what the country loses by the removal of the domicile of certain companies, which has taken place to a moderate extent, but I feel certain they do not fully appreciate the number and importance of undertakings which do not form themselves into British companies, and what a large influx of new business, as well as new capital, would ensue from a bold policy, which had as its object the abolition of a double payment of Income Tax and the encouragement by rebates to foreign shareholders of all or a portion of the Income Tax upon their shares in companies domiciled here.

10. I desire to call the attention of the Committee to the fact that this matter of double taxation was dealt with, and resolutions passed by the International Chamber of Commerce in its Congress at Rome in March, 1923, that it was considered and a resolution passed by the Commercial Committees of the various Inter-Allied Parliaments at Prague in 1923, that it has been discussed in International Conferences at Brussels in 1920 and in 1922, that in 1923 the Financial Committee of the League of Nations appointed a Committee, which included Sir Josiah Stamp, representing Great Britain, to study the question and produce a basis of action, and that the Council of the League thereafter appointed a Committee of experts, on which Mr. Canny represented Great Britain, to pursue the question from the practical point of view. This Committee reported early this year. It still remains for something practical to be done, and I hope the Report of your Committee may emphasise the need for definite action. The present position is certainly a menace to our existing international trade and a grave hindrance to its expansion.

7769. *Sir Charles Addis*: Our Chairman is unable to be here at present. Perhaps you will allow me to act in the interim. Your evidence-in-chief has been circulated among the members of the Committee, and in view of paragraph 1 I need not put any formal question with regard to your identity. If it is agreeable to you, I suggest that we might begin with paragraph 2, and that you should read each paragraph in turn and then allow the Committee to put any questions that may suggest themselves. That will give you an opportunity of adding any explanatory words to the paragraph?—Yes. (*Paragraph 2 read.*) Of course, I cannot say how far such conditions as I mention may be usual, but they certainly exist in several partnership arrangements that I know of; and naturally profits accumulate if they are made and not dissipated in the two ways of personal expenses and taxation; and, so far as they remain, they therefore go to strengthen and build up and extend the business. I did not think this question required much elaboration; it seemed so obvious that the money must extend the business if it remained in it.

7770. *Mr. Hichens*: It is a usual thing, is it, so far as your experience goes, in private partnerships that the partners draw so much and leave the whole of the balance in the business?—I believe it is. In my own business, and in several others that I know, it is so.

7771. I have known cases too; I was wondering if that was your general experience?—Yes.

7772. Under your agreement would it be possible for you to take more out of the business on the ground that no profits were being made, and you would like to invest the money in some other way?—You could only do that, in such conditions as I refer to, at the termination of a partnership or by agreement.

7773. As far as your experience goes, is it happening now that owing to high taxation — Death Duties for instance—or whatever the cause, people are modifying their partnership agreements?—No, I think not. I think the modification of partnership agreements, as far as I know, comes rather from the question of double taxes in foreign countries.

7774. We shall come to that in a minute?—Yes. That is another point, but I do not think on the other ground there is any change.

7775. That is to say, so far as your experience goes at any rate, partners are still leaving their money in the business?—Yes.

7776. But as a result of taxation obviously the money which they leave is less than it used to be?—Yes. The question is put in the questionnaire: "How far does the high Income Tax withdraw money which could otherwise be counted on for the expansion of business?" That depends, of course, entirely on the amount of the tax. (*Paragraph 3 read down to the words*: "the tax would be correspondingly reduced.") Perhaps I ought to point out that I use the words "by unusual prudence in not dividing profits fully." That applies rather to a company than to a firm where profits must remain, as I have just said, in the business. But the Committee will realise that if you see a large credit balance at the bank and some enterprise presents itself to you, you take it in hand with a feeling that you can cope with it and manage it, and you are rather apt to overlook the fact that next year may be very bad, and a very heavy demand may come upon you for the Income Tax of the good years, and then you will find yourself hampered, having undertaken business perhaps in a hopeful spirit. The three years' average does bring a very heavy burden sometimes upon firms in a bad year; in fact, as the Committee will be aware, there are many cases in existence where large sums have had to be paid where there have been actual losses in the same year in which payments have to be made. I do not know whether that is within the terms of reference of the Committee—about the three years' assessment.

7777. *Sir Charles Addis*: I think our terms of reference would cover that?—In fact it is recognised, I think, as oppressive, certainly in businesses where the profits fluctuate, so much so, that a Bill was brought in to effect a change, or proposals were

made in a Government Bill to effect a change; but they were not carried through, I forget for what reasons.

7778. *Mr. Bowen*: I suppose in practice a firm does not estimate year by year what the Income Tax claims are likely to be, and ear-mark a portion of its income in a particular year for that purpose?—When you speak of income, a firm trading has profits, but cannot reckon on any income.

7779. Or profits?—Yes, its profits; it has no income in the ordinary sense from investments, or very little. It is very difficult to estimate what is going to happen next year. If you were to ask me now what profits we were going to make in 1926 I could not give you any idea. Therefore I do not think you can make the calculation. In the case of a firm the profits remain in the business, and you are probably led to rely upon the accumulations, forgetting perhaps that the following year you may have to pay out a very large sum for Income Tax; and do not know what is coming by way of a disastrous year. Thus payment may come at a time when you are doing very badly. If the tax could be adjusted to the income of the year and be paid out of the profits of the year, I think it would be an advantage to merchants' business.

7780. If a firm knew its profits for 1924 what would prevent it setting aside a certain portion of its profits to meet the Income Tax charged on the three years' average?—I do not think there is very much in the point of setting aside. I think it can be done, and I think it is done to some extent, by putting something in a good year to an Income Tax suspense account against a large demand in an unexpectedly bad year. That can be done and is done, but most people don't anticipate disastrous years, and therefore I get back to the point that it would be an advantage to business people if the tax could be levied year by year on each year's profits, and not over a three years' average. The only argument I have heard for the three years' average is the argument of the Treasury that they wish to have a more or less reliable estimate of the income from taxation for the following year.

7781. *Mr. Hichens*: I suppose it is as common among private firms as it is among public firms to make an Income Tax reserve?—It is done.

7782. Which, if you know your business pretty well, is generally on the right side and not on the wrong side?—Still, you must remember that the reserve is not taken out and put into Government loan; it is in the business, and you come to rely on it as part of your available capital.

7783. *Mr. Bowen*: But should you?—I have used the words "unusual prudence." I did instance that it could be avoided by unusual prudence.

7784. *Mr. Hichens*: You know that it is a contingent liability, anyway?—Yes, you know of the liability.

7785. You seem to suggest that it would be a sound principle that the tax should be heavier when trade is good, and lighter when trade is bad?—Yes.

7786. I wonder if you would extend that principle at all, and suggest that the actual amount of the Income Tax should vary according as trade is good or bad; that is to say, that you should have a higher Income Tax in good years or when trade is prosperous than in years when trade is not prosperous?—There are two points of view. From the point of view of the individual I think everyone of us does not mind paying a heavy tax in a year when we have made a large profit; but we all feel the burden of the tax in a year when we are suffering losses and doing badly. We would naturally prefer to pay a smaller tax in the year when we are doing badly and pay a bigger tax in the year when we are doing well. That seems to be human nature, and it also seems to adapt itself to the individual's financial position.

7787. In the particular case that we have to consider it has sometimes been suggested in regard to the Sinking Fund that it would be a wise thing to make a larger provision when trade was good than in years when trade was bad. Would you agree with that as a principle?—It seems to commend itself as a sensible suggestion.

7788. Others, on the other hand, suggest that there should be a fixed amount set aside annually for the purpose of the Sinking Fund. You would prefer some principle whereby the Sinking Fund varied according to the goodness or badness of trade, would you?—You speak, of course, of the country's trade, not the trade of individuals?

7789. The country as a whole?—It seems to me a reasonable suggestion; I had not thought of it.

7790. Perhaps you would have some fixed minimum, would you?—I think you must have some minimum. You cannot neglect your Sinking Fund altogether.

7791. Have you any figure in your mind, as a member of the general public?—No, I have not, but I think the idea could be worked out upon, say, stages of goodness and badness; because after all, good and bad are rather wide terms, and I think you would have to have some stages of goodness and some stages of badness measured by figures.

7792. At the present moment there is a Sinking Fund of £50,000,000 in operation. Would you be prepared to regard that, for instance, as a minimum which should be increased in good times?—I am afraid I had better not commit myself to an answer, as I have not thought it out. (*The last part of paragraph 3 read.*) In saying that, I have in mind only the effect on human nature of a certain sum being available for dividend and reserve. Companies are often in the position, that they have for years paid more or less stable dividends, and naturally if taxation increases and cuts further into the profits there is a tendency to try to keep up the dividend even if it is at the expense of the reserve. I say it is a tendency and I do not carry it any further than that. (*Paragraphs 4 and 5 read*).

7793. Of course you are taking the case of a partner whose whole fortune, or practically the whole, is invested in his business?—Yes.

7794. That is a not uncommon state of affairs, I take it?—That is so.

7795. How far, owing to the extension of Death Duties, has it become the practice in such cases for partners to insure against Death Duties?—I cannot say how far. I have no doubt the practice exists, but you can understand that when a man was already middle-aged, before the onerous tax was introduced, or before he had accumulated substantial means, he finds it very difficult to pay the necessary premiums.

7796. I do not know much about private firms, but one would have supposed that if a private firm foresaw that a very rich partner might die in the course of a few years, to their great embarrassment, they might arrange that an insurance should be effected?—No doubt. This is one of the things that can be provided against. I only tell you how the duty operates in a great many cases. I am not advocating an alteration in the policy of levying Death Duties. That is not the point; but I am asked in the question how far they involve a destruction of capital, and whether they inflict special damage on private businesses. I say they do affect private businesses more than they do companies.

7797. I see that, but I was only wondering whether there was not, to some extent at any rate, a way out?—I think there is. I notice that the existence of certain Government securities (which are at a discount, or were) which are available for Death Duties, has induced a certain number of men, possibly by consent of their partners, to invest in those particular securities, and to some extent avoid the difficulty. There are ways of avoiding it, I admit, but it is true that the Death Duties do usually hit a private firm and embarrass it more than they do a company.

7798. Do you think that the effect of Death Duties is an important influence in converting private businesses into public companies?—No, I do not think it has had much influence, but there is a difference in its effect upon the two. I think it perhaps favours the building up of industries in company form, but I

have not personally come across cases where the matter has been considered and decided one way or the other. I should think it is obvious that if under present conditions you are combining with other people, several rich men, to enter into some enterprise, you would rather do it upon a limited liability basis.

7799. For the reason of Death Duties or for some other reason?—Partly for the reason of Death Duties

7800. But mainly for some other reason, I take it?—I think that we all know cases in which there are firms with one or two rich partners getting on in life, and the firm has known that in the event of a death very large payments would have to be made for Death Duties, and undoubtedly that has influenced the firm in its undertakings. It would not influence a company.

7801. I was just wondering whether that fact alone of Death Duties, now they are so high, was an important cause in persuading people to convert their companies from private to limited liability companies?—Not too important, I think, but the tendency is that way.

7802. *Chairman*: Now paragraph 6 please?—I am afraid I am departing from your questionnaire here. (*Paragraph 6 read down to the words*: "No definite action has been taken by our Government except in the case of the Colonies.") I ought to stop there to say that I omitted to state that as regards shipping there has been an arrangement made which corresponds with that relating to the Colonies. It was made with the United States, and I think some other nations, to get rid of the difficulty of the double tax so far as profits on shipping are concerned. I think that is the extent of it. (*Remainder of paragraph 6 read.*)

7803. *Mr. Hichens*: How far do you think this establishment of separate companies abroad is a disadvantage? As I see it, in the old days you had a firm, say, of Balfour Williamson and Co., in this country, with branches in foreign countries; now you have a firm of Balfour Williamson and Co. in this country and a firm of Williamson Balfour and Co. somewhere else, separate in name, but united in fact, I should have thought. Where is the disadvantage from the point of view of British trade?—From the point of view of British trade, we will commence by the statement that the foreign house is made independent.

7804. The foreign house is made independent, but you would own all the shares, presumably?—Oh, no.

7805. Or you may?—No, on the contrary. Men who were partners with us in the foreign house before the conditions necessitated any change were under our dominion and control. Now a new arrangement has to be made by which they are independent and control the business. If the control is here, the Inland Revenue assert a claim for Income Tax upon the whole business. The person who resides, and who has resided perhaps for twenty years, the best years of his life, abroad, and who works there and whose home is there, resents his labours being taxed here, considering he has to pay taxes where he is living. Consequently we have to make that house an independent house. Now you ask what is the effect of that on British trade. The effect is that gradually your influence over their operations diminishes, and they take to their own development. That development may run on the line of, we will say, the establishment of a flour mill or a nitrate works, or a chemical factory in that country. There comes a time when there is a question of the ordering of machinery for it, and if the link with this country is weakened, they are very apt to give the order for machinery to the most eloquent agent of the manufacturers, who may be German or American or anything else. In the old days that order would have been sent to us, and we would have placed it, and we would naturally have placed it in England. Therefore the tendency is for those orders to be put up to more general competition, and we lose a certain number of them. If the British is the best, we may still get the order. If the British is only equal to others, or if the eloquence of the agent of others is greater, the order may go elsewhere.

7806. What it comes to, then, is, I take it, that you may lose a certain amount of goodwill?—This country may lose a certain amount of goodwill. Then you come to other things. You come to the insurance, you come to the engagement of employees; there is an infinity of things that you lose. Through English control you had a preference on the whole business, and through the change and the independence of the foreign house you lose that preference. You may still get some of the business, but you run a great chance of losing a lot, and you do, in fact, lose a lot. I know a nitrate company in South America. English people established it, but it is a Chilian company. It becomes more and more Chilian. First of all it used to buy everything here; now it buys almost nothing at all here; it does its business locally with whoever it thinks it can do it with best. If that company had had a board of directors here in England, it would have brought to England a good deal of trade which we are now losing. That could be multiplied a hundredfold. I would like the Committee to realise, what I realise very strongly, that our Government and our Treasury and Somerset House do not realise what they are losing. They know what they are losing in one sense; they know the removal of any company which was British and which disappears. That they can measure, but they cannot measure the great number of businesses that would come here if we had a different policy in connection with the double tax.

7807. *Chairman*: Is it really through the double tax that that occurs?—I am afraid we have got on to two branches of the subject. The first branch was a business such as ours, with ramifications abroad, where double tax certainly has a very great deal of influence. The other point was the establishment of a company abroad, which is rather different and which you may say did not situate itself here because of British Income Tax alone, and not because of the double tax. I agree there is a difference there.

7808. *Mr. Hichens*: I suppose other countries suffer from the double tax as well as we do?—Yes.

7809. Do you think we suffer more severely than any other country?—Yes, we suffer more severely because, after all, we are the merchant country of the world: we are the country that pioneers in foreign places and establishes branches. They say that trade follows the flag. It also follows the British merchant. If it were not for the British merchant's enterprise in establishing businesses in foreign lands, a great many orders would never reach the factories in England. That has become more and more obvious. I think we have thirty branches in different places, and each of those is a centre, or has been a centre, for the promotion of British trade, and that all comes to the manufacturer in the long run.

7810. *Chairman*: Is there an Income Tax in most of the South American States?—It is growing. It has been imposed now in Chili; I think not in the Argentine yet; it has been discussed; and it has also been discussed in Peru. I have no doubt in course of time we shall see an Income Tax in each of those countries.

7811. *Mr. Hichens*: That in itself would be a strong incentive for a separate local company, would it not?—Yes, it becomes so.

7812. Not merely on the question of the double tax?—Yes. You asked me a question about how it affects people in other countries as compared with ours. I think the simplest case that I know is the case of the United States. It seems to me that they are nearer to a system by which they do not interfere with their citizens' foreign enterprises, than any other country has yet got. They allow the enterprising American citizen to establish an industry or an enterprise, we will say, in Paris. He has to pay on his profits in France the French Income Tax. Then, being a resident of the United States, he has

to make a declaration of his total income from all sources, including what he has made in France. Then he is assessed upon that total.

7813. *Chairman*: Upon the taxed total or the gross total?—The gross total, including the French profits. He is assessed upon the gross total and, as you know, it is a graduated tax in America and it comes out at a certain figure. That then is the amount due by him to the American revenue; but from the sum due he is allowed to deduct what he has already paid in France; so that in effect he has no handicap at all by establishing his business in France and paying tax there. He is as well able to start and continue that competitive business in France, as a Frenchman would be. But we in this country are in no such position.

7814. *Mr. Hichens*: Has any other country adopted that principle: Germany, for instance, do you know?—I do not know of it.

7815. I was wondering if double taxation prevailed, for instance, in Germany to the same extent?—I do not know. It would be very difficult now to establish any enterprise in the United States, for example. We have enterprises in the United States ourselves, but they were all established before the American Income Tax existed; they only paid one tax. We have not established anything since the double tax was imposed; since then we have not introduced one outlet for British capital into the United States. Previous to that we had introduced ten or a dozen. For example, we had loaning companies and we had cement works and other things. These were British companies. The loaning companies have been more and more difficult to conduct and they have gradually had to be wound up. The cement company continues and is making profits, and paying dividends, despite the double tax; but that is rather due to good fortune and good management than anything else, owing mainly to the fact that the Americans decided to build roads, and they have been so energetic in the policy that they have needed more cement than they produced, and have actually imported cement in addition to making it. In these exceptional conditions we have been able to make profits; but in general it remains true we could not to-day face the establishment of an enterprise in the United States and pay the tax both there and here; there would be nothing left for the British shareholder. Another point arises—such a company, as I have referred to, may have an American company as a neighbour, working a similar deposit, with similar works, both in good condition and both well situated. They have both been making money. The American company has paid dividends and so has the British company, but the American company has been able to put away a great deal more money, owing to its only paying one tax, than the British company has. In consequence it becomes rich and can afford to buy other deposits and extend its works, while the British company cannot. That exemplifies a handicap between the two, owing to the double tax. If Americans had established a cement works here in England, they would not have had any such handicap. This example shows the effect of the tax upon British enterprise. Now to-day, with the Chilian imposition of Income Tax, I do not think we could face setting up any more British companies to operate industries in Chili. If we had an enterprise there that we thought well of, we should form a Chilian company and probably endeavour to associate with ourselves a certain number of British subjects who live in Chili, and Chilians, and a limited number of people in this country, who, of course, would have to face the fact that apart from the local taxation paid by the company, they would have to pay British Income Tax upon their dividends, escaping however the tax upon profits put to reserve, and things of that sort. They would pay, of course, only upon the actual sum declared as dividend on their shares. That is the effect of it. A Board out there and a Board in London are very different things, from the point of view of British trade.

7816. *Chairman*: Now the next point?—I have dealt with heading (1) in paragraph 6, the establishment of British owned industries in foreign countries. I think it is quite clear that the double tax must interfere with that. Then with regard to heading (2), I think the Committee will understand that owing to the double tax the control of branches of English houses abroad has largely had to go, and I suppose the Committee realise that that takes away the preference on the business of those foreign branches and agencies to a large extent—not entirely, but as time goes on it tends to be more so.

With regard to heading (3), that is rather a different point. I do not think it can be classed as affected by double tax as much as by a heavy tax. It is undoubtedly the case that the existence of an Income Tax in a man's own country will make him less willing to bear a heavy tax in a foreign country, but the unwillingness is not necessarily circumscribed by the fact that there is a double tax. It might even be that a company would not be formed here by people who live in a country where there is no Income Tax because alone of the heaviness of the British tax. I have noticed in my own experience a number of concerns of a solid character owned abroad sometimes by British subjects and sometimes by aliens, and sometimes by the two combined, that would have had a Board and an office in London, for the purpose in many cases of raising money, principally perhaps on debenture, but also perhaps by the issue of shares; but they have desisted from the idea because of the amount of the profits that would have to be paid in British tax. In these cases the ownership of the enterprise has been in a few hands. It is simple when you come to a concrete case. A man has very valuable nitrate lands but he has not very much capital; he has probably put all he has into the acquisition of those nitrate lands, and maybe borrowed a little. Then he comes to erect the works, and the erection of works on a nitrate field is a pretty expensive undertaking. His desire would be to raise money for the works on debenture and to retain for himself all or most of the ordinary shares, believing in the concern. He would establish the company here in order to get debenture money and perhaps to issue some more shares, if it were not for the heavy British Income Tax that he would then incur. You may say: "Well, but what is the effect upon British trade of this being done or not being done?" I think the effect is this: if he establishes a Board in London it is usually British subjects who form the Board, or the majority of the Board. Then the orders for all that is required are placed through the Board in London Then there are the expenses of the Board, Directors' fees, Secretary's salary, office rent, and so on. Then follow insurance, banking, orders for plant, and so on, and very often there would follow the sale of the cargoes of nitrate, or the sale of nitrate for shipment. That would be done through a British broker. Lots of business follows if you only get the control and the office established here. You may say: "That is all very well, but can you expect that should happen without taxing them at all, they having a head office here." I do not suggest that. I think that some tax would have to be paid for the privilege of having an office here. The company's profits might be liable to the full British Income Tax and dividends would naturally have to bear their full share of the tax if they belonged to anyone in this country. But with regard to the men who live abroad, I think it would be policy to give a very considerable rebate from the tax that is paid upon the amount due to them for dividends. It was suggested by me at the last Committee over which you presided, I think, Lord Colwyn, that if the tax paid by such a man as I have instanced were limited to one shilling he would establish the company here; the advantages would be greater than the disadvantages to him; but I think when it comes to 4s. 6d. and 5s. in the £, as it was, he will not do it.

7817. May we now pass to paragraph 8?—I do not know that I ought to suggest any remedies; I am not really a lawyer or a financial expert in these matters; but I can see the present hindrance to British trade in the present system, and I am strongly convinced that the bulk of our countrymen, or the bulk of the officials of our Government do not realise what we are losing by the present state. I think it is most urgent and most desirable that we should try to find some remedy for the benefit of our trade, selfishly if you like. I think it will never do to wait until you get a consensus of view of all the countries who are going to impose Income Tax. If you are going to wait for that you are going to wait for the Greek Kalends I am afraid. We may expect to see Income Tax in nearly all countries in the world, and it would be very difficult to get an agreement with all of them Therefore I think we should look to the matter from our own point of view, and I cannot see, speaking for myself, any better method than that which has been followed by the United States, that is, as far as regards British concerns with foreign branches, and the other aspects of the double Income Tax matter which affect British trade. From the point of view of encouraging foreign-owned enterprises to be formed into companies here, that is a separate matter. Also the encouragement of investments in British securities by foreigners, thus bringing money for our use, is a separate matter from the double tax. The suggestion I would make in this connection is that on dividends belonging to foreigners there should be a rebate. They should still pay some Income Tax. I am aware that there are a great many objections to the suggestion, but I think that the advantages to us would outweigh the drawbacks and the gain would outweigh the loss; that is my feeling.

I have already touched on paragraph 9. With regard to paragraph 10, I have no doubt that you are aware of the enquiries that have been made into this question of double taxation, and probably you have seen the various resolutions. I dare say you have come to the conclusion that it is a very difficult subject, and probably you will agree that if we are going to wait for unanimity of action amongst the nations nothing will be done at all. Therefore I come back to my point: let us look after British interests and not wait for others. British interests are suffering gravely at present and I see no more practical road than following the example of the United States, on the one hand, and on the other by a suitable rebate of tax encouraging foreign business and foreign capital to come to us.

7818. Where you have a country with very low wages and no Income Tax, has that any effect in the way of inducing a man to take his production there? Will it not be harmful in this way: supposing you have a country, Japan for instance, where the price of labour is very low and the Income Tax is low too, would it not tend to take an industry out of this country and plant it there?—But would the policy I have suggested induce that any more than the present conditions?

7819. I should not like taxation in other countries to be so easy, ours being pretty heavy, that there would be a tendency to take our industry and plant it in countries where labour and taxation are low?—I do not quite see that would follow from the proposals I have put before the Committee, would it?

7820. I was wondering whether it would have that effect?—No, I do not think it would follow from it.

7821. A number of witnesses have come, all wanting lower taxation or some relief of burdens. How can we carry on? How is the money to be raised? I want you to give us some indication now, to advise us or help us to see how we can get more money?—The most fertile brain for suggesting new items of taxation used to be Bottomley's in the House of Commons, but his ideas were frequently scouted as impracticable, and finally he was put in prison! I therefore tremble to make a suggestion. But why not tax the export of whisky?

7822. That is one suggestion?—Whisky costs, or did cost before the war, about 3s. a bottle; consumers paid at that time about 11s. or we taxed it 11s.; I forget which. In any case, why sell whisky to the foreigner at 3s. a bottle in Bond and pay 11s. ourselves? I do not see why we do not tax exported whisky. Of course, if you tax it too high you might defeat your object, because persons would be quite capable of establishing a distillery on the Continent, in Holland say, and chartering a tank steamer to convey 10,000 tons of Scottish burn water, which is necessary for making good whisky, over to Holland and making Scotch whisky there. It would be possible to do that. Therefore you must not put your tax too high, but surely between 3s. and 11s., or something of that sort, and between 3s. and the price the American pays for it, there is a very big margin for a tax. Moreover, whisky sold to other countries, not America—South America, the Colonies, and so on—is sold in bond at a very low price compared with what the consumer pays for it, and surely we are entitled to some of the difference.

7823. Is there anything else?—I tremble to suggest even the whisky tax, because I do not know what the answer may be.

7824. Is there anything else you can suggest to us by which we can raise more money?—I am afraid I have not given that subject much thought. I was not prepared for the question being put to me.

7825. But, you see, the great number of witnesses that come up, able and highly qualified to speak, nearly always come to say that taxation is too heavy and ought to be altered. I want the same brain to be helping us, to show us means whereby we can raise more money?—Some of the suggestions I have ventured to make to the Committee would appear to point to a diminution of revenue, but I think due weight ought to be given also to my view that you would bring such an increase of trade and prosperity that you would get a great deal of it back again—I am not sure that you would not get more; I think, indeed, that you would get more than you would lose.

Chairman: Thank you.

(The Witness withdrew.)

(Adjourned for a short time.)

Sir FELIX SCHUSTER, Bart., called and examined.

EVIDENCE-IN-CHIEF handed in by Sir FELIX SCHUSTER (in reply to the Committee's questions regarding a Capital Levy printed on page 683).

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

1. While the gradual repayment of the National Debt through the Sinking Fund is most desirable, a large repayment by such other means as have been suggested would in my opinion do more harm than good.

A large increase of existing taxation does not seem practicable. Restriction of expenditure though desirable could not in my opinion be carried far enough to effect a very substantial reduction, and the Capital Levy, which already exists in the shape of Death Duties, is so large as seriously to hamper the trade and enterprise of the country.

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

2. Consequent on my answer to Question 1, I can only say that the suggestion contained in Question 2 (*d*) seems to me utterly impossible to attain,

and (*e*) that the application of any annual saving to expenditure makes the scheme more destructive still.

Answer to Question 3 (*as to equity, &c., of levy as compared with income taxation*).

3. Equity to the individual taxpayer seems far more difficult to apply in the case of a Capital Levy than in the case of Income Tax.

Answer to Question 4 (*as to guarantee against repetition*).

4. A guarantee against the repetition of a Capital Levy seems to me impracticable. It would not carry conviction with the general public, who would hold that it is not in the power of any Government to give such a guarantee, or if given that it would not have any value.

Answer to Question 5 (*as to effects on trade and industry*).

5. The general effect on trade and industry of a Capital Levy of the magnitude suggested would in my opinion be most injurious, indeed almost destructive no matter what the state of trade might be at the time when the levy was introduced.

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

6. The dislocation of business that might result cannot apply to one year only, but must continue over a great number of years and is not comparable to that caused by the present rates of taxation.

Answer to Question 7 (*as to effects on employment*).

7. There is no doubt in my mind that employment would be very largely reduced.

Answer to Question 8 (*as to effects on distribution of wealth*).

8. The distribution of wealth would in my opinion be directed from productive to less productive channels.

Answer to Question 9 (*as to effects on future savings*).

9. Adequate saving and the impulse for saving would be materially reduced.

Answer to Question 10 (*as to effects on national credit at home and abroad*).

10. National credit at home and abroad would suffer serious injury.

Answer to Question 11 (*as to effects on sale of securities*).

11. The imposition of a Capital Levy must lead to the sale of securities, and a consequent depreciation of prices. In fact I believe securities would become unsaleable. The re-investment by holders of debt, who were paid off, would to a great extent take place abroad. In fact such a flight of capital abroad, greatly to the injury of our trade and of the exchanges, would according to all experience take place long before the levy could take effect.

Answer to Question 12 (*as to extent of deflation involved by levy*).

12. The word deflation is used in so many senses that it is difficult to answer this question, but using the word in its ordinarily accepted sense as diminution of credit, I think deflation would undoubtedly take place, and it would be intensified and prolonged by the psychological effect.

Answer to Question 13 (*as to net annual saving effected by levy*).

13. The saving in interest expenditure would no doubt be offset by the inevitable reduction in the yield of taxation at their existing rates, and the disappearance of taxable income. The taxable profits of trade would in my opinion suffer such diminution as to make the future yield of a penny per pound far less than it is at present.

Answer to Question 14 (*as to methods of valuation*).

14. The difficulties regarding valuations seem to me insuperable, and to apply the method now used for Death Duties seems to me impossible. Cash payment is out of the question.

I am not prepared to answer the other questions contained in this paragraph. They indicate some of the difficulties, which to my mind make the whole scheme impracticable.

Private businesses would lose not only the amount of the levy but also the credit, which is based on the existing capital, while as regards companies the only means of raising the levy would be by sales of the shares held by their owners, if such sales could be effected at all, which seems very doubtful. The passing of the shares of private companies into hands other than those who have had the management would probably destroy the efficiency of the business, and, at the best, loss of credit would occur in the case of private companies also.

7826. *Chairman*: Will you read your paper, and at the end of each paragraph questions may be addressed to you by the Committee?—Yes. (*Paragraph 1 read.*) I should like to add one word with regard to restriction of expenditure. I say I think it could not be carried far enough, and I adhere to that, but I think it could be carried much farther than is being done at present. I was rather struck by a debate in the House of Commons introduced, I think by Mr. Sidney Webb last week, with regard to the reduction of rates and simplification of rates generally. Apparently a large decrease of expenditure and a decrease of taxation through rates could be carried into effect; and, of course, rates are just as important as regards trade as taxation. Then there is a point in question No. 1 which I have not answered because I found very great difficulty in doing so, as regards the future level of prices. I am afraid I cannot come to any conclusion in my own mind as to what the future course of prices is likely to be. Looking forward to a number of years, I think past experience teaches one that prices have a tendency to rise; but at the same time in the immediate future a fall in prices does not seem to me at all improbable; in fact I think it is very much to be hoped for. Modern appliances of science, the application of electricity and the means of supplying power and so forth, seem so very much better that prices might be very materially affected in the future in a downward direction. Therefore, although the tendency is for a general rise, I think there may be other causes which will either retard or reduce that rise very considerably.

7827. *Sir Alan Anderson*: Have you borne in mind the possibility of a future war, when you suggest not repaying debt much more rapidly? What we have been told by some witnesses is that it would be impossible to finance a future war unless we had something like a Capital Levy?—That would be another reason for not having a Capital Levy.

7828. That a levy would shake your credit, do you mean?—Undoubtedly, and the sources from which new loans could be raised would be materially reduced.

7829. *Mr. Bowen*: Is it not a fact that the most impoverished countries are the first to get into war?—Because they have nothing to lose.

7830. They sometimes lose all they have?—They do. I am glad to think that future wars seem to be made almost impossible through the lesson that has been learnt all over the world, from what has happened through extensive borrowing. I cannot

face the possibility. But anyway, in considering this question, I have not paid special attention to this contingency.

7831. *Sir Alan Anderson*: You have left that to the future?—Yes.

7832. Another thing which has been suggested to us is that it would be reasonable to pay off a debt very rapidly at a time when public bodies are embarking on large expenditure, because then the people who are paid off would be able to reinvest in similar securities and there would be much less disturbance, but that if there were not large schemes of expenditure under way, it would be less attractive to pay off debt. Do you share that view at all?—That implies that in the event of a capital levy the whole of the levy would flow back to the public in other ways. But that is not the case; there would be so much less money for investment in the hands of the public.

7833. Supposing £1,000,000,000 of Government securities were redeemed in some way, the holders of those securities would get the money and would have to find investments. What is suggested to us is that it would be very awkward and very disturbing if there were no investments of the kind desired available for them at that moment, and that therefore rapid redemption should take place only at a time when there is other public borrowing?—But the Capital Levy would extend to all other forms of property too, which would come on the market in order to pay it.

7834. So you think there would be plenty of things for them to invest in if they were being taxed by way of a Capital Levy?—There would be plenty of opportunities for investment. I cannot see that there is any possibility of finding fresh money for investments through introducing Capital Levy. If it were possible to redeem the debt largely through a Sinking Fund, through savings, that would be another matter; then there would be more money for investment.

7835. A point has been made about the distinction between taxation for debt repayment and taxation for current expenditure. Do you think there is any difference in the effect on the taxpayer whether he is taxed to repay debt or taxed for current expenditure?—As far as the taxpayer is concerned or as regards the influence on trade, I do not think there is much difference immediately.

7836. The burden on industry is the same?—The burden on industry is the same. The more the debt is reduced, of course, the lighter taxation ought to be in the future.

7837. The result in a few years' time would be different?—In the course of time. That is an argument in favour of reduction of the National Debt through a Sinking Fund; but you may come to a point of taxation when the injury to trade is larger than the benefit derived.

7838. *Chairman*: Will you go to the next paragraph now?—(*Paragraph 2 read.*) The contemplated yield of £3,000,000,000 to my mind seems quite a fantastic figure. With regard to the latter part of the question, the fear which the opponents of a Capital Levy always have had is that the proceeds would not be used entirely for the extinction of debt, but would be used for current expenditure; in fact, that expenditure, it seems to me, would be increased.

7839. *Sir Josiah Stamp*: When you say the proceeds of the levy, I take it you mean the net effect of the levy on the Budget. If £3,000,000,000 could be raised and applied to the redemption of debt, a certain amount of interest would be saved. I take it your fear is that the Budget would not be allowed to be reduced by the whole of that saving?—The fear is that it would not be reduced by that.

7840. It has never been suggested by anybody that part of the £3,000,000,000 should be used for ordinary expenditure?—No; I mean that the saving of interest would be diverted to new expenditure. (*Paragraph 3 read.*)

7841. *Mr. Bowen*: In what way does the greater equity of Income Tax to the individual work out?—To give you only one instance: the Capital Levy to be equitable must vary according to the age of the individual. Age comes in very largely. A man who has saved all his life is much harder hit than a man who is beginning, and who has got time before him when he can earn something for himself. There is no equity as between the two; whereas in Income Tax you really only tax a man on his annual income, and nothing more; it does not destroy the savings of a lifetime as the Capital Levy would. When a man has arrived at a certain age it is quite impossible for him to go on earning more.

7842. But if he has been saving for a long time he has also been protected for a long time, which is worth something. Is not that equitable?—That would be taxation for the protection he has had in the past; in fact, retrospective taxation. In taxation it has always been considered that the only equitable thing is taxation for the period under review—the year in which the taxpayer earns his income and his circumstances for the time being—not for the years that have gone by.

7843. Perhaps I can put my question in a different form. A young man might say: "I am a very young man and I have not been responsible for the policy of the country which has landed us into so much debt, but the older man has been responsible for this policy, therefore the older man, in equity, should bear a good share of the burden of the debt which he has helped to create?—I do not think taxation has ever been imposed on the principle of whether a man has been responsible for it.

7844. I am not taking the Capital Levy as taxation in the ordinary form at all; I am not calling it taxation. I am regarding it now as a Capital Levy—just one levy—and from the point of view of equity, I am putting it to you that the man who has helped to create the debt, ought not to complain if he is called upon to bear a good share of the burden of it?—I think that would be vindictive taxation, if I may call it so.

7845. How could it be vindictive, if it were a question of preserving the national position of the country?—That is a different point, but it may also be urged that the taxpayer, whom you described as responsible for the debt, has already submitted to burdens unheard of before for the benefit of posterity and in order to save future generations from the dangers which have threatened the country in his time. With regard to equity between individuals, the Income Tax taxes taxpayers all round on the same basis, except so far as it is graduated, which is a fair principle. On the levy the question of valuation comes in, which is a very serious matter. Valuation for a Capital Levy seems, to my mind, almost impossible to apply equitably all round. You can value for Death Duties because there are only a small number of estates concerned, but when you come to valuation to a degree like that contemplated by a Capital Levy, all valuation falls to the ground altogether.

7846. *Sir Alan Anderson*: On this point of equity, it has been put to us by some witnesses that the Income Tax is very inequitable, because large possessions escape Income Tax when they do not yield an income; for example, land yields a very small income on its capital value, so land escapes the tax it would bear if it was burdened according to its capital value; and so with jewels and other things?—I believe there is something in it when you come to jewels and pictures and possessions of that kind, which tend to appreciate in value and which do not pay any Income Tax at all. It does seem unfair that a man who invests £10,000 in jewellery pays no Income Tax, but if he invests it usefully to the country in trade, he pays a tax on that. But taking it all round, it does not run to very large figures. I do not think you can apply it to land so much, because the capital value of land is very difficult to ascertain.

7847. The return is less on the capital you have to pay for land, than anything else, because of the amenity value of land?—Yes.

7848. *Chairman*: Now paragraph 4?—(*Paragraphs 4 and 5 read.*) That is in answer to a question whether a levy had better be introduced when trade was bad or when trade was good. I think that makes no difference in the effect.

7849. *Sir Alan Anderson*: You think there would be an immediate loss whether trade was bad or good. Do you think also there would be an ultimate loss?—I do.

7850. It has been put to us that we would have to face an immediate disturbing effect, but the ultimate effect would be good, because everyone would feel he was free of this debt?—I cannot agree with that at all. I think the ultimate effect would be bad, because a levy would weaken the resources and the earning power of the country so very largely. It would cripple earning power for the future for a generation or more.

7851. *Sir Josiah Stamp*: Why do you think it would?—Because of the lack of capital and lack of credit and enterprise.

7852. How would the lack of capital arise? Do you mean nobody would be saving any more, or that some capital would be destroyed?—There would be far less saving and there would be far less encouragement to save and far less enterprise, and that is what really we want.

7853. It has been put to us that if you could get a substantial relief in the Income Tax through this operation, all the growing businesses and enterprising people would have more incentive to save, with less taxation and more out of which to save. Is not that so?—No, I cannot agree that there would be more out of which to save. There would be less out of which to save.

7854. Out of a given £100 of earnings there would be less to pay in Income Tax if the Income Tax were reduced, and therefore more to be used for spending or saving?—Yes, but the opportunities for enterprise would be very much reduced. I believe in capital in private industry to a large extent and reduced debt, but at the present moment particularly you would discourage enterprise and you would discourage speculation, using the word "speculation" not in an adverse sense at all; we want speculation in business; we want people ready to take risks.

7855. You do not believe then that there would be any incentive to increase production and saving through a relief in taxation?—Certainly through a decrease of taxation, but not through a decrease of taxation obtained through depriving the industries and enterprise of the country of their resources and earning power.

7856. Apart from the Capital Levy, supposing the Income Tax were reduced 1s., do you think that would be any stimulant to business?—Yes.

7857. It has been put to us that if a Capital Levy could be got through and the initial dislocation overcome, you could get a 1s. reduction in the Income Tax, and you would have a great improvement in trade. Why do you distinguish between the 1s. in the one case and the 1s. in the other?—Because the injurious effect would be greater than the benefit.

7858. The injury that has been done would more than offset any good that would arise from the reduction of the tax?—That is my opinion.

7859. You would not suggest that any existing capital would be annihilated, would you?—Yes, that is my opinion, and I put it that earning power would be considerably impaired if a levy were introduced.

7860. What precisely do you mean by "earning power"? Do you mean that if a man were prepared to spend so many hours at his business and gave so much exertion to it, he would get less for it?—If a man's capital is reduced by one half, he cannot use the remaining half to earn even half his former profits.

7861. It has been put to us by the advocates of a levy that if the debt were reduced the amount that was taken from a man by the levy would be available to him again in the form of loan capital through the ordinary channels?—No, I do not agree with that view at all. I think that he would not only lose capital, but he would lose credit in a much greater proportion; that applies also to limited companies. I do not know whether that has been put before you. It has been argued, I believe, that it is only the individual that is to be taxed, not the limited company. But the limited company would lose credit, too, because in a great many instances they obtain credit only on the guarantee of the directors or managers, whose credit would not be so good after a levy as before. Therefore I think the credit of the limited companies will suffer in the same way as a private firm will suffer.

7862. You are speaking of the private limited company?—Yes.

7863. You would not suggest that the Capital Levy would affect the credit of the ordinary limited company—Lipton's, Bovril, Vickers, and so on?—Perhaps not to the same degree.

7864. Not to the same degree, but to what degree at all?—Of course, I think credit would be very much reduced altogether; that is dealt with in the paragraph on deflation. I think deflation would take place largely, and credit would be reduced to everybody. There would not be enough credit to go round, and the larger companies would suffer diminution of credit; but my remark specially applies to the smaller private company.

7865. I understand you are assimilating a private limited company to a private individual, but I am not quite sure that I understand what you mean by deflation affecting the credit of a large limited company?—I do not think there would be so much credit to go round, and I believe that even the largest companies will have much greater difficulty in raising fresh capital which is constantly needed.

7866. The large limited company will have just the same collateral to offer for any overdrafts or loans?—Probably the lender will not be in a position to supply all their needs, and there will be less capital for investment in the hands of the public.

7867. In what way will the banks have a reduced lending power?—For one thing, if you wipe out part of the National Debt you wipe out a good deal of potential currency, because the National Debt is the best instrument of credit there is; anybody can borrow on Government loans.

7868. We have had eminent bankers who have told us that all this idea that there would be any reduction in the total amount of credit because of the redemption of £3,000,000,000 of debt is moonshine; and that what the banks lend is not based on that at all?—I can only give you my own opinion.

7869. You would not support that view?—No. I think there would be a very large reduction of credit. I look upon the National Debt as potential currency.

7870. We understand the argument that the borrowing power of an individual who has paid the levy is very much less, or, if you like, of a private limited company where the individual directors have had to give up securities used as collateral, but it is still a little of a mystery to see why a powerful limited company should have any reduced borrowing power, or why the banks should have any less to lend?—That is a question of opinion rather. I believe the effect would be that the banks and the public will have less to lend. There would be a large decrease in banking resources.

7871. Have you formed any opinion as to the total amount of business that is done by the limited companies which would be less affected in this way?—I think a great part of the trade of the country is carried on by the small company.

7872. What proportion would you think?—I cannot give you the proportion.

7873. Would you put it much higher than 20 per cent. of the total?—I should say so, yes, but I have not gone into that question.

7874. Supposing it is no higher than 20 per cent., and that 80 per cent. of the total business is conducted by companies who are very little affected by the Capital Levy in their capital resources and borrowing power, would that affect your answer?—I do not agree with your premisses.

7875. The 20 per cent.?—Yes; I believe it is much larger than 20 per cent., and also that the larger companies will be affected in their capital resources and borrowing power.

7876. Would you take the amount of profits as a test of the proportion? Supposing the profits belonging to the limited companies that are not private limited companies or firms were 85 or 90 per cent. of the total, would you accept that as a measure of the trade done?—Of course, that would be a certain measure.

7877. Supposing on investigation you discovered that your impression was not correct, and that 85 to 90 per cent. of the business was done by limited companies, and they were only affected to an indirect or small extent by the Capital Levy, would that affect your answer?—Necessarily it would affect that particular part of my answer to some extent, but it would not affect my opinion as to the need of the smaller limited company and the individual trader. I think it would be a very great pity for the country if the trade of the country were to fall into the big hands. I think the smaller firms, with their enterprise and their individual effort, ought to be encouraged to the very greatest degree. I see a great danger in the trade of the country being carried on by these large concerns, because we do not know what their management is going to be in the future.

7878. I understand that you would feel that there might be something disadvantageous to the country in altering the direction of trade. What I was really wondering was upon what statistical consideration your answer rested when you say it would be most injurious, indeed, almost destructive, of trade. It seemed to me that it must rest upon the notion that the proportion of businesses affected by the Capital Levy would be a very large one?—Yes. I adhere to that view. I cannot prove it statistically perhaps at the present moment, but it is my conviction that it is so. The general loss to the credit of the country would be very large, and you would have what has been described as the flight of capital. Of course, we know perfectly well certain capital, such as railways and works, cannot be carried away, but at the same time what we know as capital is very easily transferred from one country to another.

7879. You refer to the flight of capital in paragraph 11, I see?—Yes.

7880. Will you tell us why the capital would go; would it be because of the fear of the operation of the levy again?—Yes.

7881. How does a man under that scheme get out of his liability if his capital is abroad?—Well, I cannot tell you how he does it, but you know from the examples where the Capital Levy has been threatened what has followed; it has led to an alteration in monetary conditions in Switzerland, which Switzerland has not got over to-day. The whole course of business of Switzerland has been changed through the mere threat of it.

7882. We have been told by the advocates of the levy that the flight of capital does not really operate at all to assist anybody, because if they remain here as residents they are liable on their whole fortune wherever it may be, so that the only way they can get out of the fear of a future levy is to go with the capital—to emigrate?—That is so, yes. I think I answered some questions about that the last time I was here. Then, again, there is foreign capital working in this country which would be withdrawn.

7883. Why would that be withdrawn—because it was subject to the levy?—That is one of the questions I have asked myself—what is contemplated to be done with regard to foreign capital?

7884. We have never heard it suggested by any witness that it is a part of the programme of Capital Levy to tax capital here that belongs to people abroad; it is a tax on individuals resident in this country?—Then you might have one factory belonging to British subjects and next door another factory belonging to American subjects competing with one another. You tax the one; you levy from your British subject and you leave your competitor intact.

7885. That would not make the capital be withdrawn from the country; it would make it come here, if anything?—No; but is that desirable or fair to the British taxpayer?

7886. I was only on the question of the movement of capital. You thought it would make capital go away from the country; I wanted to see how it would do that?—I only judge from what has happened in other countries, where it has been found that capital has gone away. There is a great deal of floating capital in international investments, easily moved and easily concealed.

7887. *Mr. Bowen*: In paragraph 5 you speak of "a levy of the magnitude suggested." Does that mean that you would look at a Capital Levy of something less in amount or size than that which has been proposed?—No. I have addressed myself to the amount suggested because I think that is part of the question. I think the whole scheme is based on the £3,000,000,000.

7888. It does not necessarily follow that that would be the only scheme that could be considered?—My remarks apply to such a levy as would make it possible to effect a large reduction of the debt.

7889. You had nothing in your mind which would indicate what kind of levy would be a workable proposition, I suppose?—No.

7890. Do you object to the principle as a principle?—Not necessarily as a principle, but because I believe it injurious in its effect. Of course, there are questions of degree.

7891. You do not agree that there is a difference between the existing taxation and a Capital Levy in so far that you pay your debt under a Capital Levy quicker than you would under existing taxation?—There is a difference—but any advantage in saving interest through repayment of debt would be more than off-set through loss of revenue and decreased earning power and dislocation of trade.

7892. *Chairman*: Will you take paragraph 6 now?—(*Paragraph 6 read.*) I think we have gone over that ground already. (*Paragraph 7 read.*) That again is a question of opinion.

7893. *Mrs. Wootton*: Do you think employment would be reduced by a levy in all kinds of business? Do you think the employment afforded by public companies would be reduced, or are you thinking of the effect on private business?—I am thinking of private businesses largely, and again I think of the reduction in purchasing power which would result, in my opinion, and which would reflect itself in want of employment in certain industries.

7894. You mean the reduction of purchasing power due to the impoverishment of persons who paid the levy; it is in that sense?—Yes, and to the decreased earning power of trade generally. That might work even as far as railways, and might lead to a decrease of employment in the large carrying trades. (*Paragraph 8 read.*)

7895. *Sir Alan Anderson*: Why would distribution go to less productive channels; just because of the disturbance, or is it because you think that the people who would pay the tax are a different body from the people who receive the repayment?—I think you withdraw it from the class which has carried on a certain trade successfully and put it into new hands who would have to learn how to make it productive.

7896. They would be very much the same people?—No, I do not think so.

7897. You think they might be different lots of people?—Yes.

7898. Less vigorous people?—Yes—well, less experienced people.

7899. *Mr. Bowen*: Does it follow that a person with money invested say in War Stock, when that is repaid to him or her will necessarily use the money in business? That is the suggestion here—that the money would be directed from productive to less productive channels. From that I understand the suggestion to be that a person who has money invested in various ways now, on repayment of that money would perhaps enter business without any previous experience?—I was not thinking so much of investment in War Stocks; I was thinking of capital invested in trade, and I think you would reduce that, and you cannot say that other people will have the same productive power as the person who has lost it.

7900. I think the question is just the same. Suppose an individual is called upon to contribute to the Capital Levy from his trade or trading concern, as an individual he would pay the money to the State and the State would then repay certain debt to debt holders?—Yes.

7901. The suggestion here is that the repayment would go into an unproductive channel, but what evidence is there of that? Would it not follow that the same type of person who invested would again seek a further investment and might really come back to the same place from where he started?—It might, but it does not follow that it necessarily would.

7902. No; I agree it does not necessarily follow, but at any rate it would possibly have the effect of putting a different complexion upon the statement which is made in this evidence?—I think the person who had money in War Loan would not put it back into trade, but would try to get it in a similar security to War Loan. A great many of the fortunes held in trust can only invest in a certain class of securities; those are the large holders of War Loan. A considerable proportion of Government securities is held by foreigners—the proceeds on repayment would not flow back to trade or investment here but would be withdrawn from the country altogether.

7903. Perhaps it is not fair to put this question to you really, because it involves statistics. You do not know, I suppose, what proportion of money would be invested in the form of investment rather than invested in trade?—No, I cannot answer that.

7904. *Mrs. Wootton*: Do you mean particularly that the effect of the levy would be to take money away from one set of people who may be presumed to use it well and productively and to give it to another set of people who probably would not use it as productively? Is there a class that is better off for the levy as there is also a class which is worse off?—My answer was directed to Question No. 8: "What would be the direct and indirect effects of a Capital Levy for the purpose of debt redemption upon the distribution of wealth?" The idea is that wealth will be taken from a certain class of people and another class will benefit through reduction of taxation.

7905. In your view you think that is what would happen, but the result of it would be to make the distribution less productive?—That is my idea.

7906. *Chairman*: Will you now pass to paragraph 9?—(*Paragraph* 9 *read.*) Again, I cannot say that my view that saving and the impulse for saving would be materially reduced is capable of statistical proof; that is entirely an opinion.

7907. *Mr. Bowen*: But it can be said that that statement can be attributed to all kinds of taxation?—I quite agree with you, and that is one of the very sad effects I have noticed of the existing high taxation; people have said, and it is widespread: "It is absolutely no use trying to save".

7908. *Sir Alan Anderson*: That is one of the strong arguments in favour of a Capital Levy, is it not—that afterwards there would be a prospect of lower Income Tax, and that would be an inducement to save?—I do not think the effect would be an inducement to save. The fear of a subsequent levy will be so great that people will say: "It is not good enough"

7909. *Mr. Bowen*: You do not agree with statements that are now sometimes made that for business purposes and other things, for national prosperity, we should begin to cut our losses and make a fresh start, as it were?—I do not think that a Capital Levy of £3,000,000,000 would enable us to make a proper fresh start; I think it would retard progress.

7910. *Mr. Hichens*: They have had a Capital Levy in certain other countries, have they not?—I do not know.

7911. You have no experience of the working of a Capital Levy in any other country?—I have no experience. I do not think there has been a levy of any material amount in any of the great industrial countries.

7912. *Mr. Bowen*: Do you think that the suggestion for a Capital Levy that we have had before us during the past two or three years has had any effect on industry?—No, I do not think so.

7913. There has really not been any fear of a Capital Levy?—No.

7914. *Chairman*: Will you now pass to paragraph 11?—(*Paragraph* 11 *read.*) I believe a levy must lead to the sale of securities and to the consequent depreciation of prices; in fact I believe securities would become unsaleable and the re-investment by holders of debt who were paid off would to a great extent take place abroad.

7915. *Sir Josiah Stamp*: You base that on the idea that there would be a general fear?—Yes.

7916. A man thinks if he has got his capital abroad it is less likely to come under another levy than if it were at home?—Yes.

7917. *Sir Alan Anderson*: Do you think the State could make provision anyhow to prevent the undue depreciation of securities?—No, I cannot see how it could be done.

7918. Not by letting people pay in the form of War Stock, and so on?—Let them pay in any security they held; then practically the State becomes mortgagee and that would be the effect finally. The only practical way of carrying the proposal out would be the State getting a mortgage to the extent of the levy on everybody's property. Then finally it resolves itself into an Income Tax again.

7919. *Sir Josiah Stamp*: Suppose that when they redeemed £10,000 worth of your War Stock they did not give you cash at all, but they offered you a nice block of railway or other debenture stock in its place that they had collected in that way, would you object to it?—I would probably not be in a position to reinvest the amount, as I should have been deprived of a great proportion of my resources; I might want cash to fill up gaps in other directions for purposes of trade and so forth, or I might say, and I think the public generally would say: "Thank you very much. You have had this once. I am not going to have my children have it a second time. I am going away."

7920. *Sir Alan Anderson*: It is really the loss of credit?—Yes, and the loss of resources.

7921. You would have lost faith in your own country?—Yes, and other people would lose faith in it too.

7922. So you do not think the depreciation of securities could be avoided by any such operation as an exchange of securities?—No. (*Paragraphs* 12 *to* 14 *read.*)

7923. *Mr. Bowen*: With regard to your concluding paragraph, under the scheme proposed companies would not be taxed?—No, but the holders of the shares in companies would be taxed, and that is how my experience is derived, because I see the bad effects already through the application of Death Duties. How are they to pay their tax? They have got nothing but the shares in their company: they must get rid of those shares; somebody has to take their place, and finally the business passes into other and less efficient hands.

7924. That last paragraph is rather strange. You say that the passing of the shares of private companies into hands other than those who have had the management would probably destroy the efficiency of

the business. I cannot understand that seeing that that is really the outstanding feature of modern industrial development. If that is wrong, or if there is any danger about it as affected by Capital Levy or anything else, there must be something wrong in the setting up of trusts or in the amalgamation of railways?—I maintain that a great deal of the business of the country is carried on by the small private company, which is very useful in our economic life generally. While you can have big concerns like railways carried on more or less efficiently by these huge combinations and trusts, as you call them, I think that that does not apply to a great number of the smaller trading firms, and particularly those who have got incentive and enterprise, and who are willing to take risks. I should be very sorry, and I really speak from my experience as a banker, and the bankers have these matters under their eyes over a considerable area, to see a number of small private companies destroyed, because there you have got the combination of the joint stock principle with the personal element, the family element which takes pride in the success of the business and its development. If through any cause that property passes into other hands, then I think you would do great injury to the trade of the country generally.

7925. *Chairman*: We are very much obliged to you for coming, Sir Felix?—Thank you very much.

(*The Witness withdrew.*)

(*Adjourned.*)

TWENTY-SEVENTH DAY.

Tuesday, 30th June, 1925.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman.*
SIR ALAN G. ANDERSON, K.B.E.
SIR ARTHUR BALFOUR, K.B.E.
MR. HENRY BELL.
MR. J. W. BOWEN.
MR. W. L. HICHENS.
SIR WILLIAM McLINTOCK, K.B.E., C.V.O.
SIR JOSIAH STAMP, G.B.E.
MRS. BARBARA WOOTTON.

MR. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

Mr. A. V. ALEXANDER, M.P., Alderman F. HAYWARD, J.P., and Mr. J. J. WORLEY, representing the Joint Parliamentary Committee of the Co-operative Congress, called in and examined.

EVIDENCE-IN-CHIEF handed in on behalf of the JOINT PARLIAMENTARY COMMITTEE OF THE CO-OPERATIVE CONGRESS (in reply to the Committee's questions regarding a Capital Levy printed on page 683).

1. This statement is submitted on behalf of the Joint Parliamentary Committee of the Co-operative Congress by Alderman F. Hayward, J.P., Mr. W. R. Blair, Mr. J. J. Worley, and Mr. A. V. Alexander, M.P. It has special reference to the National Debt and efforts to reduce it substantially by means of a War Debt Redemption Tax.

2. The problem to be tackled is the existence of the National Debt, which involves the payment of well over £300,000,000 per annum in interest out of revenue, or nearly £1,000,000 per day. The continuance of such an enormous burden upon the annual revenue would appear to be a very serious menace to the future development of the country if it is only to be met by a comparatively small Sinking Fund. Moreover, we have had some experience of the operation of Sinking Funds in the past. In 1817, after the Napoleonic Wars, the debt stood at £850,000,000, and it was proposed to wipe this out by a Sinking Fund, but when the Great War commenced the debt still stood at £707,000,000, a net reduction of £143,000,000 in 97 years. It seems fair to argue, therefore, that if the burden of the debt is to be effectively lightened some other method than a sinking fund must be adopted, and for that purpose we propose a specific War Debt Redemption Tax.

3. On this point reference might be made to a statement of Mr. Asquith, reported in the *Times* of November 1st, 1919:—"The wholesale reduction upon a large scale in the capital of the debt, if it could be so achieved without injustice and injury to national production, is far the greatest boon which could be conferred in the interests of the country."

4. On the question of the justice of such a measure, Professor Edgeworth, of Oxford University, stated that "Such a levy does not violate financial equity." It might be well to suggest, however, having regard to the present strained relations between Labour and Capital, that a voluntary sacrifice by the wealthy would do much to create an atmosphere favourable to goodwill and co-operation.

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

5. It is the recorded opinion of the Co-operative movement that the National Debt at its present figure, with the annual burdens that interest charges and sinking fund charges impose, make it desirable that steps should be taken to reduce the amount of the debt substantially and at an early date. Possible future needs of the country may make it essential to borrow, and the difficulty of borrowing and the burden of borrowing will alike be increased if the debt is not more quickly reduced than it is being reduced at present. The present burden of interest and sinking fund charges also limits other forms of expenditure which may be desirable. We consider that those who are possessors of wealth would be serving a national interest in agreeing to a policy of debt reduction which would bring advantages in the form of tax reduction and improved national credit and security.

6. The Co-operative movement has, therefore, declared itself as favourable to the raising of a large sum by a special non-recurrent charge to fall upon all persons possessing accumulated wealth of more than five thousand pounds in value. The amount to be raised and the rates at which it should be raised from the possessors of different amounts of wealth have not been officially decided by our movement and must, we think, be settled by reference to the conditions prevailing at the time when the levy is decided upon. In making this statement we have in mind the fact that conditions to-day are not the same for this purpose as they were in 1919.

7. Some people who object to such a War Debt Redemption Tax say that what is required is for people to work harder, to produce more, and to pay off the debt that way. Such a statement appears to be almost fantastic when it is remembered that there are over a million workers walking the streets with nothing at all to do. The nation is to work harder when so many can get no work at all; produce more,

when they cannot sell all that they produce now. Moreover, is it suggested that by adopting such a remedy we are to produce for the State so that it can pay its debts? Surely that would not be the result of such a policy. What it would mean is that the worker would produce more for the employer who, out of his additional profit, would be expected to pay Income Tax, and that perhaps out of that Income Tax the State might pay its debt.

8. Answering seriatim the questions in the second paragraph of Question 1, we therefore say:—

(*a*) Of the four methods suggested we prefer a debt redemption levy followed by a comparatively low Sinking Fund. But if the policy of a levy which we advocate is not carried out, there should be no reduction of direct taxation either in amount or rate so long as we are contributing less than one hundred million pounds a year to the Sinking Fund. We hesitate to recommend an increase in the rate of direct taxation under the present conditions of trade, preferring to believe that with an improvement of trade and by adding to the Sinking Fund the savings in interest effected by the present rate of repaying the debt, it may be possible to raise the Sinking Fund to one hundred millions per year in a short time, but if other means fail to raise the Sinking Fund to this amount at an early date, we should favour the raising of the rate of direct taxation until it is adequate for the purpose, for we attach more importance to reducing the debt than to the reduction or maintenance of the present rate of direct taxation. The hundred million pounds suggested for the Sinking Fund should be the minimum, and it should be increased year by year by at least one-half of the saving of interest effected by reducing the debt.

(*b*) We favour the restriction of expenditure provided this can be secured as a result of more efficient administration and without curtailment of desirable expenditure upon social services.

(*c*) We have already suggested action under both (*a*) and (*b*) which we do not consider to be in conflict.

(*d*) We have already suggested above that it is desirable in the interests of the whole community, that a contribution should be made by those possessing wealth in order that the amount of the debt may be substantially reduced. We consider that this action, given goodwill on the part of the contributors, would be to the advantage of the community as a whole and of the majority of those possessing wealth, since it would make possible lower taxation and improve the value of their remaining capital. It would have been possible for the State to have levied heavier taxation upon the possessors of wealth during the period of the War, and since those in possession of wealth have probably gained the greatest advantage from our success in the War it does not seem unjust to ask them to make a special contribution now.

9. We do not feel competent to express a definite opinion regarding the future level of prices. An answer to this question seems to involve a knowledge of what governments are likely to do in the future in regard to the issue of paper currency, what is likely to be the future of gold production, and what is likely to be the volume of trade. The uncertainty of these factors, as well as of others, makes it impossible for any person to foretell the future of prices with any degree of accuracy at the present moment. If, however, the policy of more production in order to pay off the debt, as advocated by some persons, were adopted, the economic result of such policy would be that prices would come down, and, therefore, the actual commodity burden of the debt would go up. The effect would be that the debt would be repaid by the workers who would produce more goods for each pound of debt as prices fell, and, incidentally, for each 4*s.* of debt they thus repaid, they would present an additional 16*s.* of profit to the employers. Obviously, if prices are likely to fall in the future the argument for early repayment of the debt is strengthened, but even if prices are likely to rise in the future the claims of those who have invested in the debt would equally suggest an early repayment. Although there are arguments for and against the probable rise of prices it would seem desirable to play for safety, and, in order to reduce the burden that will accrue if prices fall, it is desirable to make a substantial reduction of the debt at an early date.

Answer to Question 2 (*as to form of levy*).

10. (Section 1) (*as to form of levy*). The levy should be confined to individual fortunes and should be graded, as in the case of all other sound taxation, upon the principle of ability to pay. This follows the precedent already set in regard to Income Tax and Estate Duty, and unless such graduation were adopted it would, in effect, shift taxation from the rich to the less rich.

11. There is a further reason why the levy should be upon individual fortunes. If, for example, the charge were made upon a company, as such, it would mean that the smallest shareholders, some of whom might even be exempt from Income Tax, would bear as much of the burden as the largest shareholders.

12. The proceeds of the levy should be used for the sole purpose of debt redemption. Sums received should be passed to a separate account and should not form part of the Consolidated Fund out of which general expenditure is made. We therefore say on the points of the questions submitted:—

(*a*) The levy should be confined to individuals.

(*b*) It should be imposed on material wealth.

(*c*) and (*d*) £5,000 exemption. The sum of £3,000,000,000 should be aimed at. The rate of the levy should be progressive, i.e., it should be higher in the case of those possessing large fortunes. We consider the Inland Revenue authorities should be consulted as to the rate of progression.

(*e*) The saving secured in annual charges for service of debt should be applied to a general reduction of taxation, and any proposed expenditure should be considered on its merits and in relation to the financial circumstances of the moment.

13. (Section 2) (*as to reduction of Sinking Fund after levy*). No. £50,000,000 would be a small enough annual Sinking Fund for the redemption of the remainder of the debt over £4,000,000,000.

14. (Section 3) (*as to changes in taxation after levy*). None, except the reduction made possible by the reduction in interest charges. The first charge on the Chancellor in this respect should be the abolition of the taxes on tea, sugar, and similar foodstuffs.

Answer to Question 3 (*as to equity, etc., of levy as compared with income taxation*).

15. It would have been considered equitable if a larger proportion of the cost of the War had been raised by taxation during the period of the War; and we cannot see that it is inequitable to take in their capitalised forms the sums that might have been taken by Income Tax during the War.

16. As to the comparative equity of a levy now and an Income Tax on future production, we consider the balance of argument is in favour of the levy. Existing wealth was preserved by the War and its possessors have benefited; future producers would have produced their own capital even if existing capital had disappeared as a result of the War. The present generation has certainly benefited more than future ones.

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

17. It follows from our answer to No. 3 that the nearer in point of time to the War the more equitable a levy becomes. No generation can bind its successors, and no generation can know what problems its successors will have to meet and how they can best be met. Still, an assurance—participated in by all parties—can be given that the levy is exceptional and will not be repeated within any conditions that can now be foreseen.

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

18. If generally accepted the levy could be operated without detrimental effect upon trade. The danger is that vested interests might frighten people and create a panic by misrepresentation as apart from legitimate criticism. It is for this reason that we attach so much importance to securing general assent to the measure as being one to be adopted in the national interest. Once the levy is decided upon we think it must be operated whatever be the state of trade, and we are of the opinion that, fairly worked and with goodwill, the general effect would be to free capital for investment in industry and to lower the general rate of interest.

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

19. The answer to this lies partly in our answer to Question 5, namely, in general assent and a genuine effort to work a scheme being forthcoming.

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

20. Beyond, perhaps, a temporary disturbance of much less magnitude than that caused by the cessation of the War, there are not likely to be serious effects upon employment, and after the temporary disturbance we consider that employment conditions would improve and be much better than at present.

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

21. There would be no reduction in real wealth, but there would be a reduction in interest bearing securities. Taking these two together, we should say that the levy would reduce the claims of the very wealthy upon the amount of wealth annually produced. They would, however, benefit from the reduction of taxes and from the effect upon public opinion of their willing assent to a scheme for reducing the debt.

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

22. We do not think the levy will injuriously affect aggregate savings. By reducing debt charges upon the result of effort, opportunity for savings would be increased, and effort and saving would be stimulated. Industrial prosperity depends upon the ready application of new income to capital purposes. To the extent to which a levy on existing wealth eased the burden on new wealth the creation of new capital would be encouraged.

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

23. We think the results would be good. Just as the readiness of this country to tax itself for debt service during recent years has raised its prestige and improved its credit, so we think equal readiness to pay off a large part of the debt would improve its position still more.

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

24. We consider the evil results following the imposition of the levy are in this respect exaggerated. Government and municipal securities and other securities that could be accepted in payment of the levy are widely held, and if instalment payments were permitted in special cases there need be no big disturbance of investments. In cases where instalments are permitted, security should be required, and interest charged on outstanding liabilities on account of the levy.

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

25. Much depends upon other circumstances operating when the levy is imposed. We believe that if willing co-operation is offered by the banks there need be little trouble.

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

26. A principal advantage of the levy would be the psychological effect of having a small rather than a large debt, but the principal advantage would be the economic advantage of lower taxation for debt purposes upon current production. We realise that some Income Tax, Super-tax, and Death Duties would be lost to the revenue, and we would also propose a reduction of Income Tax if the levy were imposed; but even if the levy were merely an exact anticipation of future revenue from these sources, we consider it would be worth while, because of the capital reduction of the debt it would make possible. After making generous allowances for these losses, however, it is our opinion that there would be a substantial net annual saving to the State. An estimate of the saving depends upon the scale of progression adopted, and can be more accurately worked out by the Inland Revenue authorities than by us.

ANSWER TO QUESTION 14.

27. (Sections *a* and *b*) (*as to methods of valuation and finality of valuations*).—We think all these matters must have been reviewed by the Inland Revenue when the War Wealth Committee sat and when the Inland Revenue staff said that valuation was possible and at low cost.

28. (Section *c*) (*as to extent of payment in cash, securities and other forms*).—The statistics of the Inland Revenue relating to estates of deceased persons would probably be a better guide than any opinion we might offer. As to machinery of collection, we think that where the individual possesses War Loan or other National Debt not used in or required for the purpose of his business, the levy should be paid at once by the surrender of the due amount of War Loan. Where the individual possesses "approved" securities arrangements might be made so that he may at his option (*a*) transfer the necessary amount to pay the tax at once, (*b*) submit them as security for the payment of the tax in such instalments as may be agreed upon, or (*c*) furnish a bank guarantee for payment of instalments.

29. (Section *d*) (*as to payment by private businesses*.—No more than when Death Duties are payable. We do not think cases of hardship in this respect are

typical, and if instalment payments are permitted the "hardship" of difficult cases is minimised. On examination it might be found convenient, in dealing with the assets of an individual employed in private business, to arrange that the Government should be deemed to be a limited partner in the business up to the amount of the assessment under the levy, the Government ceasing to be regarded as a partner when the full assessment has been met.

30. (Section *e*) (*as to extent of payment by instalments*).—We favour the instalment plan as referred to under Question 11. Allowance might be made in the case of big losses, if, say, the capital value fell by more than 20 per cent. Allowance would have to be made if a person became bankrupt in the ordinary way of trade.

31. (Section *f*) (*as to cases where resources are locked up in private businesses*).—Consideration in payment of the instalments should meet the case. We do not favour an alternative.

32. (Section *g*) (*as to order of debt repayment, &c.*). —Partly by non-renewal of debts which the Government has the right to repay and partly by purchase. Security prices in general would advance, in our opinion; this would be an advantage gained by payers of the levy.

Answer to Question 15 (*additional points*).

33. Nothing further beyond the evidence we have already supplied above and in previous evidence.

7926. *Chairman*: Will you kindly read your answers to each question, and then members of the Committee will question you on particular points?—(*Mr. Alexander*): (Answer to Question 1, *Paragraphs* 5 to 7 *read.*)

7927. *Sir Arthur Balfour*: I should like to ask one point with regard to the introductory paragraphs. Would it be true to say that the small impression made on the debt after the Napoleonic Wars was due rather to the abandonment or the raiding of the Sinking Fund than to any defect in the Sinking Fund system?—It would no doubt be due partly to that, but at the same time we think that a continuous Sinking Fund principle usually means that you are not so careful about expenditure.

7928. Do you not think that those are the real reasons why the Sinking Fund did not operate? You see that there are Sinking Funds operating on a very large scale already?—Yes, but I should not say they were the only reasons.

7929. It is no doubt due to the experience of the past that we are more careful with our Sinking Funds?—I agree that abandonment and raiding were factors, but I should not say they were the sole factors.

7930. *Mrs. Wootton*: In paragraph 6 you mention an exemption limit of £5,000; did the Co-operative movement at one time favour an exemption limit of £1,000?—Yes, in the very early days, I think, as far back as 1919.

7931. The policy is now £5,000?—Yes.

7932. *Chairman*: Why did you change that?—I am afraid I could not answer that definitely. It is difficult to interpret the minds of a Congress of 2,000 delegates, but I think perhaps it was found not to be practicable.

7933. It was not a political movement at all?—No special political influence was used in that direction.

7934. *Sir Alan Anderson*: Do you mean that, politically, it was not practicable, or that you thought it was not practicable financially?—I think perhaps more politically than financially. I dare say also that with a movement which is very largely working class, as ours is, opinion would be influenced by other figures subsequently adopted by other people.

7935. *Sir Arthur Balfour*: When you came before us before you did not look upon taxation for debt repayment as being particularly burdensome to industry; I am speaking from memory?—I would like to be quite sure about that.

7936. We will have it looked up, but at that time you regarded the troubles as being mainly due to political conditions abroad?—Yes.

7937. Are we to take it that the main grounds for a levy are the possibility of a future war and the need for borrowing again then?—No; that always has to be borne in mind, but I was thinking in the main of the State, having regard to its general requirements, having to borrow in the future.

7938. Another ground for a levy is the limitation on the extension of social services imposed by the present taxation?—Yes.

7939. On what grounds other than those I have mentioned do you advocate a levy?—I advocate a levy because the burden of the present debt service is pressing unfairly at present upon those people who are not possessed of wealth; that is my view, and I have endeavoured to express that in our paper.

7940. I have now got the reference to your earlier evidence. It is Question 4399 where Professor Hall said that he took it from the evidence that the witnesses held that while taxation might have some effect upon industry, the chief things that were preventing a restoration of trade were the political conditions abroad and the lack of prosperity in the countries where our customers are principally situated. Alderman Hayward replied that that was generally their view, and agreed that employment would be more assisted by a restoration of world prosperity than by any reduction of taxation in this country.—Yes, but I do not see that that is in any way contrary to our present view.

7941. *Sir Alan Anderson*: You say that the present burden of interest and Sinking Fund limits other forms of expenditure. Would not the burden of the levy limit other forms of expenditure?—I think we express the view later on in our evidence-in-chief that saving would be stimulated, that some capital which is now locked up, or partly locked up, because of the National Debt would be set free, and that the whole of industry would ultimately benefit if we had goodwill in working the levy.

7942. Ultimately?—Yes.

7943. But I suppose that if you took away this large sum of £3,000,000,000 from the people, there would be a long time during which spending would be reduced, would there not?—We say there may be some temporary disturbance.

7944. You do not put a date to that?—I do not put a date to that, but I should not think it would be quite as long as your question seems to infer.

7945. In paragraph 7 you say it is absurd to talk about people working harder when men are out of work. Do you look upon the work available as a fixed amount?—No.

7946. You would agree it is elastic?—I am using that argument for a particular purpose in this paper. I am not one of those who argue for restriction of production. What I am saying is, that if you confine your methods of dealing year after year with this enormous debt service, which is such a very large percentage of the annual budget expenditure, to a Sinking Fund raised out of taxation largely upon profits, it means, if you are going to have a large debt reduction by increasing the Sinking Fund, that you have to increase your production to such an extent as will provide profits upon which Income Tax can be levied. A Sinking Fund run in that way means

that for every 4s. 0d. of the debt paid off out of Income Tax the country has to produce £1 profit. That means the worker in the main has to work sufficiently hard to provide the £1 of profit.

7947. I see that point, but it is not quite the one I was on. You say it is fantastic to say that because work is short therefore everyone must work harder, but it does not seem to me to be at all fantastic?—I do not want to be drawn into a general dissertation upon this.

7948. Still, this is the root of the point.—Yes, but we are told a great deal of the iniquities of the workers of this country in regard to their volume of production; we are being told it now, say, with regard to the miners and the impending crisis, but when we compare their production with that of workers in other countries they do not seem to have much to fear by the comparison.

7949. *Sir Arthur Balfour*: Except America?—The conditions there are very different.

7950. *Sir Alan Anderson*: I do not want to throw stones at them at all. You seem to look upon work as a fixed amount, but I think you will agree that the volume of work that can come to the workers of this country is elastic?—Yes.

7951. Would you not also agree that, if it is difficult to get the work, we have to compete for it by producing better and cheaper services?—Yes.

7952. That is what you mean by saying "work harder," is it not—work for less reward?—Of course, there you are up against the whole theory of capitalism as opposed to co-operative theory and the basis of the whole Co-operative movement; reduction of wages is no solution of the difficulty really.

7953. Working harder?—Unless you arrange for the wealth produced by working harder and by greater production to be so distributed that the consuming power of the mass of the people keeps pace with the increased production.

7954. Is not that the second stage? Do you not first need to get your world trade back?—We certainly need to get our world trade back, but we cannot neglect at the same time the fact that nearly two-thirds of our trade—I am not quite sure of the actual percentage—is in the home market.

7955. But 90 per cent. of our people are employed; the difficulty is the 10 per cent. or 11 per cent. who are out of employment because of the loss of some of this world trade?—Yes.

7956. You say it is fantastic when this 11 per cent. is walking about with nothing to do to say that we have to recapture the world trade by competing and working harder?—Well, I do not say that, if you will excuse me. I am saying it is fantastic to use that argument in relation to the establishment of a Sinking Fund to deal with capital debt.

7957. I quite see your point about the Co-operative movement; you are here to advocate co-operation; but you do not press it to the extreme of saying that the worker does not profit at all by the increased work that the employer or the industry gets?—I agree that in many cases the worker will benefit, but if we take a long view of the cycles of boom and slump of prosperity and depression, then because of the way in which the consuming power is not maintained with production, in the long run the worker does suffer.

7958. The worker surely suffers by bad trade, does he not?—Yes. Very often some of the bad trade is created from the fact that his own purchasing power is not allowed to keep pace with his production.

7959. Possibly, but he does suffer by bad trade, or correspondingly he gains by good trade, does he not?—Certainly; I say that is partly so.

7960. You rather imply in paragraph 7 that he does not?—May I put it in this way again: it seems to me to be inequitable, in dealing with this great national problem of debt, to say that it is to be met by a Sinking Fund, which in the main must be raised out of direct taxation, when to provide the revenue you have got to produce £1 profit for every 4s. taken in Income Tax. In that way the main burden of providing that Sinking Fund is to be laid upon the extra work of the mass of the workers in the country. That seems to us inequitable when the evidence of accretion of wealth in the War and in the early post-war period shows that there are sources to-day to which we might go without undue hardship and avoid an undue burden upon the industrial workers.

7961. *Mr. Hichens*: You are not necessarily limited to 4s. in the £. You could imagine another Government coming in and putting it up to 20s.; would that alter your view? I am thinking merely of the convenience of the Income Tax as opposed to a Capital Levy, and the mere fact that the Income Tax is 4s. in the £ is accidental?—Yes, I can see your point of view, but it is quite hypothetical, because we propose a reduction in direct taxation if we get a proper yield from the levy.

7962. But your argument is based on the fact that the Income Tax is comparatively low; your complaint as I understand it, is that the Income Tax is 4s. and therefore 16s. is left to somebody else, and you think that is unreasonable. What I want to know is, would you object, as a matter of principle, to an annual repayment as opposed to a Capital Levy, supposing that particular difficulty that you refer to was got out of the way?—If we cannot get a Capital Levy, of course, as we said in our previous evidence, we are anxious to see as large a provision as possible made by way of Sinking Fund, but we think the more just way is to have a large yield now from a direct tax upon capital.

7963. *Mrs. Wootton*: Perhaps the witness's difficulty could be got over by a suggestion made by one of our witnesses that we should all work an extra hour and give the whole of that to the State. There seem to be some practical difficulties in that suggestion?—Yes, I should think so.

7964. *Chairman*: You said you thought that saving would be stimulated if we had a Capital Levy?—Yes, I think so. I know the difference of opinion, but I think, generally speaking, the Estate Duties, which were supposed to be the end of all things when Sir William Harcourt introduced them, have stimulated saving.

7965. Therefore you would have a levy on those who have saved in the past?—Yes.

7966. And would you punish those who did not save and could have done so?—It is difficult to sit in judgment on those who have no wealth and to say whether it is due to lack of saving or the result of their unfortunate position in the State. One would not say that the accretions of wealth upon which some of us have our eye for this purpose are all the result of saving.

7967. *Mrs. Wootton*: Why do you think that saving would be stimulated? Do you think that people would try to make good the ravages of the State?—Yes, I think so. I honestly feel that the record of the last five years shows that the people who have been allowed to keep very largely untouched the large capital accretions that they have got have been unduly extravagant and luxurious with their wealth. I am not applying that to the actual leaders of industry, who are concerned with industry, but to many of the people who made money during the War. We are told day by day in the House of Commons that that is the situation, and we are told by the leaders of the industrialists in the House of Commons——

7968. *Chairman*: But a great deal of that money has been lost?—May I say that we had some very interesting figures given to us some weeks ago in a reply to Dr. Dalton by the Chancellor of the Exchequer which bear upon the comparison as to who has been losing. In 1920-21 the actual income from wages as assessed on weekly wage-earners with total incomes exceeding the exemption limit was £673,000,000, while the estimated total income liable to Super-tax in that year was £516,000,000. In the next year the wage-earners' taxable income fell to £490,000,000, while the income liable to Super-tax

rose to £564,000,000. In 1922-23 the wage-earners' income fell to £395,000,000, and income liable to Super-tax fell £50,000,000 to £509,000,000. In 1923-24, an estimate only, the wage-earners' taxable income is £300,000,000, and the income liable to Super-tax is still £510,000,000. There is no doubt in our minds, at any rate, from our knowledge of the working class in our own movement that they have suffered enormously, whilst those people in the main —I am not saying every individual—who made money in the War have not suffered to anything like the same extent either in depreciation of their holdings or their earnings.

7969. In those periods that you mentioned were any extra exemptions given?—(*Mr. Bell*): What do you mean by taxable income; how do you define that? (*Mr. Alexander*): Well, these figures are from the Inland Revenue. They show the actual income from wages as assessed on weekly wage-earners on total incomes exceeding the exemption limit; that is the actual incomes of weekly wage-earners liable to Income Tax.

7970. *Mr. Bell*: After the exemptions are taken off?—Yes.

7971. *Sir Arthur Balfour*: I would like you to answer the Chairman's question as to whether there was not an alteration in the exemptions during that period?—Yes, I think there was, but surely not anything like enough to account for that fall from £673,000,000 to £300,000,000 in three years in assessed weekly wages, and I say the same exemptions apply to the Super-tax payer—not all of them, but some of them—in relation to earned income.

7972. *Sir Josiah Stamp*: In drawing your inference from those figures you have quoted have you taken into account the fact that they are not comparable?—Oh, yes. All we think is that this is a rough statement in support of our view that the wage-earners have suffered more than those who have been in possession of much wealth over those periods.

7973. My point is this: have you realised that, so far as the first figure you gave is concerned, the £673,000,000 odd, that represents the income received in the year 1920-21?—Yes.

7974. Whereas the Super-tax figure you gave, £516,000,000, is really a reflection of the years 1916, 1917, 1918, and 1919, there is a four years' lag in the Super-tax figures, and they would always follow them up or down a considerable distance behind?—Yes. I would put alongside of that then the statements in the present Budget statement, which are much later, and which show that the yield from Income Tax and Super-tax is going up.

7975. That is rather a different point, and it introduces a number of other factors. I am just on this point, that before you had drawn your inference from these figures you took into account that there is a four years' lag in the Super-tax?—No, I had not taken that into account, and I do not think it would be true to say rigidly that these figures of yield from tax on earned incomes would be always in respect of the actual year.

7976. Very closely, are they not? They are quarterly assessments?—No, not all of them.

7977. Pretty nearly the whole of that sum you have given is quarterly assessment; it is on the weekly wage-earner, and therefore it follows quite closely on the actual earnings?—To a certain extent.

7978. Therefore, those figures which you have given do represent very much the figures falling above the exemption limit, whereas the Super-tax figures are an extraordinary blend of four or five years?—That is on the average.

7979. Therefore, when the actual trend of those four years is discussed, if you split up the Super-tax into its really component parts, you will get a very different story?—But that is not borne out by the subsequent figures. Year after year you are getting it split up. If there were such a great complication as you suggest might happen on the splitting up of the figures, I think we should have seen it by now.

7980. I do not know. 1923-24 still has some element of the very highest peak of prices and incomes in it? —So far as Super-tax is concerned, that might be so with regard to an extra year, but with regard to Income Tax that would not be so, would it? We have passed now practically the first period of three bad years.

7981. Income Tax has a lag of four years. I said that Super-tax has a lag of four years, but it should really be five. The profits of the years 1, 2 and 3 are assessed for Income Tax in the year 4, and for Super-tax in the year 5; therefore, if the year 1 is a year of very exceptional figures it still has its influence on the year 5?—Yes

7982. I suggest to you that the comparison you are trying to draw of the trend of figures between those two is an extraordinarily difficult one to draw accurately?—Yes, but I would not move from my point of view until you demonstrated in figures; I quite see your point.

7983. I do not wish to demonstrate anything. I am only asking you whether you quite successfully demonstrate your thesis from those figures?—Well, I think it is a rough guide, and I did not suggest that it was more than a rough guide. Here year after year are these figures remaining level, and the evidence that we have elucidated in the Budget discussions of this year shows that the actual yield from this source is increasing and not decreasing.

7984. The whole yield from Super-tax alone?—Yes.

7985. Have you ever taken into account the effect that you get by taking a rigid exemption limit, a fixed exemption limit, and the total of all incomes that fall above that at a time of rise and fall in prices? If you have a fixed exemption limit, or a fixed limit of any sort, an absolute limit, and you have a series of figures that are moving with the price level or with prosperity, have you ever considered, as a matter of looking into the figures of the past 50 years, how extraordinarily violent the movements are about a fixed level?—No, I have not looked at that; it would be an interesting thing to look at, and I think I shall have to do that.

7986. I am only asking you whether you have addressed your mind to the fact that comparisons of fluctuations about a fixed level are very tricky ones? —Yes; I think that is quite reasonable.

7987. *Chairman*: You would not like to go into those figures again?—No; I am in the hands of the Committee now, my Lord.

7988. *Sir Arthur Balfour*: You said that nearly two-thirds of our trade was in the home market?—Yes.

7989. Have you reflected to what extent that two-thirds is affected by export trade and the dealings inside the country in export trade?—Oh, it is affected to a certain extent.

7990. It must be very heavy?—It is very important to us.

7991. When you are executing an export order you may pass it on to one person and they may pass it on to another; it appears to be home business in the different processes?—Yes.

7992. Therefore your two-thirds may be more affected by export trade than appears on the surface? —Yes, but I think, after making allowances for that, the actual consumption at home is so heavy that not only the goods that we import for home consumption, but the goods we manufacture for consumption in this country, are a very important part of our trade.

7993. *Mr. Bell*: You say, in paragraph 5, that the burden of borrowing will be increased if the debt is not more quickly reduced; if it is reduced in the manner you propose it might be very difficult to raise new capital at all?—I do not think that is the position.

7994. If a man had the fear that what he subscribes for a future loan may again be levied upon, that would increase the difficulty of borrowing?—What about the question of the Government policy in regard to conversion?

7995. Nobody need convert unless he wants to?—But there have been times in the past when you have adopted a policy of practically compulsory conversion.

7996. No, never.—I know it is not assumed to be.

7997. It is no good saying it is if it is not?—When you come to deal with trustee investments in a security like Consols trustees find difficulty in getting large investments in other funds, and they prefer to convert at a lower rate of interest rather than part with it.

7998. That may or may not be, but that is not the point I am putting. The point is that if there were to be a Capital Levy it does not seem to me to make it more likely that the country would be able to borrow more easily?—That would depend on another question which we deal with later. That is whether this is to be a final levy for this purpose, or whether it is to be recurring. We are coming down in favour of a non-recurring levy. In my view you do not in any way destroy capital by a levy, because you use the proceeds of the levy to pay off debt held by some people in the country, and you may reduce the annual charges which have to be met out of revenue from taxation. Views may differ, but my view is that if that were done with goodwill—and that is essential—then it would create a better psychological effect in the country than we have now. I do not know whether I am allowed to quote political speeches, but if you take the debate last night on the unemployment question in relation to these things there was an expression of opinion by the son of Lord Derby, Major Stanley, in which he said: "A further point is in regard to economy. Obviously the higher taxation is, the lower is the ratio of the purchasing power. I would refer to the one big avenue for economy, and that is the service of the War Debt. Do the Government consider that the psychological moment has arrived for a voluntary conversion of the War Stock which is at admittedly uneconomic rates?"—so that even men of the political views of the son of Lord Derby are of that opinion.

7999. *Mr. Bell*: I was there all last night too, and I am unable to understand what that means. Will you say what you think he meant?—He obviously thinks that we are paying interest on our debt at present at uneconomic rates, and that there is no real avenue for considerable national economy except the avenue of the service of the debt. He proposes a voluntary conversion at lower rates of interest; we propose a Capital Levy.

8000. Is that what he says—a voluntary conversion at lower rates of interest?—Yes—well, that is what he infers. Just let me put it again: "Do the Government consider that the psychological moment has arrived for the voluntary conversion of the War Stock which is at admittedly uneconomic rates?"—which means that they are too high.

8001. I am trying just to get what he did say; it was a voluntary conversion was it?—Yes. Let me read a little further: "Some of us believe that we are faced now with difficulties and with dangers which are as great, if not greater, than any that we faced during the War. We believe that it is time to recreate the atmosphere of sacrifice which we found during the War."

8002. I am asking you these questions, not because I am hostile, because I have been preaching, and was the first to preach, a voluntary giving up; I would be in entire agreement if it is voluntary. It is not compulsory?—It is not compulsory. You ultimately reduce the capital value of the stock converted, which, in effect, is a levy on capital.

8003. Would you reduce the interest upon Savings Certificates equally with other War Loans?—Well, I see no reason why you should not. As a matter of fact, we have no difficulty in the Co-operative Movement in getting the capital that we want from the working-class at a low rate of interest, and, in some places, we get it as low as 3½ per cent. to 4 per cent., but that is not general; it is usually round about 4½ per cent. on loans and 5 per cent. on capital, but in some cases we are getting it lower.

8004. *Mr. Hichens*: 4½ per cent. on loans repayable at short date?—Yes.

8005. That is rather a high rate of interest—usurious almost I should regard it?—Well it varies according to the length of notice. Our distributive stores, the small local stores, are very much used as savings banks by the people, as it were.

8006. *Chairman*: Will you now proceed to paragraph 8? (*Paragraphs 8 and 9 read.*)

8007. *Mr. Bell*: I would like to ask you a question with regard to sub-paragraph (*d*). You say: "We consider that this action, given goodwill on the part of the contributors, would be to the advantage of the community." I want to come back to the human aspect of the thing, and I am always trying to recall witnesses to it. Take the case of a man with £10,000 which he has saved with great care and self-denial on his part for many years because he has a wife and children to leave the money to when he dies; he is in possession of a little income of £400 a year, and is to be levied upon. Another man has had a large income, but has never saved anything because he had no dependants, and did not wish to save. You are actually going to ask for the goodwill of that saving man, with those large responsibilities, when you levy upon him and make no levy upon a successful barrister, say, getting £5,000 to £20,000 a year; can you anticipate goodwill in those circumstances?—I do not think that is quite a fair picture to draw of the whole situation.

8008. Those are actual cases that I know, and that have been put to me by men in that position?—I should say from one point of view the people who have spent their money, if they have spent it wisely—they do not all spend it wisely—have helped to keep up the purchasing power of the rest of the community. I would not for a moment say a word against saving, because I favour saving, but I cannot help thinking that for all those who desire to save it is ultimately going to be beneficial to reduce the debt; it will, in fact, stimulate saving and make it more worth while, and there will be a better feeling of confidence in the community as a whole.

8009. I wish you would give your mind to the case I am putting. I do not want to speak about a hypothetical case. I am talking of a sea captain I know who at 65 years of age has got £10,000 as a result of continuous saving; he has got a wife and a couple of daughters. Is it to be expected that with his goodwill he is going to be deprived of some of that money as against the man I have described to you spending a large income during his life and saving nothing?—I think that this and every other form of taxation should be in relation to ability to pay. I have to think of the great masses of the people as well as the people who have saved money, but I would not be at all against any remedy which may be proposed against the person who has been wasteful if you were to suggest a higher or penal rate of taxation against them.

8010. *Sir Josiah Stamp*: I understood your answer to be that the man who had spent all his money instead of saving it might perhaps have done better for the community than the man who had saved?—I said if he spent wisely.

8011. By keeping up the purchasing power?—Yes.

8012. Does not a man who saves his money really spend it in a different way; he spends it in bricks and machinery, and that kind of thing, but it is just as much spent?—It is re-invested, I agree. I do not want to be understood in that little diversion to have argued against the value and good interest to the State of saving.

8013. *Mr. Hichens*: Do I understand you to suggest that there should be a court of inquisition to enquire how everybody spends his money?—I did not suggest that; I think it arose from Mr. Bell's question.

8014. You say you would favour some means of getting at any man who spent his money unwisely?—To meet the point of view raised by Mr. Bell, I said that if there were suggestions which would be penal against them then we would consider them, but the suggestions did not emanate from me.

8015. You do not favour that suggestion?—I would be prepared to look at it with an open mind.

8016. I should like to know whether you really think it would be a desirable thing to have a sort of inquisition to decide whether a man is spending his money unwisely and to impose special taxation on anyone who, in the opinion of such a Court of the Star Chamber, had been unwise in his doings?—I should think it would be very difficult.

8017. *Sir Arthur Balfour*: Would it not be more difficult still to collect something from the man who had spent it all?—Only by taxing him at the source of his income.

8018. *Mr. Bell*: May I go back to the case I put? I am not thinking of the other man at all. I only showed that it would be unjust as between the two individuals, and I did not wish to continue the point as to the rich man; I want to go back to my sea captain. He is living on £400 a year, which is pretty tight for him with his wife and children, and he wants to leave them something. He gets the same amount out of it as a Member of Parliament gets—£400 a year. Are you proposing that it is with his goodwill that he is going to give up some of that saving?—I should ask for his goodwill, and I think I might put some material points of advantage to him; that is, for a capital value of that kind and an income of that kind accruing we would probably save him more in taxation.

8019. No, no?—Oh, yes—more than he was losing in his annual income on his capital.

8020. *Sir Josiah Stamp*: Have you seen any scheme worked out by which that can be done?—I am bound to confess that whilst I have done so, it is difficult to apply it in 1925, because it was prepared a long time ago; so I do not think I had better put it in.

8021. It is not of the essence of your scheme that it should be a commutation of future tax burden for the taxpayer, and that he should be as well off in the long run?—I have discussed with one or two people the possibility of arranging tax reductions in such a way that people, say, with a capital of between £10,000 and £15,000—not above £15,000—would not pay more ultimately in tax and Capital Levy than they would pay at present in tax.

8022. So that the sea captain in future years will have as good a net income from his reduced capital; that is your idea?—Yes.

8023. *Mr. Bell*: Let me give you the figures of my friend. He pays £17 10s. a year Income Tax; you are going to take £550 capital from him; do you seriously suggest that he is going to get a set off?—I should say that it is not impossible to arrange an adjustment in cases of that kind, which would mean that if they paid the levy they would get relief in taxation over a number of years, which would not seriously impair the income.

8024. If he lives?—Yes.

8025. *Sir Josiah Stamp*: Supposing he did live, is it much good to the State to have a complicated levy and a complicated system of reliefs to put him right afterwards? Would it not be far better to have an exemption limit of £10,000 or £20,000 and start seriously where you intended to be serious?—Directly you start that you would have other hard cases quoted on the border line there.

8026. I am asking whether you really achieve anything from the cash point of view if you have a complicated system of levy on the one hand, and you put a man in exactly the same position as regards his taxes on the other?—Well, I think we should. I think we should help in that, of course, by anticipating what would be the yield in so many years.

8027. You would have a system of relief fixed afterwards not by reference to the circumstances or amount of income but by reference to personal circumstances?—In regard to that particular scale of fortune—not above a certain limit.

8028. Would it not be extraordinarily difficult as between the limits of, say, £5,000 and £10,000, if you are to go into the personal circumstances afterwards and make the required full allowances to put the man right—one man being put right and another man being denied relief?—I should not think so. I should say that the officials of the Inland Revenue would not find it impossible to deal with that situation. A lot of these things are very technical questions, and I would really refer you to the Board of Inland Revenue.

8029. You get every conceivable case of remote dependence, and you would not be able to draw a definite line. Once you start you will merely have en elaborate system of taking money on the one hand and an elaborate system of compensating each individual so that he shall not be any worse off on the other hand; you might just as well cut all that out and start at some other figure?—No. I still think our plan will be the best on those lower incomes, because you are anticipating the income for a year or two.

8030. *Sir Arthur Balfour*: Is not the immediate dislocation of a levy bound to lead to a lot of unemployment? Take the same case of the sea captain; you reduce his income by £25 or £30 a year, and he does away with a servant; would you not have that right throughout the whole country?—We have said that you might get some temporary dislocation, but as a matter of fact I believe that ultimately you would raise the whole standard of the working people.

8031. If you threw on to the labour market a vast number of people because people could not afford to employ them any further, surely it would depreciate the purchasing power of the working people, because the competition would force down wages?—I do not think the result would be such as you prognosticate at all.

8032. *Sir Josiah Stamp*: When you refer, in paragraph 9, to the additional 16s. profit that goes to the employers, you do not take into account any Super-tax?—No.

8033. *Mr. Bell*: Do you differentiate the employer from the worker?—No, I think not.

8034. I thought you did here. You say that the workers would do something and the profit goes to the employer; is he not a worker?—Well, we do not wish to differentiate in any invidious way. We are simply referring to the two classes of persons in industry.

8035. *Sir Alan Anderson*: That point about the additional 16s. of profit which goes to the employers is the point I was trying to get you to clear up for us earlier. How much does the worker make out of the additional employment before the employer gets that 16s.; have you calculated that?—That would be perhaps difficult to calculate, because it would differ in every conceivable kind of production. The profits are very variable on different kinds of production. I am dealing with it specifically here. I am not arguing that the worker does not benefit by a boom in trade. I have argued that, on the whole, they do not benefit over a long period because of the boom and slump which occur, because their consuming power does not keep pace with production. This paragraph appnes specifically, if I may say so, to the question of setting up a Sinking Fund which is to be, according to some people, supplied by Income Tax on profits arising from more production; that is what I am dealing with, and I am keeping it to that.

8036. Pardon me. I think if you do not deny that the worker benefits by improved trade this is an extraordinarily misleading argument. I imagine the fact to be that the worker gets enormously more in bad times by an improvement in profits than the employer does. The net volume of prosperity that is distributed through the community vastly exceeds the

amount that the employer is able to collect for himself. I have not got any figures, but I believe that is the fact?—I still come back to the same point: he has got to produce his £1 profit before he pays any tax.

8037. But you say the employer gets 16s., and you grudge him that, but the worker has got far, far more; that is my point. I think stating it in this way would make people believe that you have fallen into a very elementary trap?—No; I think I am still right. The 16s. is an additional profit. I confine myself to the argument that if the Sinking Fund is to be provided by greater production, that means that the *profits* from production must be larger in order to increase the Income Tax yield.

8038. *Sir Arthur Balfour*: And Super-tax?—Yes.

8039. That is adding to the 4s.?—Yes. I would just like to add one word on this point, if I may. Mr. Hichens, who is often quoted from his old article in the "Observer," in 1920, laid down at the time, though he may have altered his view because of changed circumstances, that our levy method which we suggest to-day would bring into taxation large amounts of wealth which otherwise escape. Mr. Hichens enunciated that you might take, for example, a £300,000 pearl necklace which pays no tax at all to the State. If we were to have the alternative form of dealing with the National Debt we should bring into account such things as that; I would support my general argument from that point of view.

8040. *Sir Josiah Stamp*: Suppose the increased production made the working classes 50 per cent. or 100 per cent. richer; if more wages were passing into their hands, I take it it would have a reflex action on all indirect taxation, such as tobacco, beer and tea?—Yes.

8041. And there might be a contribution to the Sinking Fund from that source?—Yes, but the workers have a very bitter experience over a period, say, of 50 years of the cyclical results of boom periods and more production.

8042. That is a matter of history?—Yes.

8043. *Chairman*: Now will you pass to Question 2?—(*Paragraphs* **10 to 14** read.)

8044. *Sir Arthur Balfour*: Was not the conclusion of the War Wealth Committee that it was too late to attempt such a levy as you are suggesting? Things had changed hands too far and you could not recall the situation?—It was not a decision of the War Wealth Committee; it was the view of the Government.

8045. But that was the general conclusion after consideration of the evidence—that things had changed hands too much?—But looking back now, we should say that they were perhaps ill-advised in taking that view at that time.

8046. But that was the general view?—Yes.

8047. *Sir Josiah Stamp*: Was not the real reason that the whole financial situation had changed; continual inflation had changed the situation into a most serious slump, which would have been made infinitely worse by such action? (*Mr. Hichens*): I should have thought the real reason was that the War Wealth Levy was a monstrous imposition totally different from the Capital Levy, and justified on no moral or economic ground. (*Sir Josiah Stamp*): I think the reason given in the House of Commons was that the financial situation had so changed that the result of this might be to make it very much worse. (*Mr. Hichens*): Was not the real fact that if you had gone back to the period when that money was made and taxed it then, you could have got something; but at the time it was felt you might have found that people who had had war wealth had dissipated it. I cannot see that the position of the levy proposed at present is any different, you know?—(*Mr. Alexander*): I would agree that the circumstances are not so propitious to our method as they would have been, say, six years ago, but I still hold that you might meet the situation better than we are meeting it at present by having a levy on individual fortunes.

8048. *Mr. Bell*: Would you levy upon a man whose capital investments and capital values have shrunk by reason of the war?—Yes. I think the point is that you are meeting a burden to-day in debt charges which is almost intolerable; that the fall in prices has appreciated that burden upon the State; and that we should meet that situation nationally by having a tax upon capital in relation to the ability to pay of the holders of that capital. If they have capital out of which they can afford to pay it does not seem to me to matter very much whether their capital has appreciated or depreciated from the war. The point is, are we going to levy fairly in relation to the ability of the individual to pay, and to bear this national burden of the State?

8049. At one moment we hear that it is in some way related to profits made in the war; is that entirely irrelevant?—No, because I think in spite of what has been said about the leakage in the years since the war, much of the profits made in the war have gone into capital, and are to be regarded as capital assets to-day.

8050. I am thinking of another case that I know where a barrister went to the war having saved some money; when he came back most of that had gone and his business had gone; yet he is still within the scope of the levy. Are you going to levy on him?—If he had not lost all that money he would have had a larger capital, and would have had to pay a larger share of the Capital Levy. If he has a small amount left he would not have such a heavy charge levied upon him for Capital Levy; I do not think there is any great hardship.

8051. The whole point of relevance to money gained in the war is useless in this connection; you are going to set that aside and to levy upon what the man has got now?—Yes.

8052. You are taking no account of the man who lost in the war. You say: "I am going to cast my eye on the man who made money, but I am not going to have any reference to the man who lost." We must rule all that out if you are going to levy solely on the present position?—I think perhaps this wants elucidating. We have used always as an argument that there were classes who made large sums during the war.

8053. Individuals?—But we are not proposing now to levy only upon those who made money during the war; that never has been the proposal The proposal always has been that you should levy a tax upon capital for the redemption of debt upon the holders of capital without reference to what was made during the War.

8054. That is my whole point; it is irrelevant?—Yes.

8055. *Chairman*: How much do you think the State will save if you have a levy of £3,000,000,000?—I would rather not come down to exact estimates. I have seen varying estimates from various economists, and I would not like to be juggling with the margins between their estimates. I think it is a matter on which the officials of the Inland Revenue are the most competent people to advise this Committee, and I think this Committee can obtain that more readily than anybody else.

8056. The amount saved, of course, has a very great bearing on the whole matter, but you have no figure?—No, I would not suggest a figure.

8057. Or do you take anybody else's figures?—I do not profess to be one of those who can foreshadow a figure of that kind.

8058. There are some people who define quite clearly what the saving to the country would be. Originally it was thought to be in the region of £150,000,000, but we have also had a very different story about it. My point is that it might affect your judgment on the matter of the Sinking Fund. (*Sir Arthur Balfour*): While you might risk dislocation for £150,000,000 saving you might not be

willing to risk it for £50,000,000 or £90,000,000. (*Chairman*): That is the point; you have not decided in your own mind what you think would be the saving, have you?—(*Mr. Alexander*): No. I did look into the thing about four years ago, and then we were fixed on a figure round about £150,000,000. Having regard to what has happened since, having regard to some of the points put to me by members of the Committee to-day, I think I should be very unwise to say what would be the net result now. I think that is a figure which must be got out by the Inland Revenue.

8059. Supposing we could prove to you that in the result the net annual saving would be £50,000,000, would you then persevere in the desire to have a levy of £3,000,000,000?—Yes, I think I should proceed with it then, but I cannot imagine that if you actually levy up to £3,000,000,000 you will only save £50,000,000 a year; I do not quite follow that.

8060. *Sir Arthur Balfour*: You reduce the yield of Death Duties, Income Tax and Super-tax?—Yes, I follow.

8061. *Chairman*: Having regard to the friction and trouble and upturning of things in getting the £3,000,000,000, if you would only save £50,000,000 a year, I wanted to know whether you, as a Member of Parliament, would think it is the wrong thing to proceed with the levy?—No; I think we should go on with it.

8062. *Sir Josiah Stamp*: Are you acquainted with the estimate of saving made by Dr. Dalton?—No, I do not think I am. I have a number of figures in my mind varying from £75,000,000 upwards, but I am not going to put up those figures as mine, if the Chairman will excuse me.

8063. *Sir William McLintock*: Whatever the saving may be, you suggest that it should first be applied in the abolition of the taxes on tea, sugar and other foodstuffs?—Yes, but I want you to take it all together. We say that there should be no reduction of taxation except what is possible within the saving effected, and we want to have all that saving used for the reduction of taxation, but inside that we think that the first charge should be the reduction of taxes on the food of the people.

8064. *Sir Josiah Stamp*: Supposing that the Chairman's figure of £50,000,000 as the saving to the Exchequer were right, how far would that go as a first charge to wipe out the tax on tea, sugar and foodstuffs and then allow something for Income Tax?—I am not sure that I have the detailed figures here, but I should imagine that you could go a long way to-day to wipe out the taxes on food with £25,000,000. I should imagine, speaking from memory, that the yield from, say, the sugar tax now would not be much more than £20,000,000, whereas it used to be over £40,000,000, and that the yield from the tea duty is only somewhere round about £4,000,000. Those are the two main food duties remaining, so that even if you came down to £50,000,000 you would still have £26,000,000 left to reduce other taxation.

8065. *Mr. Hichens*: 6d. in the £, you say?—That would be 6d. in the £, yes.

8066. *Chairman*: Would you agree with the view put forward that a greater ultimate advantage to the nation would result from a reduction of Income Tax than from a reduction of the tax on those commodities?—No. The whole of our movement are dead against that point of view. We favour, in fact, the raising of the revenue of the State from direct taxation, except such things as those on which we put a penal tax like whisky or beer.

8067. *Sir Arthur Balfour*: So that the bulk of the people who vote would not pay taxes at all?—Yes; they might have to do so. It might then be necessary in such circumstances to rearrange the exemption limits.

8068. *Sir Josiah Stamp*: You would favour a downward revision of the Income Tax limits?—If necessary. I think it is far more advisable for someone to pay a shilling and know he is paying a shilling to the State than to pay 2s. 6d. on something that he buys without realising what he is doing.

8069. *Sir Arthur Balfour*: You see from your democratic point of view it would not be just to have 18,000,000 or 19,000,000 people voting and only 2,500,000 paying taxes?—Yes, but that is not what happens, in fact, is it?

8070. It would, if you had no indirect taxation?—But in any case, whether they were paying taxes or no, it seems to me that you cannot logically argue that you should tax people who are either on or below the poverty line; that is the point.

8071. But you would have to do something about it, surely?—If they are really above the subsistence level then it is not very long before the Income Tax catches them.

8072. It would be a ridiculous situation to have 18,000,000 people voting and only 2,400,000 paying all the taxation of the country?—Well, I say you might have to have some slight alteration. In fact, we hold from our experience in the Co-operative movement that if you increase the purchasing power of the people by the removal of taxation on their commodities you do stimulate their saving; that is our experience over a long period in the movement. They, in turn, gradually become persons who will be subject in some way to taxation.

8073. Your object in letting a man see what he is paying is so that he can exercise his vote in relation to the State's expenditure?—That is an object, but a grievance that we want to remove is that at present in relation to his total income and his ability to pay he is overtaxed.

8074. *Mrs. Wootton*: You are taking into account Sir Arthur Balfour's point; will you also take into account the position of the people who pay taxes and cannot vote, a point which I do not think is often mentioned?—(*Sir Arthur Balfour*): Are there any left? (*Mrs. Wootton*): A great number of women under 30 are in receipt of incomes.

8075. *Sir Josiah Stamp*: I take it that you do set store on the political value of direct taxation as compared with indirect?—Yes.

8076. And you would extend that to the lowest class of taxpayers?—Yes.

8077. It is better for them to pay taxes?—It does not mean to say that that would be applied under the subsistence limit.

8078. Oh, no. Would you extend it also as regards local rates instead of compounding?—Well, that is a difficult question, because of local machinery in some cases, but I think on the whole it is better to let them know that they are paying a certain sum for social services.

8079. We have had quite a number of witnesses who say there is nothing in this point, and that it is far better that we should have concealed taxation that they are not aware of?—That is very convenient from the point of view of people who want to get the richer people exempted as far as possible and put the burden of taxation upon the commodities of the people. I can quite understand that view being expressed.

8080. *Mr. Bell*: That is perfectly true of liquor and tobacco?—Yes, but I hold the view that liquor and tobacco are real luxuries, and harmful luxuries, and there is not the same argument to be used against a tax which is not only revenue raising but penal in its operation.

8081. *Chairman*: Will you pass now to Question 3?—*Paragraphs* 15 *and* 16 *read.*

8082. *Mr. Bell*: You suggest that it would have been equitable if a larger proportion of the cost of the War had been raised by taxation; are you speaking of both direct and indirect taxation?—No; I think it ought to have been direct. As a matter of fact, we suffered from heavy increases in indirect taxation during the War. We increased, for example, the duty on sugar from 1s 10d. to 25s. 8d. a cwt.

8083. *Mrs. Wootten*: You really think that the present generation has benefied more from the war than future ones will benefit?—In so far as we are dealing with the national wealth and economic conditions at the moment for the purpose we are discussing.

8084. You are confining it to the economic conditions?—Yes.

8085. *Sir Arthur Balfour*: You say "future producers would have produced their own capital even if existing capital had disappeared as a result of the war." If the means of production disappeared the process of rebuilding would be very slow, would it not?—Yes.

8086. Under those circumstances how would you maintain the present standard of living?—They certainly would not have been able to maintain the standard of life in the meantime.

8087. Would not that tend to reduce the standard of living all round?—Of course, if you have lost all your capital. Does not that support the statement I made to Mrs. Wootton, that the present generation has benefited most as a result of the war?

8088. *Chairman*: Will you now deal with the next question? (*Paragraphs* **17** *and* **18** *read.*)

8089. *Sir Arthur Balfour*: Throughout your evidence you lay great stress on getting general assent to a levy?—Yes.

8090. That is quite right, but can you suggest any means of doing this, recognising, as you no doubt do, that the opposition arises from a sincere conviction that the levy will be damaging to the interests of the country and cause unemployment?—I think, if I may say so with respect, it is for a Committee of this importance, with its exhaustive inquiry, to say which is the best thing, and to advise the country.

8091. Or to say what they think the evidence points to as the best thing?—I am hoping that the evidence is going to point to this being the solution, and the first step to secure goodwill would be that a Committee of this importance should report which is the best way, and to advise the Government, whatever party is in power, accordingly. If we could get an agreement among the three parties in the State, I do not think we should be long in getting goodwill.

8092. And equally, if a Committee of this importance, after examining the question, decided that the risk was too great, and the damage to the country too great, and that it would cause unemployment, do you think it had better be left alone?—I am doing my best to persuade you, but if I cannot persuade you I must try to persuade people outside. I certainly cannot be drawn into giving a blessing to any report you may make against our evidence.

8093. *Chairman*: If we report against you, you would receive it with goodwill?—Oh, we will receive it entirely with goodwill.

8094. *Sir Josiah Stamp*: You think the Committee ought to say this project is a good one given goodwill?—Yes.

8095. It is so good that goodwill ought to be given?—Yes.

8096. *Sir Josiah Stamp*: The two things are rather interwoven. (*Sir Alan Anderson*): And it is a good one even if it did not bring in much money?—(*Mr. Alexander*): Oh yes.

8097. You said even if it only brought in £50,000,000 it was a good one, and was worth the disturbance?—Yes.

8098. Is there any lower figure at which you think it is not a good thing, or do you think it is a good thing quite apart from the money it brings in?—I think so. We say in paragraph **13** that even if the levy were merely an exact anticipation of future revenue from Income Tax, Super-tax and Death Duties we consider it would be worth while, because of the capital reduction of the debt it would make possible.

8099. *Mr. Hichens*: But supposing, in spite of all your eloquence and in spite, possibly, of the advocacy and influence of this Committee, you still did not get the goodwill of the people who have to pay this levy, would you want to press it, or would you drop it under such extraordinary circumstances?—I should not drop it too hurriedly; I should want to take proper measures to get goodwill. I would not want to drop it on the opinion of, say, a few leading men.

8100. But if you did not succeed in getting the goodwill of the people who had to pay the tax after all the efforts that you could imagine for persuading them, when you have exercised your persuasive powers to the full, would you then drop it?—No. If I could get a really large majority of the people in the country in favour of it then I would proceed with it.

8101. That is the point. You are not attaching so much importance to the goodwill of the particular people who have to pay it?—I am. I quite realise that if we want to act upon what is generally called a political mandate it would seriously militate against the success of the scheme if we did not get goodwill. There are ways of beating even legislative action, and the result of legislation. I have memories of an organised opposition to the Land Budget.

8102. *Sir Alan Anderson*: You started by thinking that £2,000 capital was the proper point. I suppose, as you told us, it was from a political point of view that you raised your ideas to £5,000, and that was to get goodwill from the people who are left out of the levy. Then Mr. Bell quotes the case of a sea captain to you and you are going to omit the sea captain, and you have his goodwill in that way. It seems to me if that is the way——?—This seems to be a sort of parody of what I said. (*Sir Alan Anderson*): It seems very near the truth. (*Mrs. Wootton*): The alternative method of getting goodwill by education seems cheaper.

8103. *Chairman*: I should like you to tell us what you think would be the minimum that would be saved by the £3,000,000,000 reduction of the National Debt?—I do not want this to be put down as a hard-and-fast estimate; I think it is difficult, and I think it ought to come from the Inland Revenue; but I think we ought to save not less than £75,000,000 to £90,000,000.

8104. I want to ask you once again, supposing it was £50,000,000 or under £50,000,000, would you then think the Capital Levy was of any value?—If it did not go below £50,000,000 I should think it would be of value.

8105. *Sir Alan Anderson*: It is worth the disturbance if it does not go below £50,000,000?—It is worth the temporary economic disturbance. The measure of that will be dependent again on the goodwill and the way in which it is worked. If the bankers of this country would back us up in a period like this there would be no difficulty.

8106. *Sir Josiah Stamp*: From the statement in paragraph **26**, which you read out just now in reply to Sir Alan Anderson, I understand that your answer to the Chairman would be: "I am not dependent on a saving of £50,000,000 for running this levy, or £25,000,000; even if there is nothing in it I still recommend it"?—For the sake of the capital reduction.

8107. You say even if there is no annual saving in the Budget at all you would recommend a Capital Levy?—Yes; that is the view of my colleagues.

8108. *Chairman*: But what is your own view on that point: Supposing there is no saving at all, would you be in favour of a Capital Levy?—If you ask my personal view, I should say there is perhaps a limit below which it would not pay to go, but I think that there is a great deal in what is said in this proof, that the psychological effect which would result from a heavy reduction of the debt itself would be beneficial.

8109. *Sir Josiah Stamp*: Take the case of getting the goodwill of the sea captain to whom you have now, on this supposition, nothing to give in the way of relief of tax, how are you going to get his goodwill when he is having his capital reduced, and you

cannot tell him there is any national saving?—We are really talking, after all, on hypothesis all the time.

8110. *Chairman*: Not quite.—Yes, I think so. We imagine that there is going to be a saving and you put a number of seriatim questions arising from an entirely different hypothesis which I had not anticipated. (*Sir Josiah Stamp*): Only arising from the hypothesis of the "even if" in your answer to Question No. 13. You started the hypothesis; we did not.

8111. *Mrs. Wootton*: May we get quite clear about the amount of saving. You stated that the amount of saving would weigh with you, and that there might be a possible limit beyond which it might be desirable not to go?—Yes.

8112. You also mentioned, as a rough estimate, the figure of £75,000,000 to £90,000,000 in reply to the Chairman?—Yes.

8113. I want to know if we are to take that as your personal estimate of the figure which it is not worth while going below?—No. I said "roughly speaking." I particularly do not want to give a hard and fast estimate; I am very insistent on that. I do not think it is my job; I think it is the job of the Inland Revenue; but I say I cannot imagine that we should have less than that by the levy—that is all.

8114. *Sir William McLintock*: Assuming that the saving is substantial, and that it is represented by, say, the produce of 1s. of Income Tax, somewhere between £60,000,000 and £70,000,000, would you still recommend a Capital Levy to effect that saving as against the imposition of an additional 1s. of Income Tax, for which all the machinery is in being and available?—Oh yes.

8115. You would still recommend the Capital Levy?—Yes. I think if you could have a Capital Levy and not only reduce the Income Tax by 1s., but reduce the capital burden of the country——

8116. There is no possible reduction of the Income Tax by 1s. on the suggestions you have made, assuming the saving is, say, £75,000,000. Assume that the produce of 1s. Income Tax will give all the saving that you would get from a reduction of the debt by £3,000,000,000.—Do you suggest you would not receive the equivalent of 1s. Income Tax by a saving of £75,000,000 a year?

8117. No. I suggest that 1s. of Income Tax would produce in additional income all that you will save by all the disturbance involved in reducing the debt by £3,000,000,000?—Yes.

8118. Would you run the risk of all that disturbance when you have got the other machinery lying ready to your hand?—I think so. I come back to the question of what is the effect. I suggest that under the present system, at any rate, the alternative of a Sinking Fund to be met by an additional 1s. on the Income Tax—because that is really what you are suggesting—would be only realised by getting the workers, as has been suggested, to produce more to make profits out of which the extra Income Tax could be paid.

8119. *Mr. Bell*: All of us working more?—Yes, I agree, but I am thinking of the workers in the mass.

8120. *Sir William McLintock*: What is the effect of the reduction of the debt except a reduction of the annual charge? You referred to the psychological effect?—I think there is more confidence when the National Debt stands at a much lower figure. There is more general confidence as the capital debt is reduced, apart from the actual charge in the annual Budget.

8121. *Sir Alan Anderson*: Confidence in the minds of the people whose capital was taken away or in the minds of the others?—I think ultimately confidence in the minds of both.

8122. *Chairman*: You said that you would like a levy to be non-recurrent?—Yes.

8123. But that you cannot give a pledge?—You cannot make a pledge; but we favour an attempt to make a serious inroad upon the capital burden now by a non-recurring levy, and we would suggest, if possible, to get agreement amongst all the parties in the State not to have a further levy.

8124. *Mrs. Wootton*: I want to be clear about the reason for your answer to Sir William McLintock. When you are faced with his hypothesis that you might have £50,000,000 saving by the levy, or you might have an extra 1s. of Income Tax, does it weigh with you that in one case you are certain of the saving, when you have had your levy, and in the other case somebody might come and take your 1s. off again?—That is right.

8125. Is that a factor?—We have actually put that into this *précis* by saying "perhaps" in regard to the 1s.

8126. *Sir Josiah Stamp*: The effect of Mr. Alexander's evidence on my mind is this, that if the Inland Revenue were asked to produce a net figure of saving, and it were much less than £50,000,000, he would begin to hesitate whether the levy was worth while, and probably if they said it was only £25,000,000 he would come out against the levy; that is the impression that is left on my mind, but I do not want to pin him to figures. (*Sir Arthur Balfour*): That is as regards Mr. Alexander's personal views? I should still like to hear his colleagues on this question?—(*Mr. Worley*): We are dealing with hypothetical cases entirely. So far as I am concerned, I base my contention on the case already submitted by the Revenue Department in support of something equivalent to what we now propose, and it is, without further evidence, unthinkable that the amount of the net saving should be so small as has been suggested.

8127. *Chairman*: Do you mean the £50,000,000?—Yes. Speaking for myself, if the amount proved to be so small, it would call for reconsideration, but I do not know that it would alter our opinion in regard to the levy at all. We start off by saying that the burden of taxation is, in our judgment, intolerable, and it is due, in the main, to the burden of interest upon the debt; if we could reduce the debt substantially in the way suggested it would be much more effective than the other proposals, which would leave the debt comparatively untouched.

8128. You have not gone closely into the saving?—No. I am speaking personally. It is based on figures which have been presented before, and as far as that takes one the case for the levy stands.

8129. *Sir Josiah Stamp*: To you it is unthinkable that the saving should be as small as £50,000,000?—I say that, yes. That is a new suggestion to me. I have come across no authoritative figures which would suggest that up to now.

8130. *Sir Alan Anderson*: Your whole argument is built up on the belief that the saving is going to be round about £150,000,000 or something like that, but you would still favour a levy if you found that the saving was only £50,000,000?—Yes; I should want to reconsider it, of course. (*Alderman Hayward*): The point of view that we take with regard to this matter is this: the fact that we have got such a heavy National Debt makes it, in our judgment, desirable to effect some substantial reduction in order to reduce the annual charge. In considering the matter, of course, we are up against the problem that a Capital Levy would effect alterations in respect of Income Tax, Super-tax, Death Duties, and so on, but we were quite unable to make any estimate as to what that would result in. We decided early on that we should prefer the Committee to get the information direct from the Inland Revenue, which would be of much more value than any estimate that we could put forward. Having that in view, we felt that there could not but be a substantial saving, but the effect of a substantial reduction in the debt would be an important factor not only with regard to the reduction of the standing charges, but also in its effect upon the credit of the country, and that it would be much more advantageous to us as a State to be the possessors only of

£4,000,000,000 of debt instead of £7,000,000,000 of debt. We are anxious to see that debt brought down as rapidly as possible, and that is the point of view we took in preparing this *précis*.

8131. *Mr. Bell*: I should like to ask a question on paragraph 21. You say there would be no reduction in real wealth. There would be a reduction if I gave some of my War Loan to the Government and they tore it up?—(*Mr. Alexander*): Yes, I see what you mean; in other words, it would be destroying scrip on which you at present get credit, but on the other hand, the State would be saved a considerable annual charge.

8132. There is no reduction in real wealth, you say, but it would be a very great reduction to me?—I am not saying that individuals would not suffer loss of wealth.

8133. It says so here.—Not individuals; there is no reduction in the real wealth of the country as a whole.

8134. Yes; if I suffer the country suffers?—Well, I think that is arguable.

8135. After all, the country is only an agglomeration of numbers. If you take the War Stock of a number of people and tear it up, it is obviously a reduction of wealth?—But you benefit all the other people who will not have to meet the charge upon it.

8136. No doubt, vicariously. You say, "Taking these two together, we should say that the levy would reduce the claims of the very wealthy." Do you mean that my sea captain friend is one of the very wealthy?—Not necessarily, but he is to be taxed in a very much less degree than the very wealthy.

8137. It is not only reducing the claims of the very wealthy?—It depends from what point of view you look at it, does it not? If you ask a man who is working at present 50 hours a week for £2, he would think a man with £10,000 was quite wealthy.

8138. I agree, but in your phraseology of the Co-operative Society, which I know so well, you do not really mean that by "very wealthy"?—The great majority of our members would regard a man with £10,000 as quite a wealthy man.

8139. Then you really mean that my captain would be very wealthy?—No. I am saying that taking the community as a whole and taking the bodies of wealth from £5,000 upwards, a graduated levy will reduce the claims upon the production of wealth by the very wealthy; I think that is perfectly fair.

8140. Not only by the very wealthy, but the very moderately wealthy as well?—In their case it will be very small.

8141. No; there is a very large number?—I do not say they are small in number, but the effect upon the individual would be small.

8142. *Mrs. Wootton*: Do you mean that in the aggregate among the levy payers there the very wealthy payers will be more than those in the position of the sea captain?—I think so.

8143. You are speaking on balance there of the net effect?—Yes.

8144. Mr. Bell is speaking of the effect in a particular case?—(*Mr. Bell*): I am talking about a vast number of people in the same position. (*Mrs. Wootton*): I understand that the witness was trying to get at the net effect by setting off one lot against the other; is not that so?—(*Mr. Alexander*): Yes, I think that is the point of view.

8145. We have had some witnesses here in support of the Capital Levy who were inclined to suggest that up to a certain minimum limit allowance should be made for family responsibilities; that perhaps up to £10,000 or £15,000 some reduction should be made in the case of people with families; have you considered that at all?—No. I should doubt very much whether our people would consider it. They would say probably we are doing as much now in the way of allowance for families and the like in regard to direct taxation as is justified.

8146. Your feeling is that it is already made?—It it very difficult to go beyond what is already done, but we have not specifically considered that. I am expressing my own individual opinion; I have not put that to our Committee.

8147. *Mr. Bell*: You say in paragraph 25: "We believe that if willing co-operation is offered by the banks there need be little trouble." Are you quite serious about that; in what respect do you think that will operate?—I am thinking of the psychological effect. I believe that if the great leaders of the banks in this country came down very heavily against a very wicked Government who suggested this remedy, they could do a very great deal of harm to the scheme; but on the other hand if they were prepared to help in the matter, I think they could be of enormous assistance. If the leaders of banking and financial policy would agree that it was advisable to reduce the debt by such a method, then they would help to give just that confidence in the method that we want.

8148. I thought possibly that the word "co-operation" meant some sort of active participation in the actual process?—Oh; again I am not going into detail, but I think that they might help very often in making more easy the payment of the levy by instalments and the use of securities and the like.

8149. *Sir Josiah Stamp*: Practical goodwill?—Yes.

8150. *Mr. Bell*: We have, of course, had the views of some of the leading bankers in evidence here?—Yes. The bankers did an enormous amount from that point of view for the war in making as easy as possible the inflation at that time for war purposes; we would like them to assist in the other direction now.

8151. *Chairman*: Supposing after conference the bankers gave a decision against you, what would you feel then?—I should be very sorry, but it would not change my views on the necessity for the levy.

8152. We are very much obliged to you for your evidence and for the way in which you have answered our questions.—Thank you.

(*The Witnesses withdrew.*)

Sir JAMES MARTIN, F.S.A.A., representing the Association of British Chambers of Commerce, called in and examined.

EVIDENCE-IN-CHIEF handed in by Sir JAMES MARTIN (in reply to the Committee's questions regarding a Capital Levy printed on page 683):—

Sir JAMES MARTIN will state:—

Witness attends in response to the Committee's invitation on behalf of the Association of British Chambers of Commerce, for whom he appeared before the Committee on the 4th November, 1924.

The Association of British Chambers of Commerce is fundamentally opposed in principle to a Capital Levy, but the Executive Council decided, as a matter of respect to the Committee, to circulate to its members the questionnaire issued by the Committee for the purpose of endeavouring to obtain the views of the Chambers of Commerce thereon.

The opinions set out hereafter are the result of consideration given to the views expressed. They are submitted as the considered opinions of the Association, but, as explained on the previous occasion, any opinion in explanation which the witness may give to the Committee is his own individual opinion, and will not bind either the Chambers of Commerce forming the Association, or his colleagues of the Executive Council which acts for the Association.

Answer to Question 1 (*as to the case for a large and early repayment of debt and method suggested*).

1. In the opinion of the Association of British Chambers of Commerce it is more essential and desirable that the taxation burden on industry should be reduced than that there should be a large repayment of the National Debt at an early date.

2. The repayment of debt is, of course, always desirable, but the country is overburdened with taxation, and, unless repayment of debt can be made out of the debts due to this country by other countries, it is desirable that repayment of debt not provided for by a regular Sinking Fund should be postponed until the taxation burden has been lightened.

3. For these reasons the Association is opposed to an increase of existing taxation.

4. The Association regards the extension of trade as being of vital necessity and is of opinion that for many years to come every effort should be made to reduce taxation.

5. This reduction of taxation should be brought about by the exercise of the most rigid economy, consistent with national efficiency and security, and by the adoption from time to time of conversion schemes in connection with the National Debt on lines similar to those already adopted.

6. Sinking Funds should be maintained so that the repayment of debt should be gradual, but regular, but with the proviso that the Sinking Funds should be increased if, and when, trade conditions permitted.

7. The imposition of a Capital Levy in order to repay debt would, it is considered, have disastrous results on the maintenance and extension of manufacturing enterprises, and consequently on employment, and would dislocate the operations of trade and finance in which stability is the first consideration.

8. Apart from these fundamental objections to a Capital Levy, it is difficult to conceive a scheme or schemes which would not be inequitable in their incidence, and extremely costly in application.

9. It is not anticipated that the future level of prices generally will differ very materially from the present level, in view of the fact that such benefits as might, under certain circumstances, accrue to industry in the future from the growth of population, a possibly increased effective world demand for goods, from scientific discoveries and methods, and the reduction in direct and indirect taxation, will probably, to the extent to which they mature, accrue to the workers.

Answer to Question 2.

10. (Section 1) (*as to form of levy*).—Assuming as the question does, the imposition of a Capital Levy, it would seem that it must be confined to individuals, but some special arrangement would have to be formulated to meet those cases in which capital is not held in the form of money or negotiable securities.

11. How could a levy be successfully collected from an individual owning a business worth say, £40,000 or £50,000? The owner may have no other capital whatever, and if the levy were payable over a period of years, instead of in a lump sum, the business may not at any given time be producing sufficient to bear the cost of the annual charge.

12. The tax would fall with severity upon widows and many others who have no income-earning capacity. It would also apparently be imposed without regard to age and without regard to family conditions, and personal obligations. A man of 40 years of age whose expectation of life is say 30 years, would have an opportunity of redeeming his position, but a much older man would have no such opportunity.

13. It would seem impossible in the ordinary sense to capitalise "brain capital," but only the material wealth which may have been accumulated as the result of "brain capital."

14. This impossibility of taxing "brain capital" is a further example of the inequity of the levy. The valuation of "brain capital" is really impossible because it is not permanent capital at all, but an earning power which might cease at any moment and could only be dealt with by way of an Income Tax.

15. The exemption from a Capital Levy of the professional man or artist with little or no capital involved in the carrying on of his occupation, but with very large earning power, is however, obviously inequitable.

16. But even if it were otherwise, in a large majority of cases the owners of "brain capital" would have no realisable fund out of which the levy could be paid. The skill of the surgeon could not be realised either in whole or in part.

17. The limit of exemption proposed appears to the Association to be too high, and it has been suggested that it should be reduced to £1,000.

18. It is considered that as the National Debt is a national responsibility, the burden of redemption should be very widely distributed, and that, as the burden of the debt was created for the benefit of all, the burden of the redemption should be spread, as nearly as possible, over the whole community, subject to reasonable graduation.

19. If the limit of £5,000 were maintained, it would fall upon a comparatively small section of the community; on, I understand it is estimated, some 340,000 persons only out of the whole population.

20. Although many of the Chambers are of opinion that the levy proposed could not possibly raise £3,000,000,000, and refer to the result in Czecho-Slovakia,* in which country a Capital Levy was adopted, as being much below the estimate, the Association has not at present the data on which a commercially reliable estimate can be formed.

21. The reduction of the National Debt by a Capital Levy so large as that contemplated might not effect any large permanent saving in taxation, and might not result in any relief in the burden of taxation upon industry, as the yield of other direct taxes would be adversely affected.

22. To the extent to which the annual saving in expenditure was not applied to the reduction of the debt, any advantage gained by the Capital Levy would to a large extent, be nullified.

23. There would be difficulty in obtaining or giving guarantees that the proceeds of the Capital Levy should, during the lifetime of any person now living, be applied solely to the reduction of debt.

24. (Section 2) (*as to reduction of Sinking Fund after levy*).—In the event of the application of a Capital Levy the Sinking Fund should be reduced so as to mitigate, if possible, the damage done to industry, although the advantages which the advocates of

*Czecho-Slovakia.—The Department of Overseas Trade's official report on the industrial and economic situation in Czecho-Slovakia, dated March, 1923, states that the Republic of Czecho-Slovakia was the first State which attempted to place its finances on a sound basis after the War, by introducing a Capital Levy, and that the results of the Capital Levy have proved extremely disappointing, and the measure itself has been a source of considerable embarrassment to the Government. The law is most complicated and has not been carried out to the letter. Demands for the payment of Capital Levy have been made to those known or believed to be in a position to pay, but the actual sum to be paid has in most cases been the subject of negotiation between the Ministry of Finance and the individual concerned, and in almost every case the final assessment has been far below that fixed by law.

This levy has had a very detrimental effect upon industry and commerce, but owing to the slow and lenient manner in which the law has been applied, it has not had the disastrous results which it otherwise would have had if it had been strictly enforced. It is highly probable that a very large proportion of the tax levied will never be paid.

Switzerland.—With regard to Switzerland, the proposal for a Capital Levy never got farther than a proposal. It was rejected by the people in December, 1922, by 329,000 votes to 109,000 votes. The effect even of the proposal was to drive capital out of Switzerland; the Stock Exchange became panic stricken; there was an increase in the cost of living.

the Capital Levy claim from the early repayment of the debt would be modified to the extent to which the Sinking Fund would be reduced.

25. (Section 3) (*as to changes in taxation after the levy*).—Payers of a Capital Levy should have their loss of capital recouped by relief in taxation of their incomes which bore some relative proportion to the loss they had suffered.

26. Although under certain conditions individual hardship might be, in some degree, modified, the Association considers that such mitigation would be individual mitigation, and would have little, if any, effect upon the sum total of the hardships and dislocation to industry which would arise from the imposition of a Capital Levy.

ANSWER TO QUESTION 3 (*as to equity, &c., of levy as compared with income taxtion*).

27. It is generally held by the Chambers that the Capital Levy cannot be compared with Income Tax. The distinction between them is a vital one.

28. For many years the payment of Income Tax graduated according to ability to pay, has been the accepted principle of direct taxation, and although taxation tends to lessen fresh accumulation of capital, it leaves the capital itself in the hands of those who can best make it productive, namely, individual earners and savers.

29. The Capital Levy deprives a taxpayer for all time of a large portion of his capital which in most cases represents savings, self-denial and provision for old age, or for dependants, and it deprives the taxpayer, not only of a portion of his savings, but also of the income thereon.

30. In its incidence Income Tax is not inequitable as between one taxpayer and another but the inequities involved in a Capital Levy would be very numerous.

31. Many possessors of considerable capital would find it extremely difficult, if not impossible, to pay the levy, owing to the unrealisable form in which their capital was invested, whereas the same persons can generally manage to pay an Income Tax on the income their property produces.

32. Those whose capital was invested in the less realisable form would have to make greater sacrifices than others possessed of capital in an easily realisable form.

33. The valuation of various kinds of property, particularly property such as shipping and mines, would necessarily be in large measure arbitrary, and therefore often inequitable.

34. The guess work involved in valuing life interests, the interest of the residuary legatee or the remainderman would possibly occasionally result fairly, but in many cases would result in injustice.

35. A Capital Levy would presumably be imposed on individuals at a given date. Some who were without capital at that date would begin thereafter to amass it, and would get the benefit of the reduced taxation consequent upon the Capital Levy, without having contributed anything towards it.

36. The inequities to which, as compared with the existing Income Tax, a Capital Levy would give rise, may be illustrated by the case of "A" and "B".

"A", as a single man, has had for 20 years an average income of £2,000 a year, and, having no family to provide for, he has lived up to his income.

"B" a married man with the same income for the same period, and having a family, has saved one half of his income, and has therefore accumulated £20,000. "A" would have no capital on which a levy could be made, but "B", having paid tax, both on the income derived from his savings as well as on his earned income, would be subject to the levy.

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

37. The lapse of time since the Armistice has materially worked against the acceptability of a Capital Levy, as the possibility of defining war fortunes has thereby become remote, and the effect of the Excess Profits Duty with its aftermath of trouble is tending in the same direction.

38. During this period, a large proportion of the so-called War profits have been lost, and those which remain have, to a large extent, been re-distributed among the rest of the nation, either as a result of death or of other causes.

39. The country has, with difficulty, pursued the path of financial convalescence on the present system of taxation, and both in its psychological and in its material effects on the body politic, the major operation of a Capital Levy on the convalescing body would be more objectionable than it would have been immediately after the conclusion of the Armisticce.

40. As to a guarantee against repetition, such guarantee, although desirable, cannot, under our constitution, be given. No Government could pledge future Governments against a repetition of the levy.

41. In countries possessing a written constitution like the United States of America a legal guarantee might perhaps be secured, but in this case of the U.S.A. it is noteworthy that the Committee on War Finance appointed by the American Economic Association to enquire into a levy on capital, were unable to surmount this difficulty, for, to quote their own words:—"Obviously there is no possibility of such a guarantee, and the very fact of a resort to such a levy for the first time in the history of the nation would certainly raise fear as to the future."

42. Even if a guarantee could be given, it is difficult to see how it could be made effective.

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

43. The general effect of a Capital Levy would be to dislocate and depress trade and industry, whether in times of good trade or bad trade.

44. If made in times of bad trade, whilst there is a certain amount of capital available for investment, a levy would prevent a trade revival; whilst in good times more capital is required for industrial development than is generally available.

45. Whatever the state of trade, the imposition of a levy would cause lessened activity, and so destroy wealth. At any time a transfer of anything like £3,000,000,000 of liquid assets is difficult to conceive, but there can be no doubt that it would lead to a sharp actual contraction of credit.

46. It must not be forgotten also that the British War Loan holders include many foreigners, and that we are largely in debt to America.

47. The proceeds of a Capital Levy would probably mean the transfer of large sums from this to other countries in redemption of securities held by residents in those countries.

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

48. The friction and dislocation caused by a Capital Levy would commence with its Parliamentary imposition, and the immediate dislocation would outweigh any advantages derived from subsequent easing of taxation.

49. The friction and dislocation would not be a merely passing phase, but would be long drawn out, for the position of life tenants and remainder-men would be affected over many years.

50. The immediate results of a levy would be to cause much greater friction and dislocation of business than the present high annual taxation, for which provision can be made in advance.

51. Income Tax, high as it is, is a very heavy burden, but it is at any rate based on earnings and the ability to pay. Whilst Income Tax may be said to be dynamic, the Capital Levy is static and ignores the capacity to replace.

52. The needs for a reduction of taxation have been dealt with in previous paragraphs, and no ordinary measures to relieve the burden could be too drastic. In a highly industrial country such as this, however, a cure by the application of a Capital Levy might easily be worse than the disease. The delicate machinery of credit would be disorganised, and whether industry could eventually recover after such a levy is problematical, as it has to be remembered that foreign markets are open to others besides ourselves, and a serious temporary dislocation of business might result in a still further diminished foreign trade.

Answer to Question 7 (*as to effects on employment*).

53. In the opinion of the Chambers, the imposition of a Capital Levy would reduce employment. Capital is necessary to give employment.

54. It has been estimated, and probably with some degree of accuracy, that it takes, on the average, £250 of capital for each man employed. A Capital Levy of necessity reduces capital or credit available for industry and thus increases unemployment.

55. The reduction of trading capacity would imply that many businesses carried on with a small margin of working capital would have to discontinue their operations.

Answer to Question 8 (*as to effects on distribution of wealth*).

56. No additional wealth would be created by the imposition of a Capital Levy. It is difficult to surmise to what extent a Capital Levy might lead to re-distribution of wealth.

57. In the first instance, the levy would reduce the resources of the more well-to-do members of the community in comparison with those less well-off. Other effects would depend largely upon how the net interest saving was employed. If by remission of taxes paid mainly by the levied class, the change as between classes would not be very great, although great difference might arise in individual cases. On the other hand, if the proceeds of the levy or part of it was used to repay foreign debt, then the nation would be poorer in working capital to the extent of the foreign debt repaid.

Answer to Question 9 (*as to effects on future savings*).

58. A high rate of Income Tax tends to discourage saving, but owing to its psychological as well as practical effects, a Capital Levy would discourage saving to a much greater extent.

59. The discouragement would apply to individuals not subject to the levy as well as those to whom it applied, for no one would be convinced that the first levy would be the final levy.

60. The diminished trade capacity resulting from the Capital Levy would reduce the income from which savings would be effected, for whilst the individual savings of those not subject to the levy might be increased by any reduction of taxation consequent upon the levy, they would be affected by the dislocation, disturbance and diminution of trade that would result from the imposition of the levy.

This would not be the case with regard to collective savings, such as companies' reserves, which do not come within the scope of the proposals, save only that companies would probably be tempted to distribute a larger proportion of the profits owing to pressure from their shareholders who would desire income rather than capital appreciation.

Answer to Question 10 (*as to effects on national credit at home and abroad*).

61. If by national credit is meant the reputation and standing of Government securities, these might not be adversely affected to any large extent by a Capital Levy. There can be no doubt as to the soundness of Government securities, and the Capital Levy being in the main a transfer from various individuals in the community to others, would not affect Government stock adversely in the aggregate.

62. If by national credit is meant the reputation for meeting liabilities and implementing undertakings, the imposition of a Capital Levy would have an adverse effect, as it would deprive the country of the position which it has occupied in Europe as a country in which money can be invested or balances deposited without apprehension.

63. If the Capital Levy were imposed, as is presumed to be the intention, on nationals only, it would still have a psychological effect on foreign investors or depositors, who would have apprehension that they might be in some way affected either immediately or in the future.

64. If a Capital Levy is imposed, national credit would be affected on account of the feeling of insecurity created.

Answer to Question 11 (*as to effects on sale of securities*).

65. The extent to which a Capital Levy would lead to the sale of securities is dependent upon the method of payment of the levy that is allowed.

66. If payment were permitted by the surrender of War Loan and by the transfer to the Government of other approved securities, the dislocation of industry generally, and of the security markets in particular, might be modified.

67. This again would depend upon what the Government would consider as approved securities. Unless the Government were prepared to accept securities of almost every class, the levy, if payable in cash, could only be met by sales of securities in the market, which, although nominally an open market, at any rate in the earlier stages of the levy, would be very considerably restricted, for as the levy would presumably have to be made and collected before the debt could be paid off, holders of the debt would not be in a good position to buy other securities at the time holders of such securities had to realise in order to pay the levy.

68. The demand for industrial investments by holders of debt paid off by the levy would not probably be very great, for a large proportion of Government stock is held by banks, insurance companies, hospitals and other holders of trustee securities, and the money received from debt redeemed would have to be re-invested in the like securities, and not in industrials.

Answer to Question 12 (*as to extent of deflation involved by levy*).

69. Government securities are, to a very large extent, instruments of credit, and non-Government securities in which the holders of the redeemed debt might invest would not be instruments of credit of the same order or in the degree as Government securities.

70. The destruction of Government securities as instruments of credit, even if other securities of lessened amount and standing were substituted, must necessarily result in a great measure of deflation.

71. The increase in prices of essential commodities which would probably arise might not at first lead to deflation, but would eventually lead to a prolonged period of deflation.

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

72. Apart from general considerations, the balance of advantage or disadvantage of a Capital Levy would depend on the net annual saving effected.

73. It is difficult to estimate the direct and indirect losses that would arise to industry from a Capital Levy, but unless the saving were to be some £150,000,000 a year, namely, 5 per cent. on £3,000,000,000, the risk would certainly seem to be too great.

ANSWER TO QUESTION 14.

74. (Section *a*) (*as to methods of valuation*).—Whatever method be adopted, the proposed Capital Levy would involve the valuation of a very vast number of separate items, including presumably even what have been considered as personal belongings, such as pictures and jewellery.

75. For the valuation of all the varied objects which would be held to constitute capital, a very large number of experts trained in the assessing of various classes of property would be required. This would mean also that considerable delay must necessarily take place in making the valuations and arriving at an "Appointed Day" on which the levy should take place. Meanwhile capital values might very considerably have changed, and such change might also occur during the periods over which payment was allowed to be spread.

76. (Sections *b* and *c*) (*as to finality of valuations and method of payment*).—Difficulties would arise in the case of life tenants who died before the dates on which their assessments became payable. It may be that the valuation would have to be extended to limited companies and corporations in order to arrive at the value of the shares held by individual members.

77. In the view of the Chambers (which are unanimously opposed to the principle of a Capital Levy) it is necessary, if a Capital Levy is imposed, that it should be payable over a considerable period of years, in moderate instalments, but that interest should be payable on the remaining instalments after the first few years.

ANSWER TO QUESTION 15 (*additional points*).

78. In the opinion of the Association, until a proposal for a Capital Levy is seriously put forward in the form of a Bill by a responsible Government it is not possible to come to close grips with the matter. In their opinion, a Capital Levy would impoverish the country's industrial position, which all classes desire to strengthen. The introduction of such an experiment (however moderate in extent) is, they believe, attended with grave risks, far greater than those existing in a continuance of the present high taxation.

79. The importance cannot be overestimated of the absence in a Capital Levy of a scientific principle upon which it should be based, and of the fact that once made it is irrevocable, and the lack of power to modify it when once embarked on.

80. It would probably be wrong to say that the levy is impracticable in the absolute sense, but it is manifestly impracticable in the sense that it could never be imposed with any approach to equity of assessment. It would be a haphazard appropriation of capital from those from whom it was possible to extract it.

81. Owing to this country not being self-supporting from the products of its soil, but, being dependent for its economic existence upon trade and industry, it is one of the least fitted of countries to take the risk of indulging in an experiment which the Association consider would be disastrous in its effect.

8153. *Chairman*: I wish to congratulate you; since your last appearance here you have become the President of the London Chamber of Commerce?—Thank you, my Lord.

8154. Will you kindly read your answers; questions may be asked you at the end of each answer?—It will be observed that there is a short general statement on behalf of the Association in the first three paragraphs. The Association asked me to point out to the Committee that they are fundamentally opposed in principle to a Capital Levy; then they requested me to put before the Committee the answers of the Chambers of Commerce which have been collected and condensed in these replies. I would like to say that there are some 120 Chambers of Commerce comprised in the Association of British Chambers of Commerce, but I only have answers from about 50 per cent. of the whole, because some of the Chambers declined to discuss the matter in the way it is presented in these questions, including, I am sorry to say, one or two of the largest, who simply sent resolutions saying that they wished me to inform the Committee how opposed they were to anything of the sort. (*Paragraph* **1** *read.*)

8155. *Mr. Hichens*: When you were here before you said that you would maintain the existing Sinking Fund, did you not?—I agree. I think myself, and I believe that is the view of the Chambers, that the existing Sinking Fund of £50,000,000 is a reasonable way of dealing with the National Debt, assuming always that we balance our Budget.

8156. You would not suggest any reduction in the Sinking Fund?—No. I think the Sinking Fund should be maintained in bad years as well as in good years, and, moreover, I do not think that any Chancellor of the Exchequer should raid it.

8157. So that your view as to the desirability of a reduction in taxation is subject to that qualification?—I agree. (*Paragraph* **2** *read.*)

8158. *Mr. Bowen*: In that paragraph you are really relying upon repayment of debt to this country by other countries?—Subject to the answers I have already given. If you want to make any large repayment of debt, I feel that we must get some assistance from sources other than the pockets of the taxpayer.

8159. *Chairman*: In what way?—I know the enormous difficulty of the reparations question, but it has never seemed to me to be beyond the possibility of arrangement that our debtors in Europe should assist us in making a contribution, say, to the United States.

8160. Do you believe that we were right in settling our debt with the United States?—I am absolutely in favour of this country paying all its debts; I cannot conceive how we can maintain our position in any other way. (*Paragraphs* **3** *and* **4** *read.*)

8161. *Mr. Hichens*: You regard high taxation as detrimental to trade?—Well, I can say from my own experience that it is detrimental to trade.

8162. How much do you think it would be necessary to reduce, say, the Income Tax, to have any appreciable effect on trade; do you, for instance, think that the sixpence that was taken off the other day was any use at all?—I was certainly very grateful for the sixpence.

8163. Have you noticed any improvement in trade since then?—Well, I do not think it has had much chance to operate yet, has it?

8164. Do you think it is likely to operate; do you expect much from it?—I think it must be of some assistance, certainly.

8165. But would it be your view that the reduction must be substantial in order to do any appreciable good; I just want to get at your view?—I am in this difficulty, and I think everyone must be in this difficulty who approaches the question: I am limited in my views by the answer I have already given. We must balance our Budget, and, therefore, whether it

hurts us or whether it does not hurt us, we must find the money for the purposes of the expenditure of the country. We cannot expect any Chancellor of the Exchequer to remit taxation unless he has got something out of which he can remit it.

8166. The Chancellor of the Exchequer, I presume, would be justified in remitting some of the Income Tax if he foresaw quite clearly that the result of that would be to improve trade, and therefore increase the total yield of the Income Tax?—If he could make a remission of taxation which would increase the rate of the yield, yes.

8167. But presumably he does not feel that confidence, and I wondered if you did?—I am afraid I do not at the present moment.

8168. *Mr. Bowen*: You would agree, therefore, that it does not help us very much to talk about a reduction of taxation with our present heavy debts to pay, both at home and abroad?—I feel this: I have not heard, and I think the Chancellor of the Exchequer has admitted as much, that there has been any thorough and systematic enquiry into the expenditure of the country through each Government Department. I am of opinion that certain economies might be made, and I am hopeful that before the next Budget the Treasury will have completed their enquiry into the whole of the Government Departments and see where they can cut down expenditure.

8169. Supposing you did that, how much do you think the country could save by cutting down administration expenses?—Well, Mr. Churchill talks about £10,000,000.

8170. What will it avail us if we save £10,000,000 on the Civil Services?—I think myself that we think in too big figures. One should approach the finances of the nation from the analogy of an individual. If an individual is spending too much he tries to see where he can effect economy. A business man does that, and why should not a nation overhaul its housekeeping accounts and see whether economies can be made?

8171. Assuming that we are going to save £10,000,000, which I very much doubt personally, it does not give this Committee very much help. If you reduce taxation we cannot look round to see where we can find the money to meet the debts of the nation. You say in your next paragraph "by the exercise of the most rigid economy."—Consistent with national efficiency and security. I feel, of course, as we go on to say there, that savings of interest can be effected by conversion schemes if the times are favourable; we have done something in that way already.

8172. You would include in that War Loan, I suppose?—I include in that everything in the way of Government issues. After all, the Government have their opportunity in regard to the 5 per cent. War Stock in 1929. They have an opportunity then of saying: "Will you be repaid, or will you take a lower rate of interest?" I say that is absolutely legitimate on the part of the Government. They have issued the loan for a certain number of years; they have the right of redemption when it comes to a certain date; and they have the right to say to me, and to everybody else, "We will either pay you off or you must take less interest"; that is one of the ways in which I think the Government ought to deal with the matter.

8173. That is four years hence?—Yes.

8174. What can be done between now and then?—I cannot make suggestions myself beyond saying that the business of the country should be conducted on the most economical lines possible, and we must not embark on new schemes unless we have got the money to finance them.

8175. Would you include expenditure on armaments in that?—Subject to the security and safety of the country, yes. I put the safety of my country first.

8176. *Chairman*: Will you continue reading your answer?—I think I can continue at paragraph 7. (*Paragraphs 7 to 9 read.*)

8177. *Mr. Bowen*: You are representing the Chambers of Commerce, and I think one might look to the Chambers for guidance on the question of prices. If I read this accurately, it is that you cannot see any possibility of the lowering of prices generally; there can be no relief looked for in that direction?—Well, I am afraid the present outlook does not give ground for any great optimism in regard to the general level of prices, having regard to the cost of production.

8178. Do you think this question of the price level is closely connected with taxation or with its indirect effect?—Taxes certainly do contribute towards higher prices. As I said when I was here before, taxation is not an integral part of cost. At the same time, people who are in trade have to look for a certain return on their money. The minds of people who are dealing must be influenced by the desire to get a return which will in some way correspond with their necessities.

8179. If it is consciously the fact, or if it unconsciously the fact, that taxation is passed on into prices, what complaint have the Chambers got against high taxation?—Because the whole thing together increases the level of prices, and in that way it decreases the demand. Then when you come to our foreign trade we get beaten in the world's markets; we cannot compete.

8180. *Mr. Hichens*: I see you suggest that any improvement in prosperity there may be will probably accrue to the workers. It has been suggested to us by another witness, who is an expert, that it is extremely doubtful if in the long run the wage-earners can secure permanently any increased proportion of the national income?—Well, I would not agree with that view myself. I think, if you will go through the years since the War when there was an improvement in trade, you will see that the workers secured their share as long as other people secured it. Of course, prices mounted up, and then there was a terrific slump which has affected everybody.

8181. Do you hold the view that in the long run capital demands a certain reward, or it is not forthcoming?—I agree.

8182. Therefore, that has to be, so to speak, a definite charge upon industry, has it not?—That is so, otherwise you will not raise the capital.

8183. So that if there were an improvement it might conceivably have to go to the reward of capital and not to the worker at all?—I think there is a more reasonable view coming over us altogether. We are more and more inclined to sit down and discuss what reward should go to capital and what reward should go to labour. I am very hopeful that we shall proceed along those lines, otherwise I am afraid the return to prosperity will be long delayed.

8184. You take the view, perhaps, that if you look at the thing over a long period of years, on the whole the standard of the working man in this country has improved?—Well, it has improved enormously since I was a boy, and I am very glad of it.

8185. *Chairman*: Now will you deal with your answer to Question 2? (*Paragraphs 10 to 14 read.*)

8186. *Mr. Bowen*: Do you think the Income Tax could be so varied in cases of brain capital as to make equitable any Capital Levy?—No, I do not. I think the Income Tax, taking it all round, is the best direct tax which can be levied. The professional man who is earning a big income pays a tax on his earnings for the year, and in that way it brings him somewhat into line with the trader who makes his income out of production, or buying and selling.

8187. Perhaps I did not make my question clear. You say here that it is impossible to tax "brain capital"; assume that we have a levy, do you think "brain capital" could be taxed by some form of additional Income Tax on such persons?—No, I do not. Putting myself forward as perhaps a representative of a class, if you put an additional Income Tax upon me, I do not know whether you would make me more keen to earn money for the benefit of the State. I think if you put an additional tax upon the earnings of my brain I should devote a little

more time to public affairs and a little less to my own business.

8188. Would you really?—Yes. I feel even now that the tax on the professional man is a very heavy strain, but I do not object, because I do not think that I am being treated inequitably as compared with other taxpayers, but if you try to treat me in a manner which I consider to be inequitable, then I shall resent it.

8189. I am trying to get at the point of treating you equitably with the taxpayers who would pay under a Capital Levy?—As I object to the Capital Levy, I object to anything that corresponds to a Capital Levy.

8190. *Mr. Hichens*: On the whole you are satisfied with the existing scale of graduation, are you?—I am. Knowing I was coming here, I tried to think whether I could suggest to the Committee any other form of taxation which should take the place of the Income Tax. I cannot. I think with the existing scale of graduation the Income Tax is a fair tax. It is a good tax, because one pays it out of one's profits. Of course, if it is a very high tax it operates against building up reserves, but, on the other hand, it hits a spendthrift too, because the man who spends his money has still got to provide his annual taxation, and in that respect it is a good tax. But when you come to the Capital Levy you let the spendthrift go and you tax the thrifty.

8191. Supposing you had a Capital Levy, and the rate of Income Tax was subsequently reduced, then the man with a high income but no capital would benefit at the expense of the man with considerable capital but no other sources of income; that would be so, would it not?—If the Capital Levy could be carried out and the result was such that money could be used for reduction of Income Tax, then I think that assumption would be correct.

8192. And the question is whether there is any way in which that inequality could be adjusted by adding to the Income Tax of the man who has a big income but no capital?—I want to learn first what is going to be done with the Capital Levy when it is obtained and how it is going to be used so as to protect the Income Tax-payer. I have never been able in my own mind to work out any, what I call, watertight scheme by which he will be protected at all. Under the constitution of our country one Parliament cannot bind another.

8193. Of course, my question was based on the assumption that any saving that was made would actually go in reduction of Income Tax, and if that did happen, then, as you can see, the man with a large capital would be more heavily taxed on the whole than the man with a large income. The man with a large income would benefit by the reduction in Income Tax and would have contributed nothing to the Capital Levy, and I was wondering whether you could see any way of adjusting that difficulty?—One must consider how the income is derived. There is the question that Mr. Bowen put to me with regard to the professional man. The professional man should be dealt with rather tenderly for this reason: directly illness comes upon him his earnings cease, with very few exceptions. Take a man in leading practice at the Bar; his earnings are entirely dependent upon his health. In the case of the average professional man, when he is away from his work there is no machinery in operation to provide him with his income. When he is away from his work his income stops. It is due simply and solely to his own personality. I think when you begin to talk about putting a special tax on him it wants a very great deal of thinking about.

8194. *Mr. Bell*: Yet you say it is obviously inequitable that he should not contribute?—I am referring to the Capital Levy. What I am trying to point out is that if you have a Capital Levy you must discriminate between one class of His Majesty's subjects and another, and I do not believe in any taxation which discriminates at all except in regard to one thing—ability to pay. I think the graduation of the Income Tax respects that principle.

8195. But given a Capital Levy you think it would be inequitable inasmuch as it does not fall on professional men?—I simply say it is inequitable. I am trying to represent the views of the Chambers of Commerce who perhaps have not got the same tenderness towards the professional man as I have myself. (*Paragraphs* **15** *to* **17** *read.*)

8196. *Mr. Bowen*: Would not the reduction of the exemption limit to £1,000 accentuate the difficulty that is in your own mind, that it would be a burden on people which they could not afford?—I agree. In dealing with this matter one is struggling with two sets of opinions. One's own, and, out of respect to the Committee, one is trying to answer the questions. The questions are based on assumptions. What I feel in my own mind is that for Parliament to pass any law by which a tax should be put on a small section of the community would be wrong.

8197. *Mr. Hichens*: What about the Death Duties? (*Mr. Bell*): They go down to £400, do they not?—(*Witness*): I forget the lowest figure. Under £500 there is some small amount, but I do not think it is worth talking about.

8198. *Mr. Bell*: If the gross value exceeds £300, and does not exceed £500, a duty of 50s. 0d. may be paid; that is a £500 exemption practically?—With regard to the Death Duties, they have been on for many years, but I regard them as a tax on capital. There is a distinction between the Death Duties and the Capital Levy. The taxpayer has done with his property and the State requires the duties to be paid before it passes into the possession of other people. To my mind, there is a limit even to the Death Duties. Sir William Harcourt put them on, I forget how many years ago, but I think the limit he contemplated has been passed. If I may respectfully say so, I strongly object to the extension of the Death Duties which Parliament has just ordered; I think it will lead to a good many evils. If I may quote from my own experience, and this helps one in considering the Capital Levy, I have got clients at the present moment who have inherited between them the whole of the shares of a private limited company, but they have no liquid funds out of which to pay the necessary duties. Their interests in the limited company have been valued by the Inland Revenue on the basis of its earning power. The assets are all locked up, and my clients are in great straits as to how to find the money to pay the duties. There are not sufficient liquid assets to enable them to do it. The result is that they have had to borrow the money from their bankers and they are carrying on business under considerable difficulties.

8199. Reverting to your point that a Capital Levy on a comparatively small number of people is inequitable, if I am correct in re-stating something I have read, that nine-tenths of the wealth of the country is in the hands of one-tenth of the people, would you regard it as inequitable that those people who hold the wealth should be required to pay a tax in some proportion?—Yes; because when you talk to me about the wealth of the country I shall want to know what are the obligations of the owners of that wealth. You will, of course, remember that I am representing here business people; I am not representing people who appear to have a superfluity of wealth and flaunt it about; I have no interest in them at all. Representing solid trade and business interests, I know what this so-called wealth—I expressly say so-called wealth—consists of. It is locked up in various undertakings; very often you cannot realise it. That is one of the reasons why we have a great growth of limited liability. In the old days a man would leave his property to be distributed amongst his family; when a business man dies to-day his property cannot be distributed among his family because, in most cases, it is not capable of distribution; the consequence is that businesses are turned into limited liability companies and the testator bequeaths the shares, and the shares have to be taken over with all the consequences attaching to them. As I have pointed out, these shares are valued by the Inland Revenue, and the difficulty

very often is to find liquid assets in order to pay the duties.

8200. Even allowing for that difficulty, which is not the whole case, you will admit, of course, that during the War a comparatively small number of people, according to official figures, added materially to their wealth?—Yes; I remember all that.

8201. What inequity is there in asking those people now to pay a higher tax to get us out of debt?—I am afraid there is no clue; you cannot trace that War wealth. I think we must get rid of the war aspect of the matter. There were a certain number of people who did make money out of the War, and I am glad to say a greater number still made great sacrifices in the War. It is too late in the day. I gave evidence on the taxation of the increases of War wealth as far back as 1919 before a House of Commons Committee. If that question was to be dealt with it should have been dealt with at the time; there has been a big redistribution since then. I am afraid we are pursuing the impossible in trying to trace back to those people who made money out of the War.

8202. *Mr. Hichens*: Is it much worse to have made money out of the War, or to have made money out of the circumstances arising immediately after the War, do you think?—Not if it was legitimately made. Of course, it all depends; I do not like a man who is a profiteer either in war or in peace.

8203. That is the point I am on?—Personally, I have no use for him anyway. It is all a question of selfishness or unselfishness, trading fairly and squarely, or trying to get the utmost you can out of your neighbour.

8204. My point is this: Is it not rather difficult to differentiate between a man who quite legitimately, according to the law, makes a profit during the War and a man who makes a profit immediately after the War; why should either be condemned, or why should one be condemned more than the other?—I think there was some distinction, and the Government of the day tried to meet it by means of the Excess Profits Duty.

8205. Which continued after the War?—Yes.

8206. For a similar reason?—Which I think continued too long for the purposes of the Exchequer. If I might just enlarge on this point, I think if you look at the history of the Excess Profits Duty it illustrates very forcibly the point I am trying, to the best of my knowledge, to put before the Committee. It was kept on with the result that for the last two or three years the Exchequer has had to pay back more than it has received. I believe there was a very small credit balance this past year, but the year before there was rather a lamentable deficiency.

8207. *Mrs. Wootton*: You say, in paragraph **22**: "To the extent to which the annual saving in expenditure was not applied to the reduction of the debt, any advantage gained by the Capital Levy would, to a large extent, be nullified"; would you develop that?—It is claimed that the main advantages to be gained by the Capital Levy are that it will reduce debt and thereby decrease the annual charge for interest. The reduction of the annual charge for interest would be of advantage, but if the amount of interest so saved is not applied toward the further reduction of the debt or to a reduction of taxation, the advantage of the Capital Levy as regards the saving of annual interest will be nullified to the extent to which the interest saved is not applied to such purposes, but used in connection with current expenditure for ordinary Government expenditure or for Government expenditure in new directions. (*Paragraph* **23** *read.*)

8208. *Mr. Bowen*: How would it be difficult to provide for the proceeds of a levy to be applied solely to debt reduction if that could be embodied in a Bill?—As I understand the constitution of our country, one Parliament cannot bind another.

8209. But if this Parliament were by some circumstances to commit themselves to the principle of a Capital Levy and decide upon that in the form of a Bill, as I presume would have to be done, they would or could take powers in the Bill to apply this to the reduction of debt?—I agree they could do it.

8210. Do you not think in all the circumstances the chances of carrying a Capital Levy without doing so are very remote?—I agree. They would have to do so. They would apply it, I presume, in the Finance Bill for the year. They would raise this sum of money for the purpose of applying it to the reduction of debt. Then we will assume at some time or another that Government and Parliament are replaced. There is nothing to prevent the new Parliament and Government raising another big debt. (*Mr. Bowen*): That is a different point altogether.

8211. *Sir William McLintock*: There is another point. Supposing the Capital Levy were imposed by an Act of Parliament to-day, it might take probably ten years before we collected it. Is your fear that during that ten years somebody might intercept the funds and apply them to a different purpose?—Yes. I think there is a paragraph later on as to how the Capital Levy should be collected, and perhaps I may refer to it then. (*Paragraphs* **24** *to* **26** *read.*)

8212. *Mr. Bowen*: There is one point I would like you to amplify, and that is the suggestion that certain cases of individual hardship might in some degree be modified; what modifications had you in mind?—You might modify it in the way the levy is collected.

8213. Do you mean by giving more time for payment?—By giving more time for payment, or the manner of payment, but the manner of payment is limited, because unless cash, or the equivalent of cash, is collected in the year, how is it going to benefit the country?

8214. *Sir William McLintock*: Do you suggest extending the enquiry into hardship to ascertain how the individual amassed capital, whether by careful saving, or whether by abnormal earnings?—I should not like to be on the Commission of Inquiry. (*Paragraphs* **27** *to* **36** *read.*)

8215. *Mr. Bell*: Is not your illustration in paragraph **36** an instance of the gross injustice that would be done by a Capital Levy?—I thought it was a simple instance and an effective one.

8216. *Mr. Bowen*: That would apply to Death Duties, too, would it not?—I do not think it applies to the same extent, but of course I have to accept Death Duties as part of the recognised law of the land.

8217. We are all trying to be constitutional, even with regard to Capital Levy?—But the Capital Levy is not part of the law of the land, therefore I am more free to argue against it; but the Death Duties have been in existence a long number of years. I have already said that I think they have gone beyond what, to my mind, is really legitimate, using that term in a wider sense than referring to the mere Act of Parliament.

8218. *Mr. Hichens*: Do you regard it as an injustice that a man should pay Income Tax on the interest on capital that he has saved by the sweat of his brow?—I hardly think I can go so far as that. Although a person of very moderate means, I should not think it right that I should be exempt from taxation on the income which my savings produced.

8219. Because, after all, you can only tax the wealth which exists, and it is a measure of a man's capacity to pay?—Yes.

8220. Does not that same argument apply to the taxation of the capital itself? If it is not inequitable to tax income derived from the capital, why should it necessarily be inequitable to tax the capital from which the income is derived?—I think we answer that in paragraph **29**: "The Capital Levy deprives a taxpayer for all time of a large portion of his capital which in most cases represents savings, self-denial and provision for old age, or for dependants, and it deprives the taxpayer, not only of a portion of his savings, but also of the income thereon." Then we go on to say that Income Tax is not inequitable

as between one taxpayer and another. I think somebody said that a Capital Levy would take away the seed as well as the harvest.

8221. Would you endorse that statement?—I think I would.

8222. What does it do with the seed, even if it takes it away; does it put it into a coffer and bury it in the ground so that it shall never be used again, or does it merely transfer it to somebody else who may use it equally advantageously?—It goes to the State.

8223. But the State does not keep it in a box?—The State does not keep it. Of course the State has to collect it first. When it comes to be worked out I do not think the State will be able to collect it in the way that the advocates of the Capital Levy think it will. I am arguing against the injustice to individuals who are entitled to the protection of the State, and pointing out the dislocation of individual businesses and the general upset of the whole community business.

8224. *Chairman*: The seed may be sown on stony ground. (*Mr. Hichens*): It may; or, on the other hand, it may be taken from stony ground and put on more fertile soil. (*Mr. Bell*): It is going to be burned. (*Mr. Hichens*): There is no burning that I can see in taking £100 from A and transferring it to B in repayment of his loan. The wealth still exists; it is merely transferred from one individual to the other. I can understand that the second individual might not use it as efficiently as the first (*Mr. Bell*): If I have £1,000 in War Loan which I pay to the Government and they tear it up, is not the seed destroyed. Is it right to say it is used by somebody else?—(*Witness*): If you pay the Government £1,000 in War Loan they cancel that.

8225. *Mr. Bell*: Yes; that seed is destroyed. (*Mr. Hichens*): Is there less wealth in the country? Are there fewer houses; are there fewer cinema shows, theatres, or factories?—(*Witness*): If I may follow that, in that way the country's liability is reduced by that £1,000.

8226. *Mr. Hichens*: Might it not be that, while the individual's wealth was reduced by £1,000 by such a transaction, the credit of the community and of the Government would be *pro tanto* increased by that same £1,000; what the individual lost, the State would gain. Is not that so?—The liability of the country would be reduced by the amount that Mr. Bell surrendered.

8227. Exactly; so there would be no destruction of wealth?—That is so.

8228. *Mr. Bell*: If the State took everything belonging to everybody there would be no destruction of wealth?—There would be no destruction of wealth, but there would be the destruction of the means of credit.

8229. *Mr. Hichens*: To the individual?—If Mr. Bell had £1,000 of War Stock it is an instrument of credit that he can use for the production, might I say, of more wealth.

8230. *Mr. Bowen*: But surely if the State were able to repay £3,000,000,000 of debt, putting it at its outside figure, its credit is going to be increased correspondingly?—I am not so sure of that. I think you will so shake the confidence of the world in this country that the credit of the State would go down.

8231. *Mr. Hichens*: The question is whether, on the whole, the good to the community by taking that £1,000 from an individual does not more than compensate for the loss to the individual. I have never heard anybody suggest yet that to take £1,000 from an individual is not unpleasant for that individual?—I do not agree, and I will tell you why. Supposing I have £1,000 War Stock in my possession, I can go down to the Bank of England and raise money on it and trade with it. If you take my £1,000 right away I have not got anything upon which I can raise credit.

8232. Yes, quite.—Therefore, you have deprived me of something which is of use to me in my daily life as a business man.

8233. But you have, *pro tanto*, increased the credit of the State. The question is: which is the better thing to do. That is the point, is it not—not whether you have destroyed a certain amount of wealth or not, but whether you suffer by that particular transfer of wealth?—I do not think I used the word "destroyed"; I have not touched upon the question of destruction. My argument is that you should not come down upon 340,000 people to find a sum of money which is beyond their capacity and which will impoverish them, but which will not advantage the State to anything like the extent that the advocates of a Capital Levy think.

8234. As a matter of fact, the great bulk of Income Tax and Super-tax is paid by some 340,000 persons, is it not?—That *is* so.

8235. So that the argument applies equally to the Income Tax?—The number of Income Tax payers, I think, exceeds 2,000,000.

8236. These are the figures for 1919-20, and they say that out of £326,000,000 Income Tax and Super-tax paid by individuals, about £280,000,000 was paid by the top 340,000 persons. I am merely pointing out that the great aggregate of the money comes from the people at the top. In 1919-20 there were 3,900,000 people chargeable to tax; the present number is about 2,500,000.—If you take something out of my annual income I have that less in income. If I have not got the income I do not pay the tax, but if you take away my savings that is quite another matter.

8237. If you have not got the capital you do not pay the Capital Levy?—I may have the capital, but it may not be in a realisable form which you can take. (*Paragraph* 37 *read.*)

8238. One general question upon that paragraph. I can understand a tax which is based on a capacity to pay, but personally I find it difficult to understand a tax which is based upon the manner in which the fortune has been amassed. It seems to me that that involves an inquisition of a moral character into the mode in which people do their business, which, for taxation purposes, might prove wholly unworkable. I should like to know your view on that point. Can you set up a moral inquisition for taxation purposes?—No, certainly not, and the Income Tax does not. The Income Tax assesses everybody on his profits. Of course, this other question has been introduced through that Committee which was set up in the House of Commons to inquire into the taxation of war-time increases of wealth, and, possibly, if it had not been for that we should not have heard of it. I do not think you can set up any inquiry with any advantage—certainly it would not be revenue producing, whatever else it might be—to examine the way in which each person has made his money; in fact one is talking about the impossible. (*Paragraphs* 38 *to* 43 *read.*)

8239. *Mr. Bowen*: Do you think trade could be depressed by a Capital Levy more than it is to-day without a levy?—Well, it is bad. I think we may exaggerate the badness, but you are opening up a question which is too large for me to argue here. I feel that we have all got to co-operate in order to try and get trade better.

8240. *Mr. Bell*: Obviously, it would be worse if the proportion of unemployed, instead of being 11 per cent., was 20 per cent.?—Exactly. What I think is that to change the basis of our taxation at this present time is to be throwing us into the melting-pot again. (*Paragraph* 44 *read.*)

8241. *Mr. Hichens*: How would a levy reduce the amount of capital available? Supposing, for example, I have £1,000 to pay under the levy. I pay it and I lose that amount of capital, but it is paid over or transferred to somebody else.—Yes, it is transferred to the Government.

8242. It is transferred to the Government, who transfer it to you in payment for your War Loan; therefore it is merely a transfer, is it not?—Yes, but they may not transfer it to me; they may transfer it abroad. I should think a very large sum of money is invested by foreigners in British funds, and that

money would have to be exported into the pockets of the people who have got the securities, wherever they may be.

8243. Those people, of course, might, if they wished, re-invest it in this country. If they did not want to have money in this country, there is nothing to prevent them selling the War Loan now?—No.

8244. *Chairman*: Is the point of that answer that the transfer might alter the productivity of the £1,000 by taking it from the hands of a capable trader and putting it into other channels? (*Mr. Hichens*): That is not what this answer says, but it may be the point. I am merely taking the thing as it stands here. I do not quite see how a Capital Levy is going to reduce the amount of capital available for industrial investment. Theoretically, it might reduce the productivity of capital, but that is a different point. Supposing I have to find £1,000 as my share of the Capital Levy, supposing that £1,000 is employed by the State in paying off £1,000 of War Loan which you possess, you have to find an outlet for that £1,000. The outlet in Government Stocks is materially reduced to the tune of some £3,000,000,000; therefore you will be more disposed to invest that money in industry than you were before, because there are less gilt-edged securities open to you. Is not that so?—(*Witness*): That may be. You are, of course, disregarding any effect that the Capital Levy may have on my mind.

8245. I do not know that I am. I am assuming that the effect of this on your mind is rather to shake your confidence in Government securities, in which case there will be more capital available for industrial purposes, because you will prefer to invest your money there?—I do not know. I think you will shake me up to such an extent that I am unable to invest it anywhere.

8246. *Mr. Bell*: Suppose I have £1,000 War Loan, and I want to invest in Dunlops. I go to the Bank with my War Loan and invest in Dunlops. If I give my £1,000 War Loan to the Government and they cancel it, I am thereby prevented from borrowing money and going into Dunlops?—I can appreciate the argument that the capital is not destroyed, but it seems to me that Mr. Hichens goes further. He rather argues that capital in the hands of the State could be invested to the same advantage as capital in the hands of hundreds or thousands of individuals.

8247. *Mr. Hichens*: I did not want to argue that; I merely wanted to find out your view on this point. What I ask is, whether, in your opinion, it is on the whole in existing circumstances, seeing how heavy the National Debt is and how heavy taxation is, better that the credit of individuals should be somewhat reduced and the credit of the State somewhat improved?—I am of the opinion that, having regard to the position of this country as a trading nation, you will not improve the credit of the State by damaging the credit of individuals. (*Paragraphs* 45 *to* 49 *read.*)

8248. You do not suggest that the position of life tenants and remainder-men is going to dislocate business very much. It is rather a trifling effect?—I think those two things are supplementary one to the other.

8249. It is not going to upset business at all?—It might be a bit better expressed. One is not on account of the other; the two things are supplementary one to the other. (*Paragraphs* 50 *to* 54 *read.*)

8250. Where does the estimate of £250 capital for each man employed come from. Can you tell me?—No, I tried to get it, but some of my friends who gave me the figures say that I have got it rather too low.

8251. *Mr. Bell*: It has been put at £450?—I want really to check that figure. I was discussing it with a colleague yesterday, and he told me it was too low.

8252. *Mr. Hichens*: I was wondering what it means. Does it mean that, for instance, in the shipbuilding industry the capital must be £250 per workman?—I think it means that taking one industry with another the average capital you would require would be at the rate of £250 per workman.

8253. But having once got it you would not require to renew it in respect of each new workman you took on. It must vary very largely in different industries?—That is so.

8254. You do not mean, do you, that for every new man imported into the industry it is necessary to spend £250?—Oh, no.

8255. Because it may mean that a man in my employment dies, the plant and all the rest of it is there?—Yes.

8256. The point I am on is this: in a shipyard it is conceivable that in the course of five years, say, 15 per cent. or 20 per cent. of the men engaged might have died for some reason or another; we do not require an additional £250 per head for every new worker coming along?—I quite agree.

8257. Therefore, in so far as you are merely replacing workers, you do not require any additional capital at all; it is only for the increased population of this country that you require it, so that that statement is a little misleading, I think?—If the State were to take away some of your capital by a Capital Levy you would have less then to appropriate towards your workmen.

8258. Incidentally, the State would not, under the levy, take away any of the capital of limited liability companies?—No; well, it would take it away from the owners of the shares. After all, the limited liability is only an aggregation of individuals who put their money together under limited liability protection.

8259. How would it impair my ability to carry on? The shipyard is in existence, the buildings are there, the slips are there, and everything is there; it is capable of employing 10,000 men. Assuming that there was a Capital Levy, where are we prejudiced?—May I, instead of applying it to you, just apply it generally. If A has a certain capital and the State by a levy take so much of it away, when his business gets busy he will not be able to raise so much credit from his bankers. There will be less resources upon which he can go to his bankers.

8260. That may be so, but I do not see how that applies to the problem of the £250 of capital that you referred to. (*Chairman*): Would it affect you, Mr. Hichens, suppose your capital was not all called up and your shareholders had to pay the Capital Levy? Would it affect you if you then wanted to call up the remaining capital? (*Mr. Hichens*): If one had to call up the balance it might or might not. It might be that our shareholders would have received so much in the way of repayment of War Loan that they would be highly delighted to invest it in our industry; I do not think you can tell quite. I quite agree, broadly speaking, it might be the case that the repayment in a large block of Government securities would release a large amount of money for industrial purposes. (*Mr. Bell*): This paragraph is so very short that really it does not say what it means. The real meaning is that if Mr. Hichens has to have 20,000 men in the future, then if you take away capital it prevents you spending the £250 per man to employ the additional 10,000 men. That figure of £250 has been put at £450. (*Sir William McLintock*): It is nothing like that in the colliery industry. (*Mr. Hichens*): It is certainly nothing like that in the shipbuilding nor the steel industry. (*Sir William McLintock*): The additional men brought in may, with the aid of machinery, do the work that three men formerly did; you cannot measure it by men alone.

8261. *Chairman*: Will you go on to the next paragraph?—(*Paragraphs* 55 *to* 71 *read.*)

8262. *Mr. Hichens*: What makes you suppose that the price of essential commodities would rise as the result of a levy? Would it affect, for instance, the price of Canadian wheat or Argentine beef?—I think it would not, but I think the idea underlying that answer is that it would cause a grave dislocation and stoppage, and would probably restrict supplies

for a time. The rise would only be of a temporary nature.

8263. I find it difficult to see why it should restrict the supply of Canadian wheat, for example, or of Argentine beef?—Of course, you hit upon two things which——

8264. ——are essentials.—Which would have to be brought in and for which credits would have to be put up. Of necessity, one has to feed.

8265. Why should it put up the price of my ships then?—I am rather referring to the effect on the home trade. I think it would cause a very grave dislocation, and it might cause a scarcity for the time being in some articles which you would want.

8266. The effect of a dislocation usually, in my experience, is to bring prices down rather than to put them up.—If it produces scarcity it would send prices up.

8267. Would it produce scarcity of ships? It will not send any ships to the bottom, will it?—I was not talking of the ship as a whole. A ship, as a whole, consists of a very great many things. It might put you to grave inconvenience in the building of ships.

8268. Why should it?—It might dislocate the business of some of your sub-contractors.

8269. Why should it dislocate the business of my sub-contractors any more than my own?—Well, then, it might dislocate your own business.

8270. I want to know why it should dislocate my business. I cannot see why it should have any effect upon it.—The great disturbance to trade which I believe a Capital Levy would lead to, I venture to say, would not make for the smooth working of trade.

8271. It might quite likely have the effect of bringing prices down instead of sending them up.—One may speculate, but my view tends the other way for the time being. It must lead to deflation eventually.

8272. Generally, if there is dislocation it means lack of demand. Lack of demand means that you have to reduce your prices in order to stimulate demand again.—If you will refer back to paragraph **55**, I say there: "The reduction of trading capacity would imply that many businesses carried on with a small margin of working capital would have to discontinue their operations." It is all part of the argument, and, of course, a great many of these answers are of an argumentative nature, but, if I may submit it, that is on account of the way the questions have been put to us. They are argumentative, and it is very difficult to reply to them sometimes.

8273. *Chairman*: I think you have gathered together the opinions very well indeed. (*Mr. Hichens*): I did not mean to suggest that it had not been carefully put together; I only wanted to elucidate it.—(*Witness*): It is not a small difficulty. (*Paragraphs* **72** *and* **73** *read.*)

8274. *Mrs. Wootton*: We have had evidence that £150,000,000 a year would not be saved on a debt reduction of £3,000,000,000 if you take into account loss of taxes?—Personally, I do not think it could be.

8275. This paragraph is tantamount to saying that in no case could you get a saving which would make the risk worth while. The figures you give, obviously could not be realised?—I, personally, do not think, when you look at the produce of the Income Tax and the other taxes, that the Capital Levy is worth while.

8276. I was only wondering why these particular figures were given. Even if you take the debt as being on a 5 per cent. basis and pay off £3,000,000,000, the gross saving will not exceed £150,000,000, and as you would lose something in taxation on the debt and its interest, the net saving cannot possibly be £150,000,000. (*Chairman*): A strong supporter of the levy who has been before us gave the net saving as somewhere in the region of £70,000,000. There have been others whose estimates were very much below that.—(*Witness*): I do not think this is put here to say that a Capital Levy would save £150,000,000, but there is a sort of impression that unless you save £150,000,000 a year it is not worth while doing it. I do not think it can be taken to mean that a Capital Levy will produce a saving of anything like £150,000,000. I do not think it would.

8277. That is definitely not so.—I agree. (*Paragraphs* **74** *and* **75** *read.*)

8278. *Mrs. Wootton*: We have had two suggestions to try and meet those difficulties: one is that the taxpayer should, in the first instance, give a provisional valuation himself of, at any rate, things like household property and so on, which probably do not constitute a great proportion of his property; and the other is to have a sort of conventional figure for household goods as being a certain percentage of the estate. Do you think that if either of those methods were adopted it would ease the difficulty?—I think the taxpayer might give a provisional valuation for the first; the conventional figure I would not accept.

8279. You think the former is more likely to be useful?—Yes, because some people's effects are of great value to themselves, but of no intrinsic value, other people's effects are of great intrinsic value; so I do not think you can get any conventional value. You might, in the first place, try to get a valuation made by the taxpayer, but I am afraid it would not be such a valuation as Somerset House would accept.

8280. It might get over the difficulty of postponing the appointed day?—I am familiar with the estates of deceased persons and know the particularity of Somerset House in arriving at the true and proper figure. I take it they would be just as particular if a Capital Levy became part of their taxation work to get the real and proper figure as they are now in connection with the death of a taxpayer. (*Paragraph* **76** *read.*) I may say that in practice to-day in private companies the Inland Revenue look at all the figures and they arrive, in conjunction with the solicitor or the accountant representing the estate, at a figure which they consider is the true value of the shares when there is no market price by which that can be tested. (*Paragraphs* **77** *to* **81** *read.*)

8281. *Mr. Bell*: I want to ask if there is no single Chamber of Commerce which is in favour of a levy?—There is no single Chamber of Commerce affiliated to the Association of British Chambers of Commerce which is in favour of a Capital Levy.

8282. *Chairman*: Is there anything else you wish to say?—I only want to say one word in conclusion, and that is this: speaking, as I am sure I can do, for the whole of the Chambers of Commerce, we are earnestly desirous of co-operating to obtain, if we possibly can, some revival of trade, and my colleagues and myself feel that the time has come when we should be allowed to devote our energies to commercial initiative and enterprise unhampered by restrictive legislation and unharrassed by any novel form of taxation.

8283. *Chairman*: We are very much obliged to you for coming again this afternoon.—I am very much obliged to the Committee for the patience with which they have listened to me on this and the previous occasion.

(*The Witness withdrew.*)

(*Adjourned to to-morrow morning at* **11** *o'clock.*)

TWENTY-EIGHTH DAY.

Wednesday, 1st July, 1925.

PRESENT:

THE RT. HON. LORD COLWYN, *Chairman.*
MR. HENRY BELL.
MR. J. W. BOWEN.
SIR JOSIAH STAMP, G.B.E.
MRS. BARBARA WOOTTON.

MR. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

MR. A. G. WALKDEN, MR. W. KEAN, MR. A. PUGH and MR. JOHN TURNER, representing the Trades Union Congress General Council, called and examined.

EVIDENCE-IN-CHIEF handed in on behalf of the TRADES UNION CONGRESS GENERAL COUNCIL (in reply to the Committee's questions regarding a Capital Levy printed on page 683).

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

1. In our opinion the present financial and general position of the country makes it essential for a large repayment of debt to be undertaken at an early date. In our previous evidence we have indicated the injurious effects upon the economic welfare of the country which arise from the existence of a National Debt upon the present scale.

2. The methods which we submit should be adopted are in the first place a Capital Levy, and, in the second place, a restriction of expenditure upon armaments.

3. We are not in a position to forecast the future movements of the price level, nor, in view of the scanty evidence available, do we attach much importance to estimates that are made as to price movements for more than a very short period ahead. In our view the case for repayment is, and must be, established upon the known facts of the present.

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

4. (Section 1).—We are in substantial agreement with the proposals for a possible form of Capital Levy put forward by the Labour Party. We wish to point out, however, that certain features of this scheme (*e.g.* the detailed graduation of the levy scale) were clearly regarded by its authors as provisional in character; we do not attach special importance to these. The features which we regard as essential to the proposal are that the levy should be confined to individuals, and that the scale should be adjusted so as to yield at least £3,000 millions, and that the limit of exemption should be £5,000. We do not regard a levy on brain capital as practicable.

5. The use to be made of the net annual saving resulting from the levy should be decided in the light of the circumstances (*e.g.* the existing level of taxation and the urgency of the need for fresh expenditure) prevailing at the time of the imposition of the levy.

6. (Section 2).—In view of the fact that the object of the levy is to reduce the debt, we are opposed to a reduction in the Sinking Fund.

7. (Section 3).—Reductions in taxation consequential upon a levy should be such as will relieve the poorer classes of taxpayer and should, therefore, take the form of reductions in taxation upon food and readjustment of the exemptions and abatements allowed to Income Tax payers.

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

8. In view of the fact that the Capital Levy is designed to achieve results which are admittedly impossible on the basis of existing taxation, we do not see what useful comparison can be drawn between the merits and demerits of a Capital Levy as such, and the merits and demerits of existing annual taxation. A Capital Levy is obviously more burdensome to the person liable to it than is annual taxation on the *existing* scale. It appears to us, however, that the results achieved by the levy would be sufficient to justify the imposition of this additional burden and that the objections to a Capital Levy are much less than the objections to an *increase* of annual taxation sufficient to effect repayment of debt on a scale comparable to that effected by the levy.

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

9. Since the Capital Levy is designed to alleviate evils arising out of the methods by which the War was financed, it would have been better to introduce it immediately after the War. It would also have been psychologically easier to do this since, in the atmosphere prevailing at that time, persons liable to the levy would not apparently have viewed it with as much hostility as they do now. We adhere, however, to the principle that a levy is still the only effective method of removing the objectionable consequences, indicated in our previous evidence, of a National Debt on the present scale.

10. We are aware that no guarantee of non repetition can be absolutely secure. We think, however, that a guarantee should be given, and that the form suggested by Sir Josiah Stamp in "Current Problems in Finance and Government" (page 235) is as good as any that can be devised and would in practice be accepted as effective by the taxpayer.

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

11. A Capital Levy for debt repayment would have beneficial effects upon trade and industry. We do not think that the banks would offer any deliberate and organised opposition, but, if they did, such action might limit the beneficial effects upon trade and industry for the time being. But we do not think that it would be possible to counteract the eventual stimulus to industry and prosperity consequent upon the repayment by a levy of a substantial part of the debt.

12. It is, of course, easier to carry through a Capital Levy during a period of good trade than during a period of bad trade. We do not however, think that conditions at present are such as to call for postponing the imposition of a Capital Levy.

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

13. The contrast drawn in this question appears to us to be irrelevant in exactly the same way as that contained in question 3. In any case there is no reason why the levy should cause more than a minimum of friction and dislocation, especially as we

anticipate that the bulk of it would be paid by direct cancellation of War Loan or by the exchange of securities. (See answers to question 14 below.)

Answer to Question 7 (*as to effects on employment*).

14. The improvement in national credit consequent upon the repayment of debt by the levy and the release of money now required to meet the debt charges should be favourable to employment. The commonly expressed fears that the levy would cause widespread unemployment appear to rest on one or both of two assumptions, viz., that the levy would cause a violent deflation of prices, and that a great part of the levy would come from the owners of private businesses who have no liquid funds and are obliged to dismiss their employees in order to carry on their businesses with a smaller capital. We give reasons in our answers to questions 12 and 14 for supposing that these assumptions are not justified in fact.

Answer to Question 8 (*as to effects on distribution of wealth*).

15. As the levy would be confined to individuals worth more than £5,000, whereas the holders of War debt are presumably spread over a somewhat wider range of fortunes, the direct effect of the levy would be somewhat to reduce the existing inequality in the distribution of wealth. The indirect effects would depend upon the use made of the annual saving consequent upon the levy. If this saving is employed to reduce the taxation of the poorer classes of the community or to increase expenditure on the social services, the indirect like the direct effect of the levy would be to make the distribution of wealth less unequal.

Answer to Question 9 (*as to effects on future savings*).

16. As regards to the savings of individuals, if the levy were accompanied by a guarantee such as that to which we refer in answer to question 4, the "will to save" should not be adversely affected. Since no real income disappears as a result of the levy, the aggregate national "power to save" would not be affected. The savings of companies not being liable to the levy would also be unaffected.

Answer to Question 10 (*as to effects on national credit at home and abroad*).

17. The reduction in the National Debt caused by the levy would be favourable to national credit both at home and abroad. Owing to the reduction in their volume there would be an appreciation in the value, and therefore a fall in the yield of gilt-edged securities, including Government stocks.

Answer to Question 11 (*as to effects on sale of securities*).

18. As explained in our answer to question 14, a great part of the levy would be paid by the direct exchange of securities and would therefore involve neither sale nor purchase of stocks and shares. In so far as securities are sold to meet levy obligations, the volume of sales must be exactly balanced by the volume of new securities demanded by ex-debt holders who are paid off in cash. Should there be a tendency to a fall in prices due to the fact that the bulk of the sales takes place *before* the bulk of the demands for new securities is felt, this would quickly be checked by purchases in anticipation of the demands which were known to be coming. Thus, if there were any tendency to a fall in security prices, the banks themselves would increase their purchases of investments and so help to counteract this.

Answer to Question 12 (*as to extent of deflation involved by levy*).

19. The probable deflationary effects of a Capital Levy are frequently exaggerated. Fears of deflation appear to rest upon the assumption that a large part of the War debt is pledged with bankers as a basis for credit and that the owners of this debt have not other unpledged securities in sufficient quantities to take the place of this War Loan. In view of the fact that the (domestic) National Debt is about ten times as great as before the War, and that the volume of credit has not increased in anything like the same proportion, it appears to us that a great part of the debt cannot be supporting any issues of credit at all. The Board of Inland Revenue stated in evidence before the Committee on the Increase of Wealth (War) in 1920 that "The mere magnitude of the wealth held by individuals in the form of War securities (estimated at £2,650,000,000) is sufficient in the Board's opinion to dispose of the supposition that the bulk of these securities are used or required to provide collateral security for temporary accommodation granted by bankers to private traders and other individuals—all public joint stock companies being *ex hypothesi* excluded."

20. Even apart from this, however, we are unable to see (as stated in our previous evidence) that the ability of banks to furnish credit can depend upon the size of the National Debt. We understand that it is the practice of banks to regulate their issues of credit so as to maintain a more or less constant ratio between their demand liabilities and their cash resources, distributing their issues among various forms of loans, advances, investments, discounts, etc., as seems best from time to time. Unless the banks are to work to a smaller ratio of liabilities to cash resources (and so reduce their opportunities of profit), they will extend their credit in other directions to compensate for any reduction in advances made on War Loan security that is cancelled by the levy.

21. We may add that those who fear the deflationary effects of a levy appear always to assume the operation of a paper standard such as this country has now definitely abandoned, and that under a gold standard, as is well known, any deflation that may be caused by a restriction of credit automatically and rapidly corrects itself through the mechanism of the foreign exchange.

Answer to Question 13 (*as to net annual saving effected by levy*).

22. The net annual saving resulting from a Capital Levy is one of the principal advantages resulting from the levy; and this particular advantage is therefore greater the larger the amount of such saving realised. There are, however, other advantages incidental to the levy, such as the improvement in national credit, the alleviation of a sense of injustice (which is very keenly felt among those we represent) involved in the transference of large sums of wealth by way of interest on the War debt.

23. We have seen varying estimates of the net annual saving likely to result from a Capital Levy on a given scale. We submit that the Board of Inland Revenue alone is in a position to form a reliable estimate upon this point. It is evident that there must be a substantial net annual saving.

Answer to Question 14.

24. (Section *a*) (*as to methods of valuation*)—The Committee on the Increase of Wealth (War) 1920 reported that "the examination of taxpayers' returns, valuation of property, and assessment and collection of duty could be carried out in an effective and impartial manner"; and "the cost of administration and collection, having regard to the amount of the estimated yield, would be small." This was in regard to a tax involving two separate valuations of the taxpayer's wealth, one at a period several years prior to the date at which valuation has to be made. The difficulties in the way of a single estimate of the taxpayer's present wealth would evidently be very much less. We submit that the best procedure to be followed would be that suggested by the Board of Inland Revenue in regard to the proposed tax on War wealth, viz. that the taxpayer should himself, in the first instance, make a return of the value of his

taxable wealth, and that this estimate should be liable to subsequent revision by the Inland Revenue Authorities.

25. (Section *b*) (*as to finality of valuations*).—In general, a single valuation should be sufficient, but a revision of the valuation (in either direction) should be allowed in cases where payment by instalments is accepted. Appeals should be allowed in other cases on grounds of grave hardship.

26. The valuation of life interests is a highly technical matter. Since the Board of Inland Revenue was prepared to undertake the more intricate problem of such valuations for the purpose of a tax on the increase of War wealth, the difficulties can evidently be overcome.

27. (Section *c*) (*as to method of payment*).—We contemplate that a very substantial part of the levy would be paid in War Loan and other Stock Exchange securities. The Inland Revenue Commissioners' classification of property liable to Estate Duty shows that of the total of estates worth more than £5,000 in 1923-24, 15·9 per cent. was in the form of British Government securities issued since 1914, 9·5 per cent. was in the form of other Government and Municipal securities, and 37·4 per cent. was in the form of stocks and shares of joint stock companies. Over half the total property left was thus in the form of negotiable securities.

We should suppose that payments in cash would be small, and that payment in real property would not be accepted.

28. (Section *d* to *f*) (*as to payment by private businesses and payment by instalments, etc.*).—Difficulties would arise in the case of private businesses only where the owner of a business had no liquid resources inside or outside his business sufficient to meet his levy payments. In this case payment should be allowed by instalments spread over a number of years, the Government for this purpose being deemed to be a limited partner in the business until the levy obligations have been met in full.

29. This case, however, is quite exceptional. The Board of Inland Revenue supplied sample figures to the Increase of Wealth (War) Committee in 1920, from which it was inferred that the owners of private businesses worth more than £15,000 have only 20 per cent. of their resources invested in those businesses, while 80 per cent. is invested in other forms of property. Further, of the total capital in the hands of individuals (having incomes over £160 per annum) it was estimated that (in 1914) not more than 9 per cent. was invested by individuals and partners in industry, commerce and trade, or in land and buildings owned and employed for commercial and industrial purposes.

30. (Section *g*) (*as to order of debt repayment etc.*).—In view of the large amounts of debt maturing in the next few years, we can see no reason for taking compulsory powers to redeem debt before maturity, which would in any case be a highly objectionable proceeding. Redemption of maturing debt should be supplemented by purchase in the market, as opportunity offers. When allowance is made for direct cancellation of debt handed over in payment of the levy, and for redemption of maturing debt, there is no reason to anticipate difficulty in effecting any purchases in the market that may be required without serious disturbances of security prices. It should be remembered also that appreciation in the debt is favourable to subsequent conversions.

Answer to Question 15 (*additional points*).

31. We suggest that in the case of fortunes less than a certain size (say £10,000) the possibilities of making an allowance for family responsibilities as is done for Income Tax purposes should be considered.

8284. *Chairman*: Mr. Walkden, will you read the answer to each question, and the Committee will examine you at the end of each answer?—(*Mr. Walkden*): We give a short general answer to your first question. (*Paragraphs* **1, 2** *and* **3** *read.*)

8285. *Mr. Bell*: In your earlier evidence you indicated that the main grounds for an early repayment of debt were the limitation on social expenditure which it imposed and the impracticability of reducing food taxes while there was such a heavy debt charge?—Yes.

8286. Since then there have been proposals for a considerably increased expenditure on social reform, though the rate of Income Tax has been reduced. Does that in any way modify your view?—Not very substantially. The measures of social reform that have been introduced in the new Budget do certainly make provisions, some of which are in the direction which we suggested—provisions of a rather temporary character—but they involve contributions from the working people. Our view is that these schemes of social reform for assisting people who cannot help themselves, aged widows and orphans, and for helping education, should be provided on a non-contributory basis; and we should take the view that part of the relief, at any rate, arising from our proposals should be utilised to alter the basis of those schemes and put them on a non-contributory basis. There would be not only the benefit of the direct method of dealing with those reforms, but it would be more expeditious and satisfactory for the people receiving the benefits, and it would also save a great deal in administration costs.

8287. *Mrs. Wootton*: Do you mean that the benefits provided should fall on the general tax revenue?—Quite so. We do not suggest that the people receiving the benefits should not pay their ordinary share of the taxes, as indeed they do; but they should not pay additional contributions from their wages towards these measures of social reform.

8288. *Chairman*: How would the money be found?—I think if you will be good enough to follow my answers, it will transpire that a very satisfactory amount of money will be available when you come to our suggestions.

8289. *Mr. Bell*: Does paragraph **3** mean that you do not regard future movements of the price level as being in any way a determining factor in the case for the levy?—In view of the experience of the last two years or so, we cannot feel very sanguine about much further fall in the price level; and in any case we do not think that question should substantially affect our proposals.

8290. We have been told that, whether prices go up or down, there is a case for early repayment?—That is our view.

8291. On the one hand in the interests of the investor and on the other in the interests of the State. Do you think that we should have regard to both those effects, or is it part of the investor's contract that he should take the risk of price movements?—He does in the ordinary way. Of course, our view is that it would improve the whole position of the country to have the debt largely reduced.

8292. I want to recall your memory to what some of the Committee, at all events, feel strongly. When you say it is essential that there should be a large repayment of debt in the interests of the country and of its financial and general position, that is really the difficulty; we get back really to a matter of judgment, and I am sure you feel that the judgment of those who are against you is as genuine and fair-minded as your feeling is on the other side. The feeling is this, though it does not mean that we have got made-up opinions beforehand—while business is to go on and money has to be spent in commerce and in manufacture, which is really the better course? Is it better to pay this debt off, as men do very often in private life, over a considerable period, setting aside by sinking fund, whatever that sinking fund may be, an amount gradually to reduce it, or to take money from people who are presently employing this capital, and presumably employing it to the best advantage, in one

great lump? That is really what we are trying to get at. It is not that we want to make up our minds hostilely, but it is the real problem of what we should do as private individuals and as a country, with real wisdom, to tackle this debt. As you know, there is a great fear that if a large sum was taken away from people, it would mean great dislocation and possibly retard business development, whereas if you left it with them and let them get on with their work and their improvements and developments, you might really do better by postponing the payment of the debt for a longer period. That is our problem. —We have considered that point, but in our view no measure for liquidating the debt by increased current payment to the Sinking Fund could be of a sufficiently substantial character to reduce the debt and get it within manageable limits in our time. It would spread the liquidation of the debt over a very protracted period. As to the general effect of the method we advocate for reducing the debt very largely, we have considered it very much in the light you have put it, and our feeling is that if the wealthy people of this country, those who own more than £5,000 of their own personally, could be got to agree to this large measure for lessening the country's debt, it would have a profound effect and very stimulating effect on the community. The credit of the country would be enhanced straight away, and if you, by your Report, or by any other action taken by the statesmen of this country, could get the goodwill of the wealthy people to-day, that they would themselves agree to this proposition that round about £3,000,000,000 of the debt should be cleared off by a levy, that would have a most profound effect for good in the country. We understand, as near as it can be ascertained, that the aggregate wealth held by the small class of people I am referring to, ranges between £10,000,000,000 and £12,000,000,000. If they surrendered £3,000,000,000 for the benefit of the State, that in itself would have a profound influence for good. As to the effect on business of the movement of the money, we feel that any disturbance caused by the levy to the extent that it takes money from active business people would be equated in so far as the people whose debt was repaid would themselves want to place that money out again. That would make more money available for capital development, and the effect would not be seriously damaging. On the other hand, the general and unchallengeable effect, as well as the real and practical effect on the credit of the country, would far outweigh any disadvantage caused by the disturbance of the money. That is our view.

8293. *Mr. Bowen*: Do you think that the proposal for a Capital Levy to clear off the debt in this generation is politically sound, having regard to the past experience of the country? What I mean is this. In the Victorian era we had a long period of peace and it might be urged that that was the time when the debt of the nation should have been very substantially reduced; I have heard it expressed that so long as we maintain peace we ought to spread out our liabilities or charge posterity with a share of the liability. What is your view of that?—In our view it would be wrong to allow this huge debt of £7,000,000,000 or £8,000,000,000 to go forward to be borne and liquidated entirely by posterity. In our view it is our duty here and now, for the sake of the country as it now stands, that measures should be undertaken to reduce the debt along the lines we suggest. I would like to add that, in my own experience, the existence of a large National Debt, or one that is considered large in the circumstances of to-day, has a bad effect generally on the community, and there is no subject which is a greater and more constant item for attack by revolutionary people than a huge National Debt. They can always point to the people living on the interest of this debt as being folks who are giving nothing to the community and yet are taking a lot from the revenues of the State. I well remember that when I was a small boy of 10 or 12 years of age, repudiation of the National Debt was quite a popular line for agitators. In our little village of 1,600 people, I have heard people advocate the repudiation of the National Debt. It is always a subject of very potent criticism, and we think the statesmen of to-day should do their duty in reducing that debt, and not leave it all for posterity.

8294. *Chairman*: Do you ever hear repudiation suggested now?—I do not hear it in the more responsible quarters that I am associated with at the present time, but we do hear more irresponsible people advocating it, even now. Needless to say, I would repeat, we do not ourselves advocate it.

8295. *Mr. Bowen*: You said there would be an effect on people's minds, and it would do a lot of good if the wealthy classes would agree to a Capital Levy. Would you amplify that and try to show the Committee the real psychological effect that it would have on the minds of the populace as a whole?—Yes, I will do my best to amplify that. If a sufficiently large measure of consent could be engendered in the minds of the wealthy and they were generally prepared to make this sacrifice, it would undoubtedly have a very profound effect upon the minds of the people at large, the working people in particular, who number 14,000,000 or 15,000,000. The wage-earners in this country and their dependants constitute the great bulk of the population. It would have a very profound effect for good upon them, and that is a large part of the motive we have in advocating the measure we suggest to you. Of course we are interested in the Empire and in the world at large in the international sense; but we do think the most important thing of all is that we should have goodwill and good feeling inside our own country. At present, I grieve to say, there is a large measure of the contrary feeling, and I know of nothing that would modify that more than a large measure of sacrifice such as the one we suggest here should be taken.

8296. *Chairman*: Do you mean a forced levy?—I would hope for consent. Of course, you would have to get the consent of the majority, and any minority would have to be persuaded in a legitimate manner to conform to the decision. It would have to be a statutory levy without any exemptions other than those provided for in the Act.

8297. *Mr. Bowen*: Really what you mean, I am sure, is that with the one side of our population agreeing to what they would call a very big financial sacrifice, the others would express their appreciation of that and have a higher consideration of their own citizenship, and that would find its expression in various forms, even in industry?—Yes.

8298. *Chairman*: Is not taxation pretty heavy now upon what you call the wealthy classes?—We do not think it is, relatively to their resources.

8299. You really think that they ought to pay more?—Yes, that is our view.

8300. How would you deal with people who have large incomes but do not save anything as compared with the thrifty man who will have to bear the levy? —I am not quite sure of the people you have in mind, unless it is the successful professional people who have a big income. I do not think there are a very large number in the community, and in any case they pay what is required in the shape of Income Tax on their current earnings. If they have not accumulated any large fortune, of course it is not there for the purpose of this levy. I think the very successful professional people do not begin to earn those very large incomes until quite late in life, and it is only if they live to a very considerable age that they are able to amass anything like a large fortune. I am referring to men like the leading barristers of the day.

8301. Why do you put the exemption limit at £5,000 instead of the £1,000 originally suggested?—I do not know that the Labour Party originally suggested £1,000. I know someone did suggest £1,000, but upon looking into the matter rather carefully, the Labour Party have come to the view that the £1,000

line would not cover sufficiently the people who were working single-handed, often with a small capital, and that the line ought to be raised to somewhere about £5,000. It would be very much easier to begin there than at £1,000; and, moreover, the cost of gathering the money from these smaller people would probably be very heavy, and it would be scarcely worth while going down so low as that.

8302. *Mr. Bell*: I would like your view on what I thought was a very important illustration used by a witness to show how the Capital Levy would be inequitable in its application. He instanced the case of two men, each of whom earned £2,000 a year. One was a single man who had no dependants, and who spent all his £2,000 on himself. The other man, who was married, put aside £1,000 a year, and, in the course of 20 years, we will say, accumulated for the benefit of his dependants the sum of £20,000. The Capital Levy will tax this £20,000, and the married man will lose a considerable portion of it. The single man, who had the same income and who has no reserve, will not be taxed at all. What is your view on that illustration?—The single man, the extravagant fellow who does not reserve any of his income, but simply enjoys life to the utmost, is rather the exception, and you have the same trouble right throughout all taxation in getting hold of that sort of person.

8303. He pays his Income Tax?—Yes, he pays his Income Tax. You make sure of him there, and, of course, in so far as he spends his fortune concurrently as it accrues, presumably someone else has a chance of seeing what they can do with the money, and more thrifty people get it and save a fair portion of it. In paragraph 31 of our paper, we suggest that in the case of fortunes less than a certain size, say £10,000, the possibility of making an allowance for family responsibilities, as is done for Income Tax purposes, might be considered. We do think that the industrious, hard-working family man, even if he is working in big figures and has a big income and fortune, has family responsibilities which might be the subject of some consideration, and that there might be some adjustment in the application of the levy.

8304. *Chairman*: In your reply you said that the extravagant man was the exception. Is that correct?—One cannot be precise about that, but from our observation of life, most people, rich and poor, are fairly prudent, and the spendthrift, the sheer waster who plunges through his money, is I think in all classes rather the exception than the rule. We do not think that the more fortunate classes are either more or less moral than the working classes, and we observe in the working classes that quite a great proportion, where they get the chance, where they have a margin, do save their money. Prudence and thrift are common virtues through all classes.

8305. *Chairman*: Now your answer to Question 2, please?—(*Paragraphs 4 to 7 read.*)

8306. *Mr. Bell*: The limit of exemption of £5,000 was imposed, I think, when prices were higher than now. Do you think that that affects the case for a lower exemption level?—No, we do not think there has been enough change in the price level to justify any change in that. The £5,000 line, in our view, is the best working basis for the scheme to commence at.

8307. Although you regard a levy on brain capital as impracticable do you not see some inequity in its exemption?—It is more a matter of practicability. We do not see how you could secure the brain capital; it exists in the living brain of the individual and he may die in the night and there is not any capital there in reality.

8308. There is some inequity, is there not?—We do not see that you can overcome the point you have in mind by any practical measure.

8309. If a scheme could be devised, would you favour it?—We do not think a scheme could be devised. We have looked at it and we do not see how it could be done.

8310. *Mr. Bowen*: Do you think it would be possible, in cases such as professional people who would not be taxable under a levy, for some additional tax to be assessed on them over a period of years?—We should not be unfavourable to any practicable suggestion. It seems to us that unless the money is in existence and available, you cannot make a levy on it.

8311. *Mr. Bell*: Would you not agree that a levy, if such were made, would receive much more general support if it were known that the whole proceeds were to go to debt reduction and the whole saving to be used in reduction of taxation? Sometimes we have had witnesses with views favourable to a levy, who have said it must be clearly understood that all the money raised is to go in repayment of debt and that the subsequent benefit will go to the Income Tax payers from whom the money has been raised?—It is very difficult to forecast the requirements of the Treasury or of Parliament at the time when this measure would be put into operation. One cannot say dogmatically that you could use the whole of the saving in interest, for example, for further reduction of the debt. It might be very urgently needed for something equally meritorious. We have looked at that question of how the proceeds really ought to be utilised, and we would quite favour the policy of utilising at least half of the annual saving in interest to accelerate the reduction of the remainder of the debt. Assuming the debt was reduced by £3,000,000,000 and the net benefit, as we have shown a little later in our answers, to be £50,000,000 a year, we would not be at all unfavourable to £25,000,000 of that being added to the Sinking Fund each year to reduce the balance of the debt.

8312. *Sir Josiah Stamp*: And not in relief of Income Tax solely? Supposing you had £50,000,000 net saving, you would be willing to apply £25,000,000 to the Sinking Fund, and the other £25,000,000 to any need that might turn up?—Yes. We express our preference for reduction in the food taxes; but if there were some other and more urgent need, of course the country might require the money for that purpose. But the whole of the proceeds of the levy, £3,000,000,000 would be utilised absolutely for the reduction of debt.

8313. You set £3,000,000,000 as your mark, with a £5,000 limit, and you are prepared to adopt any scale which will produce that?—Yes.

8314. A scale which would be relatively heavy in the lower portion, or do you desire to run up to very high figures at the top?—We would favour a scale analogous in its incidence to the scales prepared informally by the Labour Party.

8315. Supposing it was seen that the scale would only yield £2,250,000,000, and you wanted to strengthen it to the tune of another one-third, would you make the rates one-third higher all the way up, or would you increase them at the top or at the bottom?—We would favour the principle of light graduation at the bottom. For the same reason that we ask for exemption on fortunes up to £5,000, we think you should begin with a low scale and graduate it steeply as you proceed.

8316. So that instead of finishing with a rate of, say, 60 per cent. on the top layer, you would possibly finish with a rate of 80 per cent?—Yes, or 75 per cent. We think the best policy is for the greater sacrifice to be made where there is the greatest measure of good fortune.

8317. Do you appreciate that a scale like that might make your net saving very much lower than £50,000,000 per annum because you are putting it on the most expensive end from the point of view of future revenue?—At the back of your question is probably the fact that there are fewer persons at the top point and then if you graduate it very steeply, the yield would be very large.

8318. No; my point is not that. My point is that if you take 80 per cent. instead of 60 per cent. from your higher fortunes, you could only have it once from those fortunes, and Death Duty yields and

Income Tax yields will be very much more markedly reduced in future years?—We have allowed for discounting those in our estimate that the minimum benefit in the saving of interest ultimately would be £50,000,000 a year.

8319. I take it that you have based your consideration on the Labour Party's scale which has been put forward?—Yes, we prefer that as a general proposition.

8320. If £50,000,000 is the net saving on a scale like that, and in order to get your £3,000,000,000 total levy you have to alter that scale materially, you might alter the £50,000,000 very much to your disadvantage?—That is a matter of adjustment and Treasury calculation.

8321. That is my point?—It is really an actuarial problem.

8322. You might probably have set in these three limits, three things which are not strictly compatible, and which may be impossible to have, namely, a limit of £5,000, a yield of £3,000,000,000, and a net product of £50,000,000?—Obviously we cannot be precise on these things. We can state what we think is practicable and what should be the aim. The aim should be to clear £3,000,000,000 of the debt and to effect a net saving of at least £50,000,000 a year. How you are going to get that result is really a matter of actuarial calculation on the factors to be considered.

8323. I put this to you. Supposing actuarially that result cannot be got: supposing that to get your £3,000,000,000 you can get not £50,000,000 net saving, but £40,000,000 or £30,000,000; or, on the other hand, to get £50,000,000 saving you have to have a less yield than £3,000,000,000, which is the more sacred to you?—We should like to see the actual figures before we pass our judgment on them. If we were in charge of the Exchequer, that would be a problem for us to solve; but our aim would be to get the maximum reduction of the debt and also to get the maximum benefit from the saving in interest. We should aim for the £3,000,000,000 and the £50,000,000 a year. If, through the incidence of the working of given scales prepared experimentally, it transpired that you could not get the £50,000,000 if you made your levy as heavy as £3,000,000,000 and that by doing it and varying your scale you would get the result you wanted annually by a levy of £2,800,000,000, well, of course we should not be particular about the £200,000,000.

8324. That is what I am getting at?—I think the figure would be relatively small either way.

8325. Do you?—As far as we can do so, we have considered your own evidence and that given by other people.

8326. *Mrs. Wootton*: Are you prepared to consider on their merits other scales which may give you either the £3,000,000,000 or £50,000,000 saving, or even give you both?—We would be prepared to consider any scale that would operate more satisfactorily to give the results we desire.

8327. You do not attach great importance to this one?—No; it is only an empirical scale.

8328. *Sir Josiah Stamp*: In order to get those two results, £3,000,000,000 and £50,000,000 annually, would you drop your minimum to £1,000?—No.

8329. Would you drop it to £2,500?—No. We do not think it would be desirable or necessary to drop it below £5,000.

8330. But you would go ahead with everybody over £5,000?—In view of the fact that there is, in fortunes over £5,000, between £10,000,000,000 and £12,000,000,000 available for assessment to a Capital Levy, we do not think it would be necessary to go below the £5,000 line. We think it a practical proposition to take out of the £10,000,000,000 or £12,000,000,000 a levy of £3,000,000,000.

8331. Why are you not prepared to drop the £5,000 down to £4,000 or £3,000?—You get down among such small people then. If you are chasing the little people for a little bit of Capital Levy, the labour involved makes it hardly worth while doing.

8332. You are prepared to put a stiffer burden than was contemplated on those immediately over £5,000?—Yes.

8333. *Sir Josiah Stamp*: I wish Mr. Bell would put a case to you that he has in mind. (*Mr. Bell*): A case has come under my notice of a sea captain who, by really great saving and self-denial, has saved £10,000. He has a wife and two daughters, and his income is £400 a year. I asked the witness yesterday if it was seriously suggested that it would be with his goodwill that £550 should be taken from his capital by a levy even if he saves £17 10s. Income Tax for the few years that he will live. Could you seriously ask if that man would consider that just, as compared with the case of other men who had had more income than he but, having saved nothing, would have no levy to pay?—(*Mr. Walkden*): Of course you always get these comparisons between people who are taxed and other people more fortunate. The incidence of taxation can never be so arranged that no one can possibly make a complaint about it. I gather from the instance you give, that the person having his £400 a year on £10,000 fortune, gets that without any exertion?

8334. He is too old to work. It is the result of saving for a long period of heavy work?—I will touch on that point in a moment. In the case of the other person he is looking at, with a large income, perhaps £5,000 or £6,000 a year—large in relation to his own—that depends entirely on his exertions. If he is a barrister he has got a terrible lot of work to do to earn that money; if he is a doctor it is just the same, he is liable to be called out any hour of the day or night; he has got to concentrate very heavily indeed on most important work to get certain results, and it all depends on his ability to be able to do that. I think in the case of a retired man with £400 a year, an elderly person, really the way to put it from a Labour point of view is that he ought to deem himself fortunate to be here in this country with his £10,000 intact. It would probably have appreciated very much if it were in house properties or some other properties. He must remember that young men have died in order that it might be made safe for him and his daughters, and his fortune is the same as it was before. Hundreds and thousands of young Englishmen have died to maintain that position for him; he ought to be glad to make his sacrifice of a few hundred pounds out of his £10,000.

8335. Supposing he had had a son who died in the War; would that make any difference?—That only puts him in the same category with those who have lost their sons. Many a widow has lost her husband. I do not see why he, being fortunate enough to own £10,000, should be unwilling to make a financial sacrifice; all the greater honour to him.

8336. Do you think it would be with his goodwill that he would do that, as against a man who had a large income? Suppose the barrister had spent all his money on himself and had saved nothing, would not the little man, say the captain with £10,000, think it inequitable that he who had saved and denied himself things, should have a levy against him, as against the man who had had ten times his income and saved nothing?—There is no device that we can think of that will enable a Capital Levy to deal with the spendthrift who has spent all the money he ever had.

8337. I quite agree?—I do not think there is any practical value in that type of question, if I may say so, with respect. We cannot find solutions to them. There are none. They confront every taxation problem that one can think of.

8338. I quite agree, but I am talking about the question of inequity and of getting this man's goodwill. He is little likely to look at it with the philosophy with which you have looked at it?—We do not think that anyone should be deterred from doing something good, because someone else has done something bad. Why should not the fortunate

£10,000 man who is living in security, make the sacrifice the State calls upon him to make? We do not see why he should not do it.

8339. He may still feel that there is inequity in the taxation which you propose to place upon him. That is the point?—Our answer to him is that he should realise his good fortune in living in the security of this island which has been saved from European imperialist domination of a Napoleonic type. I think that sort of man living in leisure and able to follow his trade for the last ten years, must surely realise what a very great blessing he is enjoying in the security of this country, and he ought also to know enough to realise that all his security all the time, his safety against anarchy which is as bad as imperialist aggression, depends on the strength of the State, and the stability of the State depends on the goodwill of the citizens, and that goodwill and sound national feeling is the most vital thing in our social life. We do urge that the sacrifice we suggest, would do more to develop and cement that, than anything else we can propose in this connection. The fall in his income would be very small—the interest on the amount levied towards the Capital Levy.

8340. *Chairman*: Will you go on to your answer to Question 3?—(*Paragraph* 8 *read.*)

8341. *Mr. Bell*: Question 8 really asks you to consider the merits or demerits of a levy as compared with income taxation from the point of view of equity to the individual taxpayer and of his ability to pay. I take it you do not want to rule out equity, I am sure you do not. I put to you that there are different classes of men who might be levied upon, the landed proprietor, for instance, with a large capital value but a very small income in proportion. Have you considered the difference in equity of the levy as between him and a man with an equal capital invested in securities giving him a very large income? Do you not think that to some extent the levy ought to be related to ability to pay and to income, and have you considered the alternative of a special annual tax as opposed to a levy?—We have considered the possible alternative of additional annual taxation, but to our minds you could not get a large enough volume of that to effect a reduction of the debt to any appreciable extent in our time. On the other point of the assessment of a Capital Levy on capitals that vary in value, we do not think there is a lot in that, if I may say so, with respect. Things do tend to equate themselves very much. The landed proprietor you cite is a case in point. The value of the land, of course, in reality is the value of the rent he can get from it. At the present moment there are plenty of people eager to take up farming and to pay pretty good rents for land; therefore land is selling at good prices. Presumably any valuation for the purpose of the levy would take these factors into account in the case of the landowner or any other property owner, whether his property was in railway shares or Corporation stocks, or houses or real estate; whatever it might be in, we must go on on the assumption that the value would be fair and that all the factors of the moment would be taken into account in making the valuation. We should not take a nominal figure for someone owning 10,000 acres of land and say, that is worth one million pounds. 10,000 acres of land is worth what it will yield in rent and would be valued accordingly, surely. We do not apprehend the unfairness you appear to have in mind.

8342. Would you mind discussing now the method of obtaining the levy? A man has a large estate with a considerable first mortgage on it. How would you propose to get it from him?—If a man with £100,000 estate has got a £60,000 mortgage on it, the man nominally owning that estate is only worth £40,000. We should levy on his £40,000 and on the mortgagee on his £60,000.

8343. How would he raise the money to pay the levy?—That is a matter of individual choice. If the landowner, the £40,000 man, has got to raise £5,000, he knows best how he can raise it, on the value of what he is worth.

8344. The point is, would you hold a second mortgage on his estate?—That is really rather a Treasury question, as to whether the value of the second mortgage on the estate would be good enough to accept in discharge of the levy. We cannot very well dogmatise on those things, as Labour people. It would depend on the nature of the mortgage. If it was mortgaged up to 80 per cent., a second mortgage would not be worth much.

8345. The figures that you get in the higher categories, of course, are tremendous, and how a man is to raise that money, is a very grave question?—If he had an estate of the nominal value of £100,000 in land and a big mortgage on it, he could sell a portion of that to pay his Capital Levy. He would do very well in the market now with a parcel of land. I do not see any practical difficulties in raising the money.

8346. Any sale of land goes to pay the first mortgagee?—Part of it.

8347. All of it?—Those are technical and legal questions; that is where you are getting me in a little difficulty. I am not a lawyer; I am not an actuary; I am not a Treasury official.

8348. It is a very difficult question of finance where, say, you levy on a man on the value of estates of one million pounds?—I think it is a matter of arrangement. I think if I had an estate of £100,000, and there was a mortgage of £60,000 on it, I could find ways and means of getting £5,000 more to discharge this liability.

8349. *Sir Josiah Stamp*: In the concluding sentence of paragraph 8 you say "that the objections to a Capital Levy are much less than the objections to an increase of annual taxation sufficient to effect repayment of debt on a scale comparable to that effected by the levy." Would you still make that statement if you altered the words "effect repayment of debt" to "affect the annual charge on a scale comparable"? My meaning is this. If you are going to make a net saving in your Budget of £50,000,000 a year, you could do that by 1s. on the Income Tax. Now, do you say that the objections to a Capital Levy are less than the objections to an additional 1s. on the Income Tax?—Yes. In our view they are less. It would be better to have the Capital Levy and reduce the capital sum of the debt, than to burden Income Tax with another 1s.

8350. We know what a 5s. tax means; we know the worst that it means. We do not know the worst that a Capital Levy means. Even to the most optimistic of us, it is an experiment. Now you are prepared to face the terrors of the unknown rather than those that are known?—Yes. We have to face it in many other connections, too. The only way to make progress is to face the unknown. (*Paragraphs* 9 *to* 13 *read.*)

8351. *Mr. Bell*: Do you really think that the bulk of a levy would be paid in War Loan or by the exchange of securities?—Yes.

8352. Have you any idea in your mind of the amount of War Loan that would be used? Of course that is asking a difficult question?—I cannot say. It appears to us that in the case of fortunes over £5,000, they are negotiable securities to a very large extent.

8353. Have you considered whether there is any marked difference in the assets of a man at the time of death and those of the living subjects on whom a levy would fall?—We appreciate that the Capital Levy would to some extent forestall the Death Duties, and we have allowed for a discount on that account in our estimates.

8354. That rather goes to the quantity of the securities levied upon. Would there be a difference in kind?—It is difficult to say what securities would be offered, but we think it is pretty plain, in life as it is at present organised, that the wealthy people do hold their wealth in tangible way in securities. (*Paragraphs* 14 *to* 17 *read*).

8355. Does it necessarily follow that a reduction of the National Debt by a levy would mean a fall in the yield of gilt-edged securities? Take the case of capital going abroad?—There is a greater risk if you go abroad.

8356. If you buy tax-free 4 per cent. Bonds in America you may have a better investment on this hypothesis than you could get at home?—We do not think that this consequence would be substantial. We think it is generally appreciated in this country that it is preferable to have the security here. If you go outside this country, you are liable to risks that cannot be controlled here; and there would not be any greater temptation to move the money abroad than there is to-day.

8357. Capital runs to the place where it can get most return—with safety, I agree. I do not want to pursue it.—We do not think the change would be substantial. (*Paragraph* **18** *read*).

8358. That paragraph seems to me, if I may say so, to contain a great fallacy. The man who is levied upon is by no means assured, with his little business, that the moneys will come back. That is the very last thing that may happen. If a man with a piano shop has to give £500 or more to the levy, it by no means follows that somebody is going to come and lend him that money. He may find it impossible in fact to get it back for his business?—I thought we were rather keeping away from such very little people.

8359. No. I am referring to everybody in the country.—It would surely be the fact that people who had their War Loan repaid out of the proceeds of the Capital Levy would utilise that money in making new investments. If they did not make a hoard of it, they would put it on deposit with their banker, and the banker himself might accommodate the piano man.

8360. But that is not the point. The point is that the capital will flow back. It may flow into all sorts of directions other than that from which you take it. I am only saying it is not automatic, that it would not necessarily go back to the source from which it came. That is the fear of people?—We do not say that would be an automatic process in every case. We put the large proposition that the money repaid to the War Bond holders would soon be available for use in business and for other purposes.

8361. I think it is likely enough that a very large amount of money will be re-invested in gilt-edged securities of another sort.—We do not think the effect would be at all injurious. (*Paragraphs* **19** *and* **20** *read.*)

8362. You refer there to the amount of advances by banks rather than the nature of the security, do you not?—Yes.

8363. The chief object of the banker is rigidly to preserve the money entrusted to him. The banker has not money of his own; he has got the money of you and me and a whole lot of people; whereas they lend that against security which will bring it back, they might not be prepared to lend against security which might not bring it back. You do not differentiate in the nature of the cover; it is rather the amount lent?—We have not gone into fine detail in that sense, but we think that bankers have enough discretion and enough means of getting acceptable cover, and that they will take means to move their money to advantage rather than holding back an increased proportion of it. We think that in practice it would work out as stated in that answer.

8364. *Mrs. Wootton*: You are specially discussing in this answer the possible effect of the levy in deflating prices?—Yes.

8365. Do you think the nature of the banker's business greatly affects the volume of credit in relation to the level of prices or do you think that the volume of credit is of more importance in stimulating trade?—Of course, both may have their effect. In our view the volume of credit available is the more important factor in stimulating trade. (*Paragraph* **21** *read.*)

8366. *Mr. Bell*: May I just say that this puzzles me: "Any deflation that may be caused by a restriction of credit automatically and rapidly corrects itself through the mechanism of the foreign exchange." It surely does not necessarily correct itself. It is reflected in it, and is shown by it, but it does not necessarily correct itself?—When these circumstances arise suitable measures are taken to effect a correction. (*Paragraph* **22** *read.*)

8367. Is that sense of injustice felt with regard to the interest paid on Savings Certificates?—That is a comparatively small matter.

8368. But I want to put it. I want to know if it is perfectly fair to pay the interest on £100 Savings Certificates and it is not perfectly fair to pay interest on £1,000 War Loan?—We have not come here to advocate the repudiation of interest or the repudiation of War Loan or the repudiation of Savings Certificates.

8369. I quite agree. I am only asking as to this feeling of injustice which is said to be in existence, and I am asking if the feeling is equally against paying interest on Savings Certificates as against paying interest on 5 per cent. War Loan?—So far as we can have knowledge, the feeling is not so acute in the case of Savings Certificates, because holdings are limited to £500 face value by any individual; the amount of interest on that sum is relatively small, and it does not excite the same amount of feeling.

8370. The fact that it is a little smaller does not alter the ethics of the thing. If there is a feeling that there is objection to paying interest on War debt the mere fact that one person has £100 and another £1,000 does not alter the ethics of it?—It is relative. It is a small thing compared with the larger question.

8371. *Mr. Bowen*: In ethics a man might be said to have a strong complaint if he puts the same amount of energy into his daily labour as another man and gets £3 a week against the other man's £30; there is some subject of complaint on the part of the man who receives £3 a week. Is not that the same thing?—Yes, very largely that is the feeling amongst our people. Of course we would aim to get the Savings Certificates repaid and redeemed, to treat them all together. We are not suggesting anything differential one against the other. We have not suggested non-payment of interest in any case.

8372. *Mr. Bell*: But you are suggesting that a man who holds over £5,000 is to be levied on?—Only on the same basis that the Chancellor of the Exchequer takes a line for charging Income Tax. You do not charge it on the humble citizen who has a very small income.

8373. That has nothing to do with ethics; they are the same in the case of the big and the little. They are both getting interest. They are not differentiated as to conduct.—We have not differentiated between one group and another at all, but there is a feeling of resentment at hearing of the national income being used to pay interest on War debt, and it is really immaterial to our people whether that is held in the shape of Savings Certificates or others in so far as it is consuming national wealth.

8374. *Mr. Bowen*: Might it express itself in this form, that the holders of War debt to a considerable extent would be actually living upon the interest, and would not be contributing any service at all beyond the fact that they lent their money? The small holder of Savings Certificates would be getting interest on his small savings, but he would still keep on maintaining himself?—That is so, and he is very often buying these Savings Certificates to let them accumulate for a few years so that at the end of that period he can build a house or do something useful with the money. It is very different from a mere holding of War Loan in the feelings that it excites.

8375. *Mrs. Wootton*: I want to get clear about this ethical point. Is your objection that there is a feeling amongst your members generally with regard to the inequality of distribution of wealth?—Yes, there is a general feeling with regard to the existence

of very large fortunes running into five, six and seven figures or even eight figures while there are people unemployed, people living very poor, and so on, and any modification of those inequalities has a good social effect. We say that from our own very real experience among the people of the country.

8376. Is your point in this paragraph that you dislike the debt because you think it makes the inequality worse? Some witnesses—I think you yourselves—put forward that when you came before: that you thought the debt accentuated on balance the inequality of distribution of wealth?—Yes. The existence of the debt and of people holding large fortunes in the debt and living on interest raised by taxation on the country does cause a feeling of resentment and injustice.

8377. You are not objecting to the individuals holding it, but you are objecting to the effect of the debt as a whole on the distribution of wealth throughout the community. Is that it?—Yes. (*Paragraphs* **23** *to* **25** *read.*)

8378. *Mr. Bell*: Do you think the revision of valuations would be quite equitable as between the payer of a lump sum and the man who has elected or been allowed to pay by instalments?—The man who is in a position to pay in a lump sum is in a more satisfactory and happy position than the man who proves that he can only pay in instalments and is given the benefit of an arrangement to that effect.

8379. As a matter of fact the payer of a lump sum may suffer as much depreciation after payment as the instalment man suffers during the period of payment. Would you allow him to appeal?—We are not unfavourable to the consideration of real hardship. In an Income Tax demand I have this week I find there are provisions for refunds and so on in the event of subsequent loss of income on the estimate that the Income Tax payer has himself made, and we do not see why that principle should not be applied in dealing with this tax.

8380. There would in fact be a great area of revision?—We do not think it would be very considerable, but we are not unfavourable to the principle of giving favourable consideration to cases of real hardship. (*Paragraphs* **26** *to* **31** *read.*)

Chairman: Thank you very much for your evidence.

(*The Witnesses withdrew.*)

(*Adjourned.*)

TWENTY-NINTH DAY.

Tuesday, 1st September, 1925.

Present:

The Rt. Hon. LORD COLWYN, *Chairman.*
Sir CHARLES ADDIS, K.C.M.G.
Mr. HENRY BELL.
Professor FRED HALL.
Mr. W. L. HICHENS.

Mr. G. R. HAMILTON, *Secretary.*
Mr. G. ISMAY, *Assistant Secretary.*

Sir Hugh Bell, Bart., C.B., called and examined.

Evidence-in-chief handed in by Sir Hugh Bell.

Question 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?*

1. This question involves banking considerations of a very recondite and far reaching kind and as such is beyond my competence. I, therefore, do not attempt to offer any opinion on either (1) or (2). As regards the effects of Floating and longer term debt, I incline to think that the only distinction between these two lies in the facility with which Floating Debt can be increased and the temptations which it consequently holds out to incur expenditure, of which the burden is not so immediately apparent as is the case when long term borrowings are undertaken.

Question 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?*

2. This again is largely a banking question. In my judgment the appearance of a Government in the market tends to raise the cost of capital because, having the general credit of the country to offer, it can usually borrow on the lowest terms. The demands of the administration tend to exhaust the lendable capital and consequently the price tends to rise and the cost to borrowers with less good security to offer tends to increase.

Question 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?

3. As with the individual so with the State, the extinction of debt with its prior claim on the product of the industry and enterprise of the country seems to me desirable. But that extinction must be real and not merely apparent. That is to say the repayment must come out of the surplus remaining after all reasonable demands have been satisfied. But

what is *reasonable*? In this as in so many cases, the crux lies in the adjective. Countless illustrations could be given. Costly furs would not be "reasonable" in Egypt, while fur clothing is an indispensable necessity in the Arctic region. Taxation which compelled an Egyptian of wealth to forego ermine might be a proper mode of extinguishing debt while similar taxation which deprived a Siberian peasant of sheep skins would be deplorable.

4. This general answer covers both (*a*) and (*b*) but to be more precise I should say that it would be well to add to the present £50 million as far as possible. It took Great Britain over 80 years to reduce the debt incurred in the Napoleonic Wars from £900 million to £635 million in 1899. In the next 15 years warfare added more than redemption took off with the result that at 31st March, 1914, the debt stood 26½ millions higher at £661½ million. In a century of unexampled prosperity we only succeeded in paying off about 26 per cent. of the debt. The War increased this debt nearly 12 fold and we have now a burden of interest which is 16½ times more than when War broke out. It may be hoped that this burden will be considerably reduced in consequence of the various loans raised during the War at high rates of interest maturing and being resettled on more favourable terms, a process which is already taking place. To effect this it is essential to maintain the credit of Great Britain at as high a level as possible and in no better way can this be done than by showing the ability of the country to reduce in a steady way the amount of this debt. If the country can afford out of its annual revenue to set aside £50,000,000 and to use this sum to reduce debt the result would no doubt be that the rate of interest payable by the State would fall. This reduction in interest would diminish as time went on and as the nation's credit improved. In the earlier stages the relief would be greater. But assuming that debt bearing interest at 4 per cent. for the whole period were extinguished at the rate of £50,000,000 a year the next generation would find the burden not intolerable and in 50 years from now it would be entirely or almost entirely removed.

5. How far such a policy is compatible with the necessities of the country depends on other considerations.

6. The precise answers to the alternatives (*a*) and (*b*) depend on these considerations to which some attempt is made below to give due weight. The same remarks apply to the question as to the use to be made of Budget surpluses.

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

7. The power to raise money by means of Floating Debt ought in my judgment to be exercised with great discretion. Governments (like individuals in prosperous circumstances) find no difficulty in buying credit from dealers in that strange and intangible commodity. A rich man with no overdraft at his bankers can obtain anything he wants for any wild cat enterprise. That same man when under considerable obligation to his bankers, is less disposed to ask for more, and is apt to restrain his speculative propensities. The prudent man may be trusted to exercise due restraint even if he has a considerable margin of credit at his bank. That Chancellor who keeps his Floating Debt as low as is consistent with never having much money in the hands of his bankers would pursue the wiser course.

8. The Funded Debt with its fixed rate of interest makes a fine ballast to his ship. It is difficult to fix what limits he should impose on himself. Each case must be considered on its merits. The Chancellor should be inclined to load the scales against himself and keep his Floating Debt low.

9. This seems the proper place to observe that the worst, as it is the most insidious, form of Floating Debt is to be found in a paper currency augmentable at the will of the Government. The piece of paper which purports to be worth £5 bears no direct interest; but as the pieces increase in number each begins to lose value and the unfortunate holders do in fact pay interest at a rate which in the end becomes intolerable and may (as in Germany) involve the last holder in complete loss though probably each successive holder may have borne some share.

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

10. A convinced individualist boggles at "public expenditure on desirable objects," for, as before remarked, the crux of the question lies in the adjective. But assuming that some desirable objects exist for which money can be found, it does not appear to be doubtful that a debt charge sufficiently high would restrict such expenditure. It is not difficult to suggest public expenditure which is essential, but the individualist seeks to limit rather than to enlarge this. Government, for him, is in the nature of a necessary evil. He seeks to circumscribe its activities as much as possible and reluctantly accepts any enlargement of its functions. To maintain such order as will permit to each citizen the exercise of the fullest liberty, limited only by like liberty to his neighbour is the ideal. But by the nature of things his ideal is unattainable, for the ambit of each impinges more or less on the ambit of others. The individualist finds himself trespassing on the field of the Socialist, but whereas the one thinks of his trespass as at best an evil of which the necessity requires full demonstration, the other seems to me to assume that to interfere is in itself good and is only to be avoided on stringent proof (rarely accepted by him) that it will bear consequential results to over-weigh the advantages he claims for it. The direct and brief answer to the question is that the less money, (abstracted either obligatorily for interest on former extravagances, or voluntarily for present demands) the Chancellor of the Exchequer takes out of the taxpayer's pockets the better it will be for the nation as a whole.

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

11. For the reason given in question 1, this question is beyond my competence, but I incline to answer it in the negative.

QUESTION 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?*

QUESTION 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?*

QUESTION 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 profits proportionate to managing ability and to the risks of personal enterprise, and higher on the average than the rate of interest on Government debt?*

QUESTION 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?*

12. A similar answer applies to questions 7, 8, 9 and 10. But I should like to add the following

observation personal in its character, but I believe of universal applicability. A person like myself engaged in industry, if he wishes to prosper and to bring prosperity to those in his employment, must be ready to keep on embarking capital in his enterprise. He dare not use all his so-called "profit" (which I should prefer to call "surplus") for his own purposes; personal expenditure or what not. He probably regards from one-half to two-thirds of his income as all he has available and the balance goes back into his business to maintain and increase it. If he is in a trade which is not of a static kind the men in his employment look to him to find places for their children. My own personal experience is something as follows: For every 1,000 men in the employment of my firm about 10 young men seek employment every year. In my business before the War about £250 was needed to set a man to work, that is to say the capital of the company in pounds sterling was about 250 times the number of men in our employment. Therefore each year we needed to invest £2,500 or thereabouts to give employment to these youths. I need not explain that no investment of that sort was actually made year by year but I think I should not be far wrong if I said that our capital increased at something like that ratio and that the shareholder contributed something like rateably to that increase. That is another way of saying that out of surplus arising from our manufactures over time a proportion of that sort had to be returned to the business. When the total taxation of the country (rates and taxes) amounted to something in the region of 2s. in the £ it was in my power to contribute my share, but when the total of rates and taxes levied on me rose by leaps and bounds the surplus left after meeting my personal expenditure of all kinds disappeared. The first economy to be made was obviously not to return to the business those sums which before the War were willingly given for the improvement and development of the works. In this sense then it is clear that existing taxes do act as a deterrent to those engaged in trade. The effect has perhaps been less than might have been the case did the investor not believe that before long a return to what he regarded as the normal would take place. He strained his credit to maintain and improve his works trusting to a return to more moderate public expenditure, and consequently lower taxation by the governing authorities of all kinds which would bring back to him the surpluses on which he had relied in the past.

13. Something must be added with regard to question 10. Prior to the War with a relatively moderate Income Tax, the taxing authorities treated the accounts of manufacturers less rigidly than became usual later. As the needs of the country became more pressing and it was essential to collect the largest possible amount from every taxpayer, methods became more and more stringent. Before the War, therefore, there was a tendency to keep down the capital account as much as possible. Prudently managed concerns put as much as they could to working charges. Sums which might have been divided as profits were added to reserve or sometimes even expended on extensions. It is safe to say that in pursuance of this policy no cautiously managed concern divided more than one-half to two-thirds of the profits shown after the policy I have described had been followed as far as the Inland Revenue officers would allow.

14. The same officers of a department greedy for money totally reversed this policy. They compelled manufacturers to add to capital expenditure which prior to 1914 would unquestionably have been charged to revenue or at least to reserves of some sort. They levied the exorbitant Income Tax on the profits thus swollen. Cases could be given in which with the same object in view they demanded a revaluation of stores at the extravagant war prices and levied the tax on the profit swollen in this adventitious way. It is within my own knowledge that the effect of this policy was to levy taxes which a fall in the prices of the same stores, caused to be refunded in the following period. Such policy even when not pursued to the absurd limit just mentioned is most detrimental to the proper conduct of business and in the long run must produce disaster.

Question 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?*

15. A very difficult question, answerable only after an elaborate examination of the circumstances. It may I think be said that all costs necessary to production enter into prices; and since taxes whether direct or indirect are, in a civilised community a necessary (or at all events unescapable) item of cost, taxes must "enter into prices" (a vague phrase but which I assume to mean "form an element in determining the price at which any article can be sold"). Take an extreme case: suppose the taxing authority decided that the whole surplus arising from the production of some article involving large capital expenditure should be taken in taxation, that article would cease to be produced since there would be no inducement to provide the capital required for its production. But if we assume that the policy in question had been initiated after a large capital had been invested and taxation had been gradually increased till the extreme point of complete absorption of the whole surplus had been reached it would seem that taxation, as it increased, would more and more become an element in determining price, prices rising till consumption was affected, and then production diminishing till it disappeared. At this point, or just before it, the socialist ideal would have been reached. The supreme authority would have decided that such and such a quantity of the article was needed and would regulate taxation to produce that and no more. Taxation would be the throttle valve, which by being more or less weighted allows just so much steam to escape and no more. If this view is correct the question involves the whole issue between individualism and socialism. The individualist regards taxation as an evil, though a necessary evil and tolerates even Government itself only because some regulation is imperative to permit the exercise of individual effort, as little hampered as is compatible with life in a community. The hermit living "in some vast wilderness, some boundless contiguity "of shade," needs no laws, no police, no armies and, therefore, no taxation. But the moment two or three or more hermits are gathered together the need of co-operation arises, and with it the need of regulating the methods of co-operative effort.

16. Taxes, says the individualist, are bad in themselves and only to be tolerated because they are necessary and the necessity must be shown in each case. Taxes, says the Socialist, are good in themselves and their imposition must only be withheld where they would prevent the attainment of some object to which the community attaches importance.

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

17. Again a very difficult question. It appears clear that taxes which are essentially paid in cash, can only be paid out of what I will call current income, not, however, necessarily out of the income of the payer. In my judgment any taxation which does not come out of the income of the payer is bad. The Death Duties have this defect from which many people seek to escape by insurance and also by other less avowable methods. If a person whose estate at his death will be liable to Death Duties insures against this contingency it is because he wishes to pay the tax out of his income year by year. If he fails to make the necessary provision (which he might do in other ways than by insurance) his executors

at his death are compelled to realise some of his property, for the Inland Revenue demands cash. Someone out of current income or accumulation of past income buys the property and the demand of the taxing authorities is satisfied out of income. In "private businesses" by which I assume is meant businesses which, whether registered under the Limited Liability Acts or not, are owned by a small group of individuals the needs of one or more partners to meet relatively large demands at uncertain periods may be very prejudicial. They may arise at moments when the withdrawal of the capital may create serious inconvenience. It is true they can be forestalled by the making of provision by insurance or otherwise. But they sin in this, as in all cases, by being uncertain and irregular in their incidence and from their nature and amount by needing to be satisfied in some other way than out of current income.

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

18. Stamp Duties are only worse than any other taxes because they impose obligations which must be met, and regulations of a complicated character which must be obeyed, before the transaction to which they refer can be completed. They are detrimental to trade as are all taxes because they are an item of cost but they have the additional objections which have been mentioned above. The twopenny stamp on cheques is a good example of both drawbacks. It is said by bankers that the additional duty lessened the use of cheques as a means of settling accounts. In so far as this is the case they are a disadvantage. It will I suppose be admitted that the use of cheques is an advantage to both debtor and creditor and that a duty tends to lessen their use. If the duty were still further increased or made *ad valorem* in character the obstacle to their use would be enhanced.

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

19. Speaking broadly and over time I should say taxes on commodities are borne entirely by the consumer. It is easy to suggest cases in which this is momentarily not true. For example, if as is suggested at present the coal trade of this country is being carried on at a loss in whole or in part the consumer may be said to bear no part of the tax, or of any other item of cost. The coal owner in wages, stores, royalty, taxes, etc., expends say, 18s. to get a ton of coal into the consumer's hand and receives in exchange 17s. 6d. The missing sixpence he must take from some other source, and unless he has a perennial source of supply this other source will ultimately be exhausted.

20. Or assume that unless he can sell his 18s. ton of coal for 19s. he will not carry on the business and he gets only 18s. 6d. who shall say out of which item of cost the producer takes the missing sixpence as being paid by him and not by the consumer, as all is paid by the consumer when the ton sells for 19s. As regards the contrast between internal and external trade, it exists only in the case where the producer is able from market conditions to charge a differential rate. In the following hypothetical table this is set out taking the above figures as examples:—

	s.	d.
Cost of two tons, in every case	36	0

Sale Price.

(1) *Sales at a loss.*

	Foreign. Ton.		Home. Ton.			
	s.	d.	s.	d.	s.	d.
Class A ...	17	6	17	6	... 35	0
„ B ...	17	0	18	0	... 35	0
„ C ...	18	0	17	0	... 35	0

(2) *Sales at an inadequate profit.*

	Foreign. Ton.		Home. Ton.			
	s.	d.	s.	d.	s.	d.
Class A ...	18	6	18	6	... 37	0
„ B ...	18	0	19	0	... 37	0
„ C ...	19	0	18	0	... 37	0

(3) *Sales at an adequate profit.*

	Foreign. Ton.		Home. Ton.			
	s.	d.	s.	d.	s.	d.
Class A ...	19	0	19	0	... 38	0
„ B ...	18	6	19	6	... 38	0
„ C ...	19	6	18	6	... 38	0

21. In passing I may remark that Class A (home and foreign price the same) comprises the cases which those who profess anti-dumping principles would regard as proper procedure. Class B (home price above foreign) they would call shameless dumping. The foreign coal producer would wish to see the British producer compelled to adopt Class C (home price below foreign) while the foreign user would wish to find Class B always followed, though his legislature would probably be asked to impose penalties against it, as indeed has been done in every country where anti-dumping legislation has been enacted. The British producer, if he is wise, asks to be left alone to adopt from time to time whichever procedure keeps his pits fully employed. He perhaps even hopes that by adopting even (1) C 36s. may become 35s. or even 34s. or less and his 1s. a ton got. He carries on in that hope or in the alternative that (2) in some form may come to pass as a transition to (3) in one of its forms, and if that comes about he prays he may be left to adopt A, B or C as the contingencies of the trade compel.

The varieties are infinite but the examples given suffice to show the principles involved.

QUESTION 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?*

22. I incline to the opinion that if it were possible a single direct tax on income would be the best. But I recognise the difficulties, probably insuperable, which are involved. A tax on commodities is levied without the contributors being aware of its existence and so is paid without much grumbling. It is justified by the assertion that it is possible in this way to get something toward the maintenance of the State out of the poorer and indeed the poorest classes. It must be levied as far as possible on articles of very general consumption and as little as possible on articles of prime necessity. The upward limit of taxability is, therefore, comparatively low on such articles. Sugar is an example of the articles coming under this condition. On the other hand articles in large demand but not of prime necessity can stand very high taxation without detriment either to the State or the producer. Tobacco is an example of such articles. A third article, viz., alcohol, must be mentioned because certain other considerations have weight in determining the tax to be imposed. These do not appear to me to be germane to the discussion but there is I think no doubt that the ethical questions connected with the use or abuse of alcohol have very largely influenced legislators in dealing with this commodity. From what has been said it would appear difficult to establish any real ratio between direct and indirect taxation since the conditions under which the latter is imposed vary so greatly.

23. Only this need be added that the Chancellor of the Exchequer must decide how much a tax will yield to the Treasury, for cases can be shown in which a lowering of the tax has increased its yield and *vice versa*. The Chancellor of the Exchequer should be influenced by no ethical consideration, but should consider only how he can get most into his chest at the least cost to the taxpayer.

QUESTION 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?*

QUESTION 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?*

24. It would seem that the present system of taxation tends to prevent the accumulation of wealth. I will not discuss the difficult questions connected with its distribution beyond saying that a tendency to accumulation in few hands appears to me undesirable. On the other hand a very minute subdivision of wealth might hinder those developments which seem to be demanded by the increasing requirements of man for various things which are thought to add to his wellbeing. It is I think certain that one man with say £100,000 at his disposal is more likely to risk £1,000 in some big enterprise than 100 men with £1,000 each to risk £10. As has been mentioned above the persons most interested in the accumulation of wealth are the great mass of the people who can only be set to work if capital is found to provide employment. The 8 to 9 million workers in this country mean 80,000 to 90,000 young men to be provided with work every year. If my experience can be taken as general that means that £20 million must have been accumulated on the average, every year to find work for the rising population. What this should be under post-war conditions is difficult to state. To the man of wealth another 1 per cent. increase on his capital is of little moment; to the son of the man in his employment it is a vital necessity if that boy is to be a help to the community and not a burden on it. To tax the wealthy so as to lower that accumulation is to inflict a serious injury on those for whom the State should feel the greatest solicitude. I can suggest no improvement on the present methods partly because I incline to believe that any old tax, however bad, is better than any new tax, however good. With astounding speed a bad tax gets shifted on to the proper shoulders, often at great and unnecessary disadvantage to the community. The best of new taxes can hardly hope to fall exactly on the shoulders to which they belong. I hold that in the long run the consumer pays always. The crying need to-day is a reduction of public expenditure which would lessen the burden of taxation in the best and most direct way.

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

25. Only I think by providing surpluses out of which to reduce the debt.

QUESTION 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?*

26. This is also a question needing much explanation in order to give a satisfactory answer, so much depending on the purposes for which taxation is levied. Let me put an extreme case. Suppose the dictum "Employment or Maintenance" were adopted and the result were that even more universally than at present a large and possibly growing proportion of the population preferred "Maintenance" to "Employment," taxation would increase "Unemployment" till the "Employed" were bled white in maintaining their unemployed fellows. This extreme case cannot be disregarded in present circumstances and its partial effect has probably contributed to the condition in which we find ourselves. The action of politicians in holding out the promise of 9d. for 4d. and even still more tempting conditions, has tended to make men believe that following the Sibylline rule the less they have to offer the more they can charge for it. Where taxation is used to invest in productive enterprise, there would seem to be no evil effect ensuing except for the doubt which the individualist entertains whether the removal of the hope of personal gain will not tend to reduce real efficiency.

27. It would take too long to illustrate this but I suggest that very cogent reasons can be shown from such a service as the Post Office where remarkable bureaucratic efficiency exists with results which become apparently less and less satisfactory to the customers of that department.

28. Where (as in the case of warfare) the taxation is to meet obligations which, when they were incurred, appeared imperative, conditions of such extreme complication arise that it is impossible to set them out in any detail. All I can do is to mention them to show that their existence is not overlooked in my reply. That the world would have been in easier circumstances but for the huge and in fact incalculable destruction of the wealth which existed before 1914, is probably not in dispute. The mere shift of wealth has not been without effect in bringing about the present state of affairs. The taxation which it has involved is nothing but a drawback to the advance of the standard of living of the world at large. In this sense the taxation resulting from the War is seriously affecting the labour market. Could we wipe out all that taxation and have all the wealth the destruction of which it brought about it would be a good thing for the world.

8381. *Chairman*: Will you read the paragraphs in your paper, and then questions may be asked you by the Committee?—Yes. (*Paragraph* 1 *read.*)

8382. *Mr. Hichens*: In what way do you think that a Floating Debt is a temptation to incur expenditure?—Because it is so easily increased.

8383. Would not the rate of interest go up if it were increased beyond a certain point?—Yes. It has all the disadvantages of any other debt, but it has the additional disadvantage that you are able to increase it so much more easily. Before you go into the market to borrow you have to make a great many preparations, whereas when you are increasing Floating Debt all you have to do is draw a cheque. Perhaps I might venture to tell you a little tale. My father and I were once discussing some expenditure He said to me: "How do you propose to meet it?" I said: "Well, I think I shall draw a cheque for it." That is a floating debt. A complacent banker enabled me to make that reply. (*Paragraph* 2 *read.*)

8384. *Professor Hall*: Have you had recently any personal experience in regard to the rate at which loans can be obtained?—No, not personal. (*Paragraphs* 3 *to* 6 *read.*)

8385. *Mr. Bell*: You say "this reduction in interest would diminish as time went on and as the nation's credit improved." Do you mean it would increase?—I think it would diminish. I cannot say to what point it would diminish. I would remind you that there was a period when Consols produced under two and a half per cent., when Consols were close on 114. So that we have seen the rate of interest they yielded go down to what was almost a disappearing point. The interest would diminish as the security improved, but the rate of reduction would be slower and slower.

8386. Even as the nation's credit improved?—I think so. I am endeavouring to enforce that by saying I do not imagine it would disappear alto-

gether, but I think it would reduce at a diminishing rate. That is all I am saying; I did not mean to say more than that.

8387. *Sir Charles Addis*: May we take it that in your view the present Sinking Fund of £50,000,000 is a reasonable amount to set aside, or should it be more or less in present circumstances?—I think every penny that is being taken out of the taxpayer's pocket is a distinct disadvantage to the country as a whole, and that therefore £50,000,000 at the present moment is far too much. But it may be necessary to keep it up, for all that.

8388. Would you suggest a general law by which one could arrive at an amount which would bear a proper relation to the capacity of the nation to bear taxation? For example, would you relate it at all to the standard of living on the one hand and to the national savings required to maintain industry on the other?—I think it is so much more important to increase the real surplus of the nation that I would rather see the standard of living go down. But only if by maintaining taxation I were not preventing the progress of the nation—by which I mean the development of the real resources of the nation.

8389. Would you apply that to the present standard of living?—Yes.

8390. You think that might be reduced?—Yes.

8391. And you would set against that the savings required for the development of industry?—Yes; if I rightly understand your question, my answer is in the affirmative.

8392. Your view is that that would ultimately redound to the advantage of the lower classes and eventually raise the standard of living once more?—I would hope so.

8393. Have you any suggestion which would help us to determine between those two policies at what point one should fix the amount of debt reduction? You see, there are three things: there is the standard of living, there is the amount of savings required for the maintenance of industry, and there is what you also advocate, the reduction of debt. Can you suggest what should be the relation between those three factors?—I feel it very difficult to suggest anything specific.

8394. You are quite clear that the debt ought to be paid off even though that should be at the expense of the standard of living on the one hand or of the development of industry on the other?—Yes, I think so.

8395. But the degree to which either of those two should suffer is indeterminate; you cannot make any suggestion?—I feel a difficulty in determining it. I would say with regard to the reduction of debt, it is like a mortgage on a large estate; if the amount is small it really does not affect the question at all. As you go on making it bigger and bigger it becomes more and more an element which has to be taken into account in determining what the expenditure shall be, and there comes a point when you cannot incur any more expenditure, because of the burden of your debt. Now it seems to me that so far as Great Britain is concerned we have long passed that stage, we have got to a point at which the debt is infinitely greater than we can afford, and therefore all our endeavours should be directed to the reduction of that debt until we get it down to something like a figure where it is not a serious burden upon the total product of the nation. I do not think it was a serious burden when we were paying, as we were up to the time of the War, £28,000,000 a year, if I remember aright, for service of the debt. Any opportunity of adding something to that £28,000,000 was an advantage. As is suggested in one of the questions Budget surpluses presented such an opportunity, and I think every man who cared for the future of the country was glad to see the debt reduced by the application of these surpluses. Now the fact that we had reduced it so greatly in the 80 or 90 years after the Napoleonic Wars redounded to our immense advantage—if advantage it was—in enabling us to raise the large sums of money which we did during the War. I think the country ought always to bear in mind the possibility of further crises which may necessitate our creating, as we are pleased to call it, very big credits again. It is because of that, that I am inclined to emphasise the extreme necessity of a present reduction of the National Debt.

8396. But you would not offer any opinion as to the amount of the reduction in present circumstances?—I want it as big as possible.

8397. You would not offer an opinion as to whether £50,000,000 is too big or too small?—No, I should not like to say. I should not like to say that it is too small.

8398. *Mr. Bell*: You would not in fact increase taxation to increase the Sinking Fund?—At the present moment, certainly not, because I think we have got to a point in taxation where it is doing a distinct injury to the country. It may be inevitable; I am not dealing with the question of whether it is inevitable or not, but that it is now a matter of serious injury to the country I personally do not for one moment doubt.

8399. *Sir Charles Addis*: If you were Chancellor of the Exchequer, in view of your opinion on that point, would you reduce the amount of the Sinking Fund in order to relieve the industrial situation?—It is a hypothesis which I have great difficulty in envisaging, but having envisaged it I say I would go as far as I dare to keep the amount of repayment high without endangering my majority in the House of Commons for my Budget.

8400. *Professor Hall*: With regard to paragraph 4 of your paper, where you contemplate the burden of the debt being almost entirely removed in 50 years, repayments of debt should be added to the Sinking Fund?—That calculation, which is a very rough one, is based upon the assumption that we take advantage of every opportunity which presents itself for reducing the National Debt without incurring the disadvantage of additional taxation. That, I think, is the proper answer to your question.

8401. You would be prepared to increase the Sinking Fund by the amount of the interest saved provided it did not mean any additional taxation?—I should like to do that. I should like to take advantage of every accident which enabled me to reduce the debt.

8402. *Mr. Hichens*: I suppose taxation for the purpose of reducing debt would have a different effect on the general prosperity of the people from taxation for general purposes, say education, or any other purposes. That is to say, taxation for reduction of debt would be taking money out of pocket A and putting it back into pocket B?—Yes, I think so.

8403. It would not, perhaps, be so harmful from the point of view of trade and industry?—I think that is so. I am quite inclined to take that view—that taxation for the purpose of reducing debt is improving the credit of the country and is, as you say, only a transfer.

8404. It is only in so far as the transfer is bad that the effects would be ill?—Yes. You may be taking it from you or from me, who are employing it in industry advantageously, and giving it to some of these gentlemen on the other side (the bankers on the Committee) who are only battening upon our industry!

8405. But they would give it back to you on terms, would they not?—I would rather have it myself.

8406. If, say, a certain part of the Income Tax was specially ear-marked for the purpose of reduction of debt, would it make any difference to the amount that you could levy in that way without prejudicing industry?—I do not like the idea of ear-marking taxation for any specific purpose and being bound to use it in that way, rain shine. Perhaps I may tell another anecdote. My father and I, times being very bad, were discussing whether we should write off our usual depreciation, which he was very anxious to do and I was very anxious not to do. I finally said to

him: "You know, after all, the purpose of this concern is to maintain you and me, not to make our grandchildren or great grandchildren incredibly rich." I am inclined to use the same argument here.

8407. But there is this danger, is there not: that people are apt to argue that taxation is dangerously high to-day and therefore the Sinking Fund must be reduced?—Yes, I know, and I am entirely opposed to that view.

8408. The truer argument would be: taxation is very high to-day, therefore we must reduce expenditure on certain other services, but not on the reduction of debt?—I agree with that view in general terms, and if I were pressed I would agree to it quite absolutely and without conditions. But I feel that in practical politics I should probably have to balance the two propositions one against the other and determine whether the arguments in favour of reduction of debt did in fact overweigh the arguments in favour of certain expenditure say, for example, on education. I am going to weigh the one against the other; and my inclination would be to say I will be in favour of reducing the debt, not doing what is proposed for the improvement of the education of the nation.

8409. In that case you could not justifiably argue that you were reducing taxation in order to benefit trade. Because *ex hypothesi* taxation, in so far as it is used for reduction of debt, does not affect the trade position very materially?—I agree.

8410. *Professor Hall*: Would you agree that, in order that this suggestion of removing the debt in 50 years could be carried out, we should have to maintain approximately the present rates of taxation?—Yes, unless you reduce expenditure.

8411. I am presuming that expenditure remains the same?—Yes.

8412. So that you do not think that it would be damaging to maintain the present rate of taxation over this period of 50 years provided we were applying the funds for the reduction of the debt?—If I am obliged to accept your postulates, then, of course, my answer is yes. But I do not accept your postulates.

8413. But you have given us a suggestion here that we might wipe off the debt in 50 years by a Sinking Fund of £50,000,000 a year, plus the saving of interest. My question to you is—would you maintain the present rate of taxation in order to do that?—So far as paying off the debt, yes; but so far as the present taxation goes, for a great many expenditures about which I feel the gravest doubt, no. I want to see a drastic cutting down of expenditure in many directions, which I should be prepared to indicate; and that, of course, is all underlying the question of the extinction of debt.

8414. You look to the remission of taxation from a curtailment of other services?—Yes.

8415. On the question of the standard of living, I understood you to say that you are prepared to see that come down a little?—Needs must when the devil drives.

8416. You did say that, did you not?—Yes, I do say it.

8417. I wanted to ask you, as a business man, what effect you think that would have on the standard of efficiency of, say, a man employed in the industry in which you are engaged?—I think none whatever, if the reductions were in directions which I thought wise. I could indicate a good many.

8418. You do not think it would have any material effect upon efficiency?—I think not; on the contrary, I think it is conceivable that in certain directions you might reduce the standard of living and reduce taxation and improve efficiency.

8419. On the question of education, do you think that education may improve efficiency and tend to greater productivity in industry?—It may.

8420. You rather suggested that you are willing to see the expenditure upon education not exactly curtailed, but at any rate not extended?—I was rather taking an example in reply to Mr. Hichens, where it was an expenditure which I was willing to incur, but which I would forego to get other advantages, rather than condemning education as such.

8421. It is a choice between the two forms of expenditure?—Yes. For that purpose I was instancing two things which are equally desirable of attainment, and I was asked to say which of the two I would choose, and I said I would choose to reduce the debt.

8422. *Mr. Hichens*: In referring to the pre-war debt, you gave figures in regard to the reduction since Napoleonic times. You make no mention there of conversion schemes which have had the effect of reducing the interest and raising the capital?—No.

8423. In your opinion, would the credit of the country stand higher if, for the sake of argument, its capital debt figured at £6,000,000,000 and the rate of interest was 3 per cent., or if its capital debt were £3,000,000,000 and the rate of interest on it was 6 per cent.?—I do not think it makes any difference.

8424. You think there is no psychological influence in having a high capital debt? I ask that question of you because you have made no reference at all here to the very important reductions in interest that have been made, as if you did not think that mattered much from the point of view of the credit of the country?—I do not think it does matter. You are getting into a very difficult and recondite subject, I think. When I was preparing this paper it seemed to me that you must compare the things as they were then just exactly with the things as they are now, and you must assume that the general conditions were about the same, and that therefore it was not necessary to go into these refinements. I dare say a professed economist would find a great deal to say on the subject which you have now opened, but it does not seem to me to have very much practical weight.

8425. *Mr. Bell*: One sees lists of the debts of various countries in the world. I am afraid that people as a matter of fact do not think of the rates of interest attached; they look rather to the mere sum of money which represents the debt. Of course it is very much better to have a £10,000,000 loan at 3 per cent. than to have a £5,000,000 loan at 10 per cent.; and yet people do not look at it in that way; they just look at that great number of noughts, and they say the British debt is the biggest of all of them. I think that was Mr. Hichens' point. Unless you join up the interest and the debt there is a psychological impression upon a great number of people?—I quite appreciate the weight of the distinction Mr. Hichens was drawing. (*Mr. Hichens*): The reason I asked you was because it did seem to have a psychological effect on you.

8426. *Mr. Bell*: You referred to the capital without referring to the amount of interest paid on it?—Take the case of the French Rentes. French Rentes have no capital value at all; they constitute a perpetual rent charge, and are rightly called "rentes." We in England, from our way of looking at things have always looked at the capital account, I think; but what was of interest to the Chancellor of the Exchequer was not the nominal value, which was varying from day to day and went up, as some of us remember, to considerably over par, but what was the interest he had to pay upon it; and in preparing his Budget he did not think at all about whether it was £600,000,000 or £6,000,000,000; it did not matter to him. That it may have some psychological effect is probably true; I dare say it has. In answer to Mr. Bell, I think one may make this observation: that in England when we talk of a man's wealth, we talk in terms of income. In America they never talk in terms of income, but always in terms of capital. That is a curious contrast between the two attitudes of mind. I say that contrast between the attitude of mind in the American and in the Englishman may have a sort of effect that Mr. Hichens is attributing to me in my disregard of interest.—(*Mr. Bell*): We know that in America that has lately changed a little,

now that they publish in the newspapers the incomes of different people.

8427. *Sir Charles Addis*: Do you not think it is a good deal due to the different ways in which wealth is held in one country and in the other? It takes a different form in America?—I have no doubt there is some deep-seated reason for that view, but it is interesting to contrast them. (*Paragraphs* 7, 8 *and* 9 *read.*)

8428. *Mr. Bell*: You have left out of sight here altogether the question of the considerably cheaper cost of the Floating Debt. There is a point at which, of course, you would allow Floating Debt, but I think Chancellors are always thinking that they are borrowing at 3 per cent., or £3 13s. 6d., or £2 19s. 11d., whereas in a fixed debt they are paying 5 per cent.?—Yes. That again is a thing on which I hardly dare to venture.

8429. You know the price of Treasury Bills is very much lower than the price of a long loan? That obviously leads the Chancellor to keep his debt, to some extent at all events, in that shape?—Yes. I think I have given all weight to that consideration. The way that I look at it is this. The income of the Chancellor comes in, you may roughly say, in a certain small number of large payments, and it goes out day by day and once a quarter or once a half-year in large amounts. He is bound, therefore, to have at times large accumulations of money, and to that extent there is bound to be some Floating Debt; because otherwise he would be at times under considerable obligations to his banker for overdrawing his account unless there were times when he had a great deal of spare money. Now I think he must manage his course so as to get the money that he leaves in the hands of his bankers as low as he conveniently can. I am not expressing myself very clearly, but I think you will understand what I mean.

8430. I was thinking of the question of amounts outstanding. The Chancellor thinks: "If out of £8,000,000 of debt I can get the public to take £1,000,000 at 3 per cent. at short date rather than at 5 per cent., it pays me year in year out to have a certain amount always short dated?"—I cannot quite agree. I think I have given every weight to that consideration; I meant to give every weight to it. (*Paragraph* 10 *read.*)

8431. *Mr. Hichens*: Do you consider that the present system of taxation is on the whole equitable and is on the whole reasonable?—No, I think not. I have given in a further answer some views as to that point. I do not think the present method of taxation is altogether satisfactory. I have indicated that I should prefer to see a universal Income Tax. (*Paragraphs* 11 *to* 14 *read.*)

8432. *Professor Hall*: Would you agree that so far as this greater rigidity in assessing taxation was applied all round and led to an increase of revenue it did probably avoid an increase in the rate of taxation?—Yes.

8433. So that what was lost on the swings may have been gained on the roundabouts?—I never objected to that. What I did object to was the tendency which it produced on the minds of all of us to regard as profit that which was not real profit—a very dangerous thing—and then to starve the works.

8434. You would have preferred the Chancellor to raise the rate really rather than to have adopted this method of getting the revenue?—We were in such conditions of stress that you could not complain of a man grasping at a straw. He did not look very carefully to see what sort of straw it was; he clutched hold of it. That was our position.

8435. I gather from your evidence that it drove you into a method of providing revenue that you considered was not as good from the point of view of business as the other method was?—Yes, I think so; but I think you must take it a little further. The point of this remark to which you are referring was that the same measure that was applied to one year when a compulsorily extravagant value was put on stores was compulsorily applied by the force of necessity to the next year, when the reverse took place, and the money that the Chancellor had got out of my pocket had to come back.

8436. I was not thinking so much of that as of the other cases where apparently you had been allowed to charge things against revenue which under the stress of war necessity were not allowed you by the taxing authorities, and you had to consider them as capital expenditure and not as revenue expenditure, and that to some extent has prevented your doing things which you did before for the development of your business?—Yes, that is so. When the amount to be levied was not very large, the taxing authorities were prepared to look a little more leniently at the charges against revenue, because it was not a very large amount; it was 1s. or 2s. in the £ for Income Tax, and it was not a very serious amount. If there was another £100 or £1,000 or £100,000 being charged to revenue which he thought was wrong, it was not a serious question. But when it came to a question of 5s. or 6s. in the £ it did become a serious matter, and then he looked very closely at what was going to be charged against revenue, especially in the mining industry, and he compelled to be treated as capital expenditure that which no prudent colliery owner would have dared to put to capital. For example, certain expenditure on developing the mine, about which there might be a great deal of discussion, but which no prudent man would have thought of doing other than putting it to revenue. That was the danger of that position taken up by the taxing authorities—a danger which was all the greater because there is always a tendency to squander your income in paying dividends.

8437. It comes back to the anecdote you told us about yourself and your father about building up for the next generation?—Yes, but of course in the other direction, because this man wanted to live and he did not care about his great grandson.

8438. *Mr. Hichens*: You say that every business requires further capital or part of the profits for its continuance an further expansion. Would you say that that is true of the iron and steel industries today, for example?—I do not know what you mean.

8439. In your examples you suggest that each year it is necessary to extend your business because you have to take care of a certain additional number of young men, which implies that your business is increasing every year?—Yes.

8440. Is that still the case, not with your business, but with businesses in general?—I think so. I have been careful to talk about a business which is not static in character. Now if you take Great Britain as a whole I do not think that we have yet reached, though we may be nearly approaching, the static condition, and if we are getting to it the step between the static condition and decline is a very short one: but I do not think we are there; I do not think we are there even in the trade in which you and I are engaged. I do not think it is at all probable that there will be any great increase in the quantities of the materials that you and I have to deal with; that is my general impression; but that we shall greatly improve the quality of the article I believe is true; that is to say, we shall have carried it on to a further stage of manufacture somehow or other. May I take an example from my own experience? I began by making pig iron. For the greater part of my life I made nothing but pig iron. Then I found it was impossible to make any more pig iron because I had reached the limit of my capacity in that direction; but I wanted to do more, and I began to make steel. Then we found it necessary to do more still; we are not by any means static. Now we are building bridges; and I do not know what we shall do next; but until the iron trade of Great Britain has become static, you may be sure we shall do something more. It is in that sense that I mean there will be always room to find employment for the descendants of the persons in our employment. But then there is another point which I think your observation covers; that is, as we all of us know,

there is a great deal of expenditure which is necessarily incurred in every works, which you could not possibly add to capital; it must come out of surpluses. I do not call them profits. "Profit" is a most misleading word, as you and I know too well. They must come out of the surpluses. You cannot add them to capital, otherwise you would swell your capital to an inordinate extent. Therefore, out of the income of such concerns as those that you and I have to deal with there must be a considerable amount which is in the nature of gross surplus, but is not divisible as profit, and must go back into the concern if it is to be maintained. Your engines wear out. They do not wear out day by day, but at the end of 10 or 15 or some number of years they cease to be efficient, and you have to replace them by others. You must have the money there. If you are wise, you replace them by a better engine, which costs you more money; it does the work better, it is true, but you dare not add it to capital; I think you would be very unwise to do so. Now the tendency of the Inland Revenue authorities during the War was to insist that all those things which prudent people were declining to add to capital, were proper additions to capital; and if the concerns had been managed in that way from the time they were founded 100 years ago, they would all have been bankrupt 50 years since. That is the position.

8441. *Professor Hall*: I would like to ask you a question arising indirectly out of what you have said. In your business is it the case that the inventions that have been introduced have increased or diminished the amount of capital per head required?—Greatly increased it.

8442. So that when you speak of a thing being static you do not mean that the amount of capital required in the business will necessarily remain static?—No.

8443. That would increase even if the number of workmen remained the same, on account of improvements in processes taking place?—Yes, I think so. I could give you a rather striking example of that. When I was in America in 1914 I had an opportunity of speaking to a large number of financial persons of importance in New York, and I very much surprised them by saying that in this country we turned over our capital in the steel trade about once a year; whereas in America they turned it over only about once in three years. Now when you come to reflect upon it, you see the meaning of that. The capital per unit in America was very much higher than it was here, and the turnover consequently very much slower.

8444. But the labour costs may have been different?—They were different. That was why. Until comparatively recently it paid us better to employ a man than to substitute a machine for him, but as the cost of labour went up that condition changed, and I think Mr. Hichens would probably agree with me in saying that in the last 10 or 15 years the capital cost per unit in the British steel works has greatly increased, and tends to increase more and more. There is a tendency, therefore, that the amount required for what I will call the service of the debt, for the remuneration of the capital of the concern, tends to become higher, because the capital is higher per unit.

8445. You would say this: that comparing the present-day position with the position before the War, our national capital, that is, the capital of the whole of the people in the country, should be much higher per head than before the War for industrial purposes?—You must not ask me that question in general, because I am not able to say. I cannot tell what, for example, is true in textiles; I do not know enough about it. I do not think it is true of the railways, for example, which after all is a very large industry in Great Britain.

8446. Excuse me asking these questions; they are not really remote from what we are inquiring into, because you have been telling us of the importance of accumulating capital, and I am rather anxious to have these questions answered, so that we may know how far there is a need for additional capital now as compared with pre-War conditions. I gather from what you say, that you are only speaking for your own industry, and you would prefer not to commit yourself with regard to others?—If you ask me what my general impression is, it is that on the whole there is a tendency to increase the capital per unit. That is certainly true in my own trade, and I should think it probably true of the textile trades; I do not know. I do not think it is true of railways. I do not think it is true of agriculture, but there again I do not know enough to say. But what is much more important, I think, from the point of view of the Socialist, is that the population is increasing, and that you cannot put the people to work without capital, and that, if my figure is at all like right, you want a very large sum of money, £20,000,000 or £30,000,000 a year, in order to give employment to the people who have come up to the time of requiring to be set to work.

8447. An estimate can be made of that, of course, but what we cannot estimate quite as easily is the difference in the amount of capital per head required?—Yes, that is different, and that can only be done over time as gradual changes take place. (*Paragraph* 15 *read.*)

8448. Without taking up the Socialist position, I should like to ask you if you do not think that there are some things that may be done collectively for the community more advantageously than they could be done by the individual; for instance, the provision of water supply?—Yes.

8449. And taxation for a purpose like that could hardly be considered as an evil, surely. The statement is made here that all taxation is an evil?—Taking your very cogent instance of water, with which I happen to have been a good deal concerned, one would desire that the consumer of the water should pay the cost, and therefore it does not come within the purview of taxation at all. In so far as it does, however, I would agree with you that the community ought to be prepared to pay out of the common pocket for the commodity, whatever it is, for which perhaps the individual could not be induced to pay. I go as far as that.

8450. And you would say probably the same in regard to sweeping the streets—that taxation is really the individual's contribution towards the cost of maintaining public health through keeping the streets clean?—Yes.

8451. It is only the rather extreme view that you put in your paragraph that prompted these questions?—Yes, I wanted to put the extreme view.

8452. It may be modified by your subsequent statements?—As I have indicated, I cannot declare myself an absolute and undivided individualist.

8453. You would not consider it, for example, a necessary evil if as the result of our local rates we keep our streets cleaner and the public health better?—I agree.

8454. *Mr. Hichens*: In your business, when you are quoting a price, does the question of Income Tax enter into that price at all?—No.

8455. Does it enter into any of the things that you make?—No. But profit does not.

8456. I did not say it did; I was only asking you. How could it? What rate of Income Tax could you assume—4s. in the £ or 10s. in the £ or what? How could it enter in?—Of course you are quite right; there are certain items that it is impossible to put into your cost account because they are not ascertainable, but they must be taken into account in your balance sheet and in your profit and loss account; because if they are big enough there would be no profit.

8457. You mean if the Income Tax was 20s. in the £ there would be no profit. That is clear. But if you apply that to every industry throughout the country you either put everybody on the same socialistic level or you destroy all industry. The point I really want to get at is how far do you really think that Income Tax does enter into prices. I gather your answer is that it does not enter in at all. You stated to us just now, and I for one entirely agree

with you, that Income Tax does enter materially into the question of reserves because Income Tax is payable on the reserve that you make, and if the Income Tax is high, the amount that you put to reserve is mulcted to that extent. I understand that. But in making your prices in relation to your competitor, who may be working at a loss and therefore would not be chargeable to any Income Tax at all, or in competing against a foreigner who has no Income Tax, you cannot consider it, can you?—No. Of course that is all quite true, but I think you are dividing a hair between the north and the north-east side. I will assume myself to be in the distinguished position of being your partner. We sit down to tender for a particular piece of work and we endeavour to fix a price which will leave us a profit; and no doubt we have not taken Income Tax into account in that; we have taken every other tax into account. When we determined that we would quote such and such a price, we had, as we hoped, reserved a certain sum which was going to redound to our advantage. Now supposing we had been told the day we put in our tender: "Whatever profit you make, the State is going to take it," do you not think that would have altered our view?

8458. Supposing you had been told the Income Tax would go up or down, whichever you please, 6d.?—No, it would not have affected us, I agree.

8459. Or 1s.?—I agree.

8460. *Chairman*: If you had to pay £100,000 in Income Tax last year, does that have any effect on you when you are quoting for some business?—I am fain to admit I think the answer is, "none." At the same time, supposing you were to put it in a slightly different way, and you were to say to me: "Now the Income Tax may be levied at such a rate as will cost you £100,000, and will come out of the surplus out of which you can pay it, or may be levied at a rate which will cost you £200,000 and will have to come out of something where there is no surplus," in the end I would say: "I will not carry on the business." It would not affect me this year or next year, but in the long run it would affect me. That is the point which I am endeavouring to make in my evidence, and that is the point which I think I succeeded in making both in reply to your Lordship and also in reply to Mr. Hichens. It has no direct influence upon my capacity for carrying on the business, but it has a most important indirect influence, and ultimately it would have a deterrent effect upon it, so that I should not carry on my business. That is the point I make.

8461. *Professor Hall*: I was wondering whether what you have said coincides exactly with what you say in your printed evidence, which would, I think, be taken as an expression of opinion that Income Tax does enter into prices?—And I still think it does.

8462. I thought you said, in reply to Mr. Hichens, that in fixing your quotation for a particular job you did not take account of Income Tax?—No, that is quite true.

8463. *Sir Charles Addis*: It does not enter directly, but it does indirectly?—Yes; that is my answer. It does not directly affect it, but it does indirectly affect the question.

8464. *Professor Hall*: Should I be right in putting your view into these words: that it reduces your inducement to continue to extend production?—Yes, I think so.

8465. And by curtailing production it does tend to reduce supply and to send up prices. Is that, roughly, it?—I think so. (*Paragraph* 17 *read.*)

8466. *Mr. Bell*: Have you ever thought of the possibility of being allowed to insure for Death Duties without the amount of the insurance being added to your estate?—Yes, I have thought of that, and I think it would be a reasonable thing for the Chancellor of the Exchequer to do.

8467. In respect of new policies; it would not be fair, of course, to bring in an old policy which had been many years in existence and was not intended for that purpose; but suppose I said to-day I want to leave £10,000, and I want to go to an insurance company and insure for the Succession Duty. I obviously would not be allowed exemption from Income Tax on the premiums payable for the policy. But if, as a prudent man, I did that, would it not be fair for the Chancellor to say: "That is only a prudent man's action; I will not mulct you additional on the whole sum that falls in from your policy and make it impossible for you ever to overtake this demand." I am only putting that from my own personal point of view for the moment, but I was interested to know whether you have thought of it and whether you think it would be fair to all parties?—Yes, I have thought of it, and what I have felt has been that the Chancellor of the Exchequer, with the whole of the property of the country liable to Death Duty behind it, might quite well say to each person: "Now assess your Death Duties and pay me that, and you shall be relieved by that amount; pay me the insurance premium upon that amount and your estate shall be relieved of that amount whenever you die." That would be the reasonable thing, I think. It has this disadvantage, perhaps not a considerable one, that it makes the State a still larger dealer in insurance than it is at present. Of course, the State does deal very largely in insurance at present. On the other hand, it has the advantage that there would be no commissions payable, which those of us who have insured against Death Duties have to pay to the insurance company for carrying on the business. That would disappear, I take it; there would be no commissions payable in that case, and so the insurance could be done at a relatively much cheaper rate. But then it is tending to make the State interfere more with my private affairs than I like. I dislike its interference. It is bad enough now; I do not like to suggest to it that it should interfere more.

8468. One way or another you think it would be a wise thing that we should insure?—Yes, I feel that most prudent men, particularly men engaged in business, should do it; because it is a very dangerous thing for a man largely engaged in business to leave his family with the necessity of finding a very large sum of money at an extremely inconvenient moment

8469. And then they mulct him for doing it, because it is added to his whole estate, and he has to pay on that again?—Yes.

8470. *Mr. Hichens*: You object to any tax on capital?—Yes. I think you cannot tax capital. You can assess a tax on capital, but you cannot levy a tax on capital.

8471. It is rather difficult really to distinguish from the point of view of its goodness or badness, is it not, between current capital and potential capital? Are Death Duties, for instance, any worse than Income Tax in the sense that probably the amounts which the prudent man to-day pays in taxes would otherwise have been saved and have become capital? Is there any clear dividing line between what is capital and what is not?—None.

8472. Therefore it is difficult to define Death Duties on that ground?—It is very difficult to define it. Let me assume that I have a dividend due from a railway company and let me assume that I get it paid in sovereigns; there it is in my hand, so many sovereigns. I can do as I please with it; it is income. I put into the bank; it has lost its quality of income that very moment. The moment it goes to the credit of my account at the bank it has ceased to be income. It has become part of the banker's capital, and he may lend it to my friend over there to compete with me. What do we mean by capital? The fact is that when two people, even an expert as you are and a non-expert as I am, are discussing it, we never are quite clear that we are meaning the same thing. By capital we both of us, I take it, are meaning the fixed wealth, the more or less immovable wealth, and that I say you cannot tax. You can assess a tax by the amount of fixed wealth, but you must pay it out of income. What is the capital value of those buildings opposite to us?

They cost so many millions; they do not produce a penny of revenue—on the contrary.

8473. You are talking of collecting the income of the country?—Now take my house or yours. They say you shall pay under Schedule A. Of course your house and mine cannot pay any Income Tax—cannot pay under Schedule A. It is you who pay under Schedule A. They measure the amount you pay by valuing your house, but you pay it out of income.

8474. They measure the amount you should pay by your actual wealth under the Death Duty scheme?—Yes.

8475. Is not that to some extent a reasonable criterion of a man's capacity to pay?—I do not think so; I can suggest heaps of others.

8476. I was going to ask you to do that?—I am interested in a great block of ironstone in Brazil. It is assumed to be worth many millions. It does not pay a farthing of taxes. It does not produce a penny of income. How can you levy any tax upon it? You can levy a tax upon me because I am foolish enough to hold it, and you can say: "You shall pay because you hold this property"; but you have not levied it on that property; you have levied it on me because of that property. And I say, *mutatis mutandis*, that is true of every particle of capital in the sense that I take it. You and I are using terms by which we mean fixed wealth, even though it be in a sense movable wealth, for example, a railway train. A railway train is certainly capital, though it is not fixed; a railway station is capital though it is fixed.

8477. What alternative would you suggest? Would you put another 1s. or 1s. 6d., or whatever it might be, on the Income Tax to make up the Death Duties? You object to the Death Duties. I want to know what substitute you would suggest?—If it were possible I would rather levy the whole of the taxation of the country upon income. The revenue it produces come out of income. That is what pays it. The income pays it, and if I could be quite sure that I could levy it equitably upon income, I would like to levy it on income.

8478. In that case people who had very fine pictures or very expensive jewels would escape. They could invest their money in them without paying any tax at all?—They do now.

8479. But they pay Death Duties on them?—You can easily get over that difficulty. Indeed you do escape it every year by one of your Expiring Laws Continuance Acts, if I am not mistaken. Chattels are still subject to valuation by English law, and it is only because you prevent them being valued every year that they are not valued. I think I am right in my law, but I am not a lawyer.

8480. *Mr. Bell*: That does not quite answer Mr. Hichens' point as to what, if any, Succession Duty should be paid when a person dies who has a great many pictures and jewels?—No doubt it is quite easy to put very difficult questions, and that is a very difficult question, I admit, and one would probably have to seek some way of escape from it. There are plenty of ways which suggest themselves as possible to get over a difficulty of the kind, which after all is not a very large matter. Let us try to get at a figure. I suppose we should be agreed in this room that the total capital value of Great Britain is something in the region of £20,000,000,000, or some figure of that kind; £1,000,000,000 more or less does not matter. There is probably not £2,000,000 of the property of the kind you are speaking of, and it does not affect the question—*de minimis* in fact. Is not that a fair answer? (*Paragraphs* 18 *to* 23 *read.*)

8481. *Mr. Hichens*: That is rather a sweeping statement, that the Chancellor of the Exchequer should be influenced by no ethical consideration. Would you suggest, for instance, that he would be entitled to put an Income Tax of 20s. in the £ on a millionaire simply because it was the easiest way of getting the money, and he did not care whether it was fair in relation to other people or not? Surely he would have to consider relative justice, would he not?—But is that ethics?

8482. If not, what is it?—If it is ethics, then I withdraw; but I did not think it was.

8483. *Sir Charles Addis*: An ethical case would be a tax upon prostitution or upon lotteries, or on something that you consider immoral?—Yes.

8484. You do not want to include that in saying that he should disregard all ethical considerations, do you?—I think I do.

8485. You say he "should consider only how he can get most into his chest"?—I think I can conceive a condition of society in which I should regard a tax on brothels as quite a proper tax, if one may use such a word in such a connection; but I should not exclude it. You happen to have touched upon a very difficult subject, which has puzzled legislators ever since the time of the Romans. I do not know that I should exclude such considerations, and I think there are times in the history of the world when there would have been no hesitation.

8486. *Professor Hall*: Would a tax on luxuries because they were luxuries come under your condemnation or would they meet with your approval?—I should not approve of a tax on luxuries because they are luxuries, because I think you would run such very great incidental risks. May I give you an example? There was a great deal of clamour at one time about the motor car being the rich man's pleasure, and a tax might have been imposed upon it on that ground. As a matter of fact if you had stopped the development of the motor car you would have stopped the development of all high power engines. I do not know that we have gained any advantage from it, but no aeroplane would have been possible but for the impulse given to the commercial production of the costly alloys of steel. The fact that it became possible to make these commercially, made it possible to develop high powered engines in small space. You see how dangerous, therefore, it would be to impose a tax on luxuries merely because they were luxuries.

8487. You have no objection to the Super-tax?—The moment you begin to have to raise such very large sums of money as we have now, you have to get them where you can, and I am afraid I have no alternative but to submit to Super-tax. I think it is a dangerous thing; because I think the mass of the people are more interested in the accumulation of capital than the capitalist himself. The people in this country who are most interested in the accumulation of capital are the working classes, because without that accumulation they cannot be set to work. They will not do it themselves. They do it to some extent, but they will not do it to the extent necessary. If they would, I should have no objection to the limitation of the amount of income that a man might enjoy. The danger is that you would stop progress. I am saying that in all seriousness. Personally I do not like millionaires; I dislike a millionaire. But I see a great danger in limiting the amount of wealth that you would let any one man accumulate, though I agree that there is a great danger in there being large accumulations of wealth, as in America.

8488. *Professor Hall*: It is the total capital you want, not individual ownership of large means?—It is a little more than that. It is not only the total capital but it is the power to dispose of it in big lumps, which you do not get if it is in small sections—you do not get it to the same extent, at all events. If you take a thing with which I am unfortunately rather familiar, the development of a colliery in a new district, it involves an enormous risk, which you ought not to ask people to run unless they can afford to lose; and it is only the rich man who can afford to lose. For that reason I am afraid there is no alternative for us, much though I dislike it, but to have capital disposable in large lumps. (*Paragraphs* 24 *to* 28 *read.*)

8489. *Chairman*: Sir Hugh, we are very much obliged to you for coming to give evidence before us to-day.—I am very grateful to your Lordship.

(*The Witness withdrew.*)

(*Adjourned.*)

THIRTIETH DAY.

Tuesday, 29th September, 1925.

PRESENT:

SIR JOSIAH STAMP, G.B.E., *in the Chair.*
SIR ALAN G. ANDERSON, K.B.E.
PROFESSOR FRED HALL.
MR. W. L. HICHENS.
MRS. BARBARA WOOTTON.

MR. G. R. HAMILTON, *Secretary.*
MR. G. ISMAY, *Assistant Secretary.*

Professor WILLIAM ROBERT SCOTT, called and examined.

EVIDENCE-IN-CHIEF handed in by Professor SCOTT (in reply to the Committee's questions regarding a Capital Levy printed on page 683).

1. It may be premised that the question of a large repayment of the National Debt in the form of a Capital Levy, estimated to realise £3,000,000,000 or thereabouts upon a progressive scale, would involve very many consequences—some immediate and some remote—and the latter would not be the least important. In order to reach a forecast of these consequences it is necessary to assign to the numerous effects their relative co-efficients of importance, and it is so difficult to reach a result that will be even approximately correct that such is likely only to be achieved by a happy chance. In view of the complexity of the considerations, the writer begs respectfully to refer to *Economic Problems of Peace after War, Second Series*, 1918, pp. 67-86, and *The Economic Journal*, "Some Aspects of the Proposed Capital Levy," September, 1918.

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

2. In any sound system of finance the question of the reduction of a public debt by repayment must be kept in view. An exceptional repayment of large amount, in my opinion, does not possess merits sufficient to outweigh its disadvantages. On a first inspection of the present financial and general economic position of the country, it might be said that, in view of the reduction of debt through the Budget in previous years, there is no reason why this method should not be continued, resulting in a gradual approximation towards an amortisation of the debt. That view requires to be considered in relation to the estimated future level of prices. If prices fall considerably, it may be anticipated that (apart from possible counteracting tendencies) the total income of the country will decline, and therefore the pressure of a given amount raised by taxation will be heavier. This pressure of taxation, relative to prices, has to be distinguished from extrinsic elements and also the element of time (*i.e.*, the date at which a possible fall may take place) has to be taken into account. As to the first, at the present time it is frequently contended that the weight of British taxation is a heavy handicap in international competition. Here, as it seems to me, we must distinguish between temporary and permanent conditions. During the period (which it is to be hoped is now approaching its close), when certain foreign countries have failed to balance their Budgets, and, much less, have begun to provide for payment of interest on their foreign debts, their taxation may be relatively low, and to that extent their exports may have a temporary differential advantage in competition with our exports. This, however, if such countries are to attain financial stability, can only be temporary, and accordingly it is to be inferred that, ultimately, British export trade should not suffer in international competition by reason of the burden of taxation (except possibly in the case of countries where the expenditure occasioned by the War was relatively low). In the second place, on the assumption of a possible fall in prices, the question of time is important. An early fall would react unfavourably on the total money income. On the other hand, if such fall were postponed for a considerable period, during that period the total income might not contract, and, once industry reaches its normal level, it would probably expand with the growth of population. Thus during that period the charge for the War debt would be decreased relatively to the total money income, first by requiring a smaller proportion of it, and, secondly, so far as the debt charge itself is not constant, but is subject to diminution on the one side by reduction of the debt through sinking fund payments, and on the other side by favourable conversion operations. Thus the question of the future of prices assumes a certain importance in this connection. There are, however, few economic subjects on which more confident predictions are made—and not many where the predictions are more frequently erroneous. When it is remembered that, as regards debt redemption, we are concerned with prices over a period of about a century, it will readily be recognised that down the long vista of such a period it is merely a question of making the best guess. Who can give any reasoned opinion as to the state of foreign policies fifty years hence—will there have been another war, or will great wars have been prevented for all time to come? What will be the position of the world's currencies, what will have been the degree of economic progress? The best answer might be that of someone with poetic vision, while we would be left with the problem of which poet to choose. Thus it is not possible for an economist to give a forecast of the future of prices over the whole relevant period, but something may be said starting from the time that we know. It is a great help that currencies are once more becoming linked with gold, though account must be taken of the possibility that the relation of the currency to gold may differ from

that of the past. The conditions of gold production and the probability of the economy of the use of gold for currency seem to be the more relevant questions in relation to the metal and the general technique of industry and commerce in reference to commodities. In spite of the existing depression, which tends to produce an unduly pessimistic estimate of future production, there seem to be grounds for a fairly confident expectation of a very considerable development in methods of production within a generation from now, particularly in the application of scientific discoveries to industry, with a consequent tendency towards greater plentifulness of commodities. Combining these various factors, one forms the forecast that ultimately prices will be lower than the present level, but that the fall will be rather protracted, and it will be some time before it becomes definitely established. The world's gold stock has first to be redistributed, and the production of gold to reach its new normal level. The restricted use of gold as coin for some time, in comparison with pre-war conditions, will also have its effect. It is somewhat surprising that price fluctuations in the last eighteen months have not been greater. These conditions do not indicate much prospect of an early fall in prices. After that the future course of prices will depend mainly (apart from costly wars or great calamities) upon the increased production of goods, which increase, as far as an opinion can be formed, is likely to be greater during, say, 1940-50 than the increase in the production of gold. The latter is necessarily uncertain, but in this connection one notes the Report of the American Joint Committee on the Gold Situation in 1919 to the effect that "the gold output of the world seems to have passed its zenith and to be on the decline." It is to be doubted whether this opinion can be applied beyond the immediate future, the elements which enter into the calculation at a more distant period being so largely unknown. Accordingly one's anticipation tends in the general direction that the maximum strain for interest on the debt has been already passed,* and that prices are likely to oscillate rather more in the next few years than in the immediate past, that in that period a fall on balance is unlikely (if there is no Capital Levy). After that it is possible that a considerable interval will elapse before the ultimate fall will establish itself, and, finally, unless there is an almost unique combination of circumstances, the price level at the end of the nineteenth century is unlikely to be repeated. Thus, in view of the uncertainty of future price movements and what can be anticipated as to their trend, there is no special reason on this ground for an early repayment of a large amount of debt, say £3,000,000,000.

Answer to Question 2 (*as to form of levy, &c.*).

3. It does not appear to me that a Capital Levy of large amount for debt redemption is necessary or desirable. With reference to the suggestions in "Labour and the War Debt" the following remarks may be made:—

(a) The levy could not be confined in all cases to individuals. In the case of the surrender value of insurances affecting life contingencies, as valued on the appointed day, the levy would have to be paid by the insurance office, the policy being adjusted accordingly. The ultimate incidence of the levy would be on the policy holder or his representatives. Where a reversion had been purchased say by an insurance company, that institution would be liable for the levy, the incidence of it being diffused between policy holders and the shareholders.

(b) In principle, the levy being on capital, it should apply not only to material but to immaterial capital also. The fixing of the basis for charging immaterial capital would present some difficulty, but it would be by no means insuperable; indeed it is somewhat similar to questions which arise in connection with reversions. As regards the levy on immaterial wealth, it would require to be collected in instalments.

(c) and (d) I have doubts as to whether the rates specified would produce the sum anticipated, in view of the uncertainties of valuation. Further, in view of what is said later concerning a material portion of the levy being collectible only by instalments, the amount available for an immediate reduction of debt is likely to be less than the amount calculated.

Answer to Question 3 (*as to equity, &c., of levy as compared with income taxation*).

4. Over a considerable period of time Income Tax, in spite of admitted disadvantages, would be more equitable to the taxpayer and more in the general interest. Assuming that the anticipated saving in taxation through the levy is used partly in relief of existing taxes, partly in meeting expenditure, Income Tax payers as a class would not receive the whole benefit of the anticipated saving as applied to the amount levied on them. They would also stand to benefit to some extent from successful conversion operations, and from such repayments by our foreign debtors as may be recovered. As regards the general interest, the method of meeting the expenses of War debt by Income Tax has the advantage that those subject to it are participants in the general prosperity of the country, and such participation is reduced to the extent of the levy upon each. Until the maximum economy in public expenditure is reached, the existing high rate of Income Tax is an incentive towards reduction in expenditure which would not be so effective if a Capital Levy had been introduced or was introduced in the near future. I may be singular in thinking, but I do hold that the position of London as an international money centre would be weakened by the establishment of a Capital Levy. It may be prejudice or lack of understanding, but a somewhat strict line of demarcation is drawn between countries who have had to make arrangements with their creditors outside the original terms upon which their loans were issued and those who have not, while world finance attaches no importance to the sugared phrase "a Capital Levy to repay debt." It would be disposed to say, "Here is a country where the Government contracted to repay certain debts and it has simply written off a specified percentage of them."

Answer to Question 4 (*as to guarantee against repetition*).

5. The longer a Capital Levy is delayed the less acceptable it is likely to be, unless at some stage, through a combination of unfavourable circumstances, it was proved to be impossible to meet the expenses of the State. I fail to see how in the conditions of government of the country a guarantee against repetition of it can be made effective. It might be suggested that the receipt for securities or cash should be endorsed that such receipt would be accepted to its face value in any future levy or levies that might be made, but it is to be feared that the mere mention of future levies in such a connection would disturb people's minds more than the guarantee would reassure them.

Answer to Question 5 (*as to effects on trade and industry*).

6. The general effects of a Capital Levy on trade and industry would be bad at whatever period of the trade cycle it was introduced; if in a time of active trade the consequent reduction of credit facilities by contraction of the volume of loanable securities,

* See below; Answer to Question 15, par. 23.

and by the shock to confidence, would tend to induce more rapidly than would otherwise be the case a time of trade depression and make it rather worse; conversely, if introduced in a time of depression by postponing the return of confidence it would tend to prevent revival.

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

7. Considering the immediate effects of a Capital Levy, understanding "immediate" to cover the period from the passing of the measure establishing the levy until securities and cash had been handed over to meet it, the friction and dislocation of business would be very considerable. The pressure on valuers would be great, there would be many points of difficulty involving numerous actions at law. The need for securities required for the payment of the levy would involve some contraction of credit. How great this would be would depend upon the mechanism of the payment in securities. The stock markets would be disturbed to an extent which again depends partly on such mechanism, partly upon the degree to which sales of securities for cash were forced. The extent to which the levy met with even a modified acceptance amongst holders of securities is likely to be important in this connection. A greater disturbance of security values is likely, other things being equal, the longer a levy is delayed, because of the greater probability that estates will become more specialised in holdings of securities. Thus soon after the War the great majority of estates included holdings of British Government stocks. After a period of decreased yields on good securities and variations in trade prospects, more estates consist of stocks with variable dividends. The boom of 1919-20 diverted investment in the latter direction, and many of the holdings then formed remain, while in other cases they have been modified by the reversion to fixed interest stocks. A fairly general opinion that a revival in trade was to be expected would again switch interest to industrial stocks.

8. Subject to what has been said in answer to Question 4, a levy, applied once, would leave its effects. It would, in my opinion, be an error to consider that, once the dislocation is over, the friction involved by the levy would be ended. Apart from a balance of legal questions remaining over for settlement, it would be impossible to carry out the levy without leaving a large residuum of payments by instalments. These would be necessary if the levy were applied to immaterial capital. They would also arise in all cases where there were not securities or cash to meet the levy. Therefore, any comparison between the friction of annual taxation and the supposed ease after the disturbance of a levy was over is unreal. There would still be friction through instalments of the levy being superimposed on annual taxation which *ex hypothesi* would not be reduced to the full extent estimated to be saved by the levy. In addition, if there was widespread opposition to the levy, the tendency would be for as many of those as could contrive it, to pay by instalments in the hope that the imposition of the levy might eventually be repealed.

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

9. Again, it is necessary to distinguish between the more immediate and remote effects.

10. At the time the levy is being imposed, the contraction of credit and dislocation of business would tend to the holding up of schemes of development; also it would tend to push some marginal firms below the margin. Overseas investment would be contracted with a reaction on the volume of production, all making towards a reduction in employment.

11. The more remote effects are difficult to disentangle from the other causes affecting employment which will have come into existence by then. The imposition of a levy would leave a certain shock to credit, followed by a contraction of credit.* This would be unfortunate, since in the industrial progress that is to be anticipated one limiting influence is likely to be a scarcity of capital for the developments which will be necessary. It is rather important to recognise that in a time of depression, such as the present, it is almost inevitable that anticipation should be tinged with a certain degree of pessimism. As a matter of fact, every important war has been succeeded by a period of depression, and these have lifted in time. It seems a paradox to say that the present is the real post-war reconstruction, not the somewhat grandiose so-called reconstruction period immediately after the Armistice which was in the main merely hectic inflationism.

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

12. The ramifications of a Capital Levy on the distribution of wealth would be great, and a long time would elapse before equilibrium was reached. I do not think the ultimate redistribution can be forecasted.

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

13. "Individual savings of those not subject to a levy" may be interpreted as those of persons whose wealth excludes them from its scope. Those who succeed to estates already subjected to a levy which has been paid do not properly belong to this class. They form an intermediate class between (*a*) and (*b*). The savings of class (*a*) would depend partly on material and partly upon psychological influences. If, as seems probable, the enforcement of the levy would result in a certain amount of contraction of credit and of employment this class would on the whole, other things being equal, have a smaller saveable surplus, which would not be compensated for by the anticipated reduction in taxation as affecting them. Psychologically, this class is particularly sensitive to losses of savings, thus many working-class investors in Consols through the Post Office Savings Bank have a very bitter feeling against the Government owing to the fall in the price of the security. One cannot say at all definitely what effect the levy would have on this class as regards future savings. Though they have paid no levy, the shadow of a future one is likely to seem menacing to them. All one can venture to forecast is that the reactions here are likely to take quite unexpected forms, gradually becoming less marked if no second levy succeeded the first.

14. Those subject to the levy are likely to feel a grievance. At first no doubt their prevailing disposition would be to say, "Let us eat, drink and be merry, for to-morrow our capital may die." Thus the initial tendency will be towards diminished savings as compared with what would otherwise have been saved by this class. As time goes on, if the levy is not repeated, this feeling of unfair treatment would decrease, but it seems that in this country it is only with regard to investments that people

* The ultimate effects of a levy upon credit, as affecting mercantile and industrial enterprise, are difficult to forecast, since there appear to be set up causes operating in contrary directions. The most obvious consideration is that a levy would diminish the amount of Government stocks; taking this circumstance by itself, it would be an influence towards raising the price and so lowering the yield, with a favourable reaction on the general rate of interest. So far a levy would tend towards making capital cheaper for industry. This result requires correction from the point of view of demand for such stocks. A shock to confidence would have effects, long continued, which might be expected to react on demand, lowering the demand price and possibly diverting a part of the demand by the extension of trust clauses. Also it is possible that the "spread" (mentioned below, Question 11, par. 19) as between the return on first-class and industrial stocks would continue, while the chances of a repetition of the levy would exert some influence, if opinion at any time tended to regard these as an operative factor.

have long memories, as for instance, the still continuing indignation against certain States of the American Union which are considered to have defaulted to their British creditors.

15. As regards collective savings such as the reserves of joint stock companies, the company as such would have no animus against the Capital Levy, the directors would consider the situation from the point of view of the needs of the business. One cannot form any opinion of how the sums available for reserves after a levy had been made would compare with those in previous years. Assuming these were the same, the state of dislocation would probably dispose the directors to be rather more cautious; on the other hand, to the extent that shareholders could exercise pressure on their directors, they would probably press for increased dividends. Accordingly, I look for reduced savings by class (*a*), very considerably reduced savings by class (*b*), and not much change (as defined) in those of class (*c*).

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

16. In addition to what has been said under Question 3, paragraph 4, it is difficult to see how either the immediate or the ultimate effect of a Capital Levy could be good for national credit. We have become so accustomed to a very high credit that we are liable to forget how quite extraordinarily sensitive it is. While it may be said that a levy is a purely domestic matter which would not apply to foreigners, finance pays close attention to the trend of domestic affairs as reacting on a nation's credit. As long as there are countries in which no levy has been imposed, other countries where there has been one cannot fail to experience a certain deterioration of credit. Instead of being as much above suspicion as a country can be in financial affairs, there will be something to be lived down and we should be on our trial.

17. A curious point seems to emerge here. I am disposed to think the longer a levy is delayed the more prejudicial it would be to the national credit. In the late War we received little admiration and no sympathy. Still, for what it was worth, if a levy had been made within two years of the armistice, it would have had some small chance of being accepted as part of the European war disorganisation. Now it is to be feared that a levy would be regarded as a proof that the country was unable to adapt itself to the new conditions.

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

18. In this connection it seems advisable first to state one's view of the mechanism of the payment of the levy. As regards a considerable part of the range of the levy payment would be made in securities. Presumably the Treasury would issue a list of the securities which would be acceptable for the purpose. This would include, it may be taken, all trustee stocks. It is a matter of doubt whether other high class securities should be added such as the best class of industrial debentures or other first charge stocks and debenture and preference stocks of certain colonial and foreign railways, also American gold bonds of the best class. (The last would be of special importance if, as a result of the levy a partial payment of the American debt were contemplated.)

19. It is obvious that there are two main steps—the first where an estate has a sufficient holding of British Government stocks to meet the levy upon it. These would be handed over and accepted as payment in full at the specified rate, and that amount of war debt would be cancelled, subject to any need in policy there might be, at the time, to concentrate on the redemption of a particular class of debt; for instance, if the redemption of Floating Debt were held to be most urgent not much of this class of security would be comprised in the estates subject to the levy. Of other British Government securities large blocks are held by banks, insurance companies and other bodies. Therefore the British Government securities included in estates subject to the levy are only a part of the total amount of these loans and are divided, as between individual estates, in all sorts of proportions. There have been various estimates as to the percentage of the levy that would be met by a direct tender of British Government stocks. It is obvious it would be the aim of the Government to make the terms such as would (as far as possible) secure a large tender of Government stocks in payment of the levy. But there would be numerous estates where either no Government stocks were held or the quantity of these stocks was not sufficient. In such cases two main results would follow according as (1) a particular estate could make up the balance in other acceptable stocks, or (2) it could not either in whole or in part. At this stage a more indirect process begins and there is considerable danger of a lag which may produce serious inconvenience. First of all, at this stage the Government is in possession of trustee stocks, other than Government securities, which are only a halfway house to the desired end. These securities can only be marketed gradually else there will be loss on realisation, and, in the early stages of the levy, the demand for these stocks will be very slow. The Treasury is in danger of being involved in a vicious circle, such securities being sold in order that Government debt may be bought for cancellation. But funds will not be available in the market to purchase the stocks till the proceeds of Government purchases of debt are liberated. Further there is the position of the estates that have no acceptable securities and the most important varieties are two, namely, where there are sufficient non-acceptable stocks which can be sold to pay the levy or where there are not, the estates in question consisting of land or privately owned businesses. As regards the first of these the person subject to the levy must either sell his non-acceptable stocks or borrow from a bank pending realisation. He is likely to sell at a disadvantage since, outside sales of Government stocks by banks, the reduced amount will be held by trusts and if they sell to the Government (as the latter is put in funds by the sale of other classes of acceptable stocks) the trustees cannot invest in ordinary shares. Therefore, there will be a marked tendency for all non-acceptable stocks (and in particular ordinary shares) to fall in price. Lastly the privately-owned business must borrow from a bank (if it has security to give) or contract its stock of commodities or if it is unable to do either, arrangements must be made by which it can pay its proportion of the levy in instalments. The effect of the working out of the levy would involve a considerable danger of disorganised stock markets with the probability of a considerable fall in the price of non-acceptable stocks as a class. Indeed it seems not improbable that for a long time the market in these stocks would be very weak, since a proportion of the sales would have to be financed on money borrowed from the banks and the terms might be expected to be high, because the banks would also have to provide cash for the payment of levies in those cases where marketable securities were not available.

20. On this whole question it is important to note that through the Trustee Acts and the customs and predilections of investors, there are differences in kind in investments, and, if one kind is greatly diminished, disturbance is inevitable with consequential loss until an adjustment is made to the new conditions.

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

21. The levy must involve a certain contraction of credit, both general and as affecting the amount of bank credit available for trade facilities. The contraction of the amount of Government stocks must reduce the possible margin for bank cover, which is of importance in relation to the finance of a recovery in trade. The *actual* cover would be

diminished by the extent that securities cancelled had been in use as cover for loans. It may be said that other cover may be substituted, but there will be a residuum of cases in which there is no other cover, and as already shown (Q. 11, par. 19) the mere fact of the levy will have had the effect of diminishing the efficacy of non-acceptable stocks as cover by reducing their value.

22. Even upon the pious opinion that eels become accustomed to skinning, it does not follow that they like their first experience of the process. Persons subject to the levy will be in all probability alarmed as to all kinds of anticipated evil consequences, some possibly real others extremely unlikely. Different persons may anticipate quite contradictory and mutually exclusive ill-results. Though some of these cannot possibly happen, and many are unlikely to happen, their massed effect on credit is likely to be highly prejudicial for a considerable period, and though the unfounded anticipations are shown to be baseless, some will remain, and the effects of these, together with those that are well founded in restricting credit and impairing confidence, will leave consequences which will exert an influence for a number of years, and some will remain for over a generation.

ANSWER TO QUESTION 14.

23. (Section *b*) (*as to finality of valuations*).—It appears that in the case of fluctuating enterprises a revision of the valuation would be necessary, and if such revision is admitted as possible, at once more of the levy is thrown into instalments, and the more it is payable in instalments the more a revision in valuation will be pressed for. Considering the proportion of estates affected by trusts the position becomes serious. It seems impossible to provide for even moderate equity as between the interests of "the tenant for life" and the "remainder man." In cases of such estates, if the levy is paid at the time, the proportion that will ultimately fall on the remainder man when he succeeds may be much more or much less than that at which he should have been assessed: or conversely the levy may be postponed or made payable in instalments. But in either of the latter cases, the immediate cancellation of debt is not effected *pro tanto* and the claim for revaluation is strengthened. The difficulty might be met to some extent, but not completely, by the State insuring annuities in cases where the estate involved held its investments in acceptable stocks. The effect would be that the tenant for life would receive the specified income for life, while the remainder man would succeed to his reversion when the tenant for life reached the age at which the value of the interest of the former was computed. If the tenant for life survived his or her expectation of life the annuity would still be paid, the draft on the fund being made good from the surplus arising in other cases where the annuity lapses before the remainderman succeeds. The scheme would be a big one and would involve some technical difficulties, but it would remove one obvious injustice to the remainder man, since it would provide in all cases that he would succeed at the precise date on which his proportion of the levy was assessed. It does not provide for the further difficulty that what he succeeds to will inevitably have a very different value to that on which he was assessed, with loss either to him or to the State.

24. (Section *c*) (*as to extent of payment in cash, securities and other forms*).—These matters have already been discussed. It is obvious that cases would be exceedingly rare where the levy would be paid in cash which had been lying at a bank. The actual cash tendered would be increased by such sales of non-acceptable securities as were not turned into acceptable securities. The extent to which this would happen would depend on market conditions at the time and the inducements offered for the tender of securities. As to real property difficulties would arise. It does not appear that the Government would be well advised to accept real property in payment. Yet, if it does not, there will be landed properties where the levy cannot be paid except in instalments.

25. (Section *d*) (*as to payment by private businesses*).—The type of private business which would be hardest hit by a Capital Levy is that which is in many respects most deserving, namely, one which has been expanding rapidly and whose credit is fully used. In that case there would be no option but either to ruin the business or to allow it to pay in instalments, and the same concession would have to be applied to other private firms.

26. (Section *e*) (*as to extent of payment by instalments*).—As already pointed out, payment in instalments would have to be admitted over a wide area, and to that extent the initial principle of immediate debt redemption is vitiated and the need for further valuations is implicitly recognised.

27. (Section *f*) (*as to cases where resources are locked up in private businesses*).—Instalments may be such a sum as with interest equals the amount of the levy (subject to revision on revaluations) and distributed over a number of years. In lieu of these an additional Income Tax might be substituted, but the latter presents additional difficulties; in fact a levy payable in instalments, but subject to revision, would become more and more in effect an additional Income Tax.

28. (Section *g*) (*as to order of debt repayment, etc.*)—The degree of priority to be given to different forms of debt for purposes of redemption presents some difficulty. From the financial point of view it would be well to reduce the Floating Debt, National War Bonds and Treasury Bonds, followed perhaps by increased payments of the foreign debt. From the general credit position it has to be noted that banks hold large quantities of Floating Debt, and the repayment of these would tend to accentuate a stringency of credit. I think precedence should be given to the financial order, and the credit position might be eased by slow sale of the accepted securities other than Government stocks, but in that case the "lag" mentioned in paragraph 19 would be increased.

ANSWER TO QUESTION 15 (*additional points*).

29. In order to complete the foregoing comments, it seems desirable to add something as to one's conception of how the national finances should be dealt with, if there were no Capital Levy. First, it appears in the highest degree probable that the pressure of the interest on the National Debt, as measured by the proportion of the income of the nation absorbed in paying it has passed its maximum point. Comparing the receipts from Estate Duty, Income Tax, Super-tax, Excess Profits Tax and Corporation Profits Tax in 1920-21 with the estimates for the current financial year, and considering the result in relation to the estimates of the national income by *The Economist* and Mr. J. F. Shirras, the proportion of the latter absorbed by these taxes in 1920-1 may have been as high as 10·9 per cent.,* and was not less than 12 per cent. The corresponding figure for 1925-6 would be about 10 per cent. Therefore, it is concluded that the general ability to pay at the present time is greater.

30. The Sinking Fund should be increased as soon as circumstances permit up to 1 per cent. of the debt outstanding. In reference to Question 2, Section 2, if there were a levy the Sinking Fund should be revised accordingly after it.

31. As payments are made by foreign debtors these should be applied to the redemption of debt. It would be specially appropriate, in view of the course

* This would be the percentage on the estimate of the national income for 1921. Bearing in mind that the slump began with the financial year, the figure of income for the latter would be nearer 12 per cent. based on the 1921 figure, but not quite so low as that.

of declarations by successive Chancellors of the Exchequer, if such payments were earmarked as a special Sinking Fund for the redemption of the debt due by us to the United States.

32. These measures, consistently applied, would enable very considerable payments of debt to be made before the general fall in prices, which may be expected at a later date, sets in. (Paragraph 2.)

33. Conversion operations, which involve a material increase in the nominal amount of the debt, should be avoided. To me they seem mere "window-dressing," and, if they have had any beneficial effect, that has been exhausted.

34. Public economy, in the sense of obtaining the maximum efficiency at minimum cost, should be rigorously prosecuted. Possibly the loss of a real appreciation of economy, both national and individual, is one of the most enduring consequences of the War. We have now got the length of talking about economy when something forces the subject on public attention—the practising of it is still to seek.

8490. *Sir Josiah Stamp*: Lord Colwyn is unable to be here this afternoon and has asked me to take the Chair. Will you please read your statement, paragraph by paragraph, and make any comment on it you wish as you go along?—Yes. (*Paragraph* 1 *read.*) The works I mention dealt with an early stage of the levy question, but there are some points that might possibly be of interest.

8491. Have you had occasion, as the controversy has gone on, and in view of later facts, to revise your views very much upon these comparatively pioneer observations of yours?—Not much, I think, in principle.

8492. You do not feel as though you were a false prophet?—Of course there are a number of subjects dealt with in the first book mentioned. As regards anything that I said about the Capital Levy, I do not think I prophesied to any extent. It seems to me, as far as I have looked into what I said then, that it has worked out fairly well. I do not think I prophesied anything about the Capital Levy that the intervening time has either refuted or confirmed.

8493. If you had to rewrite the passages on the Capital Levy, would you alter your evidence very much?—I do not think very much. I would change probably the emphasis as between one point and another, but I do not think I would alter anything on the general principles. (*Paragraph* 2 *read.*)

8494. *Professor Hall*: In the early part of your answer you say: "An exceptional repayment of large amount, in my opinion, does not possess merits sufficient to outweigh its disadvantages." What disadvantages do you mean in that sentence?—That is a general statement; these are detailed later; general disturbance of credit, the difficulty of valuations and the tendency that probably there will be for the levy to be forced to be collected in instalments.

8495. I want to distinguish between the two things: the repayment of the debt and the raising of the money for the repayment. Do you consider that the disadvantage arises out of the repayment itself or out of the methods of providing the money for the repayment?—Both, I should say.

8496. You mean both in this case?—Yes.

8497. In the latter part of your answer you suggest that prices are likely to fall, say, between 1940 and 1950. Would not that be a special reason for trying to pay off as much debt as we can before that fall begins?—Yes, if there were no compensating disadvantages. You will find at the end I suggest that the existing Sinking Fund should be increased.

8498. Is your conclusion that there is no necessity to repay such a large amount as £3,000,000,000, but that there is need to increase the amount we are already paying?—Yes. If you notice, I say there—it is in fact an answer to your previous question—that, on the ground of future price movements, I do not consider that there is any reason for a repayment of debt to this amount. That is what I am considering in the whole of this paragraph. It seemed better to pick up the various aspects of the problem, which is very complex, one by one; and in this paragraph I am dealing with price movements.

8499. You do not think price movements are going to be so serious in their nature as to necessitate any very great effort to get the debt down before prices fall?—No, starting from the present time. Of course, if one were talking in 1920, it would be somewhat different, but starting with the present price level, as I have tried to indicate as clearly as possible, the outlook is very uncertain, but if you are going to have a comparatively stable price level for, say, a period of 10 years or more, perhaps 15 years, where on balance there will be no very great fall, then in that time quite a considerable amount of debt would have been paid off.

8500. You do not think it is desirable, in view of the fact that you think there may be a fall in prices between 1940 and 1950, to make any very exceptional effort before 1940 arrives?—Not an effort so exceptional that it would involve a very great strain upon the general financial, productive and credit position of the country.

8501. *Sir Alan Anderson*: You say, "Once industry reaches its normal level, the total income would probably expand with the growth of population." Are you budgeting for a considerable growth of population here, or is that the world population?—Primarily, population in this country. It seems probable that the increase in population will slow down very considerably, but still there will be an increase; that is, the rate of increase will not be so great as, say, in the last 50 years, but there still will be an increase on balance.

8502. You do not think we are within sight of a decrease in population in this country?—No.

8503. *Sir Josiah Stamp*: In your answer there is a reference to a temporary differential advantage in other countries in competition with our exports. Would it be your view that in international trade you should take the whole of the taxation of a country *en bloc* as entering into the costs of that trade or would you differentiate and say that if Income Tax does not enter into costs in domestic trading neither will it in international trade?—That is rather difficult to answer off-hand. Really what I had in view was a sort of general appreciation of the situation. Taking such taxation as is a burden on industry—assuming that there is taxation that is a burden on industry—if you have countries that temporarily are not raising the amount of taxation which they ought to raise, they presumably have a differential advantage for their export trade to some such extent.

8504. We are not to read into this answer any theory of yours that all taxation enters into cost?—No. I tried to put it as generally as possible just for that reason. I did not want to raise any question of that kind. (*Paragraph* 3 *read.*)

8505. *Mrs. Wootton*: In paragraph (*a*) where you say: "The levy could not be confined in all cases to individuals," do I understand you to mean that the collection would be through bodies other than individuals?—If you turn to the last sentence of paragraph (*a*) it seems to me that the levy would be upon a corporate body, as in the case that I put—I may be wrong—where an insurance company has purchased a reversion. It owns the reversion; then there would presumably be a levy upon that, because

it would be a part of the capital that would have to be accounted for. But the reversion belongs to the insurance company; if it is a mutual office the policy holders in that office would have to bear it.

8506. Strictly it is not a part of capital in individual ownership?—No, but at the same time I think that when you are making valuations you would have to take account of it.

8507. You would have to take account of it instead of reducing the value of the policy, but the reversion which the company had purchased does not, by virtue of its being in the hands of the company, cease to be capital and liable to duty, any more than the reserves?—That is a question for the administration of the levy, and although I think that the disadvantages are greater than the advantages, still I thought that I would try to work it out as far as I could. It is a small point, but it may be typical or other points, and that is perhaps why it is worth discussing it. Suppose this case: that you have a certain trust, with a tenant for life and remainder interests. The tenant for life sells his or her interest to an insurance company. That is a thing that is commonly done, as I know from people connected with insurance companies. When you begin to make your valuation you have got that estate, and if the remainder interests have not parted with their reversions—they may have been too, but if they have not—you have to deal with the tenant for life in some way, and it is a difficulty that seems perhaps worth discussing.

8508. It is rather the difficulty of valuation? In the case that you have put, it is the difficulty of valuing the tenant for life's interest and the remainder interests.—You might put it that way, but I would rather put it this way; namely, that it is a difficulty of the principles that are going to govern the valuation. The valuer cannot say: "I am going to leave this out because it is awkward."

8509. What I want to get at is this—whether you are referring to a case that I think you deal with later, namely, the difficulty of valuing limited interests, or whether this is a separate case?—This is a totally separate case. I was merely mentioning the limited interests as showing how this case arises.

8510. In your judgment this is an example which you think strictly is not a case of individual ownership, but it is so closely approximate to it that it would have to come under the levy?—I think so: that is my point.

8511. *Professor Hall*: You make reference to the person who has no accumulated wealth, but who has some capacity for earning a big income as the result of the investment of capital in his training, and so on. Have you any suggestions to make in regard to the method of reaching those people in order to get equity between them?—I should imagine the way it would be done would be to take that person's earned income over such a period of years as might be agreed upon, then take his expectation of life and capitalise it. That would represent the "brain" or immaterial capital to be levied upon in his case. Then there would be the further question whether the limit of exemption at which the levy began was to be the same or different.

8512. You really try to capitalise his income?—Yes. Of course there are difficulties, but there are difficulties nearly everywhere.

8513. *Sir Alan Anderson*: You would not allow the man to say that he was beginning to get tired and he wished to retire from his business before the end of his life?—Then he would have the pleasure of continuing to pay.

8514. *Professor Hall*: Would you agree that in those cases payment by instalments should be permitted?—It would have to be payable by instalments.

8515. You do not see anything radically wrong with payment by instalments—No; I do not think so. I think it would be very necessary.

8516. Bringing that into relation with what you say in paragraph (*c*), is there any serious difficulty in payment by instalments? Admittedly you do not get all the money at once, and therefore you cannot reduce the debt immediately by the whole of the amount to be received, but is the State any worse off for that provided interest is paid on the outstanding instalments?—To meet the interest which the State has to pay, money would be coming in through the instalments, but we cannot say that those instalments would have the same effect as when the debt is actually extinguished, because the instalments after ten years might not realise the expectation formed of them; you have that weakness.

8517. You are contemplating the instalments being paid over a long period, then? I think very few people so far have suggested a period as long as 10 years?—But if you take any immaterial wealth you have got to let them pay by instalments for a man's expectation of life.

8518. Would you let him pay annually for the whole of that period?—I think so, unless he compounded in some way and then the State would get the money. You must remember that he has not got the money to pay any other way; he is going to make it year by year.

8519. I quite follow that, but is it necessary to spread payment over such a long period as that? Does not that amount in effect to a higher Income Tax on him during his life?—That was the initial view that I took of a Capital Levy—that it really resolved itself into a higher Income Tax when so much would be thrown into instalments; it would be really a double Income Tax.

8520. Is your objection to getting the whole of this money in during 10 years the difficulty of getting it or the undesirability of trying to get it?—It is the undesirability of trying to get it, unless in cases where it is admitted that the levy must be paid by instalments. It would then probably be necessary to go back on the valuation and reduce the levy in those cases.

8521. Readjust it?—Yes, it would have to be readjusted, and so £3,000,000,000 would not be realised; there would be bits scaled off it here and there. My point briefly is this: If you are going to get the money you will have to let it come in over long periods. If you are content with getting less than your estimate then you can make your period as short as you like.

8522. Do you not think a simpler way would be to attempt to get the amount by Income Tax simply instead of trying to capitalise a man's income?—I should like to have time to think that out; I should not like to give an almost casual answer to it. I have referred to it in my answer to one of the later questions.

8523. *Mr. Hichens*: Do you think it would be practical politics to capitalise a man's earning capacity, and assess upon that as a capital sum?—I know nothing about practical politics.

8524. It is rather important, is it not, that we should think of what is practical and not what is merely visionary?—I think it carries out the general principle which is involved—if you have a Capital Levy; why not take account of this kind of capital?

8525. I am wondering how you would carry it out. your theory would be to tax a man on what he theoretically ought to earn over his working life. For that purpose you suggest taking an average of what he actually has earned over, say, three or five years. That might be a criterion for a man in the middle of his working life, but if you take a man of 21 who had been at work since the age of 18 and averaged his earnings for that period, that would be no criterion of his earning capacity in the next 10 years. Would you not get results of startling injustice and inequality if your object is to arrive at what a man's earning capacity is over a given period, namely, his working life?—I do not think you would get any more discrepant results than you would in revising estimates of fluctuating profits capitalised.

8526. Possibly, but the recognised basis of taxation is to tax what a man has got; not what under certain circumstances you think he might have.

Do you know of any country where they have based their taxes on what in their opinion a man might conceivably earn on an average over a period of 20 years if he had luck and was doing his best all the time and never felt ill?—But pardon me, that is not what I am suggesting. I am suggesting on the basis of his present earnings.

8527. But you assume that his present earnings are a criterion of what he is going to earn; and that is where I should take issue with you. As far as I can see there is no reasonable assumption that what a man is earning to-day or has been earning during the past three years he will earn over the next 10 or 15 years?—It would cut both ways.

8528. Very likely it might, and it might be equally disadvantageous both ways?—From the point of view of the State, probably where the estimate was exceeded would make up for where the estimate was defective.

8529. But you have to think to some extent of justice to the individual, have you not? If you take two individuals, one aged, let us say, 40, who has earned an average of £2,000 a year over your given period, and the other aged 21, who, beginning life early, has averaged £200 over that period, is there any particular reason for supposing that £200 is the criterion of the one, or that £2,000 is necessarily the permanent criterion of the other? It may be that the first is in a precarious business which disappears owing to competition. Surely there cannot be any reasonable test of what a man's income over a long period of years is going to be by taking an average of three years or five years?—To a very large extent I agree, but that is exactly what happens with all fluctuating profits, because to get the capital value of a business that fluctuates you have to capitalise the profits, and this is, in effect, what is done.

8530. Where?—It is done in the case of all quotations of stocks and shares of industrial companies; it is what is done in the case of goodwill in the purchase or sale of a business; and if you analyse what really happens in adjusting the value of any commercial concern, it is practically on the number of years' profitable life that it is estimated to have; at least, I cannot conceive any other way of doing it.

8531. No method of taxation has ever been adopted on those lines, has it?—But that is precisely what is being proposed here.

8532. By you?—No, by the principle of the Capital Levy.

8533. As I understand it, the principle of the Capital Levy is that you take a proportion of the capital assets that a man actually has. You are taking his wealth as it exists at a given moment, not as you think it may exist ten years hence. There is a fundamental distinction, surely, between the two things, is there not?—If we take the value of, let us say, a commercial concern as it exists now, that is what the Capital Levy will be based on.

8534. That is what he can get for it to-day, in the opinion of the general public?—But surely that is based on the estimate of the earning capacity of that particular business. And, after all, a man in the prime of life has got an average longer life than most small businesses that are run by individuals.

8535. But in the case of the business, you are taking something here and now, that is to say, a given amount of wealth, for which there is a market value; he can liquidate that at once and his liability is gone. In this case you are imposing upon him a liability which he may never be able to liquidate at all and which may never accrue?—Yes, but a smaller liability; it is not an equal liability.

8536. There may be a question of degree, but you would be departing, would you not, fundamentally from the principle which has hitherto been recognised, that you can only tax what exists, that is to say, the wealth that a man has; and you are prepared to do that?—But taxation very largely is based on the value of wealth.

8537. On the existing value here and now?—And I think, as far as I can see, very largely the same applies with regard to immaterial wealth.

8538. *Sir Alan Anderson*: I understand Professor Scott is not advocating it. What he says is that if you had a Capital Levy, you would be forced to these things, which he says are bad.

Witness: To be logical you would be led along those lines.

8539. *Mr. Hichens*: I rather gathered from him that he thought it was quite practical politics to do it. *Sir Alan Anderson*: No; I think his general view is that it is unwise to do it. *Sir Josiah Stamp*: Am I right in putting it this way: that this paragraph of yours is really addressed to the point of comparative justice? If you are going to have a tax like this, to be equitable it ought to extend in this way?—(*Witness.*) Yes, I think that represents my position.

8540. Supposing it is found that that carries you into very difficult fields, and upon practical and other grounds it cannot be brought into that area, supposing you were in favour of the rest of the Capital Levy on other grounds, would the dropping of this section of it invalidate the whole proposition, in your mind?—It would, if the Capital Levy is going to be logical and consistent.

8541. We have had witnesses who have said: "We know that the Capital Levy has to stop short at a certain point; in various ways it has to be limited; it cannot be carried through to its logical conclusions; all the same, truncated as it is, we think it is an advisable project." I want to ask you how far its inadvisability depends upon your inability to extend it to this field?—If you accept that illogicality or want of consistency of principle, then, of course, there is a still further failure in justice in the levy; it is not equal.

8542. Would you object to any tax being applied, if it could not be made perfectly just over the whole field?—There are degrees of justice, of course. Probably no tax is perfectly just, but you simply grade them, and at a certain point you see that the want of equity becomes too great to make it a desirable tax.

8543. It is clear from the rest of your proof that you would oppose a Capital Levy on other grounds?—Yes.

8544. This paragraph merely adds to the objection that you have: if it is impracticable to do this under (*b*), that would merely add to your objection?—I must say that what I had in my mind, when writing that, was that I was considering, as the question asks, how could the Capital Levy be improved, and I consider it would be an improvement.

8545. May I take you on that point? I can well understand a man who says that the Capital Levy, to be fair, must apply to the capital that is embodied in human beings as well as to the capital that is embodied in objective forms. Here is a man who invests £5,000 for one of his sons in a business; that has got to be taxed. Another man invests £5,000 in his son to extend his education on technical lines, to become, say, a specialist in medicine; he will not be taxed under this proposal, but ought to be. I can understand that; but how do you compass that by capitalising earnings? Of course, earnings are not any reflex at all of the amount of money that has been put into a man?—Of course, they are not, but you have to get as near as you can, and that is the only way that occurred to me that you could get near it.

8546. Cannot you get two professional men, each earning, say, £5,000 a year, one of whom has had a very small amount of money spent on him and by his own initiative and energy gets that income, and the other has had a lot of money spent on him?—Yes, but I would not put it solely on the ground of the money that was spent on him, say, by his father. You have to take the educational advantages which are offered to him, which, to a very considerable extent he gets free.

8547. Capitalise all that and you still have the fact that, of two men with equal incomes, one has that

large measure of capital in him and the other has none at all?—That is the risk in the employment of the particular capital.

8548. What I mean is this. Under paragraph (*b*) you have not achieved what you set out to do, namely, to get equality of taxation; you are really imposing a new tax on ability?—What I say here is that there would be a difficulty in it. But if one were aiming at being logical, one ought to try to accomplish it.

8549. What I thought was that, under the guise of meeting one principle, we have got suddenly into another principle?—No, I do not think I meant it really that way. What I meant was on the ground of consistency of principle.

8550. I suggest that even on that ground it does not carry out what you want to do, because you introduce a new principle. This is a tax which is not only a Capital Levy, but is an ability levy at this point?—That, of course, is open to discussion.

8551. It does seem to me to capitalise the future ability and energies of a man, which is quite a different feature from the capitalisation of wealth that flows in in the form of investment. Let us pursue this; Sir Alan Anderson's question leads my mind to it. You capitalise a man's earnings now, say, at the age of 45, on the basis of his income, and he is going to pay this in the form of annual instalments for the length of his life, or for the length of his working life?—I suppose rather it would be the length of the expectation of his working life.

8552. What happens if he wants to retire in five years' time? May he or may he not? Does the State say: "No, you must not, you must keep in business and go on paying the tax"?—Yes, that is certainly one of the difficulties. There are many difficulties.

8553. Does it stop a man changing over his profession and going to another one?—Would that be very serious? People who change their professions, generally change at a very early stage, when they probably would be exempt from any levy altogether if you capitalise their earnings at that time. A man does not usually change his profession when he has reached the stage of making a fair income in it.

8554. If the State is going to insist on having an annual tax on that basis, whether a man goes on for five years or whether he goes on for 25 years, it does seem to presuppose the control of his activity. *Sir Alan Anderson*: Do you think we have really unearthed a difficulty which is insoluble, because it applies to all business people, too?—(*Witness*): That is my feeling.

8555. Let us say that I am a manager of ships, and I get paid a commission on the earnings of the ships. That is an annual income; and I invest a sum of money in ships to assure myself of that position. I pay my Capital Levy on the sum of money I put into those ships. Under this principle, I should also have to capitalise the future amount I should earn; that would apply to every person who was in a business in which he has invested a certain amount of capital and where he was getting salary or commission or whatever it was. *Sir Josiah Stamp*: The Capital Levy, as we have had it put up to this point, is really a levy on forms of capital which can be passed from hand to hand, those ships and this business. But here is a form that dies with a man, that stops with him the moment he is ill, and it brings in a new factor, namely, his own continued existence. It seems to me to introduce such new factors as to make it quite a different tax. Will you proceed with your paper?—(*Paragraph 4 read.*)

8556. *Professor Hall*: Upon what basis do you found your statement that the Income Tax payer would not receive the whole of the benefit of the anticipated saving arising from a levy?—That is how I understood the gist of the question 2 (*e*)—that the saving effected was to be available both for the reduction of taxation and for expenditure; that is, that what was saved by the levy would not go wholly in relief of taxation.

8557. But that expenditure might have had to be provided out of taxes raised from the Income Tax paying class, might it not?—Quite. That all depends upon the general level of taxation, which is a different question.

8558. Supposing that we were to decide upon a higher Sinking Fund, do you think it would be equitable or inequitable to try to get the necessary amount from a higher Income Tax?—It would probably fall mainly upon the Income Tax and taxes related to Income Tax; that is, not confining oneself merely to Income Tax, but including Super-tax, Death Duties, and so on.

8559. You do not think it would be inequitable to attempt that?—Not, I think, for the amount that I have specified as desirable for the Sinking Fund to be. Of course, I should not commit myself to anybody else's estimate of what he considered a suitable Sinking Fund.

8560. On this question of a high rate of Income Tax restricting expenditure, do you feel very strongly about that?—That is one of the things I do feel rather strongly about, but merely as a matter of general observation.

8561. You do not think that political pressure may be such that other expenditure may be entered upon in preference to reducing Income Tax? Take the present year. We have had a reduction of Income Tax, but we have also had a very big increase of expenditure upon pensions?—I think you really have to take it in sequence. There are two things that are rather difficult to distinguish, and they often get confused. What I mean by economy is getting the maximum value for the taxpayers' money. Things got so out of hand during the War and after the War, that the old salutary maxims were neglected, and the only way that I see to get them restored is for people to continue to feel that weight of taxation for some time to come.

8562. You do not mean to suggest that new services should be avoided, but rather that we should try to get efficient service for the money that is being spent. Is that the point?—Yes. I do not want to complicate this by another element, but it is a question of what should be our scale of public services, say, 10 years from now. That is, of course, raising the whole question of the future policy of the country. I do not want to prejudge that in any way.

8563. *Mr. Hichens*: I see at the end of this paragraph you say: "A somewhat strict line of demarcation is drawn between countries who have had to make arrangements with their creditors outside the original terms upon which their loans were issued, and those who have not." Do you mean to suggest for yourself, or that it is a common belief, that the Capital Levy would involve a settlement outside the terms upon which loans were issued?—I think that is how it would be regarded.

8564. What has it got to do with the question of how the loans were originally issued? The levy is a form of tax, is it not; it has nothing to do with the manner in which a loan was raised, has it? It is not suggested that under a Capital Levy you should compulsorily redeem a loan which is not redeemable, is it?—No, but in the international money market the strict observance of the letter of contracts as regards loans is very keenly scrutinised.

8565. But wherein has it been infringed in one tittle?—I think it would be considered that we had infringed it.

8566. But, how?—By writing down the loan, simply.

8567. But you do not; you pay it off in good sterling. It is not suggested that you should cancel people's War debt or destroy a certain proportion of it without reward. You impose a tax on a man, which may be either an Income Tax or a Capital Levy. With the proceeds of that tax you pay off a certain amount of War debt, which you are perfectly entitled to do. You buy it in the open market,

if you cannot get it elsewhere?—I quite agree, but there are two things to be distinguished: one is what we think happens, and what other people outside this country consider has happened.

8568. If there is not any foundation whatever for the suggestion, do you think we should be influenced by it very largely? I wanted to know, in the first instance, whether you thought there was any foundation at all for the suggestion?—I think it would be considered that there was a foundation for the suggestion, not necessarily that there would be, but it would be considered that there was such.

8569. There is also an even stronger body of opinion, is there not, which holds, perhaps with greater strength, that the holders of War debt are people who are bloodsuckers, who have lived and battened upon the misfortunes of others during the War, and that it is in a sense blood money, which they have no right to have. That is another opinion which is held on the other side. Are you going to pay attention to all the extreme and unreasonable opinions that a few people, who have not studied the question, may have?—But if you want to keep London a money market, you have to pay attention to what people outside think.

8570. Do you suggest that the intelligent people of the London money market would not understand the real facts with regard to the Capital Levy?—I am not talking about the people in the London money market, or people in this country at all. I am trying to envisage what people in other capitals, that have financial business to transact with London, will think.

8571. *Sir Josiah Stamp*: In view of the fact that there is such a ready answer, namely, "We have not done with anybody's War Loan what we have not done with our other wealth; we have dealt with them all alike," would not the foreigner be more influenced by what happens in the London money market in the actual depreciation of securities? Supposing the Capital Levy had the result of making a clean upset in values and the foreigner had investments in English securities, is he not likely to get more apprehensive about London as a centre from the after effects of the levy rather than from the imposition of the levy?—He would probably take the two together.

8572. *Mr. Hichens*: Supposing the levy had the after effect of appreciating War Loan, what would he then do with his mixture?—It would then be a balance between the two. You would have to see which had the stronger pull.

8573. *Mrs. Wootton*: You say in the first paragraph of your answer that over a considerable period of time, Income Tax would be more equitable and more in the general interest than a Capital Levy. Is it one of the advantages of the levy that you are secure in the net saving you would get from having a levy? Supposing you had a levy, when you adjust your account you are bound to come out with a certain amount to the good; a figure of £50,000,000 has been put as the net annual saving. Supposing you want that saving of £50,000,000, it is said that you would get there just as well by 1s. on the Income Tax, only if you adopt that method, somebody may come along to-morrow and take the 1s. off again. Do you think there is anything in that argument?—I should be inclined to say this about it. First of all, is your £50,000,000 of net saving really secured if you have to admit instalments and revaluations. We calculate what the interest on the debt redeemed will be and then we make various allowances from that for the drying up of existing sources of taxation. That all depends upon your initial estimate of what you will get from a levy. Now, if you do not get £3,000,000,000 in cash or securities, but you have to throw off a lot in instalments, and then those instalments have to be revised, I would not count it secure at all.

8574. When the operation is finished at the end of your instalment period—it may be ten years after—if you have collected some levy you reduce your interest charge. Unless Income Tax is 20s. in the £ you cannot lose in taxation so much as the saving in interest. It may not be £50,000,000, it may come down to £25,000,000 or £20,000,000. At one time it used to be £100,000,000, but to-day it has come down to £50,000,000; but if you carry through any part of your operation successfully, it must come to a good sum. An equivalent effect could be produced by some addition to the Income Tax; if it was £25,000,000, perhaps 6d. on the Income Tax would do it. Then it was put that whatever was the amount of the saving from the levy, if you were to raise it by additional Income Tax, you would have to rely on that Income Tax being kept on; but if you have a levy, when the operation is finished, it is secured in perpetuity?—To a very large extent I agree, subject to this. Supposing we say, merely to fix our ideas, that the net saving would be £50,000,000. I would not agree that the £50,000,000 is secure, but of course I should agree that some part of that £50,000,000 is secure, but I should not consider that very material. It is of course a point, but I should say not a very strong one.

8575. You think it is not worth having a levy in order to get it?—Not alone. Of course if you get that fortified with a number of very strong points, then one comes to the question of the balance of advantage.

8576. *Sir Josiah Stamp*: Will you pass on to your next paragraph?—(*Paragraph 5 read.*)

8577. *Mrs. Wootton*: Do you think that would apply—that you could not meet the obligations of the State without a levy but you could with a levy?—It is quite possible; of course almost anything is possible. Suppose, for instance, that within 15 years we had another world war, and suppose all that we are told as to the extent of the destruction by new means of warfare is true, we might have to have a Capital Levy; but I do not think it would help very much, things would be so desperate. (*Paragraphs 6, 7 and 8 read.*)

8578. *Sir Alan Anderson*: In paragraph 7 you say: "The need for securities required for the payment of the levy would involve some contraction of credit." Do you mean that there would be a great demand for loans for the purpose of paying the levy and therefore it would be more difficult to get loans for other purposes?—Partly that and partly also what is stated in a footnote to paragraph 11. I can summarise it quite easily. Stocks are largely used as cover for bank advances, and one has to consider their potential value and their value as actually used, and if you contract the total amount of stocks that may be tendered to a bank as cover for bank loans, there is a consequent possible contraction of credit. How far the taking away of securities representing close upon £3,000,000,000 would involve an actual contraction depends very largely upon the trade cycle, I think. One thing that I feel is that if trade revives in the comparatively near future we shall be up against a shortage of real capital, and therefore we want to have as much cover as possible for getting loans from banks. I think there would be some reduction of credit facilities for that reason; how much it would be I cannot say.

8579. I suppose it is also possible that the levy could not be financed without an inflation of credit?—Its primary effect I think would be towards the deflation of credit. Subsequently it might lead to inflation, but I think the result would be the other way at first.

8580. You do not anticipate any chance of inflation?—Not through the levy.

8581. *Mrs. Wootton*: In paragraph 7 you say: "A greater disturbance of security values is likely, other things being equal, the longer a levy is delayed, because of the greater probability that estates will become more specialised in holdings of securities." Are you referring to a long period tendency there or are you referring to a short period tendency, related to the movement of the trade cycle?—I am referring to the period of approximately from the Armistice up to the very near future. When the Armistice came almost all estates, certainly the great majority of estates, had got some sort of Government

stocks in them. Now, as I say, they have become more specialised, and the effect, as I see it, would have been that if there had been a levy immediately you would have had no involved process of people not having enough Government securities to meet their share of the levy.

8582. On what sort of evidence is your conclusion based?—I did make a comparison of the Estate Duty returns some time ago, but I have not got it with me. In any case these do not help much. Also, one has a good deal of general information from banks, insurance companies, solicitors, and so on.

8583. It is based on impression?—Rather more than impression.

8584. Is it available anywhere where we could get at it or is there any definite evidence that we could go to?—No, I do not think it is in a form that I could provide. It is simply a summary of what you may call impressions that I consider reliable.

8585. *Sir Josiah Stamp*: What puzzles me about that is not so much the evidence for it as to where the different stocks get to when they are changed in this way. As I understand this point, it is that at one time individuals held more of this class of stocks than they do to-day. Assuming the class of stocks remained as an objective fact, where has the balance gone to, who is holding what the individuals have given up?—Let us take A, B, C and D. At the Armistice they all had enough War Loan to pay whatever their levies would have been. Now let us say A has no longer got any War Loan; he has gone in for industrial stocks; and, of course, one has to remember that during the boom of 1920 the amount of industrial stocks was very greatly increased. What had been represented by loans to banks was floated in the market as debentures, preference shares and stocks. Then you will have another estate that will consist altogether of British Government stocks, because there is the effect of a trust which has been constituted.

8586. *Sir Alan Anderson*: The point is that B specialises in War Loan and A specialises in industrials?—Yes, that is my point.

8587. *Sir Josiah Stamp*: The general holdings are not so mixed?—Exactly.

8588. *Professor Hall*: But you have no definite evidence upon the point; it is only general impression?—Only general impression, but it is quite obvious.

8589. It is rather important, having regard to the question of payment?—Yes.

8590. *Sir Josiah Stamp*: What I was looking at was that that was a sufficient answer if A and B instead of holding mixed bags have now specialised bags; but if it is that individuals as a whole had given up a certain class of stock and businesses had taken it up, banks or insurance companies, I was wondering whether you could find evidence in the corporate holdings of an increase in those stocks?—No. The banks and insurance companies would largely go into what we recognise as gilt-edged stocks, also ground rents. If one follows the process, people, I think, tried to be patriotic to the best of their ability and they took up War Loans, and therefore everybody had War stocks, but some of those people sold out their War Loans, and went in altogether for industrials.

8591. Individuals in the aggregate are not holding less, but it has got sorted out more?—That is exactly my point. That is what I mean by their being specialised.

8592. *Sir Alan Anderson*: The evidence in favour of your view is not evidence about change, but evidence of the original tendency of everyone to subscribe to War Loan, which does not exist now?—Yes, that is really what it comes to.

8593. *Professor Hall*: How far do you think a Capital Levy is going to be disturbing to trade if there is general acceptance of the necessity for it and the desirability of raising money in this particular way? You mention the question of goodwill here; how far is the disturbance inevitable, and how far does the disturbance depend upon the degree of acceptance of the levy with goodwill by the trading and general community?—The more it is accepted, of course, the less the disturbance will be; that goes without saying. But I think inherent in the magnitude of the operation there is bound to be a large measure of disturbance.

8594. What do you think will be the nature of the disturbance—shortage of capital for individual business?—Yes. This is discussed in some little detail later on, but briefly it would be this. When one tries to envisage getting these securities sorted out, there will be a complicated sort of interweaving process of getting the securities physically from one hand to another or from sales by the Treasury, and so on, and all that is going to produce a good deal of disturbance; and there will be a disturbance in credit too owing to the double call upon the banks. They will have to finance a certain part of some of the levies to quite a considerable extent, and that again will react on business. To the extent that banks are lending money temporarily to people to pay taxes they will not have that money available to finance trade.

8595. That is temporary?—Yes, it is temporary; that is the initial disturbance.

8596. We have had witnesses before us who have suggested that provided there was a general acceptance of the Capital Levy in principle there need not be much disturbance in trade; and I would like to have your view as to how far the working of the levy would depend upon general acceptance and how far, given the best of goodwill, disturbance is inevitable?—Certainly, for instance, if it was accepted in the same way that the issue of the 5 per cent. War Loan was accepted, as a patriotic effort, the disturbance would not be nearly so great.

8597. To which do you attach most importance—the degree of willingness on the part of the general public or the inevitability of disturbance?—I think rather more to the inevitability of disturbance.

8598. So that goodwill would not be a satisfactory guarantee against disturbance, in your opinion?—That is so. Put it this way: that if you had the maximum degree of goodwill there would still be a considerable amount of disturbance, but much less disturbance than if the levy was resisted.

8599. Will not that disturbance depend in part upon the dispersion of Government holdings and the holdings of stocks that the Government can accept and simply cancel?—In part, yes, but a great many other things are involved in it as well as that. If you had what might be called a perfect dispersion of holdings from the levy point of view, that is, that everybody had enough Government stocks to pay his levy, there would still be a good deal of trouble; it would chiefly then apply with regard to the credit situation.

8600. It has been put to us by some witnesses that the levy would involve the transfer of wealth from people who are now making good use of it in their business to investors who obviously are not in quite as good a position to use it as the business man was. Do you attach any importance to that argument at all?—A certain amount. It really involves what I do not think we have got—at least what I have not been able to get at—the quantitative estimation of the businesses that would be so affected. It is not right to say that that would apply to all businesses, because plenty of businesses would have War Loan or other securities which they could tender to pay for their levy. Therefore the existing state of their business is not so far impeded, but its development may be impeded because if that business wants to reach out and develop, then it could either have sold those securities or used them as cover for a bank loan, but it will not have them now. To that extent it applies.

8601. Would not the business be beneficially affected on the other side by the reduction of taxation, and would not a good deal of the duty that is repaid come back to the business through the medium of the banks?—I think I have alluded to it in one of the following questions. The danger that I see is this. This is a very big operation, and as

far as I can imagine it, there is likely to be a sort of hiatus in it, which is going to upset business pretty badly and upset credit conditions.

8602. That is going to be a temporary and not a permanent damage to industry?—That would be temporary, but it would have continuing effects. Industry is upset and the effects of that last for some time; but of course, nothing is permanent.

8603. Do you think industry might recover from that disturbance?—It might. I think that disturbance in itself would not be desperate. It all depends upon what the state of industry is when it experiences that disturbance; because, after all, there is such a thing as the last straw.

8604. The benefits of the Capital Levy might be considered to be so great as to justify a temporary disturbance?—Quite. I would agree that people might consider them such. I do not consider them so myself.

8605. But people might consider that?—Yes, and with a considerable amount of reason.

8606. Are your arguments largely based on the magnitude of the amount that is suggested for treatment under the Capital Levy, or is it a Capital Levy in principle that you are objecting to? You have made several references to the magnitude of these operations causing disturbance?—Both, I should say; that is a Capital Levy of a very large amount.

8607. What would you call a large amount—£1,000,000,000?—Yes, that is distinctly a large amount.

8608. We have had it suggested to us by one witness that £1,000,000,000, for example, was a manageable amount, but he did not think that £8,000,000,000 would be beneficial?—I should say that £1,000,000,000 is less unmanageable than £3,000,000,000.

8609. But do you think the disturbance with £1,000,000,000 would be so great as to damage industry seriously?—It would do a considerable amount of damage, certainly; I do think that.

8610. My next question arises out of paragraph 8, where you make reference again to immaterial capital. Do you think it is possible to meet that situation by having a Capital Levy at a lower rate than has been contemplated, but supplemented with a higher Income Tax for a period of years in order that the persons in possession of immaterial capital might be called upon to contribute for war debt redemption purposes through Income Tax of a special character? You suggested capitalising the capacity of the individual; but supposing as an alternative a special Income Tax for debt redemption over a period of, say, five years were imposed along with the levy, do you think that would do something to remove the inequity that you consider exists in the levy itself?—I think on the whole it would.

8611. You think it as feasible as the levy itself is feasible?—Perhaps slightly less feasible, but not markedly less feasible. (*Paragraphs* **9**, **10** *and* **11** *read.*) That spread that is alluded to is an anticipation which is worked out as far as I could to show that when a levy was in force the tendency would be for the return upon industrial stocks and on Government securities to show a greater discrepancy than at the present time. (*Paragraphs* **12** *to* **15** *read.*)

8612. *Professor Hall*: If the effect of the levy was to reduce taxation would it not be a considerable stimulus to saving?—I doubt if the probable reduction would be sufficient. Of course, it is an influence towards saving, but one has to take the balance of different influences, favourable and unfavourable, and I think the unfavourable influences would outweigh such a degree of advantage as the reduction in taxation would exert.

8613. Do you mean the fear of repetition of a levy?—No, I mean the general dislocation of business and the consequences of that.

8614. How long do you anticipate that dislocation would last?—The actual dislocation might last between two and three years at a rough guess. Of course, one can only guess at these things.

8615. That is not very long in the lifetime of a nation?—But you would have certain remote effects remaining after that.

8616. What would those be?—If you get a serious disturbance of confidence it still continues to exert its effects, to a decreasing degree, for a very considerable period. If one considers a very long period, those influences would pass away provided there were no expectation of a new levy. Once you have any substantial tendency towards the mooting of a new levy then some of the former dislocation begins to recur; it unsettles confidence.

8617. I do not know that anybody has suggested a repetition of the levy, and perhaps we might confine our attention to a single levy. Having said that, I would like to ask what you mean by a series of disturbances. Do you mean that a series of disturbances will arise from this one Capital Levy?—What I meant was that there would be a very considerable disturbance of industrial, commercial and credit conditions at the time the levy was being enforced. Then, as I think I said in my evidence, this would gradually pass away unless a new levy was mooted, when of course there would be a sort of psychological repercussion of the previous state.

8618. I think you suggested that two or three years would be the duration of the dislocation?—The immediate dislocation.

8619. Would you anticipate that after that two or three years savings would be greater as a result of the reduced taxation?—No. The reduced taxation is only one factor in the situation. After you have made the levy you have to try to estimate the result; and that is why I have given perhaps what seems to be unnecessary attention to the position of people not affected by the levy. By the levy a great deal of the saveable surplus of the more wealthy people has been absorbed and therefore those people will not be able to save as much as they saved before. Then you have to look for what new classes are going to take their place from which the volume of savings may be maintained. That is briefly what I mean.

8620. And that new class will be better able to save because taxation will be lower. No material capital has been taken. Industry would still be as productive, I presume, afterwards. Taxation is lower, and would it therefore not seem that those engaged in industry would be able to save more than before; is it not put the other way sometimes, that the high rate of taxation prevents saving? We have had that put to us by many witnesses—that because of the high rate of taxation they could not accumulate in their businesses the capital necessary for development. If that is true, a reduction of tax should work the other way and make possible the saving of that capital?—Undoubtedly, but have you noticed whether they said that as regards businesses there will not be any net material difference?

8621. But will there not be a difference? Will not they be able to save as the result of reduced taxation?—One has to define what position one envisages exactly. Suppose over a period of years the profits of a business are the same, and its capital is the same, then the levy does not affect that business directly; it may affect it indirectly. Therefore, reduction of taxation would help it somewhat to increase the fund out of which it could save by the amount of the reduction in taxation. But then as against that, you have to take into consideration that for quite some time to come, more than the two or three years that I mentioned just now, a business might experience, and quite possibly would experience, some unfavourable reactions from the fact of a Capital Levy having been made. One business could save more, another business could save less, but I do not think on balance there would be very much difference.

8622. That is something we cannot very well demonstrate. It is a question of individual opinion?

—Of course, it is always a matter of individual opinion as to the balance of advantage. It never can be more, I think.

8623. *Mrs. Wootton*: With regard to paragraph 12, on the effects of distribution of wealth, do you think there is any evidence that as the result of a graduated levy the distribution of wealth might actually be more unequal than it is at present?—I have seen it stated, but I should not like to express an opinion. May I say this generally about the whole question: that once we get beyond a comparatively short period of time we get an almost infinite variety of factors coming in, and, as I said at the beginning, we cannot even state what all those factors will be. But even if we could, that would take us a very little way, because we would have to give the exact coefficient to each of those. Suppose there were 100 factors, but one had a coefficient of 9, and we gave it one, the whole thing would be wrong. In fact, I am really forcing myself to be more definite than I want, if you will allow me to say so. (*Paragraphs* 16 *and* 17 *read.*)

8624. *Professor Hall*: I take it that in paragraph 16 you are taking the view that a levy would affect our credit in a detrimental manner, but a higher Income Tax or higher Death Duties would not affect us in a detrimental manner. Is that the position?—I was simply considering it as regards a Capital Levy: that a levy would be viewed adversely in foreign countries.

8625. It is just the form of taxation; if we were to get the same money by a higher Income Tax or higher Death Duties it would have no effect upon our credit?—No, I should not say it would have no effect. I was not considering that question. I was simply confining myself to the Capital Levy with regard to international finance.

8626. Would you look upon that as being, from an international point of view, a more dangerous way of getting the money than Income Tax or Death Duties?—It all depends upon what your addition to the existing Income Tax and Death Duties would be.

8627. I am wondering whether it is really the novelty of the thing that is frightening people or whether there is anything inherently bad in it?—I am afraid I have not made myself clear, but I am trying to look at this question in the only way in which you can look at it. It is perfectly idle to say what we consider about a levy or our rate of taxation. What we have to try to get into our heads is how other people outside this country that have financial business to do with this country will look at it, and that is what I have been trying to deal with in this answer.

8628. *Mr. Hichens*: Supposing a levy was successfully carried out and our National Debt was reduced by £3,000,000,000 and our financial position strengthened to that extent, is it not equally arguable that we should have the admiration of the whole world?—It is arguable, but it would take a good while to convince the whole world.

8629. Nothing succeeds like success. Everything depends on the success of the operation, does it not?—Yes, of course.

8630. But if it were successful, if we could by making a great national sacrifice reduce our debt, it might be that, so far from our credit diminishing, it might be very materially increased, might it not?—It is possible, but I should say unlikely. (*Paragraphs* 18, 19 *and* 20 *read.*)

8631. *Professor Hall*: Do you anticipate that there will be any exchange of stocks—people holding those that were not acceptable obtaining those that were by exchange?—What I look to is that they would sell them in the market and purchase some of the stocks accepted by the Treasury that were not Government stocks. I do not contemplate that there would be direct exchange between individuals. You do not mean that, do you?

8632. There might be?—I should say a much simpler way would be to do it through the ordinary mechanism of the stock market.

8633. That would not involve the Government, would it?—No.

8634. Might that not be a means of meeting much of the need that would arise for Government stocks tenderable in payment of the levy?—You could not work the levy without it. The levy would be still-born if that did not happen.

8635. You can see the possibility of that being done on a large scale?—I say it is essential that it should be done or you would never get any levy.

8636. There might also be direct exchange in addition to the selling and buying?—There might be, but I should think it would be very unlikely. It would be a reversion to barter, and when you have one of the most highly organised markets in the world it seems to me rather absurd to go back to a primitive thing like barter.

8637. Do you not think that through the medium of the stock and share brokers things like that might be arranged?—I think they should, subject to what I call the "lag" that might happen.

8638. *Sir Josiah Stamp*: You attach considerable importance, of course, to the fact that you cannot synchronise the sale of all stocks with the funds to buy them?—That was my difficulty when I came to think the thing out. I think there is a danger of a big difficulty there. It might be got over, but, as I have pointed out, the upset of credit becomes gradually intensified.

8639. That wants very delicate handling, and the danger is that if the gap once started it might tend to widen. It is just like making a hole in a balloon; there soon comes a tremendous tear. (*Paragraphs* 21 *to* 28 *read.*)

8640. *Professor Hall*: Would you mind explaining paragraph 28, where you speak of the repayment of Floating Debt tending to accentuate a stringency of credit?—The point there is that we have got into the way of talking about War Loan being tendered. But the question from the financial point of view is, would it not be better to get rid of the Floating Debt; because after all that is a debt that may be called up at short notice, three months or six months. On the assumption that an effort should be made to get rid of the Floating Debt, the tender of War Loan directly is no good. You want to get the Floating Debt securities, Treasury Bills, and so on. As I mentioned, private estates hold these in very small quantities. They are usually held by banks. I should say that for practical purposes the Government only can get Floating Debt from banks and other financial institutions. Then if that is paid off it contracts the banker's holding of short-dated securities, and it tends, I think, to contract the amount of loans that he is likely to make.

8641. I rather think the other way about. If they did not hold these short-dated securities they might be inclined to give greater credit to traders?—It looks like that at first sight. It is rather complex, but I think when one works it out that is the ultimate effect. A bank sells, say, £50,000 of Treasury Bills to the Government for purposes of debt cancellation. It is paid for in cash that the Government has received from the levy upon certain individuals. Now one naturally says: "Why does not the bank lend out that cash?" To which one may reply that the bank may have already lent that amount to enable the levy to be paid. Also bankers by long experience have established a certain ratio of cash that they keep, and it is probable that they would not lend the cash under discussion, and so the Treasury Bills are more efficient as a credit engine from the banker's point of view than the cash would be.

8642. What would they do with the cash when they received it?—They would probably deposit it, in the first place, at the Bank of England.

8643. Would not that tend to improve the credit position rather than to restrict it?—So far it would, but when one traces the whole thing out I think one finds that the holding of Treasury Bills is rather more effective for the making of business loans than cash would be.

8644. I am afraid I do not quite follow that. I do not know whether the Chairman does. (*Sir Josiah Stamp*): I think I understand, and I think I agree with the witness. There is more scope in that direction. (*Professor Hall*): I am led on to that because you suggest that we should first reduce the Floating Debt, therefore, I presume—following the next sentence—accentuating the stringency of credit? —(*Witness*): If you notice, in what I have said, we really come against two different orders of considerations as to what we ought to do. We have the financial order and the credit order. After all, this is a financial operation, and I should be inclined to say that the financial order ought to take precedence. There is no good in talking about a Capital Levy unless it is going to put our finances in a much better position. I say it would be a ridiculous thing to have a levy of even £1,000,000,000, not to mention £3,000,000,000, and leave the Floating Debt. I would like to get the Floating Debt out of the way —the Floating Debt and short-dated debt; after that it may be sentimental, but I would like, as far as we could within the terms of the agreement, to reduce the American debt.

8645. You do not stress what some witnesses have, the comparative cheapness of the Floating Debt?—I do not, because I think it is a fallacy. It is cheap now, but you do not know when it is going to be dear.

8646. *Sir Josiah Stamp*: You are taking a considerable risk the moment trade improves?—Yes. Take our position with regard to the American debt, which was first a floating debt, and we were put in a very uncomfortable position simply because the whole thing might be called up. No country could possibly pay it. If money gets dearer the Government may be in a position to reduce Treasury Bills, but not to pay them all off at one time or in one period of six months, and therefore it will have to give more interest on them. If trade were active it is quite conceivable that interest would go up to 6 per cent. on Treasury Bills.

8647. *Professor Hall*: In the words of the Chairman we are taking some risk in regard to this? —We are. It is the cheapest form of debt at the moment.

Sir Josiah Stamp: We will put the remainder of your paragraphs on to the official report if you have nothing to add to them. We thank you very much for coming and helping us this afternoon. We have had a very profitable afternoon.

(*The Witness withdrew.*)

THIRTY-FIRST DAY.

Tuesday, 3rd November, 1925.

Present:

The Rt. Hon. LORD COLWYN, *Chairman.*
Sir CHARLES ADDIS, K.C.M.G.
Sir ARTHUR BALFOUR, K.B.E.
Mr. J. W. BOWEN.
Professor FRED HALL.
Mr. W. L. HICHENS.
Mr. H. B. LEES-SMITH, M.P.
Sir JOSIAH STAMP, G.B.E.
Mrs. BARBARA WOOTTON.

Mr. G. R. HAMILTON, *Secretary.*
Mr. G. ISMAY, *Assistant Secretary.*

Sir O. E. Niemeyer, K.C.B., Controller of Finance, H.M. Treasury, called and examined.

8648. *Chairman*: You were the first witness to appear before this Committee, and we are very glad to see you here again. We have the papers which you have handed in before us, and perhaps you would make any comments on the tables you wish?—It might perhaps be convenient if I take each table by itself and if the Committee will ask any questions that they may have to ask upon it. The first two tables deal with the allocation of the New Sinking Fund. The first shows the actual allocation last year. When I was here before, the Committee asked me for the estimated allocation; this is the actual allocation. The differences are quite insignificant. The item for American Debt was £200,000 more than in the estimate, and the item for Death Duties was £350,000 more. They were merely casual variations. As I explained when I was here before, whereas the first four items, (*a*) to (*d*), do not vary very much from year to year, the third item, (*c*), Bonds surrendered in payment of Death Duties, may vary considerably from year to year, and naturally the figure shown at the bottom as the balance also varies very considerably. In the second table there is an estimate of how the allocation will work this year. That is an estimate, of course, and not an actual figure. There are some slight differences from the previous year; for instance, the total for Conversion Loan is rather more because there is rather more Conversion Loan in existence. But there are no very great differences. I would like to comment on the final item—the balance of £17,000,000. That looks as if it was a free balance, but it is not, in fact, for this reason: that owing to the course of events during the year and possibly, I imagine, the reduction of Income Tax, the price of 4 per cent. tax compounded War Loan has fallen below the level at which we have to apply the Depreciation Fund; consequently, as a matter of fact, £8,000,000 or £9,000,000 of that £17,000,000 will have to go in Depreciation Fund. I only instance that to show how very fluid some of these items are and to emphasise the point that if for any reason the general prices of securities dropped heavily, there are very considerable additional payments that we should have to make from the Sinking Fund. So that when one looks at that figure of £17,000,000 one must not regard it as an absolutely free figure. It is a figure subject to quite substantial contingent charges, some of which have actually come into being in this year. That is the only interest in that table.

The next table deals with the effects of conversions which have taken place so far. It is summarised at the bottom of the second page. From that you will see that if one takes the interest payment, the net result of the five years has been a saving of a million and a quarter, practically all of which has occurred

in the last year, 1924-25. I want to make a comment on that. It might be thought that those figures give a rather disappointing picture of the results of conversions. I want to point out that the conversions dealt with in this table are really of three separate kinds. They are the conversions which follow automatically from the prospectus of the original loan. For instance, in the case of the 5 per cent. National War Bonds, a great number of the holders were entitled to convert into War Loan at £100 for £95 of bonds. That, of course, is an original prospectus right to conversion which we cannot now avoid, but which in fact is an expensive item. If you take the year 1920-21 in this table, you will see there were conversions there which led to a considerable increase; and, again, later down in the middle of 1921-22 there is an item which led to an increase both of the interest and of the principal. Though that resulted from conversion, it was a conversion about which we had no choice. That is one class which runs through this table.

The second class is the case where a bond simply runs on and we borrow to replace it, where, of course, we have to borrow at whatever rate we can. That kind of conversion tends, as time goes on, to be profitable to us, but is not always very heavily profitable to us.

Then, finally, there is what I may call the real conversion, that is to say, when, although we have not got an option to pay off, by some kind of offer we are able to persuade the holder to convert. Those are really the paying conversions as a general rule. I only want to make that point, because it seems to me that if you do not make those distinctions this table is a little misleading as to the results which can be got from conversion. The only other point I want to make is this. If you are embarking on an extensive programme of conversion you naturally do worse at the beginning and better as you go on. These years roughly represent the ground bait for the catch that is coming, and they therefore must not, I think, be taken as representing what is going to go on for every five years, but merely as the beginning stage when the machine is getting directed towards what may become, as you see from later figures, a considerable figure.

8649. Where does the catch come in?—I think in the general tendency of interest rates to fall.

8650. *Mr. Bowen:* As to this £269,000,000 increase of principal, is that subject to variation, or is it a sum that is added permanently or for any length of time to the National Debt?—That is permanently added to the nominal value of the National Debt. It is not subject to reduction except as in course of time further conversions might take place.

8651. So that really our conversions, according to these figures, are pushing off the burden to posterity?—Yes, in a sense, but a great deal of that conversion increase was due to one particular issue, the original issue of 3½ per cent. Conversion Loan; and one has to remember the circumstances in which that issue had to be made. That issue had to be made at a time when even the short money rates were 5½ to 6 per cent. and when it was necessary to stem the rising tide of rates; of course you have to pay for that. One has also got to remember that the 3½ per cent. issue is irredeemable except at the option of the State.

8652. *Sir Arthur Balfour*: Have you any other conversions under the original prospectus to come?—There are a certain number of War Bonds which have still got the right to convert into War Loan.

8653. *Sir Josiah Stamp*: If you were to take out of these tables the third class that you were referred to—those which you call the real conversions—and to put down how much you increase the nominal value of the debt, and also the saving in interest, could you give us what would be the sum necessary to put on one side at compound interest to pay off that addition to the National Debt? Take the year 1924-25. You have added £19,000,000 to the National Debt; I do not know at what date that addition falls due?—I think if you look at the table immediately above you will see that. You see it was very largely 3½ per cent. Conversion Loan, which is irredeemable except at our own option.

8654. At your own option, not before a particular date?—Yes.

8655. What I want to get at is this. To some extent you have added to the national burden by adding to the capital. You can express that additional burden by the annual sum which it is necessary to set aside to meet the amount of the additional burden. Your net saving by conversion is the difference between the annual sum and the interest saving?—Yes, but if the new stock is irredeemable it is very much a matter of taste what you calculate your sinking fund annuity at.

8656. There is a net profit on conversion which allows for the writing off of the addition to the capital by an annual sum?—Yes.

8657. I was wondering what is the order of the real net saving of such conversions?—I should say it was about one per cent., and the 3½ per cent. really costs us about 4½ per cent. It means that it is 4½ per cent. at par.

8658. You could get away with a very big saving of interest if you were to promise £200 for every £100 at a more distant time, say at 50 years after maturity?—Yes, but in the case of the 3½ per cent. loan you do not promise anything of the kind.

8659. Is there no way of finding the annual equilibrium?—You must make some assumption as to when you are going to pay it off. You are making perhaps a rather hard assumption.

8660. I was only wondering whether you could give us a lead as to the real net saving?—No, I do not think one could do that. One could answer that on various assumptions.

8661. It would be possible to construct a table showing the point at which you get a net advantage?—Yes. I had intended to say something about that particular point of the 3½ per cent. Conversion Loan later.

8662. *Mrs. Wootton*: The first type of conversion will soon cease to have much importance?—It will not be important in the next two years. There are War Bonds maturing in 1927 and 1928 which are all entitled to convert into War Loan, and they probably will convert into War Loan because it is to their advantage.

8663. After 1928 it will be practically done with?—Yes. There is one of the American issues which has the right to convert into sterling issues, but that is rather an advantage than otherwise from some points of view.

8664. *Sir Josiah Stamp*: War Bonds expiring in 1929 have the option?—No, the fourth series had no option attached to them. On the next table I would like to say two things. In a sense, those two columns, the annual saving if everything was converted to a 4 per cent. basis and if everything was converted to a 3½ per cent. basis, are rather artificial, because it is not probable that everything will be converted at those rates; it is more likely to be a mixture, so they are only an indication of the kind of magnitude. The other thing I wanted to say is this. The table assumes that no conversion will be made until the date at which the State has the option to convert. It is by no means inconceivable that the State might be able to persuade people to convert at an earlier date. One might convert what is due in 1931 before 1931, so that you could accelerate to that extent under given conditions.

8665. That is the point you make in the foot-note?—Yes.

8666. *Mrs. Wootton*: You have not any figure to show what these savings work out to when you take into account the loss of taxation?—No, I have not worked that out, but if we take the present rate of tax at 4s. in the £ it would be one-fifth—about £7,000,000 or £8,000,000 off this table.

8667. Of course it would be affected by Super-tax?—Yes.

8668. You have not any estimate of what it would come to?—No, I have not worked it out, but I should say roughly £8,000,000. Then you asked about Treasury Bill rates; I do not think I have anything to say about that except that if you went further back you would get back to 5½ and 6 per cent. Then coming to the next table, Table IV, you asked for some information about life annuities. I do not know that I have any comment to make on that. From our point of view their effect may be considered negligible. On the fifth table, that is the debt charges on deadweight debt, I would like to say a word or two. First of all with regard to the first column, the column headed "Interest Charges," the figures that are given there are actual figures which we actually paid, except in the last case, where it is an estimate; but they do not, perhaps, fully represent the amount of saving in interest which has taken place for this reason. If you look at the years 1920-21 and the next four years, those were years in which we were either not paying at all or only paying very slightly on our debt to America. We were liable at that time to 5 per cent. on our debt to America, but the interest was deferred for three years. That 5 per cent. would have cost us roughly £57,000,000 sterling. So that if you take in the year 1920-21 the figure of £326,000,000, if we had in fact been paying the whole of our debts, it would have been £326,000,000 plus £57,000,000. That is important, because it explains why the debt interest seems to have gone up; the figures for 1924-25 and 1925-26 include our American interest.

8669. *Sir Josiah Stamp*: How much do they include?—About £29,000,000 for interest. So that if you were comparing like with like, the saving in interest since 1920 is in the region of £80,000,000 a year, £23,000,000 plus £57,000,000.

8670. Would it not be better to say £326,000,000 compared with £273,000,000, the present net home figure?—Take it that way if you like. The reasons for that drop are, in the first place, that the American debt, which was a 5 per cent. debt, has become a 3 per cent. debt; there has been a reduction of interest; and in the second place, there has been a tremendous drop both in the amount and in the cost of Treasury Bills. The saving of Treasury Bills interest alone is about £48,000,000.

8671. To add £57,000,000 to 1921 gives only a notional figure. That never was in fact paid?—Yes; you can do it either way. You can take either both gross or both net. But that is the reason why those figures fluctuate a little. Coming to the second column, management and expenses, I should just like to say that, as a matter of fact, the item for management is about £1,000,000 of that total; the balance is expenses; that is to say, expenses of issuing conversion loans, in some cases payment of a small cash sum in connection with the conversion, and things of that sort.

8672. *Chairman*: There is a large amount there for the cost in 1921-22—£5,000,000?—Yes; there is a special explanation of that. Included in that is about 3½ millions of cash which was paid on the conversion. People who converted, converted stock in a certain proportion and received £3 per cent. in cash, which was treated as expenses. The third column is simply the ordinary Sinking Fund. You see in the first year, 1913-14, 7½ millions; that was a balance out of the fixed debt charge of 24½ millions, after meeting the other charges. Then during the War we only maintained the Sinking Fund as regards terminable annuities. Then, when you get up to 1919-20 onwards, we had still the old £7,000,000, or slightly more, out of the New Sinking Fund, and certain extra charges which had come on since but had not been actually put into the New Sinking Fund. Then you start in 1923 at £40,000,000 with the Sinking Fund as it is now.

8673. *Sir Arthur Balfour*: And it is fixed at £50,000,000 now?—It has now got to its maximum, £50,000,000. I think that is all I have to say on that table.

The next table gives figures you asked for of the price levels at which debt has been created. I only want to say about that, although these are the best figures we could produce, I am not very satisfied with them or clear as to what exact inference one can draw from them. Because the effect of transactions from year to year, conversions from one loan to another, from Treasury Bills into long-dated loans, and so on, so much obscures the process that it is very difficult to say of any given sum of money, where precisely it should appear. So that I would not like this table to be taken as a very scientific document, or as more than a general indication.

8674. *Sir Josiah Stamp*: I think it has only got to answer a very general question arising out of the evidence that has been put, that we are going to repay £2,000,000,000, and we have borrowed £1,000,000,000. Really, the point is, what was the price level at the date when the original saving was made by the lender, and not when he altered its character or its nominal feature? You have taken the price level at a fixed period of the year?—Yes; at the 31st March in each year. Finally you asked us to put in a memorandum about tax-free securities, which we have done. I do not know whether you want me to make any comment on that. I would only like to say this in general: that in principle I think there is every kind of objection to a tax-free security from every point of view, from the administrative point of view, from the point of view of fairness between taxpayers, and probably even from the point of view of advantage to the State in the consideration it gets in the tax-free stock. I think in principle there is probably every kind of objection. On the other hand, of course, when you are dealing with a debt of 7,500 millions, a very large debt, in very varying circumstances, it might quite well be that on certain occasions you have to take one of two courses, neither of which is in itself very desirable. In other words, you might, with a debt of that size, be forced into expedients which in themselves I should not like.

8675. *Mr. Hichens*: You have to cater for the varying classes of customers?—Yes, and the varying times, when your opportunities are limited. In principle I do not like tax exemption.

8676. *Chairman*: How much does our tax-free debt amount to?—There is not a very great deal of it. I cannot tell you exactly how much is affected by the exemption to the foreign holder. I cannot tell you how much 5 per cent. War Loan, for instance, is, in fact, covered by that exemption. If you look at the table of debt in Table III you will see that the 4 per cent. War Loan is only £63,000,000 as compared with something over £2,000,000,000 of the taxable 5 per cent. War Loan. Certainly as far as experience goes, it would seem that people do not appreciate having the tax-free bond particularly, because they have never been taken up to any very great extent. Whether that was due to the fact that when they were issued people anticipated that taxes would decrease, and whether they might take a different view if at any time they thought taxes were going to increase, is another question; but the fact is that they are not very much taken up, and I am rather surprised at it.

8677. *Sir Arthur Balfour*: Really the highness of the Income Tax made it a good offer at the time?—Yes.

8678. If the Income Tax had been 1s. 6d. nobody would have bothered about it?—That is so.

8679. *Sir Josiah Stamp*: Have you any feeling about the propriety or the popularity of those stocks of which the interest is not at present tax-free but on which tax is not deducted at the source?—You mean where the taxpayer is assessed afterwards?

8680. Yes.—I think if the machine worked absolutely accurately there would be nothing in that from my point of view. I should lose no Income Tax, and there would be a certain amount of convenience possibly to the man who was not liable or who was liable only to a small Income Tax, which

you might expect to be reflected theoretically in the price that I should get for my stock. The Inland Revenue would be able to give a more authoritative view as to this than I can, but my own feeling is that the machine does not work so absolutely accurately, and that there is a certain degree of leakage in these cases. Take the case of foreign holdings. Suppose you do not deduct tax from a man who is living abroad; you never can catch him; it is really giving him exemption. I suspect that that may happen in a good many other cases. From the point of view of administrative machinery there is nothing to be said for it.

8681. *Sir Josiah Stamp*: If deduction at the source is a good principle to be generally applied, there is nothing special about this which should take it outside that principle?—No, I do not think so.

8682. The third class of question that arises is the use of particular bonds for particular tax purposes, like Death Duties, and so on. Have you any views on that?—I hope that exemption will not be repeated. That is my only view on that; mainly for this reason. You have to make good to your Death Duty revenue the cash, otherwise your Death Duty estimates every year are out. That means that you never quite know how your Sinking Fund is going to work out. I do not myself believe, although opinion is divided on this, that as a matter of fact the taxpayer really gets his money's worth; because I think the man who takes a bond which he is going to tender for Death Duties makes an assumption favourable to himself. He assumes that he is going to die very soon and he assumes that at that moment the price of the stock will be in his favour. I am pretty clear in my own mind that we do not in fact get, in the increase of the price of the bond, the three points, or whatever it is, the concession is really worth.

8683. Do you mean that, if you were to work out that life insurance element in the terms of these things over the whole field to which it applies, it would be bad insurance?—Yes, I think the market value that we get is not the actuarial value.

8684. Does the fictitious attraction of it to the proposed lender enable you to get away with better terms of interest? Is it a real attraction to him?—I doubt it. In the long run if the market value is less than the actuarial value, clearly we do not get away with any interest over a long view.

8685. Generally speaking then, you are not in favour of any frills?—Subject to my qualification in principle, I am against all these frills. I think they land you into every kind of complication and administrative difficulty. At the same time, if you have to deal with 7,500 millions of debt, it may be that you can only deal with it in that kind of way.

8686. You get to a point where you have to try every artifice?—Yes.

8687. *Mr. Hichens*: Does that apply to the element of hazard, as in the case of the Victory Loan, for instance, where a certain number of bonds are drawn and paid off at par every year?—That is a little different, because that does not involve any administrative trouble.

8688. I thought it was a frill; that is all.—Whether in point of fact you get the market value of your lottery, I do not know; I should be rather disposed to answer your question by saying, if it is an answer, that at the moment when Victory Bonds were issued, it was necessary to have something new, and that was the only new thing or the best new thing we could think of.

8689. *Sir Arthur Balfour*: It does not affect their exchange very much from day to day among different people?—No, I do not think so. There are one or two other questions which I understood you wished to hear me on. The first one, I think, was the question of the Floating Debt and the pros and cons in considering policy in regard to the Floating Debt. I should like to distinguish first of all, for the sake of clearness, between the Treasury Bill part of the Floating Debt and the other part of the Floating Debt. The Floating Debt covers Treasury Bills and Ways and Means advances. I do not think I need say very much about Ways and Means advances, because I assume that everybody would agree that so far as Ways and Means advances meant borrowing from the Bank of England, the proper policy is not to do it. I assume that. In so far as a Ways and Means advance is, as it is at the present moment, merely the use by the Government of funds in its own hands, funds resulting either from currency notes or deposits with the Postmaster-General, that is merely a bookkeeping transaction which has no importance at all. So I am assuming that your question with regard to the policy as to Floating Debt refers to Treasury Bills rather than to the other part of that debt. I think it is impossible for anybody to say at precisely what point the Floating Debt becomes excessive, but I think I should be prepared to say that as a general principle the smaller your Floating Debt is, the better. After all, according to pre-war standards, when we had a Floating Debt of about £24,000,000, the present figure of £630,000,000 Treasury Bills would not only seem excessive, but incredible and absolutely fantastic. On half what it was in 1920, when the Treasury Bill the other hand, the present figure is rather less than figure was at its highest. My own feeling about the Treasury Bill figure is that our aim must always be to reduce it. I say that for these reasons. In the first place, obviously the cost of Treasury Bills is a varying item. At the moment it costs us slightly over 3¾ per cent., but it has been as low as 2 per cent.; it has been, within the last five years, as high as 6 per cent.; that is to say, that our interest charge for Treasury Bills has varied from about £20,000,000 to something like £60,000,000 a year. Clearly the possibility of variations of that size is not desirable in an ordinary Budget. That is the first reason why I think it is desirable, whenever possible, to reduce the Treasury Bills, because they introduce into the Budget a more or less incalculable element of a very varying character. But there is a second reason which is much more serious than that. It is this. The Treasury Bills have to be renewed every three months. That leaves the State entirely in the hands of the people who hold the Bills, who have a purely one-sided option to renew or not. If it is not convenient to the holders to renew, the Treasury have to do one of two things. They have either to take a lower price, that is to say, offer a higher rate of interest, which, of course, has reactions all the way round, or, if they cannot even by that attract sufficient money, they have no alternative but to go to the Bank of England and borrow on Ways and Means, with all its inevitable consequences on Bank Rate, prices, cost of living and wages. The second great objection, therefore, to my mind, to the Treasury Bill position, is that it leaves the State absolutely in the hands of the lender, who has a one-sided option to renew or not. Now how dangerous that position may be depends on two things. It depends firstly on the size of the corpus of the Treasury Bills; because clearly if we had £100,000,000 of Treasury Bills the likelihood of difficulty in renewing them at a favourable rate to ourselves, is much less than if we had £600,000,000. The fewer they are the less that risk is. But also more or less independently of the quantity, it depends on the circumstances. Take the position as it is now, with £600,000,000 of Treasury Bills. Supposing by any mischance there was a European War to-morrow, at what price should we be able to renew those Bills? I do not know whether we could renew them at 10 per cent., but at any rate it is obvious that if there was a big crisis of any sort, either externally or internally, we should have great difficulty in renewing our Bills and might be forced into very undesirable courses.

8690. *Mr. Hichens*: It is only fair to add that most of the probable belligerents would be in even worse case?—That is very cold comfort, I think,

though it is quite true. It is not only this extreme case we have to consider. An appreciable amount of our Treasury Bills is held by people outside this country, or, at any rate, the amount of money which is available in London depends to a considerable extent on money from other countries, and that in its turn affects the tendering for Treasury Bills. So that you might get a difficulty in renewing Treasury Bills even when everything was perfectly peaceful here, owing to some remote squabble in the Balkans which affected opinion in America and induced people to wish to withdraw their money from the London Market; or you might even get the same result from unwise talk in the newspapers; such things have occurred—for instance, in November, a couple of years ago. All those things might make our Treasury Bill position extremely difficult, and it is to guard against that risk that I say I think our steady policy ought to be to reduce the amount of our Treasury Bills. I would only like to add to that, this. I do not contemplate two things. I do not contemplate that we shall probably have to get back to the pre-war position of only having £24,000,000 of Treasury Bills. I think it is probable that we shall settle down at a Floating Debt figure considerably in excess of that, though what precisely the figure will be, I am not prepared to say. Secondly, I do not contemplate that Treasury Bills will decrease either all at a blow or with very great rapidity. What I should rather contemplate is that there ought to be a steady reduction of not very large amounts every year, perhaps £20,000,000, or that kind of figure, more or less corresponding to the kind of increase that one hopes to see in the old commercial bill. Because, at any rate, to a considerable extent, not the whole extent, but a considerable extent, the Treasury Bill has taken the place of the pre-war commercial bill, which is not available in the same quantity as it was. If that bill becomes available, as one hopes it may, both by general revival of trade in the world and by special revival of London as a money market, if that bill comes forward in greater quantities, then I think it is much more to our advantage that that bill should be taken up in the money market than that the money should go into Treasury Bills; and in order to make room for that expansion, I have to draw in my horns. I do not, therefore, contemplate any catastrophic reduction in the Floating Debt, but I believe that our policy ought to be that at the end of every financial year our Floating Debt should be less than it was when we began, sometimes by a larger sum, sometimes by a lesser sum, but that the tendency ought to be that it should always be less.

8691. *Sir Charles Addis*: Would the reduction of your Floating Debt have an effect upon the amount of the fiduciary issue of the currency notes?—You may say that if the fiduciary issue were ultimately fixed at a lower figure than it happens to be at the moment, there would be a certain amount of Floating Debt, in so far as Floating Debt was held against currency notes, which would disappear.

8692. I wanted to get your views as to the relation that exists between the actual amount of the fiduciary issue of currency notes and the amount of Floating Debt in the market; in other words, if the fiduciary issue were reduced, what in your opinion would be the effect upon the amount of your Treasury Bills?—I think it would tend in the same direction as a reduction of the Floating Debt. One would follow from the other.

8693. They are both forms of debt?—To a large extent of course they are the same. What you call the fiduciary issue in fact is backed by Government securities which are largely Treasury Bills.

8694. If they are the same, a reduction in one would suggest an increase in the other unless some means were taken to avoid that. We have to get this money from somewhere or other; we can get it either from Treasury Bills or currency notes on that hypothesis?—Yes.

8695. If then one is reduced, in order to maintain equilibrium the other must be increased, or *vice versa*?—I am afraid I do not quite follow you. If the Government were paying off the debt, which they would be in these circumstances, their need for Treasury Bills would be reduced. Whether that would reflect itself in an increase or a decrease in circulation I am not quite clear, because of course there are many other means of payment.

8696. Supposing that the holders of Treasury Bills have in considerable amount decided not to renew, the Government would then have recourse to Ways and Means. What would be the effect of that upon their currency notes?—Clearly their currency notes would increase.

8697. That is the point I wanted to make—that a reduction in Treasury Bills must involve an increase in the currency note issue, or *vice versa*?—No, I think not if the Government are paying off debt.

8698. *Sir Josiah Stamp*: Must the Ways and Means advances inevitably translate themselves into currency notes?—Yes, or bank notes; it might be Bank of England notes.

8699. Could then those extra notes be immobilised and not have any effect?—If the Government are needing Ways and Means to make a payment, it seems to me they must draw notes or their equivalent.

8700. There is no escape, is there?—No. If you immobilise it you cannot make your payment.

8701. *Sir Charles Addis*: They cannot draw on the bank except through Ways and Means. Then I should like to know further this. Supposing the policy of the Government were a reduction, they would have a choice of a policy of a gradual reduction of the amount of Treasury Bills or, alternatively, the fiduciary issue of the currency note issue?—Yes.

8702. They could not very well combine them. One appears to me to be determined by the other in large measure, I suggest. If, as you say, the steady policy of the Government is to reduce the amount of Treasury Bills in circulation, that must involve either a policy of letting the currency note fiduciary issue remain as it is or to contemplate a certain increase?—I should think it involved letting it remain more or less as it was.

8703. You would then have to consider the relative advantages of the reduction on the one hand of Treasury Bills, or, on the other hand, of currency notes?—Yes. The kind of figure I am thinking about in Treasury Bills is relatively small. I doubt whether it would really have any particular reaction on the currency note issues.

8704. *Sir Josiah Stamp*: We have had this theory put to us; I do not know whether you have any views upon it. It is argued that it is a very bad thing that at times when money is in demand you should be in actual competition with commercial supply and demand, the two sides forcing up the rate. There have been those who said that that is merely an indication that you have got too much in Treasury Bills, but that a certain amount, which is unspecified, is good, and that amount, if it could be determined theoretically, has some relation to your portion of the total of short money on the market at a particular time. We have never had any light as to what that proportion ought to be, or, indeed, what the other available funds are?—I do not know that I could throw very much light on that. It is perfectly obvious that the existence of Treasury Bills as an investment is a convenience to the money market and to bankers, because they have always a liquid security which they can fall back on when they want to lend their money anywhere else. That is obviously an advantage to the bankers, and, in so far as it is an advantage to the financial machine as a whole, it is probably a good thing to the extent to which it can be indulged in without undue dangers. Now what that extent is, in other words, what kind of corpus of Treasury Bills we may contemplate in the future as, on the one hand, not unduly dangerous, for the reasons

I have given, and, on the other hand, sufficient to oil the wheels of the market, I cannot say, but I am perfectly certain in my own mind that it is considerably less than £600,000,000. Of course, the whole of the £600,000,000 naturally is not held by the outside market. Government Departments and Government Funds probably hold £150,000,000 of it at least, so I suppose the markets have got something like £450,000,000.

8705. This is the difficulty that occurs to me over the theory. You are speaking of convenience to the money market. Of course, to be really convenient they would like your funds to be elastic, and they are not really elastic. They would like to be able to absorb more or less at different times, whereas you have a relatively fixed amount?—Yes.

8706. Supposing you were fifty-fifty; supposing you had half of the short money and that they had half, and that the normal fluctuations acording to trade on the commercial side were 10 per cent.; that means that they oscillate between 40 and 60, they would try to push that oscillating balance into your inelastic share. That is one problem; but if your proportion were 10 per cent. and theirs was 90 per cent., and the oscillations in theirs are still of the same order as with 50 per cent., they have got an oscillation, say, of 20 per cent. either way which they are trying to force on you. Therefore the smaller the amount of the Treasury Bills in the total the greater is the pressure on that amount to take up the slack or the play in the commercial amount, the greater is your fluctuation and the greater is your difficulty. It seems to me the theory defeats itself if the theory is that you want a small amount of Treasury Bills and you are expected to take up the pluses and minuses of the swings of trade.—I have always regarded it from the other point of view; that is to say, not so much as a kind of reservoir to which trade can go in and out, but as a certain amount which it is convenient for us to hold and with regard to which the fact that trade goes in and out does not do any harm. I am thinking of it far more from the point of view of the State as the borrower and the kind of extent to which we can risk that form of borrowing, than from the point of view of how far it might be convenient to certain forms of trade.

8707. The idea is that the smaller your proportion of the total short funds in the market, the easier will your situation be and the less your fluctuations of interest?—They would be a so much smaller corpus that they would be relatively unimportant.

8708. They might be relatively unimportant as to the actual amount in your Budget, but the actual amount owing to the swing that you would have to pay might be very much greater?—I do not think that would affect it very much.

8709. Have you in the last three years been driven to borrow from the bank?—We always borrow from the bank periodically.

8710. Because of payments of Treasury Bills?—No. We have periods for the payment of dividends, for instance, when we have very large payments in one week, £50,000,000 perhaps in one week, and for that purpose we may have to borrow temporarily from the bank. You may say theoretically, "You might have sold enough Treasury Bills to cover that," but you cannot do that without forcing up the market rate to an impossible height, and therefore you do not do it. In that sense it is a failure to sell Treasury Bills.

8711. *Mr. Lees-Smith*: That is the ordinary ways and means borrowing?—Yes.

8712. *Sir Josiah Stamp*: But you have not, say in the last three years, been faced by the position in which Treasury Bills have not been renewed at the rate you want them, and therefore you have been driven to the bank?—No, we have always faced whatever the rate was. Sometimes it has been higher than we should like to have seen it.

8713. *Professor Hall*: Do you contemplate any reduction in the £150,000,000 bills held by the Departments; you mentioned that figure just now?—That depends very largely on the circulation of currency notes. A great deal of it is currency notes. As a matter of fact, there will be some reduction because some of the funds which happen to invest in Treasury Bills are being wound up, for instance, the Enemy Debt Clearing Office. They had large balances which were in course of payment on this side and in Germany, and those are gradually running off, and therefore they are realising their short investments, and they will come to an end.

8714. You will be forced to a great extent into the market to replace those?—To a slight extent I think we shall.

8715. *Sir Charles Addis*: The fact that Treasury Bills are a great convenience to the market is not, in your view, any argument for the Government?—I think it is an argument which you have to set against the other argument. I would not go to the extent of saying that I prefer to keep Treasury Bills at what I regard as a dangerous level, because they happen to be a convenience to the market. I do not think the two points of view are irreconcilable.

8716. You real motive would be that the fact that the commercial bill is scarce gives you a favourable opportunity of selling your Treasury Bills?—Yes.

8717. And not that you should contribute to the convenience of the other man?—No.

8718. *Sir Josiah Stamp*: Could you tell us a little more about the actual holders of Treasury Bills. Of the £600,000,000, you say there is £150,000,000 in the Departments. Have you any idea where the rest are, what proportion is with banks and what proportion is with insurance companies or mercantile houses?—No, I do not think I could say. The holdings of banks are not by any means as large as many people think.

8719. There is a difficulty in finding out where they really rest. The point has arisen as a practical one in discussing how the Capital Levy would be paid, and we have always had a difficulty in finding out where the Floating Debt is held?—I have tried, and various people gave me estimates, but they varied very considerably.

8720. Would you be surprised if more than £50,000,000 is held by individuals and partners of firms?—No, I do not think I should.

8721. You think it might easily be that?—Yes, but I really have not any statistical evidence that I can give about it. I can only give my impression.

8722. *Sir Charles Addis*: Would your impression be that the great bulk of them were held by the banks and discount houses combined?—You mean the bulk of those held by the market?

8723. Yes, up to a very large amount?—I should have thought that the banks and discount houses probably held perhaps two-thirds or something like that—about £300,000,000 perhaps. That is about half of the whole. But it is very little more than a feeling that that is so; I really have not any data which I could profess to regard as founded on anything certain.

8724. *Sir Josiah Stamp*: Have you seen anything in the last four or five years while the Floating Debt has been coming down so much, to show who has given up holding Bills? Are the proportions in which they are held now very much the proportions in which they were held five years ago?—I cannot tell you. I should have thought on general grounds that probably a great deal has been given up by the trading houses and manufacturers, who in the later days of the War held them because they did not want the funds in their own business. I should think a great deal of them have probably taken their money back, but it is only *a priori* that I say that.

8725. *Sir Charles Addis*: The circulation now is very rapid; it is very difficult to follow?—Yes.

8726. *Sir Josiah Stamp*: Is it more difficult to trace the proportion of the Floating Debt held by

individuals than the proportion of the longer debt?—Yes, much more difficult. Supposing you looked at tenders, all that you know is that some brokers tender. You do not in the least know who it is for. In the case of stocks, of course, you issue them to a name of some kind or other, at any rate as regards registered stock. But you do not know as regards bearer stocks.

I think the next point that you wanted me to deal with was the question of Savings Certificate interest. I think I explained when I was here before, but I might perhaps repeat, the actual facts of the accounting. The savings certificate is a bond payable on demand, with accrued interest; that is to say, it is a cumulative bond. We know from experience enough to make a guess for Budget purposes how much will actually be required in any given year for the certificates which are withdrawn in that year. That is a purely empirical figure, not built up from any knowledge of dates of the certificates, but built up from our experience of what in fact we have had to pay. We treat the principal of the certificate like any other maturing debt, that is to say, it is met by reborrowing. In fact the new certificates taken out repay the old ones and something more. The interest which we believe we shall be called upon to pay in the year, we provide in the Budget as an ordinary interest charge. What we do not provide is the amount of the interest which accrues year by year but is not drawn. It may quite well, therefore, be that in a single year we have actually to pay for interest accumulated over perhaps nearly ten years. We might have to pay more than the actual interest earned in that year or we might have to pay less, but what we provide in the Budget is what we are going to spend out of the Budget and not what the holder of the bond is theoretically earning. I think the points which interested the Committee were in the first place whether we ought to make provision for the accumulated interest which we have not in fact as yet been called upon to pay, and, secondly, if that was a desirable thing, whether it was a practicable thing. I will take those two points in the reverse order. As regards the practicability, the difficulty is this: the Post Office books relating to these certificates do not show the age of the certificates outstanding. They show the total amount of certificates issued in each year and they show the total amount paid off in each year, but they do not show how many of those paid off, for instance, in the year 1925, were issued in 1917, and how many were issued in 1923. If you want to get at that you have to go to the actual counterfoils of the certificates. When an individual certificate is presented at the Post Office in any year for payment that certificate is connected up with its counterfoil and the proper rate of interest is calculated and paid. But for the purposes of estimate we do not know how many certificates originally taken out in 1915, in 1916 or 1917, or whatever the date may be, are alive, and therefore we cannot make a calculation of what the interest accruing in every year is; because, as you know, the rate of interest varies according to the period for which the certificate has been held. We could only do that by going through all the counterfoils of approximately 350,000,000 certificates. The reason why that is so is largely owing to the fact that these certificates were issued during the War, when we had not any staff and when we could not afford the time or men to construct a register or record. Since then the thing has grown so large that it is almost impracticable. It could be done, of course; we could construct a record which would show precisely the life of every certificate outstanding; but it would cost probably about £25,000 to do and we are inclined to the view that it is not worth doing, more particularly because, as the Committee know, many of these certificates will be maturing soon. They were originally five years and then ten years certificates, and they will be maturing starting from next year. No doubt they will be extended in some form or other. That may provide opportunity conceivably for getting some form of register, but at any rate at the moment, and I think very likely even in the future, we have not the information which will enable us to produce even a reasonably accurate figure of what is accruing during the year. We know by hard experience what we are likely to have to pay, but we cannot get what the liability in the year is.

8727. *Sir Arthur Balfour*: You will make an extension?—I do not know in the least. I am putting it purely hypothetically, but supposing for the sake of argument we were to offer people a bond instead of the certificate, then we should get a register; supposing we merely said: "You may go on accruing interest at so much a month," then we would not get a register.

8728. Have you not found the tendency for people to run on with their investment?—Yes.

8729. That, again, depends very much on the publicity you give to the extension?—Yes.

8730. If that is done very clearly by the Press, and so on, they run on; if it is not, they come in?—Yes. Then the second point, on practicability, is this. Supposing you were able to get a figure, or supposing, in the absence of a figure, you put down a more or less arbitrary figure, and said: "We ought to make provision for this," what would happen? You would provide, let us say, £5,000,000 in the Budget in your debt charge for this liability, but if you did nothing more than that, at the end of the year, certificates having gone on being presented as they are now, but not more so, you would have a surplus of £5,000,000 which would fall into the Old Sinking Fund. Therefore when you wanted that £5,000,000 to cover this particular interest, it would not be there. It is perfectly true you might have redeemed some other debt, but for the specific purpose of these certificates the money would not be there. If on the other hand, you provided that the £5,000,000 should be held in a fund, invested against the day it was required, as a reserve, then what you are really doing is increasing the New Sinking Fund. It all comes back to that. You are really saying that instead of having a Sinking Fund of £50,000,000, it ought to be £55,000,000, which is a very arguable proposition. Those are the two practical difficulties: that you cannot really get a figure, and, if you did get a figure, what are you going to do with that money? Now I would like to say a word on the desirability point. I said just now that it really all comes back to the question of an adequate Sinking Fund, and that is the view I hold. One of the reasons for having a Sinking Fund is the fact that you have got not only your obvious and expressed debt, but you have all kinds of contingencies; for instance, you have guaranteed loans which you might have to pay, or you have liabilities for accruing pensions, which is not very dissimilar to this. As the Committee know, under our system we provide every year for the pensions of Civil Servants, for instance, what we have to pay, but we do not provide for the accruing liability from year to year, as an ordinary firm would do for a superannuation fund. All these things are liabilities hanging over the State, and as a matter of general policy the State so far has always said: "We are so large and we command resources that are so extensive, that in general we do not propose to insure, and we will take our own risks. We do not propose to lay up reserves against our liabilities in the future." That is the general line of Government policy. The present seems to me to be rather a special example of that general problem. The fact that you have all these kinds of liabilities more or less contingent in the future, no doubt is a fundamental reason for reducing your general debt, but to my mind this question of certificates ought not to be treated by itself. It is a point to be considered when you are thinking of what your Sinking Fund

should be. If you think your Sinking Fund is as big as the country can stand, then you have to stay there. If you think on general grounds the Sinking Fund ought to be larger, then increase it. But I do not think that I should worry very much about this particular liability as against any other. There is one other rather parallel case which occurs to me. Many of our bonds are repayable at maturity at a premium; nearly all the War Bonds, for instance. We do not provide for that premium. I mean we do not lay up money in advance for it, and for the very good reason that we do not know whether it will have to be paid; the thing may be converted beforehand. We regard the premium as part of the capital that we have to meet if necessary. I think the accumulated interest on Savings Certificates becomes very much the same thing. The danger of the Savings Certificate would only be felt if you had a great volume of these certificates presented in any given year and had to pay all their accumulated interest. That, of course, is a danger, but I do not myself regard it as nearly so great a danger as for instance Treasury Bills; because I think they are much less likely to be presented. The only thing I would like to add to that is that if the Committee are going to comment on this position at all, I would ask them to draw their wording with great care, because I do not want to make certificate holders nervous and fearful that they will not get their interest.

8731. *Sir Josiah Stamp*: I think on that point the criticism is not so much that provision is not made in the year. We all recognise the cash character of the national Budget, but I think the criticism rather is that the public statement of the amount of the National Debt at any particular time is under the mark by the amount of this accrued liability?—That is a different point. There is a good deal to be said about what is the right way to present the National Debt. We always present our National Debt in the first place on the figures of nominal value. From many points of view one might say that was misleading, *e.g.*, that Consols ought not to be counted at the same level as 5 per cent. War Loan; but still there is a traditional set of figures which everybody knows. Then you get the case where you have a nominal value of a War Bond but you have got a liability to pay a premium. There we put in the nominal value.

8732. I do not think it is quite parallel?—It is not quite parallel, but it is a case where there is something of the same sort.

8733. The responsibility for the premium does not arise until a certain time, it does not exist at the moment; whereas with certificates there is a larger liability than is represented?—The only difference is that in the case of the bond, the liability, though it does not exist at the moment, will arise in 1927, while in the case of the certificate the liability may not arise even in 1927, because you do not know whether the man will present it. It is perfectly true he may walk in and present it to-morrow, but what I was going to say was that it seems to me difficult to devise a form of statement, consistently with the general line of our debt figures, which will express that. All that we can do, and what in fact we always do, is to put it in a footnote in the Finance Accounts; and certainly in most years it has been mentioned in the Budget statement.

8734. *Mr. Hichens*: Do the undisclosed liabilities of the State tend to increase rapidly from year to year?—I would not say they tended to increase rapidly, but they increase. You mean things like pensions?

8735. I was thinking for the moment of the Old Age Pensions scheme which was adopted last year, where the ultimate liability will be something like £80,000,000 a year. I suppose on an actuarial basis the immediate liability would be very much more than the amount likely to be provided?—Yes.

8736. The same is true, is it not, of the pensions to school teachers? If you contributed to the fund in the way that employers are obliged to contribute, the liability of the State would be very large, but at the moment I understand that the liability is comparatively small and the State is using the contributions of employers so as to diminish its own immediate expenditure. Sometimes one wonders whether very large liabilities are not being heaped up secretly—when I say secretly, I mean unobserved, unnoticed—and whether it would be possible to give some kind of statement; I do not mean a cash statement, but some form of estimate of the State's liability?—Speaking offhand, I should think it would be quite possible to add a statement in the Finance Accounts, where there are statements, not precisely of the kind you are thinking of, but for instance of contingent liabilities on guaranteed loans. It might be quite possible.

8737. These things are most important. If one has to consider the question of expenditure, one of the most insidious forms of expenditure in the world is a commitment which involves very little to-day but involves a great deal to future generations when your own responsibility for it has gone. That is the worst form of expenditure, to my mind, and if something could be done to bring it clearly to the eyes of the public, I think it would be a good thing?—Of course it always comes clearly to the eyes of the public at the moment you are legislating.

8738. Then they forget it?—What you mean is that you want it brought to their attention every year?

8739. Yes, I do. It is comparatively easy for the Parliament of to-day, the Government of to-day, and the voters of to-day, to suggest that posterity should be burdened with £80,000,000 a year. It does not require a great deal of self-sacrifice, I consider, but if it was brought sharply to people's attention what the actuarial importance of that was in respect of the present Budget, I think it would have a useful effect.—*Mr. Lees-Smith*: You mean to include figures on such matters as Widows' Pensions?—*Mr. Hichens*: Yes. I am thinking rather particularly of that, and, for instance, of the school teachers' pensions. I happened to be on the Committee which recommended what those pensions should be, and the fund, and the rest of it. Now the Government have dropped the fund, in so far as it applies to this, and say: "We will make this contribution out of annual revenue." In practice for the first few years the contributions of the teachers themselves and the local authority are enough to pay all the liabilities on the fund, therefore the Government actually contributes nothing itself; but it has an actuarial liability which it is simply putting on to posterity and saying nothing about it to anyone. That is what I think is dangerous. *Mr. Bowen*: Is not this the general practice in other countries? Do they not do it in the United States?—(*Witness*): I cannot speak with personal knowledge of the United States, but in general they follow our financial system and I have not very much doubt that they would provide for their pensions in the same manner as we do. I could have it looked up.

8740. *Mr. Lees-Smith*: Are you responsible for the form of these financial tables?—Yes, the Treasury are, certainly.

8741. *Sir Josiah Stamp*: My only concern over that question of the certificate interest is that while you may have a footnote, no effort is made to show whether the hidden liability is increasing from year to year, and if the National Savings Certificates go on increasing tremendously and people do not withdraw the money, this becomes an increasing sum and might attain very great proportions in a few years.—What you would like probably would be a table giving a series of years?

8742. Or the best estimate you can make, in a footnote to be added to the table?—They are all rough estimates, of course.

8743. Yes, I appreciate that. I think that could be done.

8744. *Mr. Lees-Smith*: As Sir Josiah Stamp has pointed out, it rather misleads one as to the total debt. Does it not also mislead one as to the amount

of debt that is in fact being paid off each year, the amount by which the debt is being reduced? We get this broad figure of £50,000,000 which is always quoted as the Sinking Fund, and it is always assumed that the £50,000,000 Sinking Fund means that we are reducing our debt by £50,000,000 a year. In fact of course there is an increase of the debt on the other side?—Yes.

8745. *Sir Josiah Stamp*: In time the interest in any given year on National Savings Certificates might even amount to £50,000,000?—Yes.

8746. *Mr. Lees-Smith*: It means that our debt is not in fact getting smaller at the rate of £50,000,000 a year?—I think it means this, that whatever total sums are applied to debt redemption, the £50,000,000 and whatever else goes to it—because there are other things as well—to some extent that is offset by the fact that there is an increase in this liability, whatever it is, every year. But is that of much importance except from the point of view of statistics?

8747. It is *pro tanto* an argument to that extent for increasing the £50,000,000?—I think that goes back to my original point.

8748. What I have in my mind is whether that is not also a subject for a footnote when you are dealing, not with the total of the National Debt, but with the Sinking Fund—that the £50,000,000 does not really represent the diminution of debt, but there is an increase of debt in other directions?—Yes.

8749. *Sir Josiah Stamp*: Supposing the application of the Sinking Fund in the repayment of debt were to get put into National Savings Certificates, in the course of ten or twenty years you would have an enormous liability and you would be able to cloak the fact that there was any interest at all?—Yes.

8750. What is the amount of certificates outstanding?—It is about £360,000,000.

8751. It might even mean that £15,000,000 a year is accruing?—It may be a little more, but then against that you pay about £7,000,000.

8752. *Professor Hall*: £7,000,000 is budgeted for?—Yes.

8753. *Sir Josiah Stamp*: The more successful the scheme is in promoting thrift and retaining money, the worse this particular feature gets, from the point of view of depleting the Sinking Fund?—Yes.

8754. *Mr. Hichens*: It would be possible, I suppose, to do this, would it not. You have said that very roughly the annual interest is £15,000,000 and you pay out £7,000,000; it would be possible to provide £15,000,000 in the year and put the unexpended proportion to an additional Sinking Fund?—That would be what would happen. There would be an apparent Budget surplus which would fall into the Old Sinking Fund. I should not like to do it that way; I think it would be very awkward. I think if you were going to do it at all, you would have to increase your New Sinking Fund. I think when you are talking about the £50,000,000, you have to remember that that is not the only form of debt redemption. Quite apart from anything that may come from the Old Sinking Fund, there is a good deal of debt redemption goes on through the telephone annuities and things of that sort. The telephone debt is redeemed every year by an annuity charged on Votes. There is nothing very sacred in the figure of £50,000,000.

8755. *Chairman*: Would those other items be so much as £5,000,000?—I should say the amount of telephone debt, and other debt of that kind, which is redeemed every year, is about £5,000,000. I should like to verify that, but speaking from memory, I think it must be so.*

8756. *Mr. Lees-Smith*: The whole £50,000,000 is redemption, is it not?—Yes.

8757. *Sir Arthur Balfour*: Plus surpluses?—Plus Old Sinking Fund, if any.

8758. *Mr. Lees-Smith*: What would that be used for?—It would be applied as the National Debt Commissioners thought fit. It might go to Treasury Bills. I think if we had a small issue of bonds running off, it might be applied to that. Or it might go to purchase stock in the market, as prices might suggest.

8759. *Mr. Hichens*: It might finance your deficit, might it not?—So far we have not had a deficit. The next point is about the question of issuing loans at a heavy discount, which is really the question of the 3½ per cent. Conversion Loan. I think I had better discuss that under two headings; there are two points which are rather confused. There is the question of the original issue, whether it was the moment to make it, two years ago, as a matter of tactics, and there is the more general question of whether it is the right thing to do to issue stock which is considerably below par, as a quite general proposition. I think I should say that as a quite general proposition I should prefer to issue a stock at par to issuing it at a discount, but I should immediately qualify that statement by saying, as I have already said, that when you have to deal with £7,500,000,000 of debt, and deal with it as and when it matures, which may not be at moments convenient to you, you have to make the best arrangement you can in the light of the then position of the market. The general position of the market in the last few years has been that the market has been full, and perhaps over full, of British Government stocks, and that a great many of these stocks have been held by traders and others who took them during the War but who could not go on holding them as a permanent investment. They held them during the War, taking money out of their business, which had got to go back. Therefore the general market tendency, I should say, was rather against Government securities than in favour of them. The natural tendency was for people either to say, "We have got enough of these and we prefer something different," or to say, "I cannot go on holding my Government securities because I want the money back in my business." In the second place, there have been so many Government issues that a great many lines of stock, so to speak, have been exhausted. There was enough, let us say, 5 per cent. loan in the market to satisfy every kind of person who could conceivably want 5 per cent. loan. There was enough 4 per cent. loan, and there was even some 4½ per cent. Therefore, in order to deal with your present problem, you had to find some new form of stock which could be expected to make a slightly different appeal to people than what you had already got on the market. As you had got a 5 per cent. and you had got a 4 per cent. and you had got a 4½ per cent., you were practically driven to a 3½ per cent., unless (this is purely a question of market psychology) you had merely gone on issuing 5 per cent. and said, "People will take 5 per cent.; it may be rather expensive, but they will take 5 per cent., and we had better go on with it." When you are dealing with these very large amounts, while always bearing in mind the principle that everybody would like to issue their stock at par, you have to bear in mind very much what you can get the market to take.

Further, I think you have to bear in mind what your process is going to be for a period of years. If you have a very large amount of debt and if you have the option to deal with a very large amount of it, £2,000,000,000 or more, within a comparatively short period, you naturally consider not merely the particular operation which you have in hand, say, £100,000,000, which is relatively nothing in a big programme, but you consider what you hope is going to be the general process of events. If you wish to conduct your conversion with success, by which I mean with decreasing cost to the State, then I think you may have the hope that your stocks will become popular, and in order to make your stocks popular, you have to make people think, each time, that they never will get them on such favourable terms again. In other words, you have to issue something which you can anticipate will appreciate. Because if you are

* This figure is correct. O. E. N.

issuing something which is going to depreciate and everybody knows it is going to depreciate, obviously nobody is going to buy it; because it is very much cheaper to come in afterwards when it has depreciated. Therefore I should say on this point that in principle I should like to issue as near par as I can; in practice I have to be governed by the size of the debt that I have to deal with, the kind of programme I see before me, and the state of mind of the public, and I have to regard each operation not entirely as a thing by itself, but as a step in a long process. I think a great deal of the quite reasonable criticism which has been brought against the original 3½ per cent. loan, treated it as standing by itself and overlooked the fact that it was a step in a process; and I think one can claim that the process has been so far successful that every time we have issued a loan since the original issue, we have issued it at a better price; that is to say, that to that extent our credit has improved.

I want to add two things. In the first place, as I said earlier, one has to remember that the 3½ per cent. loan is an undated stock; that is to say, it is really a permanent annuity with an option to the State to redeem but with no liability to do so. Therefore, whereas it is perfectly true that the additional nominal value that you have created might in some circumstances some day have to be paid off, in fact there is no liability to pay it off, and it need not be paid off unless the State thinks it is desirable or thinks that it is in their interest to pay it off. On that point I think the rate of interest becomes important, because obviously it would be a foolish thing to do to issue a perpetual stock at a high rate of interest. One would not contemplate issuing a long stock bearing 6 per cent. or 7 per cent. rate of interest; but when you get down to a rate like 3½ per cent., then you are on a scale which, after all, was reached even in pre-war days, which at any rate for many years ahead is not so expensive that it need cause us anxiety.

The other point I want to make is this. The Committee will have observed that there was rather a high Sinking Fund attached to this loan; it is very nearly 2 per cent. That is to be applied so long as the stock is not more than 90. If stock went above 90, we should be freed from the contractual liability to apply a Sinking Fund to it. That, of course, means that a good deal of this stock will be paid off from the Sinking Fund long before it gets to par, relatively at somewhere near its issue price. So that on the one hand you have a long-dated stock, the great bulk of which, when it gets near par, we need not redeem unless we wish to, so that the nominal increase is in that sense a paper increase, and on the other hand we have a provision to encourage us to redeem it when it is not too expensive to redeem. Finally, I think one has to remember that actuarially you can do one of two things. You can either issue a 4½ per cent. at par or you can issue a 3½ per cent. at 73, or whatever the precise rate was, at which we issued our loan. Actuarially the two things are the same, I think.

8760. *Sir Josiah Stamp*: You have described to us how you have to do business on a large scale, and you are like a shopkeeper who puts up a notice: "All varieties of goods on hand." You have two things; you want to attract customers who were not attracted by your previous wares, and you want to attract customers who have already got that colour and want a different one. You have not mentioned one of the chief attractions of stock of this kind; that is, the tax-free accretions, the value to the investor which arises because the accretions are not liable to Income Tax. What seems to me the most patent thing in the mind of the investor you have not mentioned at all?—No.

8761. Have you taken into account the loss to the Treasury of the tax on accretion?—No; I was thinking of the interest rate.

8762. What other factors are there to attract a lender? Taking the two things as actuarially equivalent, you can understand a rich man saying: "I am going for this thing at 73; I shall only be taxed on the 3½ per cent., and the balance of 1 per cent., that is really running up every year, I shall not be taxed on, and that is worth having." I can understand that. Now what other attraction is there?—I think one of the attractions was the length of the loan; it was comparatively long.

8763. *Sir Arthur Balfour*: Surely another attraction in the £73 was that as the rates of money fall he would be very unlikely to make a capital loss.—*Sir Josiah Stamp*: I can understand that in cases like the 3½ per cent., where there is no definite date. Could you tell us how many years distant from the maturity point, the price at maturity begins to affect the current market price?—(*Witness*): Putting it in another way, when does it become a short-dated security? I should say within five years of maturity, perhaps.

8764. *Sir Charles Addis*: Are you considering now fixed dated loans?—Sir Josiah's point is this. Supposing a loan is going to mature, say, in 1930, and it is below par, its price has been fixed in relation to other prices in the market, but does the fact that it is going to be redeemed at par in 1930 bring it to or near par?

8765. *Sir Charles Addis*: I should have thought it would be rather closer than five years. I think five years is too long.—*Sir Arthur Balfour*: I should have said three years.—*Sir Josiah Stamp*: I am rather astonished that it is so short. I should have thought it would have been longer. What were the terms of the Victory Bond issue? (*Witness*): That was 4 per cent., at 85.

8766. What are the redemption terms?—The bond is redeemed at par.

8767. At what length of time?—Fifty-six years from when it started.

8768. So the point there is that the maturity date will not affect the value for many years to come?—That is influenced by the fact that a given bond may be drawn any year, but, subject to that, I should say that is so.

8769. *Sir Arthur Balfour*: It is complicated by the fact that money rates may go down and 4 per cent. may look very attractive?—Yes.

8770. *Mr. Hichens*: Assuming it to be theoretically desirable to issue at as near par as you can, yet having once embarked on this 3½ per cent. Conversion Loan scheme, would it be unfortunate to the public credit if we reverted to a 4½ per cent. loan next year or the year after?—I am afraid, if it is, we did it last year. We issued a 4½ per cent.

8771. So it would not matter very much?—Within limits. If you suddenly now went back to 5 per cent., I think that would.

8772. It would not be necessary on your figures?—No, I do not think between 3½, 4 and 4½ per cent. there is very much.

8773. You would see no objection to going back to 4½ per cent.?—I think what is true is the converse of that. The 3½ per cent., even though it was issued at a rate which made it over 5 per cent. when it first started, I think probably had a good deal of psychological influence, because people thought we were going to work down in that direction.

8774. You think there would be no psychological effect in the converse process?—Not unless you pushed it too far.

8775. *Sir Charles Addis*: The return is the determining factor, not the rate of interest.—*Sir Josiah Stamp*: Would you have an objection to a loan issued at £50, say, at 5 per cent. redeemable in 30 years?—(*Witness*): I would not like to give 5 per cent., to take your actual figures.

8776. Supposing it was 2 per cent.?—I do not think I should like that. I should think 30 years was much too short. If you are going into that sort of extreme I should say you ought only to do it for longish loans. It is not necessary for a short period.

8777. Even if you work the thing out from an actuarial point of view you would object to anything

that started a loan at so low a figure as £50?—Yes, I think I would, mainly on psychological grounds. The next point I was asked was as to the comparative advantage of issuing funded debt as opposed to long term debt. I am not quite sure whether I have understood your question rightly, but the Committee will correct me if I have not. When one talks about an irredeemable debt, a funded debt, I imagine one is in fact thinking of the old Consols. Even Consols could be redeemed at the State's option on giving certain notice. The stock was not absolutely irredeemable in that sense, and I do not think any modern State would issue a debt which was absolutely irredeemable under any circumstances. The practice after the War was to issue loans with a fixed date, and very often with two fixed dates, that is to say, an optional date for the Government and a compulsory date for the Government. I think the first thing, the optional date for the Government, is a matter of great importance. It is always a good thing to have an option; it can never do any harm and it may do you a great deal of good, because obviously if money rates were going down and you have an option to pay off a 60 years' loan in 30 years, it is a great advantage to you. Therefore I think that particular date is an important thing and a necessary thing.

8778. You do not have to pay very heavily for it?—No, I do not think so. You would if your option date was next year, but for practical purposes I think not. The other date is the compulsory date on the Government, and that is less directly necessary, I think. I imagine it arose in this way. During the War, when most of these loans were raised, people saw loans depreciating, they saw particularly irredeemable permanent loans running away to next to nothing. Consequently the feeling in the market, I think, was this. If we have a fixed date, even if it is 40 years hence, at any rate we know that 40 years hence we shall be paid at par and we shall be able to cut our losses up to that point. And the fact that that is so, you can see in things like some of the India Stocks, where there is quite a difference in the price between the irredeemable stock and the redeemable stock, I think a difference of something like a quarter per cent. As to the reaction of that on the borrower, if a lender thinks that owing to the fact that he is certain to be repaid at par 30 years hence, he has got a better security than something which he may never be repaid at all, or at any rate at any date that he can see, I should think very likely one gets that back in the price. I would add that I do not believe that it would be possible to float a large loan in the City which had not got a fixed date; I do not think the market would take it, simply because they had seen these things running away. Whether that condition will last or not I do not know. The 3½ per cent. was a kind of mixture, because although it had not got a fixed date it had other attractions. So I should say that the advantage or disadvantage between the so-called funded debt, which means a debt which the State has the power to repay at an unknown date on giving certain notices, and a debt which has got a fixed date for payment, is very largely a matter of market psychology. I do not think, apart from that, it matters from any other point of view very much, but if the psychology of the market is in the direction of giving a better price for a definite date for compulsory repayment, then we had better have a definite date. On the other point I think it is obvious that a definite option to the State to repay at a fairly early date is a matter of considerable importance.

8779. *Chairman*: How are you to find the most opportune time to go on to the market?—Of course there are certain times which are obviously not good times for an issue.

8780. Do you call bankers and others into conference; do you confer in some form or other?—We certainly consult the Bank of England. I should say we do not generally consult the other bankers, although it has been done in some of the very big War Loans; but as a general rule we do not consult the other bankers.

8781. *Sir Charles Addis*: I do not know that I gather from your remarks that you attach the importance that I should have thought you would have assigned to a specific Sinking Fund? In comparing, for example, funded debt and a fixed-dated debt people are very much swayed by the fact of whether a specific Sinking Fund is attached to a loan?—I do not mean to suggest that was not so, only I was rather dealing with the point as to whether it was a good thing to have a fixed date or not, rather than to have a Sinking Fund. Really I think the fixed date in a sense is a kind of Sinking Fund, because it means that the man knows that, say, in 1930 he will be repaid at par. If that is not sufficient for him he may want to have a Sinking Fund as well, which, after all, means that he will be able to realise his stock at par or near par, say, ten years earlier than that.

8782. My point was rather the reverse of that—that the comparison with the 3½ per cent. Conversion Loan is affected by the fact that there is a very considerable Sinking Fund attached to it?—Yes.

8783. It is not a fair comparison with an irredeemable loan?—No, I agree. I thought I had said so.

8784. In any case the point ought to be brought out that the Sinking Fund is a determining factor?—Yes.

8785. *Mr. Hichens*: Would it be of any advantage to you if you had the right, in respect of any future funded loan, to redeem not the whole but a certain percentage annually after a certain date by drawings?—You do not mean an obligatory Sinking Fund to do so, but an option?

8786. An option to do it. You may have a very big issue of, say, 3½ per cent. stock. It may not be practical politics for you to convert the whole of it: on the other hand, it might be in the neighbourhood of par or tending to get above par and it might be difficult to buy in the open market for the Sinking Fund?—From my point of view it would be a very considerable advantage in these big loans to be able to say: "I am going to redeem £200,000," or whatever it is. The mere apparatus of appealing to the holders of the loan is something appalling—the amount of notices you have to send out, and all the rest of it.

8787. If you draw by lot?—No; you get out of it then, but at present it is appalling. What the effect of that would be on the market prospects I am not quite sure—whether that would be considered to be a serious factor against the issue of the loan.

8788. But if it did not come into operation until, say, 1960, I should not have thought anybody would have noticed it?—It might be an advantage. You are speaking, of course, only of the big loans. You would not do it for comparatively small things.

8789. That is so?—I think it might be an advantage.

(*Adjourned for a short time.*)

8790. *Chairman*: I think you have now reached the question of Sinking Funds?—The next point was the various types of Sinking Fund; that is to say, either a Sinking Fund as part of a fixed annuity or a Sinking Fund standing on its own basis. The traditional method has been to have a fixed debt charge, that is to say, a fixed sum per annum for all the service of the debt. The Sinking Fund portion of that is whatever is left over when you have paid the interest, the characteristic being that the total sum provided remains constant from year to year. That has been our historic policy, and there is no doubt that there is a good deal of sentimental feeling and attachment for that.

8791. *Mr. Lees-Smith*: Are you referring to Sir Stafford Northcote's scheme?—Yes, I was thinking of the period from 1875. I was not going further back than that.

8792. The historic policy is that the Sinking Fund has been cumulative?—Yes. I imagine that the bases of that idea were two. In the first place that the service of the debt was relatively small, in the region of £30,000,000 to £25,000,000, and that whatever was left for Sinking Fund out of that total would not be very large, and the amount itself was not an excessive debt burden. The other reason probably was that there was a sort of feeling that somehow or other a fixed annuity was less likely to be raided than a specific sum on which you could put your finger and say: "That is Sinking Fund." I think those are probably the logical grounds of that arrangement. Then there is the other policy, which was the policy adopted three years ago, of charging in your Budget every year the interest whatever it was, together with the cost of management and expenses, whatever they were, and then having a fixed sum for Sinking Fund, the effect of which was that the Sinking Fund part remained constant, but the total of the two varied. Personally I rather doubt whether the idea of an annuity for the debt service, based on a kind of notion that you hide away the Sinking Fund, and therefore it would not be touched, was ever a valid idea; because in point of fact the Sinking Fund has been raided and apart from raids it has been reduced from time to time. I doubt whether under modern conditions there is any particular attraction in an annuity, and it seems to me that it has the disadvantage that you do not bring out clearly before the world what your real Sinking Fund is. It is perfectly true you can get at it by looking at accounts, but it does not come out as a salient fact. I do not suppose the ordinary man in the street in pre-war days had the remotest idea of what the actual amount of the New Sinking Fund was, whereas everybody knows that the present Sinking Fund is £50,000,000. So I personally am inclined to doubt whether it gives you any protection which is worth having, and I am inclined to doubt whether under that method you get the full effect on your credit of a known and established Sinking Fund.

Moreover, when you are dealing with a debt charge of the size we are dealing with, that is to say, when we started this policy, about £350,000,000 a year, about half the whole Budget, it seems to me from the point of view of practical politics almost impossible to believe that the taxpayer will be willing to go on paying £350,000,000 when he need not; I mean when he is not bound to do so for a minimum Sinking Fund and his interest. I think if you had started by saying: "We will have a fixed debt charge of £350,000,000, the Sinking Fund part going up as the other goes down," it would simply have meant that in a very short time the Sinking Fund would have been raided and altered. I think also the fact that you have specific Sinking Funds attached to certain loans rather alters the position. In pre-war days there was no Sinking Fund attached to anything except to some terminable annuities. It was a general Sinking Fund; therefore whatever danger there might be of raiding was greater then than, I should say, it is now, because it was easier to do. My personal predilection, therefore, both on grounds of psychology and on grounds of practical convenience—by which I mean having a figure which is less likely to be changed in fact—is to adopt the system which we have in fact adopted, to provide for the interest as required, to give the taxpayer the benefit of the reduction of interest that we achieve, and to maintain your Sinking Fund amount as an admitted figure that you are not ashamed of, in fact which you rather like to make public to the world. I believe from that point of view the present system has advantages over the historic system, but I think I should have to admit that probably the conservatively minded financial opinion of this country would very likely take the opposite view. Personally I think it is clearer and more desirable as the thing stands.

8793. *Mr. Lees-Smith*: You would get the Sinking Fund very much larger under the fixed debt charge in the long run?—Yes, but you must not press that too far, because long before you had arrived at the stage that, of the £350,000,000, say £250,000,000 was Sinking Fund, you would get your Sinking Fund reduced. When your annuity yielded such a large part of the Sinking Fund I do not believe for a minute that it would be retained.

8794. *Sir Josiah Stamp*: It might be influenced by the weight of taxation generally in years to come. If taxation, by the process of reduction, had got to a reasonable figure, you might say: "Now we will have a standard for the two together"?—Yes, but it would be equally easy to say: "My £50,000,000 shall be £75,000,000."

8795. *Mr. Lees-Smith*: If you had a cumulative annuity of £350,000,000 on the Stafford Northcote principle, have you worked out how long it would take to pay off the National Debt?—I have not worked it out, but I suppose it would take 40 or 50 years.*

8796. And the present Sinking Fund would take how long?—This one would take about 120 years if you merely went on with that, but, as I said when I was here before, to my mind perhaps the greater importance of the Sinking Fund is not the fact that you are going to extinguish your debt within a certain period, but the fact that you are going to be able to convert it on favourable terms. I can have those figures worked out if you would like to have them.

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* The rate at which a fixed debt charge annuity would redeem the dead-weight debt necessarily depends on assumptions (a) as to the amount required throughout the period of the annuity for interest charges, (b) as to the basis on which the sinking fund portion of the annuity can in fact over a period of years be applied in the market in the purchase of stock or accumulated. Neither of these factors can be known with certainty in advance, and the question put to me can therefore only be answered on certain assumptions, which assumptions might or might not be realised.

Taking the dead weight debt at a round figure of £7,600 millions, on the assumptions indicated as to the average interest charge on the debt throughout the period and the average at which the sinking fund could be used or accumulated, the results would be as follows:—

	Annual debt annuity. £350 millions.	£400 millions.
Assuming 4½% interest the annuity would extinguish the debt in approximately	86 years	44 years
" 4¼% " "	76 "	42 "
" 4¼% " "	62 "	40 "
" 4¼% " "	56 "	38 "
" 4% " "	52 "	37 "
" 3¾% " "	49 "	36 "
" 3½% " "	46 "	34 "
" 3¼% " "	44 "	33 "
" 3¼% " "	42 "	32 "

The periods based on interest up to 4 per cent. correspond approximately with the figure of 40 to 50 years which I gave offhand in answer to a question when before the Committee.

It will be observed that a variation in the total of the annuity does not produce a mathematically corresponding variation in the period for which the annuity has to run, *e.g.*, at 4¼ per cent. a £350 million annuity would run for 86 years, and £400 million annuity for 44 years (not for ⅛ths of the first period). This is because the portion of the annuity required for interest on the debt remains the same in both cases, and consequently the Sinking Fund portion of the annuity increases in a ratio higher than the proportionate increase in the total annuity, and moreover this increase accumulates at compound interest. O. E. N.

8797. I would like to have them?—I will send a note about that. Then I think the next point raised is the practicability and convenience of limiting the Budget provision for debt redemption to an amount varying with the state of trade. I think on the basis of the £50,000,000 Sinking Fund I should be entirely opposed to that idea; because to get the value out of your Sinking Fund it seems to me that what you have to bind yourself to do is to produce each year, a good year or bad year or whatever it may be, at any rate a minimum amount. If you had a very good year unexpectedly you would get presumably a surplus on your Budget, and you would therefore get an Old Sinking Fund, and increase debt redemption that way. But to get the real effect I think you are bound to have a minimum amount which you pledge yourself to pay, just as after all a commercial company, if it has debentures running off, likes to pay off its debentures for the sake of its credit. I think it is the same principle here. If the Sinking Fund figure was very high, if it was £150,000,000 instead of £50,000,000, then the proposition becomes a little more debateable, but if you regard £50,000,000, as I feel inclined to regard it, as an irreducible minimum, then I certainly would not approve.

8798. The proposition was that you should have an irreducible minimum suited to your comparatively bad times, but that you should have an index or some way of adding to it in good times?—It depends a good deal on what figures you are speaking of.

8799. The idea was that you should have, say, £45,000,000 fixed and £5,000,000, £10,000,000 or £15,000,000 on top of that according to prosperity. After all, if you are going to fix a figure which is going to be fitted to good and bad times alike, you must not put it too high. The other system seemed to allow more elasticity?—That is just my objection to it. I do not want to have elasticity. You would be bound to get in practice every year endless argument as to whether this was a case when you should have the higher figure or the lower figure, and I am afraid those discussions would be conducted on political grounds. It is putting temptation in the way of the Treasury to which they had much better not be subjected. I would much prefer to have a fixed figure. I would say this also. Assuming that you have to spend about £50,000,000 anyhow owing to your contractual obligations, then whether you provide that from Sinking Fund or not it really comes down to this: you are going to take that amount of money out of trade anyhow, because you have to pay those obligations; are you going to take it out in taxes or are you going to take part of it out in loans? It has got to come out of the industrial pool one way or the other.

8800. *Sir Josiah Stamp*: A portion will go back?—Yes, but it is going to come out one way or another, and I do not believe that any plan which would land you in the position of having to borrow for your unavoidable contractual obligations is a sound one. I do not think it is going to make any great difference to trade in the last economic resort, but what I may call the political objection of not having a fixed figure which you are bound to stick to, and not having the sentiment in the outside world that whatever happens you are going to stick to that figure, seems to me conclusive against that method. You say you could have an addition if you were very prosperous. I wonder whether in practice that would ever occur. I think you would always find good reason for saying you were not sufficiently prosperous that particular year.

8801. *Mr. Hichens*: As a matter of fact, does the increase in the revenue arise in the year of prosperity or after? The Income Tax would not be paid till the year after?—It would tend to arise, at any rate, to a considerable extent afterwards. The things would not actually coincide.

8802. And by that time strong pressure would be brought to reduce taxation to help trade?—Yes. My general feeling is that the temptations to raid the Sinking Fund are quite sufficiently strong without adding another one.

8803. *Mr. Lees-Smith*: You mentioned once or twice that you think the chief purpose of the Sinking Fund is to facilitate conversions; I would like you to develop that a little. Do you mean that it generally adds to the status of British stocks, or do you mean that the actual process of using this £12,000,000 or £14,000,000 balance in buying up the stocks keeps up their price?—What I mean is that the knowledge that we are reducing our debt by—I use the figure £50,000,000—tends to improve our credit as time goes on, cumulatively from year to year, and therefore tends to enable us to effect our conversions at a better rate. Supposing we had no Sinking Fund at all and we were not reducing our debt, I doubt very much whether we should be able very effectively to convert at a much reduced rate. I think the influence of a known fact, the steady redemption, is of essential importance for producing remunerative conversion. The fact that the total is being reduced also has some weight, but the other thing has much more importance.

8804. *Mr. Hichens*: That would be true in the case of France; her loans at the present time bear increased rates of interest?—Yes. That is partly due to the fact that she is still borrowing new money. In order to make conversions successfully you have to do more than simply maintain your *status quo*; you have to be steadily diminishing every time.

8805. *Sir Josiah Stamp*: A suggestion has been made that a fixed figure over a long period tends to become relatively too light as time goes on, and that with increased population and increased national wealth it should be increased. Therefore what you want is that something in relation to your Income Tax yield, say a yield of 1s. in the £, should be treated as the figure?—It is the choice beween what looks like a more or less arbitrary increase of your £50,000,000 when you arrive at a given point, or an automatic adjustment going on from year to year. The second is obviously the more scientific of the two, but I wonder whether in practice it would ever work. It seems to me that it is much easier in practice to maintain a fixed figure and, if you must, every 20 years perhaps reconsider your figure, than to have this question coming up in some form or other every year. From the point of view of practice, my inclination is rather to give it a rest and then take it up if you must. The worst of all these automatic arrangements is that they look very nice but when you come to put them in practice, on every occasion somebody will find some reason why this is an exceptional year. I prefer to be tied up.

The next question was with regard to the advantages and disadvantages of hypothecating the proceeds of Death Duties to debt redemption. The argument, I take it, for paying over the Death Duties to Sinking Fund is this: that the Death Duties are paid out of capital, and, as the sums used for debt redemption are returned to the capital market, if you make them identical with the Death Duties, you are returning what you take out and you are maintaining the general capital position of the country as it was when you started. That, I imagine, is the argument that has been put to you.

8806. The argument has taken another form, a variant of that. Some people hold, quite wrongly as I imagine, that Death Duties are necessarily taken out of the national capital in the way that an equivalent amount of money from some other source would not be, and that we are spending it as revenue and we ought not do this. It is to avoid the spending of capital as income. *Sir Charles Addis*: You do not attach much weight to that? *Sir Josiah Stamp*: No, I think it is quite fallacious. (*Witness*) I should not be in favour of paying Death Duties directly to the Sinking Fund. I think the original argument goes a little too far both ways. In the first place, I am not at all sure that Death Duties are the only form of taxation which falls or

may fall on capital. To take but one instance, surely if you have a very high Income Tax—supposing you had an Income Tax of 15s. in the £—that must seriously diminish the funds which are available for saving and investment, and therefore that would, I think, very probably also fall, at any rate to some extent, upon capital. I do not think the differential which is used is correct. On the other side, I am not at all convinced that Death Duties as we have them, fall exclusively on capital. Apart from the fact that a number of people insure against Death Duties, a great many people, I should have thought, aim at leaving a certain amount of money for their descendants and dependents, and I am not at all sure that they do not very likely save rather more, knowing that there is going to be a Death Duty on them, than they might otherwise. If that were so, to that extent the Death Duty would not fall on capital, but would fall on income. It seems to me that you get it both ways, that in the first place the Death Duty, in so far as it falls on capital is not the only kind of tax which falls that way; in the second place, at any rate a portion of the Death Duties does not fall on capital; so that the alleged basis does not seem to me to be at any rate absolutely accurate. Quite apart from that, I should have two other objections. I do not think that it at all follows that the amount you ought to be providing for Sinking Fund on the general consideration of your financial position, is necessarily the same as the amount you happen to be getting from Death Duties, even on the assumption that Death Duties came completely out of capital.

8807. The connection is fortuitous?—I think it is quite fortuitous. I think I might put it in this way. It might be found desirable on quite different grounds of policy to re-arrange Death Duties, to put more or less on Death Duties and less or more on something else, as, for instance, was done in last year's Budget. That might be thought desirable on quite general grounds of financial policy, but it would not at all follow, that being the case, that necessarily your Sinking Fund total ought to be altered at all. It is quite a separate question, to my mind. I do not see why necessarily a re-arrangement which might on other grounds be thought desirable between Death Duties and other forms of tax should necessarily affect the amount of your Sinking Fund.

8808. *Mr. Hichens*: In regard to debenture issues, and so forth, the general idea is that the Sinking Fund or the repayment should be made out of revenue and not out of capital?—Yes.

8809. That is the general principle of the Sinking Fund, is it not?—Yes, quite. Finally I very much dislike, from an administrative point of view, identifying any particular revenue with any particular expense. It is perfectly true that there are cases where that has been done. I think they are wrong in principle and generally embarrassing in practice. I do not see why the Death Duties should form an exception to that general principle. And incidentally to that, there is this point. If your Death Duty revenue is paid into your Budget in the ordinary way, as it is now, if you have a deficit on your Death Duties for any reason, that might be made good by the surplus on some other tax, and your general Budget position remains unaltered. Now if you turn your Death Duties into a particular canal which leads to Sinking Fund you are depriving yourself of that margin of balance to keep your general position straight. I think it is a matter of a great deal of importance in a large Budget that you should have complete freedom of action, that you should have your revenue coming so far as you can straight into your Exchequer unallocated to any particular thing, and your expenditure going straight out of it unallocated out of any particular thing; and on that ground also I should not like to see the Death Duties ear-marked to Sinking Fund. I do not believe it necessarily gives the right measure of what your Sinking Fund should be, and I do not think that in practice it would be a convenient method. I think I would go as far as this. While I would not ear-mark a particular revenue to a particular expenditure, and while I would not maintain that the precise Sinking Fund was necessarily the precise amount of the Death Duty, I should, I think, like to see a kind of general equivalence between them. I certainly should not like to see a Death Duty of £10,000,000 and a Sinking Fund of £50,000,000, and I do not think I should like to see a Death Duty producing £150,000,000 with a Sinking Fund of £50,000,000. I should like there to be a quite general sort of rough correspondence. At the present moment we have Sinking Fund at £50,000,000, and Death Duty at £60,000,000 or £65,000,000. That satisfies me. I think that is as far as I would go on the Death Duty correspondence.

8810. *Mr. Lees-Smith*: Why do you want a rough correspondence?—I think by and large there is some truth in the view that some of the Death Duty does come out of capital.

8811. You accept that doctrine?—To some extent. I cannot accept it without qualification.

8812. *Sir Josiah Stamp*: You are really insuring against the possibility of it being true?—I certainly would not ear-mark it, and I would not put it higher than that I would like to see some general correspondence between the two.

8813. *Mr. Lees-Smith*: If it is fallacious I suppose you would not press that?—I am quite open to conviction. It is only my present feeling about that. I have a sort of feeling that it is rather a good thing to have a not too great discrepancy between the two, but I do not quite know what the arguments against it are.

8814. *Sir Josiah Stamp*: I think that the view that it is taken out of capital and spent on revenue is fallacious?—I may be wrong in my view. I admit having that feeling, but I certainly would not allow it to carry me further than the point I have put.

Then there is the question of attaching a definite Sinking Fund to a specific loan. I think one has to consider that from two points of view; first of all from the point of view which would occupy one when one was floating a given loan, that is to say: Is this a good way of making this particular loan an easy market proposition? The second thing is, apart from that, supposing you could do equally well without it, is it a good thing to have your Sinking Fund ear-marked? On the first point I am certainly inclined to think that in the last five or six years, and perhaps for some time to come, the attachment of a Sinking Fund has certainly helped specific loans which we have produced. People's confidence in monetary matters has been shaken by the experience of the War and the experience of other countries, and they have attached perhaps more importance to the certainty that the particular thing that they have invested in was going to be kept relatively near the issue price or par than they might have in other circumstances. So that I am inclined to think that as a matter of practical politics the attachment of specific Sinking Funds was necessary and probably paid us.

From the other point of view, from the point of view, so to speak, of the ideal Sinking Fund, whether it is desirable to be bound in your Sinking Fund or not, it seems to me there are two possible points of view. On the one hand, applying the doctrine I was putting just now, one may feel, having a given fund for Sinking Fund, it is better to leave discretion as to how that fund should be applied, as to what particular stock should be bought at a particular moment, to the National Debt Commissioners or whoever are authorised to deal with it. If you take the view, for instance, that it is desirable to reduce the Floating Debt it might seem rather embarrassing to have to devote a considerable part of your Sinking Fund to reducing practically your longest term loans. You might prefer to use your Sinking Fund to pay off your early maturities and not have to redeem, to

unfund, so to speak, your 5 per cent. War Loan, or one of your long loans. From that point of view there is no doubt that the allocation to specific funds is in a way a little embarrassing. But there is another point of view. In pre-war days there was a Sinking Fund and there were Consols and various other forms of debt, but there was no definite bargain with the holder that any particular part of his loan would be redeemed at any particular time. It may be said there was a kind of moral implication that it would be used fairly all round and would not be cut off, but there was no specific bargain by which the State was bound. The fact of having a specific Sinking Fund has this effect, whether you consider it as an advantage or not depends, I think, on your point of view, but it certainly has this effect: that it is very much more difficult to raid your Sinking Fund. In pre-war days if you had chosen you could have said: "I will not pay off any of my £700,000,000." People might have said: "That is very bad for credit," but they could not not have said: "That is a breach of faith." They could have said: "It is a moral breach of faith," but it is not a literal breach of faith with any given stockholder. Now under present circumstances it would be a literal breach of faith with your stockholder. If you wanted to do it you would have to provide the same money and reborrow, and whether that would be carrying out the spirit of the prospectus would be a question. Therefore you get this other point of view; whereas on the one hand it is rather embarrassing to be bound down, out of your limited Sinking Fund, to specific issues which might not be the issues which for other reasons you would like to redeem at that moment, on the other hand the existence of the specific Sinking Funds is to my mind a very considerable protection, if you desire to have protection, against having the Sinking Fund raided.

8815. *Mr. Lees-Smith*: You have a fund now of £12,000,000 or £14,000,000, which you could raid?—Not really, you have your £30,000,000 or £40,000,000 fixed, and you have contingent claims on the balance which would almost certainly arise if you tried to reduce the statutory £50,000,000. Perhaps I might just add this. I should not like to see a Sinking Fund which merely just covers specific funds and leaves no money for free play. I think that would be a mistake.

I think the next point was various proposals which have been put to you. First of all Professor Bowley wished to link up debt repayment with unemployment diminution. As I understand Professor Bowley's scheme, his idea was to have a large sum—I think he mentioned £100,000,000 by way of example—the first claim on which was to be public works, and whatever was left was to go to Sinking Fund. From what I have said before, I naturally should not agree with that, because that would leave me with no certain Sinking Fund whatever. It might be a great deal, it might be very little, but it would not leave me a fixed sum which everybody would know was coming every year, and therefore I think would very largely take away from the effect which I should hope to produce by a Sinking Fund. That would be all I should feel about that from a debt point of view, but from another point of view it seems to me that, as Professor Bowley puts his scheme, it would result in the public works which he proposes being conducted completely without any Parliamentary authority at all. You would have this fund of so much and his Committee (I think he proposed to have a Committee who would decide how much would go into it every year) would be in a position to launch out into all sorts of public works without any Parliamentary authority at all. I doubt the wisdom of that. If one had a scheme like Professor Bowley's I am not sure what the real economic difference would be. It seems to me that if you hold that the Sinking Fund moneys go back to the investment market in some form or other, the effect of diminishing the Sinking Fund part and increasing the public works part would be that general industry would get less and particular kinds of industries, particularly those industries which happened to be employed by local authorities or the State on the ordinary kinds of public works, would get more. But as between the expenditure of the given sum over all as Sinking Fund, or over all as works, apart from the view you take as to the relative wisdom of private persons or public authorities in spending money, it seems to me the ultimate economic effect would be very much the same. The same amount of money returns and presumably finds its way into industry, whether it goes indirectly through trade or whether it goes more directly through some form of organised public works. But from my point of view, I should dislike that scheme, because it does not give me a fixed and known Sinking Fund, which is what I want.

The next point is a proposal of Mr. Keynes, that we should endeavour to raise loans the interest of which would depend upon some index of prices and vary with that index of prices. Mr. Keynes, as far as I understand, put that forward rather on the ground that there was a class of the public who would like to have that kind of loan, that it was a kind of loan which would be attractive to some people. I do not quite see why it should attract anybody. In countries where there have been very great changes in currency value, in Germany, for instance, they did at one time issue at any rate notes, and I think bonds, which were based on the prices of rye, for instance. That kind of scheme is rather connected in one's mind with a country with very serious fluctuations and very serious financial disturbances. I should doubt whether the general view here would be that the future has disturbances in store for us of such a size that it is really worth while to try to insure against them.

8816. *Sir Josiah Stamp*: I do not think the idea behind it was so much fluctuations as a steady secular trend. The idea held by Mr. McKenna and Mr. Keynes was that as gold would tend to rise, that is to say, the value of goods would fall, loans of this description would naturally attract one?—There might be some people who do so, but I doubt whether the ordinary investor takes the long and rather elaborate view that Mr. Keynes and Mr. McKenna did. I think this would be too clever altogether. I have some reason for thinking that, because some years ago we did issue bonds, 5 to 15 years Treasury Bonds, the interest on which varied, not with prices, but according to the Treasury Bill rate, and of course the Treasury Bill rate, at long last, really varies to some extent with the variation of prices. So it was rather on the lines of Mr. Keynes' suggestion. Those bonds were not a success; nobody wanted them. What people wanted to know was: "Am I going to get £X?" They do not think beyond that.

8817. We are not a sufficiently sophisticated people yet?—No. Before the State started on a fancy line of that kind, I should like to see it tried by some private person, say by one of our more enterprising insurance companies; let them raise some capital in that way.

8818. *Professor Hall*: If the amount you had to pay annually varied in this way, how would you meet it on the revenue side?—You would have that amount of extra variation in your Budget.

8819. Do you think there is any difficulty on that side?—I should not have thought there would be much difficulty on that side, because I should not think the variation of whatever your index is would be sufficiently violent to make much difference.

8820. Unless of course we had a series of years like the war years?—Yes, my main objection to it is that I do not believe it would attract anybody.

Then there was the scheme that Dr. Dalton put before you, of levying a new Estate Duty to be used for debt redemption. I think my criticism of that would be this. If you wished to increase debt redemption and have a larger Sinking Fund, then I should be in favour of doing it directly as a direct tax, whatever it is—an additional tax in some form or other, and increase your Sinking Fund. That is

perfectly intelligible. But I do not think I would do it in the rather elaborate form that Dr. Dalton suggests. For one thing, he suggests that his additional tax might be paid in securities, Government or otherwise, or even land, I think. That means considerable administrative difficulties and would be likely to land the State in the end in a loss, because it has got to take a risk on the securities and has to take a risk on the selling of the land. It suits the State much better that it should collect this money in cash from the taxpayer and not have the trouble of realisation.

8821. *Sir Arthur Balfour*: It is an allocated Capital Levy. That is what it is, is it not?—I think Dr. Dalton made clear—at any rate I think it was his opinion—that this should be an additional duty. Obviously if you merely took a certain bit of the Death Duties as they now are and increased the Sinking Fund, you would have to make that up in another way. I think I am right in assuming that he means an additional tax. At one stage in his evidence he put this forward, I think, as equivalent to the Rignano plan. As far as I understand that plan, it does not seem to me that Dr. Dalton's plan was the same at all, because under the Rignano plan you put an extra burden on the second transmission of acquired wealth, but under Dr. Dalton's plan it seems to me that you put an additional burden on the first transmission, because you say to the man: "I am going to make part of your legacy terminable and I will give you a 20 years' terminable annuity for part of it." Therefore what is really passing on the first transmission is not the full annual value of the wealth, but it is the full annual value of the wealth diminished by that part of the annuity which is terminable. So that his burden falls on the first transmission and not on the second transmission. As a matter of detail, I should feel that from the point of view of the payer of the tax, the plan might have this disadvantage: that it gives him a security in the form of a terminable annuity with which he is credited at the actuarial value—so much terminable annuity equivalent to a certain part of his estate—but in fact the market value of that terminable annuity would probably be considerably less than the actuarial value, because practically speaking nobody wants a 20 years' annuity. Therefore, from the point of view of the taxpayer, it would seem to me that this would put a rather heavier burden on him than the actuarial equivalent which had been taken from him. Incidentally you will observe that the proposal would not, as I think Dr. Dalton admitted, in any way reduce your debt charges for the first 20 years. I think I should sum up my view on that in this way: that I do not see any very great advantage in this plan, and it seems to me to have the disadvantages as compared with an ordinary tax raised for the same purpose, that in the first place you get less immediate contribution to debt, and in the second place you get it in a less convenient form, because part of it is in land and securities, and that from the point of view of the beneficiaries the burden on them is probably heavier than the advantage that comes to the State.

8822. *Sir Arthur Balfour*: It is a slightly disguised Capital Levy, really. *Mr. Lees-Smith*: It is an annual payment?—(*Witness*): It is going to be levied as a Death Duty, is it not?

8823. *Sir Arthur Balfour*: As a new Estate Duty, he put it?—I should not have thought it was quite a Capital Levy. My general feeling about it rather is that the machinery is too cumbrous to produce the result. That is my main criticism of it.

8824. *Sir Josiah Stamp*: It is true you would be taking away from a man actuarially a certain sum, the market value of which is much less, but that is not a really material point, if he is quite content to live it out?—Yes; I do not put it very high; I think it just a point.

The next thing was a proposal by Mr. Hoare that you should issue either a tax-free 2½ per cent. stock, or a taxable 3½ per cent. stock, which was to be redeemable on demand. I do not see any advantage in that. It seems to me that what that amounts to is the unfunding of your funded debt and turning it all into Floating Debt, which I should regard as an extremely dangerous step. Incidentally I do not quite see who is going to take this 2½ per cent. annuity repayable on demand. I could imagine the money market taking it so long as the short money rate was less than 2½, but as soon as it got higher it has no particular attraction for them, and as regards the public at large, after all, they can get 2½ per cent., for practical purposes without deduction of Income Tax, by depositing it in the Savings Bank. Why should they suddenly take this new line?

8825. *Sir Arthur Balfour*: The demand would always be at an inopportune moment?—Yes. The great drawback would be that you would turn your debt into payment on demand. Mr. Hoare seemed to think that this was analogous to Mr. Goschen's conversion. I think you have had a note on that, so I will not go into that more than to say that so far as I can see, the conditions under which the Goschen conversion was conducted were entirely different from the conditions that there would be here. To take but one instance: at the time of the Goschen conversion the State was in a position to say: "We will pay you off in 12 months time if we wish," and the state of the market was such that if people had been paid off, they could only have reinvested on terms very much like the terms that Goschen gave them. Of course there is no analogy to that at the present moment.

Then there was a suggestion of Mr. Keynes about the Colonial Stock Act. If I may say so, I thought Mr. Keynes, in his evidence, was really trying to deal at the same time with two quite separate matters; at any rate I should prefer to treat them separately. One was the question of whether the result of the Sinking Fund was to force people whose stocks were redeemed by the Sinking Fund into Dominion stocks, which he thought undesirable; and the other was the really quite separate question, or only slightly connected question, whether in point of fact the policy of the Colonial Stock Act, by which Dominion loans became Trustee securities here, was a wise policy or not. On that second point I should feel inclined to say that the area of Trustee Stocks, as it is now, is certainly as large as it ought to be, and is probably too large, and I should think if in 1900 we had envisaged the fact that Trustee Stocks were going to be enlarged by the enormous volume of British War Securities, we should probably have felt grave doubts about the policy of the Colonial Stock Act. I do not at all hold the view that it is desirable to extend the area of Trustee Stocks beyond a comparatively small limit. There is another aspect, which is not a financial aspect at all. There is the aspect of general Imperial policy, whether for Imperial reasons it is desirable or not to offer some kind of preference to the Dominions as is done in the Colonial Stock Act, I do not think that is a question with which I need deal at the moment. My general view, not particularly about the Colonial Stock Act, but about the Trustee Acts as a whole, is that probably if one had foreseen in 1893, when the Act was passed, and in 1900, when the Colonial Stock Act was passed, the immense extension of the Trustee Stock area, one would have taken a more limited view. There I think I should agree with what is at the back of Mr. Keynes' mind, although I might not put it quite in the same way. Where I rather disagree with Mr. Keynes is in regard to the fear that he seems to hold that owing to the application of the £50,000,000 Sinking Fund to the £7,500,000,000 odd debt, the unfortunate trustees who are paid off from British stocks would be forced to take up other trustee stocks such as those of the Dominions, which he regards as less desirable. I cannot bring myself to believe that the effect of so small a Sinking Fund on so large a debt is really to force any reluctant trustee into a Dominion loan, if he does not want to go there. Because, after all,

by no means all the holders of British Government Stocks are trustees. Very large amounts of British Government Stocks certainly are held by Government Departments, banks and businesses, and though I do not know, I should imagine the extent of trustee holdings in British Government Stocks is perhaps one-fifth; certainly not more. Therefore any trustee who happens to be paid off by a not very large Sinking Fund, and who does not wish to desert the British Government security, ought not to have any difficulty whatever in replacing his stock. Quite apart from that, in point of fact there are additions to British Trustee Stocks every year which must come to far over £50,000,000. I am thinking chiefly of local authorities, many of whose stocks are Trustee Stocks, who are raising considerable sums of money. Apart from that, there are the various Guaranteed Loans,the Trade Facilities Loans, and Local Loans. So that I cannot conceive that a £50,000,000 Sinking Fund can really put any trustee into the awkward position, that, in order to retain his money in trustee securities, he has got necessarily to invest in Colonial Stock if he does not wish to do so.

8826. *Mr. Hichens*: In any case, I suppose it is true that few, if any, Colonial securities have depreciated so much as Consols?—Not so much as Consols.

8827. For the reason that all Colonial securities of that nature are redeemable at par at a given date?—Yes.

8828. Which is a very important consideration from the point of view of the trustee, is it not?—Certainly. What I really do not follow in Mr. Keynes' argument, is this. It may be the case that trustees ought not to be encouraged by law to invest in particular kinds of stock, or it may be the case that it is not to the national advantage that investments should be made outside this country as against inside the country, but I cannot see that the existence of a Sinking Fund of not very large proportions has really any particular influence on that.

8829. *Sir Josiah Stamp*: That is to say, assume the trustees have to deal with, say, £25,000,000 of it, there are suitable municipal and other stocks in the market?—Yes, even British Government Stocks.

8830. *Professor Hall*: What would have been the position of trustees had there been no War Loans in which to invest after 1914?—They would have had a far less extensive area to invest in. They would have been in their pre-war position; they would not have been any worse off.

8831. I wanted to find out if those opportunities would still exist even if they were to leave War Loan altogether?—How do you mean?

8832. If there had been no War Loan, they would have found investments?—If there had been no War Loan, their investments would roughly have been limited to the pre-war Consols, British Stocks, such Local Loans as there were, some Local Authorities' Loans, and the Dominion Loans, and one or two Railway Stocks, which were always Trustee Stocks. They would have been in the same position as they always had been.

8833. And those stocks still remain?—Yes.

8834. So that they would be no worse off, really?—No worse off at all.

8835. It is not a serious injury?—No, I do not think so at all. What has happened is that they have now got a choice bigger by £7,500,000,000 and a higher rate of interest.

Then the last point was a suggestion by Mr. Strachey, which I think I have really dealt with in a way, already. So far as I understand him, he wished to get rid of the Sinking Fund by turning most of the debt into a one hundred years' annuity which was to carry 4½ per cent. interest, and also whatever was necessary for the Sinking Fund. Incidentally he seems to me to overlook altogether the existence of the contractual liabilities for redemption which I have talked about. I do not know how he proposes under his plan, unless he converts the whole of the existing stock into his new 4½ per cent. annuities, to deal with the liabilities for the existing stocks; but I assume that he is going to get round that by converting the whole into his new stock; to which my answer would be that if I was going to set up a 100 years' annuity, I should certainly hope not to pay 4½ per cent. interest plus Sinking Fund. The danger of a long annuity is that in order to get your annuity accepted now when rates are high and when I should have thought annuities were not particularly popular, you have to pay a very high rate of interest and you are bound to that rate for whatever may be the period of your annuity. On the other hand, if you have a short annuity, naturally nobody will take it up. I do not think there was really very much in Mr. Strachey's plan. I noticed, incidentally, he thought we were relieving debt at a feverish rate; personally I think the fever is a low one.

8836. *Sir Josiah Stamp*: I think under cross-examination he limited the area of his proposal, rather. He agreed that so far as the thing was a mathematical equivalent of one form and the other, there was nothing in it to the State in the long run, but so far as you could get in between the people's psychology and the mathematics and snatch an advantage, you might try to popularise it?—Yes, I see that, but I do not understand that argument. What is the psychological attraction of an annuity? One attraction which he seemed to indicate was that people would think that an annuity was less likely to be suddenly cut off than other forms of investment might be. That does not seem to me to be a very good argument, and psychologically I should not have thought, from the point of view of an investing party, that there was any great desire; at any rate the figures do not show it.

8837. No, I think he would admit that. He said they were not popularised, but you might by propaganda say to people: "Would you not like to have ½ per cent. more in your lifetime and not bother about the future?"—that ½ per cent. being less than the actuarial equivalent? — I cannot help feeling that if there were anything in that, it would have been done by the insurance companies long ago. I would like to give you one piece of history on that, remembering of course, that history does not always repeat itself. In the early part of the nineteenth century, when we were faced by very much the same problem, when the normal rate of interest was 3 per cent. and our standard was a 3 per cent. stock, the Government of the day in fact offered annuities. It offered to give for every £100 of 3 per cent. Consols, a 3 per cent. annuity for 100 years, plus £3 bonus in cash down, which bonus in cash was considerably above the present value of the difference; so that was rather a generous offer. There was only one response, which was a single tender of £3,000. Apart from that, for many years we did offer terminable annuities from 10 years upwards, according to choice. That incident was in 1833. Between 1830 and 1840 we only sold £16,000,000, and in the whole period of 60 years down to 1890 the total stock was only £22,000,000 of terminable annuities. So that unless psychology has very much changed, which I doubt, it does not look to me as if the terminable annuity was a very popular sort of stock. I think the only thing left is that I was going to get some calculations for Mr. Lees-Smith as to when the debt would be extinguished by a cumulative annuity of either £300,000,000 or £350,000,000. I will have that sent to you.

Chairman: Thank you very much.

(The Witness withdrew.)

THIRTY-SECOND DAY.

Tuesday, 1st December, 1925.

PRESENT:

The Rt. Hon. LORD COLWYN, *Chairman.*
Mr. HENRY BELL.
Mr. J. W. BOWEN.
Professor FRED HALL.
Mr. W. L. HICHENS.
Sir WILLIAM McLINTOCK, K.B.E., C.V.O.
Sir JOSIAH STAMP, G.B.E.
Mrs. BARBARA WOOTTON.
Mr. G. R. HAMILTON, *Secretary.*
Mr. G. ISMAY, *Assistant Secretary*

Mr. W. H. Coates, LL.B., B.Sc., called and examined.

Evidence-in-chief handed in by Mr. Coates.

Incidence of Income Tax.

1. During the six years ended October last I held the post of Director of Statistics and Intelligence in the Inland Revenue Department—a post which I have since resigned. When the Committee on National Debt and Taxation was appointed, it occurred to me, as one of its chief tasks would be the consideration of the incidence of the Income Tax and Super-tax, that it might be possible to utilise the statistical material passing through my hands in an attempt to shed some light on this difficult question. I was, of course, aware of the marked diversity of opinion which exists on the subject. There are two opposite schools of thought. On the one hand the economists who have studied it have come to the broad conclusion that an Income Tax, being a tax imposed upon marginal yields of profit, cannot by its nature enter into or form part of the costs of production and that it is therefore not possible for a person upon whose profits the tax is laid to pass on that tax, in the price of his product, to the consumer. In effect, the economic writer says that the incidence of the tax is upon the person in respect of whose profits it is imposed. The other school adopts, broadly speaking, a directly opposite view. It holds strongly that a tax on income, just in the same way as a tax on goods, does not finally rest upon the immediate taxpayer, but is diffused by him over the whole community by way of a recovery of the tax in the price which is charged for the products consumed. This conclusion means that the incidence of the tax is on the general consumer. The question was which was the better of these two views? During the past few months steps were accordingly taken to analyse and tabulate some of the unique statistical material which emerges in the course of the administration of the Income Tax, to see if it would throw any light on the problem. The result is embodied in the memorandum which has been circulated to the Committee under the title of "The Incidence of Income Tax."* This document constitutes my real evidence-in-chief, but in view of its length and complexity some of the chief points are set out briefly in the following paragraphs.

2. Although the statistics presented in the memorandum referred to are based upon material collected in the course of my official work, the responsibility for the manner in which they have been analysed and presented rests entirely upon myself. The conclusions also which are there expressed are to be taken as my own personal conclusions and the necessity for identifying the Board of Inland Revenue with them does not arise. They must not be read as binding that Board in any way or as necessarily accepted, or rejected, by the Inland Revenue Department. The evidence which I am giving is therefore personal evidence, although it is based upon information which came into my hands while I occupied the official position to which I have referred.

3. In view of the differences between the two schools of thought referred to, every effort was made to confine the memorandum to facts and to base any conclusions drawn upon the statistics alone. No attempt was accordingly made to examine those difficult aspects of the effects of the tax which may be grouped under the head of psychological reactions. That is not to say that the existence of such effects is denied. On the contrary I should fully admit them. It is only desired to give a warning that such considerations have been deliberately excluded, except in so far as the statistics may in themselves bear silent witness to the degree of their reality.

4. The broad view of the incidence of taxation which is to be gathered from speeches and writings of practical business men is that high taxation has a very adverse effect upon the prosperity of industry. Numerous extracts from speeches expressing this view are set out in Annexe I to the memorandum. As the Income Tax and Super-tax when taken together are the largest single source of revenue in the British system of taxation, I assumed that this charge might be taken as directed largely against these taxes.

5. Although Income Tax and Super-tax are administered separately—the former having a localised administration through the various bodies of Commissioners of Income Tax and the Super-tax having a centralised administration through the Special Commissioners of Income Tax—these two taxes are fiscally one. Only by considering them together can a correct view be obtained of the progressive nature of income taxation in this country. Just as below a certain point in the whole range of incomes, provisions exist for reducing the standard rate of Income Tax, so above that point provisions exist for increasing it. The former, that is, the provisions for reducing the standard rate of Income Tax, are to be found in the various sections of the Income Tax Acts which provide personal allowances, deductions and reliefs, the scope and nature of which vary according to the circumstances of the taxpayer. The latter provisions—those for increasing the standard rate of Income Tax—are contained in those sections of the Income Tax Acts which relate to Super-tax. Although the Income Tax is commonly spoken of in terms of the standard rate in force at the moment, this manner of speaking tends to disguise the real nature of the tax. In effect every taxpayer has his own peculiar rate of tax, determined by such considerations as the amount of his total income, his marital condition, his family responsibilities, and the sources from which his income is drawn. The only true test of the rate of tax borne

* Printed as Appendix XI to the Committee's Report.

by any individual is to take that individual's total liability in terms of tax and to divide the amount of his tax by the amount of his total income as computed for the purpose of Income Tax. This computation gives what is known as the effective rate of tax per pound of statutory income. In judging the line of graduation of the tax one must, of course, compare like with like, that is to say, take a series of individuals in like circumstances and differing only in point of their total income. When that course is followed it will be found that the effective rate of Income Tax (including Super-tax) rises gradually from a fraction of a penny in the £ to a maximum which approaches closely to the sum of the standard rate of Income Tax and the highest rate of Super-tax. The standard rate of Income Tax has thus no special economic significance; it is a mere administrative mid-point in an unbroken series of personal rates, effective only as a rate in itself on impersonal and foreign-owned income.

6. The Income Tax and Super-tax constitute in the main a tax on individuals. Approximately 90 per cent. of the income brought within the range of the tax is the income of individuals, and only the remaining 10 per cent. can be finally attributed to corporate and other bodies or taxpayers resident outside the United Kingdom. At the same time a very large section of the income liable to tax arises from the business carried on by Limited Liability Companies, and this income (subject to certain minor exceptions) is not liable to Super-tax. Only when such income is distributed as dividends, interest, or otherwise to the persons entitled to share therein, does it become personal income liable to the specially personal Super-tax. Accordingly, the memorandum has been confined to the incidence of the Income Tax on the broad ground that whatever conclusion is to be drawn from its facts and arguments as respects the Income Tax will apply in an equal, if not a greater, degree to the Super-tax.

7. After a brief introduction, Part 2 of the memorandum presents what I have called the doctrinal and practical views of the incidence of the Income Tax, or what others might term, the academic and business views. Part 3 states the basic difference between the two schools of thought. For the purpose of expounding the practical view of which, as I have already stated, numerous examples are quoted in Annexe I to the memorandum, I have taken the arguments used by Mr. P. D. Leake, as he is the only exponent of this view known to me who attempts to state it in a reasoned form, linked up to a body of economic doctrine. The substance of his argument is that "apart from current price fluctuations due to changes in supply and demand, the general level of selling prices must inevitably be based upon the cost borne by employers incidental to production, and this cost includes the employers' disproportionate burden of progressive taxation"; and again, "Employers are the price fixers, and, in the long run, they will surely either gradually cease to produce, or else they will maintain selling prices at a level which will leave them a reasonable net profit, after paying all outgoings, including taxes. For the most part they can, and, naturally they do, adopt the latter alternative." Briefly, this argument assumes that the producer has the power to fix prices and thus to include in them the amount of the tax upon his profit which he will be subsequently called upon to bear. It will be observed that these statements are qualified by the phrase "apart from current price fluctuations due to changes in supply and demand," and that the effect of the fluctuations of these very important forces is not elaborated.

8. In the doctrinal or economic view, on the other hand, these forces are given pride of place as the dominant determinants of current prices. It is argued that on the demand side the consumer constantly re-distributes his purchasing power among different commodities, or different kinds and grades of the same commodity, in order that the satisfaction derived from his purchasing may be a maximum. Demand is thus a creature of the moment, swayed by all kinds of temporary causes such as fashion, taste, prejudice, current opinions, &c. The amount of goods on offer on the market, that is, the current supply, is, on the other hand, a present effect of numerous forces set in motion in the past. Supply has therefore but slight mobility. It tends to be inert. In keeping pace with the quick movements of demand it must use as best it can the facilities which happen to be available—many being the outcome of past decisions. The economic doctrine asserts that price is thus largely determined by the short time relation between the conditions of demand and the actual and future position of supply at the time in question. If demand is greater than supply, then price will rise. In the reverse case price will fall. The quantity of supply is thus a vital factor.

9. The question at once arises—what controls supply? The answer suggested is that it is the amount of profit which the supplier expects from his activities. The next stage in the doctrinal view is the expectation that in any group of suppliers there will be a variation in ability, the result of which will be that in any given conditions the result of some persons' business will be more profitable than that of others, and, further, that it is to the interest of every producer to carry his total production up to that point at which his expenses for the last unit of his production are just about equalled by the price he gets for it. From these premisses it is argued that at any time there will be a certain amount of goods on the margin of supply, that is to say, that a variation in the demand price, up or down, will either bring to or take off the market some quantity of supply, that particular quantity being determined by the test of the estimated resultant profit or loss. Accordingly, while there may be for every producer a marginal quantum of production, the most sensitive point in the area of supply will naturally lie among those producers whose ability or good fortune is least. Concerns which are on the point of withdrawal from the supply area because of this weakness will have been contributing to the total supply offered; their influence will have been a factor in the conditions which determine price. By the hypothesis, the current price so influenced by their marginal production has been just sufficient to keep this marginal supply in being. But as that price has been one which has yielded no profit to these marginal producers, it can therefore include no element of a tax which is levied on a margin of profit. And finally, as there will not be more than one modal price for a given product, the profit of other concerns selling at that marginal price cannot be influenced by the rate of Income Tax that is currently in force.

10. The issue between the two views, the one consistent with the main body of economic doctrine, and the other instinctive to ordinary business men, thus appeared to me to be largely one of statistical fact, and I posited two main questions for the application of this test. First, were typical industries of the country mainly in the hands of representative concerns, whose normal cost of production determines price, so that, by including Income Tax in that cost, they could pass on the tax in price, as the business school contends, or, on the contrary, were they in the hands of concerns, whose varying circumstances and ability show, in competitive conditions, results varying from losses, or small profits, up to large profits per unit of business? Secondly, how did the rate of profit secured by industry under conditions of high taxation compare with the rate of profit secured under conditions of low taxation? If the contention that high taxation is passed on to the consumer were correct, it seemed clear that the rate of profit (before payment of the tax) would need to be considerably higher when taxation was high than when it was low.

11. For both these purposes it was necessary to establish some method of measuring the rate of profit of industry. The base offered by capital for the measurement of profit was rejected and the base of turnover was adopted instead. Capital was rejected because, briefly,* the amount of real capital employed by any concern is not a fixed amount, although commonly so regarded. When once liquid money capital has been invested in appliances of production or other industrial assets the value of that capital ceases to be the amount of the money invested, and becomes instead a mere reflection of the rate of earnings expected from the investment taken in conjunction with the current or expected rate of interest. "All capital goods possess a capital value which represents a capitalisation of their income value. The process through which income is transmuted into capital is expressed in the rate of interest . . . . . Capital values will accordingly fall when, with an unchanged rate of interest, incomes decrease; or when, with an unchanged income, the rate of interest rises; vice versa, capital values will rise when the rate of interest falls, or when, with an unchanged rate of interest, income values increase."† Moreover, every change in the price level affects the real capital value of money invested during the period of a different price level, and business prudence operating through accounting methods may also effect considerable changes on an original invested capital. The alternative base adopted, viz., turnover, has disadvantages of its own though they are not so great as those of capital. The pound of turnover varies automatically with every change in the price level and on this and other grounds I felt that the unit of turnover constituted a generally reliable base to which the unit of profit could suitably be related.

12. On the principle that it was necessary to compare like with like, it was apparent that the profits to be compared should be profits containing like elements. A distinction had to be drawn between profits secured by individuals whether trading on their own account or as members of a partnership and those of a company. In the former case profit includes and in the latter case it excludes that element of profit which represents the earnings or personal remuneration of management. To preserve uniformity, therefore, the statistical investigation was limited to the data available in the case of companies. The analysis and comparison of profits in 1912-13 and 1922-23 were therefore made by extracting for all cases in which information was available the percentage rate of profit on turnover and classifying the cases according to that percentage in 8 classes. Seven particular trade groups were investigated, viz.,

(1) Cotton.
(2) Wool.
(3) Iron and Steel.
(4) Metals.
(5) Food.
(6) Wholesale distribution.
(7) Retail distribution.

13. The first of the questions posited in paragraph **10** above was answered by the statistics so tabulated clearly in the negative. The analysis for each trade group, for each period taken, showed the familiar distribution common to practically all phenomena when treated statistically. There is a certain point, or region, about or within which the number of instances or occurrences (in this case the rate of profit secured) is large, and, on either side of that point or region, there is a progressive decrease in the number of instances as the distance therefrom increases. If the bulk of the cases be close to the centre, and the cases in the outlying classes are few, the "dispersion" of the cases is small. But if the cases are well spread over a wider range of classes, "dispersion" is great. The important point emerging from the statistics was that a material portion of the total business was done at a loss or no profit. The practical existence of the marginal concerns postulated by economic doctrine was clearly shown.

14. The second question, namely, whether a proportionately higher rate of profit was secured during a period of high taxation than that obtained in a period of low taxation was also answered by the statistics in the negative.

The comparative "dispersions" of the profit as a percentage of turnover for the seven groups in 1912-13 and 1922-23 respectively are shown in detail on Table 16 of Part 6 of the Memorandum, together with two "dispersions" for the seven groups taken as a whole. The similarity of the two latter "dispersions" is further exposed in paragraph **39** of the Memorandum by the statistical coefficients for the two years, which are as follows:—

	1912-13.	1922-23.
Median	4·61	4·11
Lower Quartile	2·53	1·24
Upper Quartile	7·67	8·46
Skewness	+0·19	+0·20
Average or Mean	5·80	5·43
Mean deviation from the Median	3·59	6·01

The medians and the means or averages are very close to one another for these two years, although those years are separated by a decade with all the changes of that period, including the movements of the standard rate of Income Tax from 1s. 2d. in the £ in 1912-13 to 5s. in the £ in 1922-23. If the 1912-13 median and average are each expressed by 100, then in 1922-23 the median was 89 and the average 94. The general distribution of the curve given by the dispersions is similar, although the quartile measurements indicate that its shape has altered, the range over which the middle half of the business was done widening from 5·14 to 7·22. A further aid to comparison between the two years is afforded by the graphs which follow paragraph **40** of the Memorandum. Table 17 shows the statistical measurements for each industrial group separately, from which it will be seen that there have been considerable cross movements in detail which tend to cancel out in gross. The movements are discussed more fully in paragraph **42** of the Memorandum.

15. From the field of complexity offered by the figures it is perhaps difficult to draw any conclusion beyond the conviction that they must be the result of numerous forces, acting in various directions. But the standard rate of tax in 1922-23 was 4·28 times the amount of the rate in 1912-13.‡ If a business in 1912-13 yielded a profit of Y per cent. and that percentage included the tax which had to be paid thereon, then on the theory that those in control of business will not carry on unless they receive the same net reward for their efforts during the period of much higher taxation, when the rate of tax was 5s. in the £ the gross rate of profit on turnover would require to rise to 1·25 times Y per cent. or an increase on the original return of 23/90ths of its value. This increase to be effective in its object would require to be realised throughout the whole range of the dispersion, but the tables and graphs presented in the memorandum offer no evidence in support of any such increase. On the contrary, the earnings of industry for these seven groups as a whole, before payment or deduction of Income Tax, when related to the unit of the pound of turnover are practically the same in 1912-13 and 1922-23, notwithstanding the increase in the standard rate of Income Tax by 328 per cent.

16. It was realised, however, that an investigation confined to industrial activities alone was not entirely conclusive and accordingly in Part 7 of the Memorandum some observations are offered on the effect of Income Tax on other parts of the stream of

* *See* Annexe II to the Memorandum for a fuller statement.

† Quoted from a forthcoming treatise on Public Finance by Professor E. R. A. Seligman.

‡ The average effective rate of Income Tax in 1922-23 was 2·73 times that in 1912-13: including Super-tax it was 3·09 times.

income falling liable to the tax. Some reasons are given there for the belief that the rate of Income Tax has not much more effect in those fields than it has been shown to have in the industrial field. In general it may be said that the contention that business will not be undertaken unless the same net rate of profit can be secured as before the war, or that business will not be undertaken unless the undertaker can secure the rate of profit which will allow him to shift the burden of Income Tax, appears to neglect the existence of the struggle for business, or in other words, of competition. One may note that industries working for the export trade are faced, not only with the competition of home marginal producers, but also with that of foreign producers, whose cost is not affected by an increase in British taxation. It is difficult to believe that in this sphere any additional Income Tax can be added to price. If export prices could be increased at will, the obvious question would at once arise why, assuming general conditions to be stable, the increased price was not demanded and obtained before the rise in the rate of tax. Much of the output of the manufacturing and productive industry of Great Britain lies within this sphere of export trade.

17. So far as home trade is concerned the manufacturer has for his customers the expert buyers of other manufacturers using his product, or of wholesale merchants. Those buyers are always seeking goods of a given quality or standard at the lowest price. Any increase of price designed to recoup a high rate of tax borne by a producer who has a high margin of differential profit would quickly divert custom to producers working on a very low profit or at a loss, who, on the business theory, would not raise their price in like degree because their burden of tax is negligible. This is so because it is obvious that under a system of progressive taxation there will be nothing like the same stimulus in the case of the low profit producer to follow an increase in price made by the high profit producer when the sole cause of that increase is a rise in the rate of tax. The wholesaler in his turn is in the same position. The retailers who are his customers are not likely to remain long in ignorance of supplies of equal quality offered at a low level of price (low because there is no tax included) by marginal wholesalers. The last stage in the passage of goods into consumption embraces transactions between the retailer and the consumer. Here the buyer is least expert as regards quality and most inert under the influence of custom. Private, as opposed to corporate enterprise, survives most within this sphere, but there is a considerable element of corporate trading being done through the agency of multiple shops, which force the pace in competitive prices. Moreover, the pressure of low purchasing power upon the general mass of consumers seems likely, when high taxation has been in force for some years, to exert its influence in preventing the retailer from transferring his burden of Income Tax to the general consumer. Out of some 19 millions of occupied persons less than 5 millions enjoy an income exceeding a level of about £150. More than half of the wage earners with incomes below this level are married. Little effort is needed to imagine the unremitting pressure of low earnings on the women who expend the bulk of the purchasing power of the working classes.

18. It may also be remarked that in the case of new businesses, their proprietors tend more and more, as time goes on, to work in the atmosphere of the present level of prices, and, not having been engaged in business at a time when prices and taxes were both very much lower, to be not greatly influenced by the changes which have taken place since 1913. Just as to children who are now growing up present prices are not at all exceptional, so as the years pass men get inured to a new set of conditions and fail to adjust their actions by reference to a state of affairs which, however much it may be regretted, is now firmly in the past. On the whole, I have been unable to find any reasonable evidence in support of the business man's view that Income Tax (and much less Super-tax) is passed on to the general consumer. In my opinion the real weight of the burden of Income Tax and Super-tax rests where it is intended by the legislature to rest, that is, upon the shoulders of those in respect of whose incomes it is imposed.

National Savings.

19. No official steps are taken in Great Britain to collect statistics of the national savings year by year. Some official material for this purpose is provided by the periodical census of production, but until the one now in progress has been brought to a conclusion no official estimate can be made of the amount of the national savings to-day. The formulation of such an estimate is a difficult matter, full of uncertainty. It is, however, so important that some tentative figures which I have prepared may be of interest to the Committee.

20. The details of my estimate of the national saving in 1924 would be as follows:—

	£ millions.
Internal new issues for investment in the United Kingdom	89
Internal new issues for investment abroad	135
Addition to National Savings Certificates	3
Increase in Treasury holdings of Bonds tendered in payment of Death Duties	9
Investments sold by the banks ...	35
New houses	35
Profits not distributed by companies and private traders but invested in own businesses; and miscellaneous	194
	500

21. The main base of the estimate is provided by the amount of new capital issued in the United Kingdom. There are several series of statistics of these issues, viz., those compiled by "The Economist," the "Statist" and the Midland Bank. Following the practice of "The Board of Trade Journal," which records from time to time the statistics compiled by the Midland Bank, I have used that source for the present purpose. It excludes direct British Government loans, shares issued to vendors, capitalisations of reserve funds, conversion issues, short dated bills and private issues by private companies.

22. The next most important item relates to the amount of income or profits put back into business companies and private traders. That part of the estimate is based upon tentative figures which were extracted from official sources for the purpose of giving particular information asked for in the House of Commons. Allowance has been made in respect of such portions of undistributed profits as are not left actually in the business of the trader, but invested in outside stocks and shares, inasmuch as those investments are already included in the new issues item. The estimate of new capital invested in houses is derived from the statistics of the houses erected in the year ended September, 1924, after consideration of the movement of shares, deposits and repayments of loans of building societies, and a rough estimate of the amount provided by municipal loans or advances from the banks. The movement in Death Duty Bonds is abstracted from official statistics. The item relating to investments sold by the banks is based upon a consideration of movements in banking statistics in 1924. From these figures, which are subject to margins of error of varying degree, I should estimate that the national savings in 1924 range

around the total stated, within a margin of error on either side of, say, 10 per cent. In the current year it may well be that the total savings will be less.

23. The estimated total of 500 millions for 1924 does not compare favourably with the estimates which were made for the year 1913, viz., from £350/400 millions, when allowance is made for the change in the price level. On the other hand it has to be remembered that 1913 was a year of great trade prosperity, whereas to-day we are still in the middle of a serious trade depression. Moreover, I think it has to be recognised that there is a marked change of outlook on the part of people generally as to the value or desirability of saving.

24. Fears have been expressed from time to time that the volume of new saving is insufficient for our requirements and that in the event of a trade revival there will be difficulty in meeting the needs of industry. I think it is possible that this view overlooks the strong and growing tendency of industry to provide year by year from its own resources of profit for its own capital needs. When a revival of trade sets in, it will no doubt be marked by a rise in the price level, and an increase of profits not only absolutely but also relatively, by reason of the movement in the price level. It may be assumed, I think, that out of such profits there will be a large provision for the working capital required to finance new business. Even apart from this consideration there seems little doubt that the existing capital equipment of industry is sufficient to sustain a marked expansion of activity without additional capital requirements except in the form of working capital.

25. If I may now leave the realm of fact for the realm of opinion, I am not disposed to think that the existing rate of income taxation has a harmful effect upon the supply of permanent capital. As I have already noted, there is a growing tendency for industry to finance its own requirements. For the rest, a very large amount of privately saved capital arises from two causes—firstly, there is mere superfluity of income (after meeting the demands of taxation) over the scale of expenditure desired; even to-day this cause of saving undoubtedly exists; and, secondly, there is the saving of capital which is made for the sake of the capital itself, apart from the income which that capital may earn. The acquisition of a capital fund is the primary object; the fact that it will itself yield subsequent income is entirely subsidiary. In the lower and middle ranges of income I think that this force is of considerable importance.

26. I do not think that the existing rates of income taxation act as a deterrent to saving generally or to enterprise on the part of individuals engaged in trade, whether on their own account or in the conduct of joint stock companies. In the latter case Income Tax is charged at the standard rate, and so far as profits are distributed in the form of dividends, &c., tax is deducted from the recipients at that rate. Those recipients may conceivably recover the entire amount of the tax from the Inland Revenue or alternatively they may have to suffer a further burden in the form of Super-tax. In either case, this subsequent effect is a matter of indifference to those responsible for the conduct of the company's business. The responsibility of directors and others engaged in this form of enterprise is a responsibility for profits before and not after the payment of Income Tax. When, as is so often the case, the remuneration of those conducting corporate enterprise is dependent upon the profits realised, this incentive to activity on behalf of the company is in no wise diminished by the fact that these profits will be subject to income taxation. In the sphere of private enterprise, that is, of business carried on by individuals either as sole or partnership traders, it seems to be very doubtful also whether the weight of the tax is sufficient to affect to any material extent the normal disposition of the trader to improve and expand his business. This kind of business is most prevalent in the distributive trade, that is, wholesale and retail trade, in which the greater number of individuals concerned would fall in the lower ranges of total income and would accordingly not be subject to a great burden of tax.

High Taxation and Business Incentive.

27. Official statistics have, I understand, been furnished to the Committee relating to proportions of earned and invested income in the incomes of Super tax payers (incomes exceeding £10,000). Table 6 of those statistics classifies the number of Super-tax payers by range of income, by source of earned income and by age. This table is of considerable interest as it indicates the numbers of tax payers of an age exceeding 65 who, notwithstanding the amount of their total income, still remain in active business life. The table was prepared during my service in the Inland Revenue Department and it may be of interest if I comment on that aspect of the statistics which bears on the question whether taxation destroys the incentive to further effort when the accumulations of many years' work have made retirement from business feasible.

28. The table shows that 1,407 individuals aged 66 or over and having incomes of £10,000 per annum or more were engaged in business of some kind. The question is whether this is a reasonable number or whether it is small in comparison with normal expectations, as in the latter event the difference might reasonably be attributed, in part at any rate, to the high rate of taxation applicable to incomes of this magnitude. The problem is, therefore, to find a total to which this figure can be related and then another ratio with which the ratio so obtained can be compared. As there is a close correlation between age and income it is suggested that for incomes exceeding the minimum of £10,000 the number of individuals aged 46 or over may be adopted for the second term of the first ratio. For the second ratio, in the absence of similar age-group figures for 1913-14, the best basis of comparison appears to be offered by statistics of the age distribution in the employing and professional classes as a whole, irrespective of their income. For this purpose the Census of England and Wales, 1921, has been used. (The Census age-groups are not co-terminous with those in Table 6, but the ages of 65 and 45 respectively will serve for the present purpose.) In table 6 the number of individuals aged 46 or over is shown as 5,280, of whom, 1,407 or 27 per cent. are aged 66 or over. The Census figures for the occupations referred to above show 587,300 males aged 45 or over, of whom 87,900 or 15 per cent., are aged 65 or over. The admission, which has already been made, that age and wealth tend to be associated, no doubt tends to bias the age distribution in Table 6, as compared with the Census figures, towards the higher age-groups. Making every allowance for this tendency, it is difficult, nevertheless, to find in these comparative figures of 27 per cent. obtained for large Super-tax payers, and 15 per cent. obtained from the Census results for employers and professional men as a group, any statistical support for the view that the weight of post-war taxation tends to deter the wealthy man from continuing in business after reaching an age at which he might well retire.

8838. *Chairman*: The Committee are interested to know that that you have left the Government Service and have entered the great arena of commercial life. They wish you success.—Thank you very much.

8839. Will you read your paper paragraph by paragraph and the members of the Committee will ask any questions that occur to them?—Yes. (*Paragraphs* **1** *to* **5** *read*).

8840. *Sir Josiah Stamp*: You refer to the economist school in the first paragraph. I take it that you have looked, for the purpose of arriving at your conclusions, at the majority of economic writings of any importance?—That is so.

8841. Including German and American?—Yes, I am familiar with both.

8842. What I am on is what you say in paragraph **5**. Would the arguments that you adopt or the methods of proof which you adopt be affected in any way by the fact that the tax is progressive?—Not in the slightest, in my opinion.

8843. Would they be affected by the administrative method adopted to divide the tax, such as our method of adopting a standard rate with abatements below it and Super-tax above it, or the German method of having a scale of rates all the way up in direct taxation? Would that affect your arguments at all?—No. Those are merely methods by which one gets the tax off individuals. They do not affect the actual weight of the tax or the distribution of the tax.

8844. You can imagine an economist saying: "My argument is true with regard to a flat rate of tax for everybody, but I was not thinking of a progressive rate." Is there anything in that point?—Not if you have a tax which takes account of personal circumstances, that is to say, a real Income Tax.

8845. You would, *prima facie*, from the methods of proof they adopt, apply it to a shifting of a progressive tax, that is different for everybody, rather than that of a flat tax?—Yes, but I should also apply it to a flat tax especially if that flat tax had no exemption limit and was in effect a tax on every kind of income. In the long run these arguments would still apply, but it would be more easy to argue that there might be some shifting in those circumstances.

8846. So that one can regard the economist's field of proof or body of doctrine as, in your judgment, not being seriously interfered with by quite recent developments in progression or administration?—Quite. (*Paragraph* **6** *read*).

8847. I see this possible objection to the line of action indicated in that paragraph; perhaps you can tell us what you think of it. It may be said that if the incidence of the tax be a particular incidence it must be within the will of the person running the business. Well, a man who is running a private business with Income Tax and Super-tax in his mind has a certain thing that he would like to do in regard to price if he could. But when you are thinking of corporate enterprise, you have only the Income Tax in the minds of the people who are running the business—they do not care very much whether the recipients are liable on their dividends to Super-tax or not—and therefore it might be said that it was fallacious to think only of corporate enterprise?—They can only envisage Income Tax and not Super-tax?

8848. That leads me to this point. You have dealt in your memorandum with corporate enterprise. Could you give us any idea at all, now or in some subsequent contribution, as to the relative importance in the market of turnover, as well as of profits and of capital, of corporate enterprise as compared with private enterprise? If private enterprise is half the field either of capital or of turnover, it might very profoundly modify your conclusions?—If I recollect correctly, I think it was said before the Select Committee on the Increase of Wealth (War) that of the total field of profits liable to Excess Profits Duty 77 per cent. were profits arising from enterprise conducted by limited liability companies, leaving only 23 per cent. for individuals and firms.

8849. *Chairman*: What proportion of that was private limited companies; they are very large?—I had taken out one year at Somerset House some particulars of the relative importance of the share capital—which was the only information available—of public limited liability companies and private limited liability companies. Out of 70,000 companies (this was for England only) 15½ thousand roughly were public limited liability companies, and 54½ thousand were private. These are numbers. As regards capitalisation, that is, paid up share capital, the public companies' figure was nearly three times the amount of the private companies'.

8850. That is the capital; but the number of private companies is large?—The number of private concerns is very large, but it is the capital which indicates the scope of the enterprise, not the number. In dealing generally with Income Tax figures I used to reckon that taking the whole area of profits from businesses within the Income Tax sphere, roughly 75 per cent. of those profits arose from corporate enterprise.

8851. By corporate do you mean public companies?—I mean public and private; and of that 75 per cent nearly three quarters would relate to public limited companies, not private; that is to say, 75 per cent. of 75 per cent., that is about 57 per cent. of the total field, would be public limited liability companies. And further, it should be noted that private enterprise, whether carried on by individuals and firms, or, I think, through the medium of private limited companies, is very largely concentrated in wholesale and retail distributive trade as apart from manufacturing and industrial.

8852. Is that really correct?—Yes, that is really so.

8853. *Sir Josiah Stamp*: What would happen if you were to exclude the wholesale and retail distributive trades and confine your percentages to the balance? It would throw them out considerably, would it not?—It would modify them very considerably. For instance, I have some particulars of pre-war years in which, in the heavy iron and steel industry the proportion of companies of the whole was as high as between 80 and 90 per cent. In the cotton industry it was between 80 and 90 per cent.

8854. *Mrs. Wootton*: Is that including private companies?—Including private companies.

8855. *Chairman*: Take private companies in the cotton trade. Many limited companies there are absolutely private; they only formed themselves into limited companies for the protection of their personal capital and, to all intents and purposes, they are absolutely private companies. Is it not rather fallacious to class those with public companies?—I do not think so, on the particular point which Sir Josiah was raising. But there is a further test, which I did not apply, which comes out later in the evidence. That was to compare the profits as a whole of public companies, private companies, persons and firms, within the sphere of Income Tax in the post-war years, with what they were in the pre-war years, and to make such allowance as was possible for a diminution in the total production of the country as indicated by investigations of the London and Cambridge Economic Service. When allowance was then made for the movement in the price level, my conclusion was that those profits as a whole do not quite reach the increase denoted by the price level; that is to say, if you eliminate the movement in price level and you made such adjustment as was roughly possible for the aggregate of production, then the total profits of 1922 were slightly below those of 1912.

8856. *Sir Josiah Stamp*: I was making a hypothetical attack upon your having sampled what are known as private companies. It seems to me you have two lines of answer. One is that the public companies form an overwhelming proportion of the total. Supposing they do not, your second line of answer is: "The samples I am taking include a

large number of private companies and therefore the very element that you are asking to be included, this element of personal consideration, is in the sample to a large extent "?—Yes.

8857. So if the Chairman is right in saying that there are a large number of so-called public companies which are acting just as though they were private companies, then the objection to your sample vanishes?—Undoubtedly, but I had not quite grasped that you were attacking it on those lines hypothetically. (*Paragraph 7 read.*)

8858. I do not think that in this proof you again refer to Mr. Leake's contentions?—No.

8859. I do not know whether your attention has been drawn, since you drew up that proof, to a rather striking letter that Mr. Leake has written to the "Times." I will read it:

> Sir,—Contrary to the opinion held by many business men, it is still widely assumed that direct taxation cannot be passed on to the consumers. In view of the importance of this question and its possible bearing upon the price level, some further evidence on the subject may be of interest.
>
> The experience in Australia is that the great groups of manufacturers, distributing houses, and other classes of business and professional men frequently have, and naturally avail themselves of, the opportunity of passing on income-tax. The evidence of public accountants and taxation experts taken in all the Australian States by the 1923 Commission on Taxation was to the effect that income tax was treated by business men as one of the overhead expenses of a business, which means that it is merely a factor in the cost of goods or services to which the business profit is added. A still more important fact is that this practice has received judicial recognition in the Arbitration Court of New South Wales, which, in estimates of production costs, allows traders to charge the whole of their personal taxation to the working expenses of their business (see N.S.W. Parl. Debs., 1920, Vol. LXXXII., p. 3306). It is believed that the same practice passes unchallenged in other Australian Arbitration Courts, and, according to a competent writer on taxation in Australia, it is probable that about 35 per cent. of the amount of the Commonwealth and States Income Taxes is passed on to the consumers.
>
> My attention has recently been called to some interesting tables and diagrams prepared by the Tariff Commission and published in June, 1914, showing a marked tendency in then recent years to similarity of movement between prices and the average burden of direct taxation, a movement which seems to suggest some sort of correlation between the two. At that time the burden of direct taxation in the United Kingdom was a mere fraction of what it is to-day.
>
> The amount of real wages depends, of course, upon the level of prices, and the question is of great importance, because not less than 85 per cent. of all consumed production—which includes imports paid for by exports—is actually purchased and consumed in the forms of clothes, food, shelter, and amusement—by wage-earners and others with small incomes.
>
> P. D. Leake.

You will see he refers there to the 1923 Commission, to the Arbitration Court procedure, and to the Tariff Commission. Can you tell us anything on that now, or would you like to comment on it later in writing?—I have read that in the "Times," and was at once interested, because I had used Mr. Leake's arguments in the writing of this paper. I thought his reference to a competent writer on taxation in Australia would be to Mr. Stephen Mills, whose book I had seen, and I turned up Mr. Mills's book and found that these statements are taken directly from Mr. Stephen Mills, although Mr. Leake does not acknowledge the source of his information. The implication of the letter is, it seems to me, that Mr. Leake had considered this evidence, but the words in the letter are almost the *ipsissima verba* of the book, and the quotation of the New South Wales Parliamentary Debates is also taken from a footnote. Then I obtained the Reports of the Royal Commission on Taxation in Australia and made a brief search to see whether the Commission themselves had in any way adverted to this matter, and I regret to say that I failed entirely. That Commission was instructed to report upon the equitable distribution of the burdens of taxation but nowhere in its five Reports does it discuss the actual incidence of the Income Tax; nor in its questionnaire to the various Tax Commissioners of the various States in Australia, asking questions as to differentiation, graduation, double income tax, profits on exports, and so on—a questionnaire running to 57 questions—does it ask any questions as to incidence of taxation. None the less, I do not doubt that evidence may have been given before the Commission to the effect that Income Tax is treated by business men as one of the overhead expenses of the business, inasmuch as Mr. Stephen Mills, the author of the book, was himself a member of the Commission. But it became perfectly clear also that Mr. Leake could not have referred to the evidence, because in this Report, where references are given in a final table, to the pages on which the evidence appears, there is a note that the evidence is not printed.

8860. *Chairman*: It may be in existence?—Yes, it no doubt is in existence, but there is no means by which one can verify that, as far as I can trace.

8861. *Sir Josiah Stamp*: What, does the Arbitration Court referred to do; do you know?—It endeavours to fix wages, I believe.

8862. There is no evidence that they are able to get the tax passed on to the public?—No.

8863. It seems to be a sum that they do for some other purpose?—Yes.

8864. So that there is no direct evidence here of what is actually happening. Do you think you could, by a Court of Law, abrogate an economic law?—I am perfectly sure that you could not. The economic law will ultimately abrogate the legal law.

8865. Are you able to make any comparison between the price level and the rate of Income Tax?—I was not able to do that in the short notice which I had of this letter, which only appeared quite recently, but I did make a brief comparison between the rates of Income Tax up to 1913 and the movements of the Statist price index number. So far as I can see, it would be very difficult to trace any like movement between those two respective series. In 1885 the price level was 72 as compared with the base of 100, which related to the ten years 1867 to 1877. The rate of Income Tax was then 8d. The price level fell gradually until in 1896 it was 61; that is to say, a fall of 11 on 72; that is 15 per cent. The rate of Income Tax was still 8d. and was 8d. for six years from 1894 to 1899. The price index rose gradually from 1896, and in 1901, 1902 and 1903 it was 70, 69, and 69, when the Income Tax was 14d., 13d. and 11d. That is to say, in 1902, under the pressure of the South African War, when the price level was 69, the Income Tax was 13d.; but also in 1886, when the price level was 69, the Income Tax was 8d. I find it impossible on these figures to support what Mr. Leake says. On the other hand, it may be that in the figures taken out by the Tariff Commission, there is perhaps proof of a different interpretation. That may be; but I think it was the feature of all tariff controversies that one worked strictly on short periods in order very often to get the result which one wanted; but in this sort of comparison a long period is essential.

8866. *Mr. Bell*: Get away from 8d. Income Tax and call it 17s. 6d. Would no attempt be made by the trader in that case to pass some of that 17s. 6d.

on to the purchaser, and if he did make the attempt, could he succeed in whole or in part?—I think the attempt is always being made.

8867. Can it succeed in whole or in part?—I assume you mean a rate of Income Tax of 17s. 6d. in the £. I think it would ultimately be unsuccessful.

8868. Even in whole or in part?—Even in whole or in part, except during short periods while the movement was in process, that is to say, while economic friction was working, and until the disturbances which would undoubtedly be set up on a very serious scale by such a movement in the tax, had had time to work out their effects.

8869. Then it would not pass?—It might temporarily, I admit, within limited spheres.

8870. That is clearing our mind a little. I should think that very likely some of the men who claim that it is passed on, would admit that, though perhaps over fifty years it clears itself off, it is just these periods that are affected?—A much shorter period than fifty years.

8871. I will take ten years, or five: they would say: "At all events it is what I am doing this year"?—I would limit it even further than that; I would say that it will not last for more than one or two years, if it lasts so long.

8872. But for some period you think it might be passed on?—I think within a limited sphere; that is to say, certain retailers may put their prices up, and, while inertia and economic friction last, they will get that price.

8873. *Sir Josiah Stamp*: Is it not affected by the proportion paid by traders at such a rate?—Undoubtedly. I was assuming Mr. Bell meant a flat rate of 17s. 6d.

8874. *Mr. Bell*: Yes?—I was assuming, for the purpose, a standard rate of 17s. 6d. in the £. Before one could give a really straight answer on that point, one would want to know what was happening to the amount of tax which was so collected, how it was being spent, for that of course would in itself set up considerable disturbances. *Mr. Bell*: In the case of war, for instance, you might well tax heavily.

8875. *Mrs. Wootton*: You are distinguishing between the effect of the change in the mode of tax and the amount of the tax?—Yes; that is to say, during any period of change you get a period of stickiness, no matter what the change is.

8876. If it was put up from 8d. to 1s., the temporary passing on of that would be just as large as if it was put up higher?—Yes. I confine these effects very largely to the retail distributive trades.

8877. *Mr. Bell*: But surely there is not the same attempt between 8d. and 1s. as between 1s. and 5s. or 6s.?—I think so, in that sphere.

8878. An attempt by the individual trader?—As I say, I regard the individual trader as always endeavouring to get the highest price he can.

8879. But his mind does not really turn to the difference between 8d. and 1s. He does not begin to think of it?—I think he would; he certainly did during the South African War. *Sir Josiah Stamp*: He made a big fuss of it.

8880. *Mrs. Wootton*: Does it not depend partly on what he had done before?—I do not think he would bother so much now about 4d., but, after all, the difference between 8d. and 1s. was 50 per cent., and its equivalent now would be going from our old rate of 6s. to 9s., and I think people would bother about that.

8881. *Sir Josiah Stamp*: You say that Mr. Leake has made an attempt to link up his arguments with a body of economic doctrine. I see you say "a" body of economic doctrine, not "the" body of economic doctrine. Is the body of economic doctrine to which he links it up, a recognised body or is it a concoction of his own?—Perhaps it is somewhat flattering to say a body of economic doctrine at all, but he does connect it up to a doctrine of such things as supply and demand; he does not connect it up with the generally accepted body of economic doctrine, which is usually based on the marginal principle running throughout all industry and all human nature.

8882. In so far as he makes his statement fit in reasonably with his doctrine, he has to fit it in with a doctrine that is not generally accepted?—Yes.

8883. *Mr. Hichens*: I should like to carry Mr. Bell's point a little further. Do I understand from you that Income Tax may be included in the costs of the firm for a short time but for a short time only, and in part only?—I would rather say, not that they would be included in the costs of the firm, but that under the pressure of an increased rate of tax, such as Mr. Bell postulated, the trader would say: "I must put up my prices." In the distributive trade, I do not think that a trader works upon costs in the commonly accepted meaning of the term. He is working upon a definite margin of marking up, as it is called, on his cost prices, the cost of his goods; he reckons to get the accepted mark-up on that cost, and he would say: "I must increase that mark-up in order to allow for this tax."

8884. Let me take, as an example, salaries, for instance. Would you agree that many firms in this country have increased the salaries of their higher officials on the ground that the Income Tax had been increased largely?—So far as some large employers are concerned, notably banks bearing for their employees the tax on their salaries under pre-war and old-standing arrangements, they undoubtedly did increase their true salaries by bearing the higher tax for them. But looking at the ordinary normal case, where the man bears his own tax, I do not think so.

8885. Let us finish with the bank, before we go on to the other case. The case of the banks is exceptional; they do what they like and they have succeeded in passing on this burden to the community to a large extent, have they not?—I would not go so far even as that, because it may well be that that movement on the one hand has been restricted, and perhaps even entirely compensated, by a policy of smaller salary increments on the other. Bank salaries, I believe, are not scale salaries; they are of a very elastic nature when men are moved from one branch to another.

8886. Leaving banks aside, supposing in a wholly different sphere, the iron and steel industry, for example, it was found necessary to raise the standard of salary for everybody in that industry; supposing it was found that as a result of the heavy demands of Income Tax all the firms had been obliged to raise salaries, or else they would have to face serious difficulties, even on the marginal theory might it not be argued either directly or indirectly Income Tax had been included to that extent?—I do not think so. After all, of the total salaried employees a very large proportion are entirely exempt from Income Tax; that is to say, they pay no tax. They may be liable in the technical sense of having an income exceeding £135 of assessable income, but with their being married and having so many children and life insurance, and so on, they may not be actual payers of tax; and you may get two men receiving exactly the same salary, one of whom is bearing no tax at all, and the other may be bearing £4 or £5 or £10. Taking this point alone, in the first place it seems impossible to adjust your rates of salary in a large undertaking where you have, say, 400 or 500 or 1,000 salaried officials, so that you are compensating each man for his particular burden of tax, because you would have to alter his rate of salary on each addition to his family, or on each increase of his life insurance, or if he lost his wife, or if he had another dependent relative, and so on—the tax being so finely graduated in these respects. But that is only a partial answer: the big broad answer is this. I did endeavour to investigate that problem and the conclusion I came to was that I could find no substantial evidence to the effect that salaries in industries generally had been increased in order to leave the employee free from the burden of the tax.

8887. If you want to put it quite so literally as that, I dare say it might be the case, but it is surely true, is it not, that the increase in the Income Tax was a very important factor in the increases of salary which took place; would one not be justified in saying that the increases would not have been so large had the Income Tax not gone up substantially. I think you can say that. *Sir Josiah Stamp*: You have two features: the change in the price level, and the Income Tax question. In any case you get a salary to take care of both. If an increase did not take care of both, which came first? Is that your point? *Mr. Hichens*: Yes, and it is very difficult to see. I would not go further personally than to suggest that just as the increase in the cost of living was a very important factor, so was the Income Tax, and that in increasing a man's salary you bore both points in mind. That would apply not only to one or two firms but probably to all firms, and therefore it was a cost which extended over the whole industry; it would permanently raise the price. *Sir Josiah Stamp*: I take it your point is that if there had been no increase in Income Tax, but only an increase in the cost of living, the salaries would not have been raised so much as they were. *Mr. Hichens*: Yes, I think so. *Sir Josiah Stamp*: It is very difficult to prove. *Mr. Hichens*: It is very difficult to prove, but it is equally difficult to discard it altogether, I think. It has got to be fairly faced and the point I make is that if you could establish that there has been a general increase throughout a number of industries on account of an increase of Income Tax, then would not that affect prices?—(*Witness*): No, even then that would not affect prices.

8888. Not if it was common to the whole industry?—No, I do not think it would even then.

8889. It would not be inconsistent with the marginal theory that it should, would it?—I think it would.

8890. Why?—Because you have so many marginal men determining your price.

8891. *Sir Josiah Stamp*: If that is so, it would induce the employers to employ married men with large families, because then they would not have to pay them such big salaries. *Mr. Hichens*: My assumption is that practically every firm in an industry like the iron and steel industry, for instance, finds itself compelled to make increases on that ground; therefore it is a factor common to all of them, in varying degree no doubt, and some firms do try to get out of it to a greater extent than others, but they are all hit to some extent. Therefore there is a least common measure of increase applying to all of them?—(*Witness*): On that particular point may I say this? I did endeavour to make some investigations upon this matter. It is of course a very difficult problem to compare rates of remuneration pre-war and post-war in view of the extraordinary change in the price level. But my investigation did lead me to the conclusion that for different ranges of salaries, e.g., typical earnings in 1913 of £200, £500 and £1,000—that class of man of whom you say: "Well, he was a £1,000 man in 1913"—taking various people of that description in categories of income value, in 1913, and then looking at their typical positions in 1922, there was no evenness of increase. The increases which were obtained by people at various points in the salary scale in 1922 were extremely irregular. That was the first conclusion I came to. The second conclusion I came to was this: that when I made comparisons between different groups of industries, the irregularity was continued; there were irregularities in each, but different irregularities as regards different salary points. The £200 man in one industry might have gone up x per cent., but in the next industry he had gone x minus 10 per cent., and in the next he had gone up x plus 10 per cent. If you took the next typical salary those variations might be entirely different. It was impossible to trace through these variations one least common multiple of cost such as you are referring to. May I add this?—After the war period we had a large boom Industry generally was probably having the most prosperous time, on an extraordinarily small production, that it has ever had in this country; and the Excess Profits Duty perhaps had some influence in putting up salaries; but generally there was a feeling of a very good time. There is no doubt in my mind that salaries were treated fairly generously during that time. When we got over the curve and down into the depths of 1921, it was a very difficult matter, I should imagine, to pull salaries generally back on a rigidly proportionate line. They may have been pulled back slightly, but the total figures for employments, Schedule E., did not show anything like the movement downwards that the profits showed. Salaries were probably left; in effect they show a much greater inertia than profits.

8892. *Mr. Bell*: It was done in an entirely different way, was it not? It was done by getting rid of people?—Yes, but even then the aggregates did not move proportionately.

8893. *Chairman*: Would it make any difference if the bulk of the increase was paid in bonuses and those bonuses were cut off?—No, not for this purpose, because I was taking the total salary liable to Income Tax, and we had got all those in.

8894. *Sir William McLintock*: Take the increase in salaries as you found them in various industries. Did it not depend much more on the increase in the cost of living?—Sometimes it did and sometimes it did not.

8895. And your view is—it is mine anyhow—that the incidence of Excess Profits Duty caused employers to be considerably more liberal than they would otherwise have been?—I think there was a tendency that way.

8896. That is, they did not give an increase in order necessarily to cover the Income Tax that a particular employee might have to pay?—No.

8897. *Sir Josiah Stamp*: It was a great opportunity for being generous on the cheap?—It was an opportunity for being generous largely at the expense of the State.

8898. *Sir William McLintock*: I can only speak of my own experience. We raised the level of all our salaries, but we never considered Income Tax as an item justifying the increase?—I do not think that industry as a whole in this country says: "In considering what to pay my employees I must include their Income Tax." It says: "I want such and such a man of such and such a quality and what have I to pay for him?" and it pays as little as it can.

8899. *Mr. Hichens*: But what it has to pay may be affected by Income Tax in determining what that exiguous minimum is?—That may have an influence on both sides, but none the less that can affect neither the total demand of industry for that quality of man nor can it produce more men of that ability. Income Tax can have no effect on the supply of men of given ability.

8900. But the Income Tax might affect prices in just the same way, might it not, as a general increase of wage can in trade. Supposing in the iron and steel industry there was a general increase of wages, that might not be in whole or part shifted, but it is possible that it might be. Supposing every salaried official belonged to the Clerks' Union and a demand was put forward that an amount equivalent to the Income Tax should be given them as an increase in salary, that might in some way be passed on, might it not?—I think that whole argument is fallacious. Otherwise one could say to the miners at once "We will put all your wages up; we can always get it from the consumer"; but we cannot.

8901. The point I wanted to put is that it is on all fours with that argument?—It is on all fours with the argument, but I do not think that argument is sound.

8902. And when one is arguing about salaries or wages, the real point is that it depends on whether

the industry is already charging the maximum price that can be borne or not?—Yes, it ultimately comes back to what that industry can supply, the price and the demand at that price, and those are the final regulators and your tax either way cannot affect them.

8903. Only to this very limited extent would you agree. As a matter of sentiment and as a bargaining counter. It is conceivable, I suppose, that the general public might be persuaded to pay a little more and have sufficient goodwill to pay a little more, if it recognised that an increase in price of some amount or other was reasonable?—It could only do so in one direction, at the cost of another class. By putting up your tax you cannot put up your national income; that is to say, you cannot increase the amount that there is to be spent. In fact there is no doubt that there is some psychological depression of the national income by an increase of tax, so that you get a little less total income, not a little more.

8904. *Sir Josiah Stamp*: Would you agree that in the fight for available purchasing power this endeavour to pass on tax might be conceivably a little more successful in the case of the production of a commodity the demand for which was very inelastic as compared with a commodity which was very elastic?—Undoubtedly.

8905. There would be just that slight difference as between the two classes?—Yes. Perhaps I might say this. I do recognise one case where the tax can be passed on. That is the case of the benevolent monopolist. By the benevolent monopolist I mean this. I take as my normal example the highly skilled professional man. Take a specialist in Harley Street who charges a high fee, which justs keeps the demand down to such a point as to occupy his whole time. He knows he is in a position that his fee can be increased, because of the monopoly arising from his ability. If the tax were increased largely that man can say: "I have a monopoly; I have not charged a monopoly price; I can put my price up, still just keeping my time fully employed, because these people will pay more and will thus bear the tax." When that is properly analysed I think it is not really a case of passing the tax on.

8906. Is there not one case slightly analogous to that, where the demand was inelastic and the suppliers were not aware that it was inelastic?—I think that is the same case really, only I did not like to use those technical terms.

8907. *Mr. Bell*: Would you include legal charges in the same way? They have all been increased?—I am not quite clear. Do you mean in the illustration I have just been using of the benevolent monopolist? I should include the barrister. The barrister who is right at the top of his profession may, I imagine, fall within that class.

8908. I was thinking of the general body of solicitors?—No. There you have them often working on scale charges.

8909. They were increased, were they not?—They have been increased, but whether they have been increased in relation to the cost of living or in relation to the increase in the rate of Income Tax I do not know; but in any case you have there again a monopoly, that is to say, you have only so many solicitors and their endeavour must necessarily be to find that particular price at which to sell the product of their services, that will yield them a maximum revenue. Once they have found that, then a tax levied on profit margins cannot shift it, because if they put their prices up people will do with less solicitors' services.

8910. That is the point; do they?—I think so.

8911. I was taking my own case. I never employ a solicitor until I have to, and then I have to pay him what he charges me?—I think there are a very large number of people who employ solicitors not quite like that.

8912. The great intention is not to employ one, but when you move into a new house, if you lease a house, you have to go to a solicitor.—Take such things as a man making his will. He can buy a will form and do it himself. I am not taking a man of means; I am talking of the great slice of the population who range, say, between £150 and £500 a year, to whom a guinea for having a will made is a consideration. They can go to a solicitor or they can do it themselves. The price will inevitably have an effect.

8913. Many people in business have to go to a solicitor frequently?—Certainly, but there is a point where you say: "Now, is it worth while going to a solicitor or is it not? Shall I pursue this man or shall I let the thing slide. Shall I sue him for this £3 debt or will it cost me £4 to get a solicitor to do it?" There is always a point at which the question comes: Is it worth while or is it not? The high-sounding term of the marginal principle that we employ only expresses the common human question of: Is it worth while or is it not? When we are just at the point when we say: "No, I do not think it is worth while" that is the marginal point; and we are always in that position for everything. Is it worth while running for a train? No, it is not. Is it worth while doing just that bit more of business? No, because I shall not get any profit on it. Is it worth while going to a solicitor for this business, or going to a doctor for this ailment? No; I do not think so for the value that I shall get.

8914. *Sir Josiah Stamp*: Have you looked at the question of the solicitor from the supply side too? Are there not plenty of solicitors in the market who would be glad to do business at a lower price?—Yes, but they often have scale fees.

8915. So far as they are doing work for which there are no scale fees are there not plenty of solicitors who would like to do more work?—Yes.

8916. *Sir William McLintock*: And so far as there are scale fees they do not always charge them?—That is so. I was only endeavouring to illustrate the existence of the marginal area in regard to everything you look at.

8917. *Sir Josiah Stamp*: Is there not a common feature running through all of what you may call the higher class of ability, the great doctor or the great barrister: a big profit may be made out of getting his services and in the past the supply of that man has been limited, but he has never been out to get the last penny of that great profit?—I do not think he has.

8918. And it is possible that he may at this particular time, with a heavy tax, get a bit more?—Yes.

8919. Because the supply is absolutely fixed?—Yes, the supply is fixed there.

8920. *Professor Hall*: Who pays in that case? If more is paid to the doctor, less will be paid to somebody else, and therefore the other people would have greater difficulty in trying to pass on their tax to the consumer, I take it?—Yes, it may have a tendency in that way in affecting expenditure in other directions.

8921. *Sir Josiah Stamp*: The total purchasing power is taken as constant?—Yes.

8922. *Professor Hall*: If the doctor gets more somebody else will have more difficulty in passing on their tax?—Yes, that is so; it will reduce the demand elsewhere.

8923. *Mrs. Wootton*: Though it may have no effect on the general price level?—No. I do not think those isolated instances affect the general price level.

8924. *Professor Hall*: I would like to ask if there is any considerable number of persons who receive salaries tax free. Is it important in this connection?—Not in relation to the total number of employees. (*Paragraph 8 read*). I had one addition which I thought might be made to that. It was a quotation from the "Times," not on this topic but on unemployment, which brought out very clearly the difference between the time limit in these two forces of demand and supply. Perhaps I may read it to you. It appeared over a year ago, on the 23rd September, 1924: "The truth is that unemployment is the inevitable result of a productive system in which producer and consumer are separated by thousands of miles in space and by months in time, in which the influence of weather, technical change,

political revolutions, and a hundred other influences make themselves felt, not only at the first point of impact but in widening circles throughout the world of commerce, in which production as a whole is carried on in anticipation of demand, and therefore on an estimate of demand which no human foresight can always make correctly." (*Paragraph* 9 *read*).

8925. *Sir Josiah Stamp*: Before leaving that, may I postulate first of all in Euclidian fashion that businesses are successful in passing on the tax in price. You have a certain state of supply and demand with a marginal point at which the marginal firm is making no profit. Suppose that a heavy tax is imposed on profits and it is passed on in price; that marginal man's price is now a higher one; it is therefore yielding him at that point a profit that was not in existence before—the amount of the tax. Does he have to pay over the whole of the profit, namely, the amount of the tax?—No, he would only pay tax on his profit.

8926. He would pay tax on the tax?—Yes, tax on the tax, the tax having to be added now to the profit, and he will pay the tax on the tax in the sense of being taxed on the profit.

8927. Therefore in your diagrams would you not shift the marginal point at which there is no longer any profit when you impose that tax and put it on to the price?—You would shift it to the point at which the amount of a man's losses in the existing conditions is equal to the amount of the tax, taking it that the standard rate of tax is the measure by which he would govern his action.

8928. Suppose there was a flat tax of 5s. in the £ which you imposed, by this process a man who was previously making no profit but who was on the margin would now be making a profit?—Yes.

8929. And he would only be paying tax on a portion of that?— Yes.

8930. Therefore the marginal point would move further along the line?—Yes.

8931. Does not that seem to show that your total supply is increased if the marginal point is shifted to the right?—I think that will undoubtedly follow if you put prices up. There will be a considerable number of people, especially in the lower area, who will say: "Now business will be better; we shall do better, and we can put more supplies still on the market." They may consider that they will have to pay more for their goods, but if we eliminate that——

8932. You have a larger total supply now at a higher price. Is that a stable condition in economics. What sort of demand curve will take off a larger supply at a higher price?—Of course the demand must fall. If you have a higher price, and if you have a larger supply, the supply will have to shrink as well; it cannot remain higher.

8933. Do you not get to an absolute impasse in economic doctrine, in practice, by making this assumption?—Yes, I think that must follow.

8934. If making this assumption leads you into an absolute deadlock on this question of prices and supply, does it not rather discredit the assumption?—It certainly does, in my eyes. (*Paragraph* 10 *read.*)

8935. *Mrs. Wootton*: Do the business men in fact deny that you have a different scale of rate of profit for people making high profits than for people making a low profit?—I do not think that they deny it so much as that they never recognise it. They do not recognise that condition running throughout the whole of industry. It is quite a new idea to the business man that you have always the usual curve of error running through any large group of statistical facts. Yet they see the lower end in published statistics of bankruptcies; they see it also in studying company reports of high profits—there is one indeed in the "Times" to-day—but they do not realise, I think, that in between those points, great prosperity on the right, bankruptcies and adversities on the left, businesses go in small steps all the way down, just the same as if you took 1,000 men and ranged them in height; they would show a perfectly smooth movement.

8936. *Sir William McLintock*: Take the tobacco trade and cigarettes. We know that at the one end we have the Imperial Tobacco Company making an enormous profit, and when we come down to the lower scale you have men selling the same kind of article at the same price as the Imperial Tobacco Company, and they make no profits, but losses. I know, of my own knowledge, that in one particular company that is making very little profit, they never seek to import any Income Tax; and I do not see how it can come into the Imperial Tobacco Company's prices. You have a constant price where one man makes a profit and the other man makes a loss?—It is, I think, recognised, and came out before the Committees on Profiteering which were held by the Ministry of Labour. In the case of the milk industry particularly, I think it was said that one reason why the United Dairies did not put down the price of milk was that they would at once thereby extinguish all the small men. That is to say, that you had got different rates of profit on the same units of turnover arising, as I suggest here, very largely from differences in ability, organisation, luck, situation, and so on, which attend different enterprises. You have only to reflect on the number of qualities which are required for the making up of the successful business man; they occur to one's mind at once. You may have seven, eight, nine or ten; it is not many; and you also have large numbers of grades in each. If you only have 10 grades in each of those 10 qualities, then you may get 10 thousand million different combinations of those.

8937. *Sir Josiah Stamp*: Your investigation goes to show that between the two extremes of a very high profit on turnover and a very low profit or no profit on turnover, you tend to get a substantial part of the turnover against some medium rate of result in the middle?—Yes.

8938. Which is the common characteristic of the law of error of all statistics?—That is so.

8939. You do not get the great mass at one extreme or the other?—No.

8940. It always lies somewhere between?—It lies somewhere between. That is what is known, I think, as the norm that industry expects to get. But any man going into an industry can have no guarantee that he will settle on that point. He may be so able that he may soar far above it; he may be so inefficient or raw that he will be far below it.

8941. *Mrs. Wootton*: Supposing you have an industry subject to what economists call the law of increasing returns, you get just the same distribution?—It is the same distribution.

8942. And just the same margin of profit?—Just the same distribution of profit.

8943. Even then you may be able to put out a larger output at a lower cost?—Yes. (*Paragraph* 11 (first 5 lines) *read.*)

8944. *Mr. Bell*: I cannot help thinking that turnover as a basis for the measurement of profit is very fallacious. I lived in the north of England and then in Birmingham and then in London, and I have found, as a matter of fact, that the great importers of produce into this country run into millions of money, with profits which did not necessarily compare favourably with a manufacturer in Birmingham whose turnover was one-tenth or one-hundredth part?—It may be so.

8945. I should say that the experience of a great many shipowners and iron and steel people and others who keep their works going and have as large a turnover as possible sometimes means that they make a loss?—Undoubtedly.

8946. These may be exceptions, but they are very great exceptions, as I know them?—But you will observe that I have not here compared the turnover of the importer with that of the metal merchant or that of the iron and steel producer.

8947. No; I saw that you made different categories?—Undoubtedly, unless you did that, you would destroy the whole of the basis. The statistics are limited to the particular classes in which the

relation between turnover and the profit at the normal point of which we have just been speaking would be stable. That is to say, I have only compared the iron and steel maker with the iron and steel maker, not with the gentleman who is making gloves, or anything like that.

8948. I agree; I should have mentioned that when I spoke about it. But, as between turnover and turnover in these particular businesses, in the same class of business, I see a great turnover accompanied by a loss owing to the price of cotton and the fluctuations of the trade?—The point then arises, is there any other reason which can be traced for that difference in the result of a profit or loss, than general efficiency and a combination of good circumstances, and luck?

8949. Yes; the whole of the industry is affected?—But you are postulating that in that particular industry for that particular year a large concern with a large turnover will make a loss, and a concern with a medium turnover will make a profit. That is contradictory to your subsequent statement.

8950. No; I have seen great turnovers in these businesses where no profit was made?—No profit made throughout the industry?

8951. Yes.—That may be. I would suggest on that, that the amount of the loss may well also vary, that concerns will not make an even loss of 5 per cent., but that that loss will vary from, say, minus 20 per cent. to 0; and indeed the figures in these statements show that that is very often so. Only in one particular trade, which I will not mention here, and in one particular year, have I ever come across a case where as much as 80 per cent. of the trade was done at a loss.

8952. *Sir William McLintock*: That is where you eliminate the effect of the fall in stock values?—I was taking stock into account, and it is only by taking stock into account that I found the case of 80 per cent. loss.

8953. *Sir Josiah Stamp*: You have never known a whole industry result in a loss in a single year?—I have never known a whole industry do that, even in the very depth of the slump.

8954. *Mr. Hichens*: My criticism of your adoption of the principle of turnover, is this. As I understand it, you take the percentage of profit on turnover for before the War in a number of given industries, and compare it with the percentage of profit on turnover in those same industries, industry by industry, after the War?—Yes.

8955. You find that the profit on turnover before the War is y and that the profit on turnover after the War is y?—y per cent., not y absolutely.

8956. y per cent.: and you argue that as the profit is the same percentage in each case, therefore the Income Tax cannot have been added?—Yes.

8957. That is your argument?—Yes.

8958. Now, from my point of view, everything hinges on the volume of the turnover before the War. Because in a business such as ours, it is not the percentage of turnover which matters to us; it is the volume of turnover which matters?—Do you mean, you do not mind if you make minus 5 per cent?

8959. I will not go so far as that; but what I mean is this. Supposing we have a turnover of £100,000 and make a profit of 10 per cent. on that particular turnover, it may not be nearly so valuable to us as if we had a turnover of £1,000,000 and made a profit on that of 5 per cent.?—No, but undoubtedly the rate of profit that you do make on your turnover is a matter of very vital concern to you?

8960. It is a matter of importance, but not so important as the other, at any rate from this point of view. It may quite conceivably happen that in the case of a particular firm whose profit on turnover before the War was, let us say, £100, that after the War, owing to the increase in the cost of things, with the same percentage of profit and the same volume of turnover, it would make £175?—In terms of money.

8961. In terms of money. Now it seems to me that it is quite arguable that in a case like that you may have taken care of your Income Tax; in other words, that merely considering the percentage of profit on turnover, you cannot say what profit the firm has had in relation to its capital, which is, after all, the important matter to it?—That may be the important matter in relation to it, but it is not the important matter in relation to the consumer; and the consumer is really concerned in this question of whether the tax is included in the price. Now take it from the consumer's point of view. Take it that in 1912 the man does £100 of turnover and let us say that each of those pounds of turnover will buy for him one loaf of bread. That is to say, he does 100 loaves of turnover and his profit is 10 loaves for himself. Those 10 loaves are what he has abstracted from the consumer; never mind his capital; it is what he has abstracted from the consumer for his services; because, after all, that is what he is paid for. Now in 1922 he still sells 100 loaves, but he gets £175 for them now instead of £100; but he still gets 100 loaves if he goes out and buys at a higher price level. Then I have shown that what he keeps for himself is still 10 loaves; that is to say, that if the consumer reproaches him with having received £17·5, being 10 per cent. of his £175 turnover, his answer to him is: "No, I have still got for my money 10 loaves; that is still the price I have charged you for my services." 10 loaves is the same as 10 loaves, pre-war and post-war.

8962. That is true as far as it goes?—Therefore he has not charged the consumer with the tax. That is the only point I have in issue—that he has not charged the general consumer with his tax; never mind his own capital; the point is, the relation between the general consumer and himself. He is selling to the consumer his services, and for it he gets bread to eat. Has he got more?

8963. *Sir Josiah Stamp*: Because he has to give up one of the 10 loaves now to the Government, has he got 11 loaves to do it?—When he has paid his taxes he may have had only nine loaves left pre-war; to-day he may have only five, yet if he is in that position, that for himself and his household, after he has satisfied the demands of the State in the way of Income Tax and Super-tax, he has now got five loaves in the larder instead of nine, then undoubtedly he has borne the tax.

8964. *Mr. Hichens*: I think that is a misleading way of putting it, if I may say so. I should prefer to put it this way.—Do you mind dealing with it in loaves of bread?

8965. Yes, I do. You can convert it to anything you like, afterwards; but at the moment I find it simpler to put it in terms numerically. I prefer to put it in money first of all. I am presuming a person has a turnover of a million pounds before the War, on which he makes a profit of 10 per cent.; that is £100,000. I assume that after the War, owing to various improvements which he has made in his plant, owing to the fact that before the War he was not working up to full capacity, and so forth, that person's turnover is £10,000,000, on which he again makes a profit of 10 per cent. Therefore he has a million pounds left over after the War, whereas he only had £100,000 before. Now you may convert that into what you like; he has in relation to his capital a great deal more than he had before the War, because his turnover has increased?—I suggest to you the point still remains; has he charged the consumer with his tax? In selling his turnover has he charged the consumer of his products, the tax that he will pay?

8966. *Sir Josiah Stamp*: May I put my difficulty in following the question, to see that I have understood exactly what Mr. Hichens' point is?—I take it his point is that in so far as he has fixed capital upon the old monetary basis, he will be content with a smaller price than before. Therefore so far from getting a higher price and passing on the tax,

he is now at a new level of prices getting lower prices and lower profit, and therefore he not only does not pass on the tax, but he accepts for himself more of it than he would have done?—The figures do not show that any more than they show the opposite.

8967. *Mr. Hichens*: My question is intended to lead to this; that it is difficult to tell merely from the fact that the percentage of turnover is the same in each case, that there has been no alteration in the profits that have been made on that capital?—Capital is entirely irrelevant, as regards what you are charging the consumer. He says: "I do not know anything about your capital." When I go into a shop to buy a suit of clothes, I do not know what my tailor's capital is, and I do not care. What I want to know is, what is the price of the suit.

8968. Very likely, but it is not altogether irrelevant from the point of view of competition and from the point of view of the price that a man is prepared to charge?—But competitors do not know one another's capitals.

8969. No, but everybody, in making up the price that he wants to charge, bears that in mind?—Yes, quite—what he wants to charge.

8970. So does the man at the bottom?—What he wants to charge. That is why, when you ask for tenders for building a house, you get ten tenders which vary 50 per cent. between themselves; but it is the lowest price that the consumer takes.

8971. I do not deny that even your lowest man is presumably including something for his capital, which he is contented with?—He may be or he may not.

8972. *Sir Josiah Stamp*: That means that he is not charging as high a price as he might have done if he were not content with the amount. *Mr. Hichens*: In other words, it comes to this; that the fact that people have got pre-war capital in their possession does affect the price that they want to charge?—(*Witness*): It may not.

8973. *Sir Josiah Stamp*: It tends in the opposite direction to that which is being discussed now, namely, the getting of a higher price. It all shows that they are getting a lower price. *Mr. Hichens*: They are contented with the lower price?—(*Witness*): May I quote a passage by Sir Frederick Lewis in 1924. Speaking at the annual meeting of Manchester Liners, Limited, with reference to the placing of certain contracts, he said: "There is every reason to believe that the contracts placed will yield no profit to the builders."

8974. I do not know that the prices to-day are such that they do not lose anything in respect of Income Tax. I do not myself think that you necessarily prove it merely because the rate of profit on turnover is the same now as it was before the War. It may quite well be that if the volume of turnover is much increased, the profits on your capital to-day would have been so much greater on the same percentage of turnover that you could have taken care of any increase of Income Tax that there might have been?—I will deal with that after the adjournment.

(*Adjourned for a short time.*)

8975. *Chairman*: You were on paragraph 11?—I think I broke off in the middle of paragraph 11. (*Paragraph* 11 *read.*)

8976. *Sir Josiah Stamp*: I would like to take the point on capital that we left this morning. Suppose £200,000, we will say, was capital invested in the fixed assets of a business 15 or 20 years ago and that still stands in the balance sheet at that figure: is that any real indication that the present capital in that plant is £200,000?—Not the slightest.

8977. Supposing that the method of renewing plant for the last 12 years has been by a charge to profit and loss account. It is quite conceivable, is it not, that you may replace the best part of those assets at a very much higher figure than what you think is your capital?—That may be so; you may indeed have twice the quantity of real assets if you are charging all renewals to profit and loss account.

8978. You may have the same assets as regards their capacity, but they may have cost you in actual money half as much again?—Yes, if you are renewing them.

8979. Supposing you are renewing them by annual payments out of your revenue account, you are confusing ideas altogether if you still say your capital is £200,000?—Quite. As I say, accounting methods may play the utmost havoc with original capital figures of some years back; and of course if the price level has changed in between, then your original capital figure becomes merely something which is relevant *vis-à-vis* the shareholders, but is not in the slightest degree relevant as regards your own efforts or price or anything else.

8980. Therefore it would be more or less a piece of self-deception to say that you should aim at paying a dividend on that original capital, thinking that is still your capital?—You may indeed aim at paying it, but to think that you can control your price by that means must be self-deception.

8981. *Mr. Hichens*: At any rate those considerations, however foolish they may be, play a very important part in the mind of the ordinary business man when he is calculating the lowest price at which he can sell. Is not that so?—Yes, they may play a part in his mind.

8982. A very important part. He has to make up his mind somehow as to the lowest price at which it pays him to manufacture rather than to stop. Now supposing he has ordinary capital, preference capital and debentures. He can presumably forego interest on his ordinary capital without complete disaster; he can forego interest on his preference shares without disaster, but when it comes to his debenture stock, he must cover that or disaster overtakes him, and if he is paying 4½ per cent. on his debentures, whatever rate of interest he might have to pay to renew them to-day, that is the governing consideration in his mind for practical purposes, is it not?—I doubt whether that is the governing consideration in determining what price he shall charge or quote for his products.

8983. It indicates what is the lowest price at which he must quote or go out of business?—I would suggest that in determining the lowest price that he would quote, he must endeavour by his costings to get at his true actual cost apart from any profit at all in the first instance.

8984. *Chairman*: Apart from debenture interest?—Even apart from debenture interest. As Sir Frederick Lewis said, those shipbuilders, in the depressed state of the shipbuilding industry, when they quoted for those boats—if they took them, as Sir Frederick surmised, at a price which would leave no profit—they would simply be on the bare costs; because undoubtedly if you have a large business organisation, if you shut it down, you incur a considerable loss; you lose your men and you disturb your whole organisation. If you can keep that organisation going on a profit of exactly nil, it is much better to take an order at no profit and no loss than to shut down. May I go further and say that the suggestions which have emerged in this investigation show that taking a man's operations for a whole year, there are numbers of people whose price as quoted yields no profit, and I do think that in times of bad trade almost every manufacturer would take an order at a price which yielded him absolutely no profit or loss, rather than shut down and incur a large loss.

8985. I agree, but take the question of local rates; local rates are taken into account in costing, just as much as the 4½ per cent. debentures?—I agree that local rates are taken into account.

8986. And debentures also; they are always taken into account, if a man is wise. *Professor Hall*: Is

there not this consideration: that he has to compete against people who may not have any debentures at all?—*Sir Josiah Stamp*: I was going to ask how many costing systems in practice include debenture interest?—(*Witness*): I should say very few.

8987. How do they get their costs in competition with other people who have no debenture issues?

Chairman: They all have something to pay?—They may not. You may have a private concern run by two partners who have nothing to pay; all their capital is their own.

8988. Perhaps they live on the interest on their capital?—That may be, but they may not get it in times of depression.

8989. That applies to every business. I only wanted to argue the point with you that debenture interest is as much a charge on the concern as the local rates?—No, I suggest not. Your debenture holders, of course, have a right of recovery against you; but I should imagine in a period of very bad trade, where debenture interest is not paid and the circumstances are explained, they are not likely to say: "We are going to put in a Receiver at once." Now, if you do not pay your rates, you get a summons for them and distress follows immediately.

8990. *Sir Josiah Stamp*: Is it not the case that everybody, A., B., and C., all have to pay local rates; but A. may have no debentures, and B. may have debentures, and C. may have bank interest?—Exactly.

8991. You get an equated cost between the three of them if they all pay their rates; but you get a hopeless comparison if you introduce the other items. The man with the debentures will lose the business every time if he puts the debenture interest into his costs?—Every time.

8992. *Chairman*: Another man may have charges on his concern that are equivalent to 4½ per cent. debenture interest?—That is so, but on that understanding anyone who costs his estimates and includes his varying amount of charges, will never be able to get down to a competitive basis.

8993. *Mr. Hichens*: As a matter of bare fact I can only tell you that in one of the firms with which I am connected we invariably do include our debenture interest, and we do not invariably lose the order. In theory perhaps we ought to; in practice we do not?—I do not suggest you are going to quote your cost price.

8994. *Sir Josiah Stamp*: I only asked you if you could tell us what proportion of concerns do include their debenture interest. I know it is done but I want to know in what proportion?—I think it still does remain that in a period of very bad trade depression, when you have the alternative: Will you have your works empty and close down and let your men go or will you take an order which is just covering your bare costs, excluding charges and distributions of profit of every description, then I say that I cannot conceive of a manufacturer saying: "I will close down." The reports of company meetings over the past four years have been full of references of that kind: "We have taken this order but we barely pay our expenses." Of course I admit that I do not know what they have in their minds as expenses, and it may be only their manner of speaking; but the fact still remains, I think, that if it comes to that particular point the business man would say: "It is less expensive, less ruinous, less loss, to take this order at absolutely bare cost than to let it go."

8995. *Sir William McLintock*: My experience has been generally that a manufacturer does not as a rule include interest as an element of cost. The profit percentage that he puts on has to cover that as a rule.—That is what I should say.

8996. *Sir William McLintock*: That is, his return for his service and his capital. *Mr. Bell*: If a manufacturer has to borrow from his bank does he not put the interest in as an addition to his cost? *Sir William McLintock*: No. *Sir Josiah Stamp*: I have never seen it. *Sir William McLintock*: Take a shipbuilder as an illustration. Probably at the particular time he sees no other work ahead of him, and he tries to load on to the vessel he is building as much of his year's standing charges as possible. Then come other ships that he is contracting for, and he says: "I have got so many I can afford to cut my profit," or if he does not cover his full standard charges the first time, he shaves them a little in the hope that he would actually get more orders and bring the ratio of overheads down. That, I would have thought, was common ground. *Mr. Bell*: Now we are talking of people *in extremis*. *Sir William McLintock*: No, I am talking of people who are quite flourishing, but who are anxious to get work. *Mr. Bell*: But surely in their costs they will take account of the interest they pay on money borrowed to do the work. *Sir William McLintock*: No. As a matter of fact, shipbuilders as a rule have got more money of the party who is buying the ships than they have expended for three quarters of the time that the contract is running, and they do not need to borrow any; they make use of the buyer. *Mr. Bell*: My experience as a banker is this. We are approached by a big shipbuilder, who says: "I want a loan of £200,000 because I am not going to get any money paid until such and such a date, and I am always going to be behind the time with payment;" and we lend large sums to enable wages to be paid and material to be bought and the ship constructed up to the keel before they get a payment. *Sir William McLintock*: I agree; two men go to buy a ship; one says: "I am not going to pay you till six months after I have got it." The builder wants a bigger profit to cover his margin of risk. The other man offers to pay according to the usual plan by instalments; he will get a keener price. *Mr. Bell*. You mean to say he might leave out the element of risk, which in this case is out of the question. But do you mean that he will not put anything in the cost for that? *Sir William McLintock*: No, he will not put a specific item in the cost. *Sir Josiah Stamp*: Might I put it in this way. Would your position be that the costs of production in a competitive sense are independent of the way in which the capital is put up?—(*Witness*): Absolutely; or should be, shall I say?

8997. And the capital might be all owned by the manufacturer or might be partly put up by preference or by debentures or by the bank, but it cannot make any difference to the economic cost of production how that capital happens to be put up?—No.

8998. *Chairman*: Supposing with a £200,000 capital that you have £150,000 in ordinary shares and £50,000 4½ per cent. debentures; you are bound to pay the £50,000 4½ per cent., and all the conditions of your business centre upon the payment or non-payment of that 4½ per cent.; they do not centre upon the payment or non-payment over the whole of the capital?—Nevertheless that could make no difference really in the quotation of your price.

8999. Will not a wise man take into account his 4½ per cent. debenture interest, which is a compulsory payment? That is done in some concerns; the first thing put upon the costing is debenture interest.—I take it from that, that if you were offered an order at a price which would yield you exactly your cost plus half your debenture interest, you would refuse it, because that is the logical conclusion.

9000. It might depend if we wanted to keep the people working together, or upon some humanitarian feeling; we might do that.—It is more than humanitarian feeling. The loss you incur through losing the order is greater. Therefore if the business man is actuated by profit and by the clear realisation of these circumstances, he would never refuse an order, especially in time of trade depression, which yielded him his cost plus half his debenture interest or one-tenth of his debenture interest.

9001. My only point is that a wise man will include the 4½ per cent. on his debentures in his prices?—Undoubtedly, where he can get his price he will put that in as an element, but that is only an

element in building up his whole price where he can get his price. It is not the determining element; but it is in conditions of hard times that this essential test is applied, not in times when he can get his price because supply is such and demand is such that his total price, including his debenture interest and every element of profit, will go through. The test comes when it is put to you: "Will you take the order at that price or go without it?"

9002. *Mr. Hichens*: You cannot say where that particular point comes. There are many firms in this country who will take an order at something below the cost of labour and material without anything for charges at all in a period of stress?—I can well believe it, in a period of stress.

9003. *Sir Josiah Stamp*: Take a time when there is not a period of stress. Supposing you have two firms, each with £200,000 of capital, and one with half of it in debentures; I take it that even if one does include his debenture interest in his price he can only then reckon a rate of profit that he would like on the remaining £100,000—Yes.

9004. And the two together come to the same?—Yes.

9005. That is in time of prosperity. Now, supposing that he finds he cannot get that profit on the £100,000, is he in any different position from the other man who has £200,000 and has to take a good profit on half of it?—Personally, I think he should not be, but I understand from what the Chairman says, that such may be the effect on his mind that it does make a difference. But I do suggest that he cannot continue doing so, because he will be brought up against the hard fact that he cannot expect better treatment in the market from his would-be customers than a man whose capitalisation is arranged on entirely different lines.

9006. *Professor Hall*: There are really three elements: the prime cost, the supplementary cost, and the element of profit?—Yes.

9007. And the debenture interest comes in the third element, the element of profit?—Yes. That is my point.

9008. *Sir William McLintock*: Have you considered the principle as applied to the coal industry?—I do not think I had better go into the coal industry here.

9009. You are probably aware that this question came up very acutely as to what were the elements of the cost of production, and it was decided to exclude all interest charges as an element of cost?—Yes. I cannot indeed conceive that one should do otherwise.

9010. We were faced at once with this position: that one man raised his capital by means of an overdraft and ordinary shares, another had debentures and ordinary shares, another had preference shares and ordinary shares. I have never heard anyone suggest that a fixed cumulative preference dividend was a charge on cost, and yet it is just as much a charge, or very nearly, as debenture interest. It is payable out of profits, whereas debenture interest is payable whether there are any profits or not?—Yes; in fact, the law does not yet, I believe, clearly distinguish what is a debenture.

9011. *Sir Josiah Stamp*: You have things that are in between the two?—Yes; again you have the sloping line with no point of division. (*Paragraphs* 12 *to* 14 *read.*)

9012. The net effect of this is to show that so far from the mean return or the median return going up in 1922-23 as compared with 1912-13, as it ought to in accordance with the theory, it has rather gone back?—Yes, I think so.

9013. And that would meet Mr. Hichens' point that so far as other capital is concerned the tendency is to accept on a general turnover a rather less rate of profit. If that be so, you would get this kind of effect?—Yes.

9014. It would corroborate, so far as it goes, that particular idea?—Yes.

9015. The second point that comes out is that although the average or mean has not shifted much, in fact it has shifted back a little, and the spread has increased considerably?—Yes, the spread has increased very considerably.

9016. Have you any economic theory as to why the spread should increase?—I think it is largely because of the greater uncertainty of business to-day compared with 1912-13. 1912-13 was a time when we were on an upward movement of profits, and things were much more stable in every way. That movement had been in progress from 1908 and business was well set. During 1922-23, of course, everything was in a state of uncertainty and flux and movement. I think that is the main reason for this difference.

9017. Would this illustration fit with what you have in your mind. Suppose you have a military formation, say, in triangular form proceeding over smooth ground and keeping its position with ease; then it suddenly has to go over hilly and rough ground with every kind of physical obstacle and it has much greater difficulty in keeping its position and it is not until it gets into the even run again that it is able to form up in the close formation that it had before?—Yes, that expresses it quite clearly.

9018. *Professor Hall*: When I read your evidence I had the same thought that Mr. Hichens has expressed to-day, that probably a good deal of the capital might be pre-war valuation capital and that the percentage on turnover did not necessarily represent the percentage on capital invested?—As measured by the monetary value at the time it was invested, do you mean?

9019. Yes. I think you said this morning that you were thinking more of the effect upon the consumer of the price charged than measuring from the turnover?—That, as I take it, is the essence of the question.

9020. When I read this evidence I examined the statistics of the Co-operative movement. I do not know whether you have looked at that in this connection or not?—I have had to look at statistics of the Co-operative movement from time to time.

9021. I was very interested to find—it seemed to corroborate another of your statements— that taking the capital invested in land, buildings, fixtures and stock, such capital increased in the same ratio as sales did. That would seem to indicate that a percentage on turnover was as valuable a test as a percentage on capital would have been; but when I examined the profits in relation to such capital I found that they had diminished by about 50 per cent. whereas the figures that you give here show that they have been fairly steady on the turnover. For these 1,300 Societies there has been a fall of 50 per cent. in profits on capital, but at the same time the capital and the sales have increased in the same ratio?—Although that may be so as a total, there have been considerable cross movements probably in detail; but in any case I reject entirely and absolutely the measure of capital as a basis of profit. As that is really quite an important part of my contentions, and it bears very strongly on this point, I should like, if I may, to turn to the Annexes, in which there are some observations on this point. May I read paragraph 2 of Annexe II?

> The measurement of capital itself, however, presented almost insoluble difficulties. Liquid capital once invested in the appliances of production derives its value solely from the produce, measured by varying considerations, expected to arise from those appliances.
>
> "... the market value of a business being simply the present value of its anticipated earnings these earnings must yield the ordinary rate of interest on it, allowing for the particular risks involved, whatever sum they amount to." (Pigou; Economics of Welfare.)

In other words, the value of such appliances rests upon a capitalisation of their profit producing capacity. Clearly this will vary with that capacity, and the relation between them will be constant. The market valuation of capital assets would thus be an unsuitable base for the independent variable sought. A uniform base for determining the capital employed in each business, for the purpose in question, could therefore only take the form of the amount of capital, stated in money or money's worth, actually invested in the concern.

That is to say, on the first basis, as the market value of a concern to-day is only what you can get for it, and that will be determined by what it is earning or likely to earn, you have a fixed relation, apart from the risk which enters into every kind of business, between capital and profit. Therefore you get no independent unit to which to relate the profits; because the capital value is derived simply from the profits. So you have to reject market value. Then I say regarding the possibility of taking the amount of capital as stated in money or money's worth actually invested in the concern:—

Even in normal conditions of a stable price level, such an ascertainment of capital presents many difficulties, owing to the internal accounting treatment of the various assets and liabilities, losses, reserves, etc. The transformation of private businesses into joint stock companies, and reconstructions of companies add to the tangle. The ascertainment and arrangement of the exact facts calls for almost endless enquiry. But in the conditions which have characterised the past ten years, such an undertaking becomes hopeless. The change in the price level has destroyed the validity of all pre-war capital figures.

"... since price levels are different in different times, the practice of estimating capital investments merely by reference to their money value at the time they were made is incorrect. A real investment of 1,000 days' labour will be called £1,000 if it is made in one year, while an exactly identical real investment will be called £2,000 if it is made in another year." (Pigou; Economics of Welfare.)

The comparability of pre-war pounds of business capital and pounds invested since the outbreak of war has disappeared. The use of capital, expressed in the monetary units current in relation to real values at the date of investment, as the independent variable to which can be related the variable of profit would therefore yield results which would defy interpretation.

That is why I reject capital entirely as a basis of measurement unless it is subjected to a thorough investigation over the whole of its period, modified by the movements in the price level and modified also by all those contra adjustments and accounting entries which have been made from year to year.

9022. I am afraid I did not make myself clear. My point was that whether you take capital or trade in the case of these 1,300 societies the movement is the same?—That would be a coincidence, I suggest.

9023. *Sir Josiah Stamp*: May I suggest a point there? Have you taken the turnover after taking off the dividend? *Professor Hall*: No, not the net turnover. *Sir Josiah Stamp*: The whole question of co-operative turnover is mixed up with the question of the arbitrary amount that they like to put in as dividend. *Professor Hall*: In this case I do not think it makes much difference. My point is that whether you take capital or trade the result generally is the same, but that there has been a fall to about one-half of the 1913 figure in the rate of profit measured in relation to turnover and also measured in relation to capital, that is different from the figures that are shown here; that is my point really. You have shown that there is a close correspondence between 1912 and 1922. *Chairman*: Do you say your profit is one-half what it was in 1912? *Professor Hall*: Measured on capital invested in their own business, after paying share interest. I have eliminated all that in order to get a basis of comparison, because some interest on loans is charged beforehand?—(*Witness*): But that again is analogous to the statement that we have been making and simply disproves its validity. After all, profit must be profit before any distribution is taken .

9024. But if you are taking off the same rate on both, it does not affect the comparison?—You may be taking off the same rate, but in the pre-war figure that is the pre-war capital, and the same pre-war capital has continued till to-day, which really, if it were properly expressed, would be double the figure. Therefore you would invalidate the whole of these figures.

9025. Unless we take into consideration the fact that in the intervening years a great deal of that original capital has been replaced by new capital? —Adjustment must be made for that, step by step, as that has been replaced.

9026. *Sir Josiah Stamp*: Let us look at the point that is being made, that the rate of profit on turnover is less. Now profit in the case of a Co-operative Society means quite a different thing to what it does in ordinary industry. Is it not another way of saying that the statistics of dividends paid by Co-operative Societies show that they are declaring a less rate of dividend over the whole than they used to do? *Professor Hall*: Yes, it does show that. *Sir Josiah Stamp*: Are they, as a matter of fact? *Professor Hall*: Yes. *Sir Josiah Stamp*: Is not that another way of saying the same thing? *Professor Hall*: That is quite true, but you are suggesting that there is a consciousness about the policy, and that is where I differ from you. (*Witness*): But that does not bear as a criticism upon these statistics because of those reasons.

9027. I cannot reconcile it with your statement here?—Naturally it is impossible to do so, because they are made up on an entirely different basis. This is simply a pure basis of total profit and total turnover. That method is not; it is purely arbitrary.

9028. I do not see why. I suggest to you that they have had to sell at something like the current market price and that other traders have probably been in the same position, and that if they show a smaller ratio of profit to turnover, other traders may have been in the same position?—On that I would refer you to the evidence I gave before the Food Commission, in which I made comparisons in the same way as this between pre-war and post-war profits. I will not repeat them here, but I have them. They do not show that effect.

9029. You do say somewhere in your evidence that unfortunately you have not included food concerns in your final table, I think?—That is so, because at the time when I was dealing with this particular matter I had not had the Food Commission work to do, and I had not collected some figures specially for that purpose; when I did get them, I did not go back over the whole of this to revise what I had done.

9030. If you do not mind, and if the Chairman will allow me, I would like to submit some of these figures to you, to have your comments upon them in relation to these figures, after the meeting is over?—Yes, with pleasure.

9031. *Sir Josiah Stamp*: I am very interested in the point that has been raised, and I should be glad if you could have what we have been told supplemented by any general considerations as to whether Co-operative Societies are able to charge more than the current retail price, any more than they used to do. It used to be alleged that they could charge a higher price because they obtained a larger dividend. There was a lot of evidence of that sort before the Royal Commission on the Income Tax. If competition has knocked out that element, it would very largely account for it. *Professor Hall*: I think there is less

conscious striving for high dividends than there was, but I do not think in the mass it affects the matter very much.

9032. *Chairman*: Will you please proceed with your paper now?—Yes. (*Paragraph* **15** *read.*) Perhaps I may add that I extended this investigation to a few more groups in order to see whether this was merely a chance result of these seven; but the result of extending it was to lead to practically the same conclusions. (*Paragraph* **16** *read.*)

9033. *Sir Josiah Stamp*: I put to you, when you were dealing with the marginal question, on the assumption that the theory of the addition of tax to price were true, some suppositions which, you said, landed you in a dilemma?—Yes.

9034. Take this question of export. Assuming that the theory is true that everybody can add the tax to price, suppose that you got your import and export trade in equilibrium, as they must be of course in the long run after taking into account capital investments and invisible exports. Now a heavy tax is put on and by hypothesis it is added to price. Now all the prices of your home goods are higher. The foreigner has not to bear that tax; therefore this country becomes a good country in which the foreigner can sell, because prices have gone up?—We should have exactly the same position as we had towards the end of last year and the spring of this year.

9035. This country becomes a good country to sell in and your imports must go up?—Yes, they will.

9036. Now with regard to your exports: you put the tax on to the price of your exports and you put them into a neutral market where there are other people's exports without the tax on. Can you maintain your sales?—No, I think your sales must go down.

9037. Therefore you are in this position, that on this hypothesis your imports go up tremendously, this being a good country to sell in, and your exports diminish?—Yes.

9038. So that the state of equilibrium you are in has suddenly become destroyed?—Yes; it can only be maintained under a gold standard by exporting gold at once.

9039. You have an enormous difference in your trade dealings?—Yes.

9040. What would happen in those circumstances?—You will lose gold; you will have a higher Bank Rate and you will at once get a check put on prices.

9041. Does the imposition of a higher rate of tax actually bring that about?—It has not done so.

9042. Have you ever seen it anywhere?—No, in no country.

9043. Have you seen the converse happen when the tax has been reduced?—No.

9044. How do you account for that, if the theory is true?—It cannot be accounted for; and in fact it does not happen.

9045. If that does not happen, where is the mistake in the logic, unless you go back to your assumptions and discredit them?—You must discredit the assumptions, I think, on that basis. It leads you again to another dilemma.

9046. While I am on the subject of dilemmas in which we are landed, let us try a third. Let us assume you do add the tax to price. All your prices go up?—Yes.

9047. Do you believe in the quantity theory of money?—I do.

9048. That, other things being equal, the quantity of purchasing power and the quantity of goods to be purchased determine the price level?—Yes.

9049. Here the price level goes up and the quantity of goods remains the same. What is the result of your quantity theory of money? Must you have more purchasing power?—Yes, you undoubtedly must, otherwise you could not buy your goods.

9050. Where does it come from?—It could only be satisfied through an additional import of gold, on which an additional basis of credit would be erected.

9051. Even the additional import of gold has got to be paid for by goods, has it not?—Yes; that brings you up against the second dilemma which we have just dealt with.

9052. Therefore you cannot, with a given amount of purchasing power, unless you find some machinery of altering it, get a universal rise in price for the same quantity of goods?—No, I think it is impossible.

9053. The only escape from that is if there is an alteration in the velocity of the use of money?—Yes, and of course velocity is a very difficult subject.

9054. It is related to the amount of money that we carry about with us and the rapidity with which we turn it over?—Yes, one would expect to find some reflection of that in the bank clearings.

9055. Do you in fact find any change in the habits of the use of money, in the velocity of money or in bank clearings, when the rate of tax is substantially altered?—No. We have had sufficient experience of that during the last two years while the tax has come down from 6s. to 4s., and one has not seen that movement, certainly in bank clearings here. Of course bank clearings are a very hard subject to interpret. I have tried to investigate them from time to time, but there is no one who knows really of what they are constituted. They have never been analysed; it is too gigantic a task.

9056. Is there any *prima facie* reason why the velocity of money should be altered by the increase of prices?—Only the suppositions given (*a*) that everything is on a much higher price level, and (*b*) that there is no more currency to do it; and indeed we should have to part with our money very much more rapidly: but you do not see it; you cannot see it being done.

9057. It would have a considerable effect on velocity, would it not?—Yes, very considerable.

9058. Have you ever detected it in action?—Not so far as I am aware.

9059. That being the case, if you make this assumption in the first place, you cannot see any escape from this currency dilemma?—No; you cannot provide the money; you do not see your deposits, for instance, moving. Take your deposits at the nine clearing banks during the period when the tax has been reduced; you do not see any change of any magnitude in them; at least, nothing commensurate to lead you to say that the rate of tax has had a direct effect on those.

9060. Is not the idea that you can raise the whole price level without altering the amount of purchasing power, rather like lifting yourself up by your own waistrap?—I think it is entirely discredited. You must have more money if every price is going to be raised. These things cannot arise, it seems to me, because immediately you put up the price to allow for the tax, then your suppliers put up their price to allow for the tax, and apart from your imports, all your internal prices will surely move up—that is for goods—and if all internal prices were moving up during the last ten years, we should have had a measurable effect in the cost of living and it would have at once set in motion forces demanding an increase of wages. That is to say, if the producer puts up his price by the tax, all his suppliers put up their prices by the tax; the cost of living goes up; wages will go up, too, and in the long run, if you assume that the currency position is favourable, you will be in exactly the same position: you will all be three inches or three notches, or whatever it may be, higher in the scale, because you have not affected the total demand and you have not affected the total supply, except in so far as psychological reactions may have made people say: "We are not going to get so much for ourselves, therefore we will produce less."

9061. We are not on the point of less production, for the moment?—No.

9062. We are assuming simply the principle that you add the tax to the price and you sell as much. You get to this position ultimately: that you get a new position for equilibrium three notches higher?—Yes.

9063. But you are all in the same relative position?—Yes.

9064. If you are all in the same relative position, have you passed on the tax?—No, you undoubtedly have not.

9065. And to get into equilibrium, you perform the miracle with currency?—Yes, and you must have gone through a period of tremendous disturbance, because clearly you cannot add the tax to prices without affecting the cost of living.

9066. *Mr. Hichens*: Do these same dilemmas arise if you attempt to add an increase of wages to the price?—Not if the increase is general, but they will arise as regards the currency, undoubtedly.

9067. *Sir Josiah Stamp*: You cannot add a higher rate of wage all round. *Mr. Bowen*: Assume that we have all got to a level; what is happening in the interim? What displacements occurred before we got to that level? You refer to it as a disturbance, and there will be a disturbance, of course; but in that disturbance, what happens? There are changes of wealth, possibly?—(*Witness*): Not necessarily, not relevant changes.

9068. Something must happen?—You get a very great deal of disturbance while the new position is being worked out to its final conclusion, but it would probably leave you in total in very much the same relative output; but individual elements will suffer.

9069. But how is that explained when we know perfectly well that wages have lagged behind the cost of living right from the very beginning?—No; wages overtook the cost of living.

9070. When?—In about 1919.

9071. That does not coincide with my recollection of the figures?—I am taking Professor Bowley's authority on that.

9072. I would not dispute Professor Bowley, but that statement does not coincide with the figures that I have examined myself. My information, from all the authorities that I have read and from unfortunate experience, has been that the wage level has been behind the cost of living all the time. *Sir Josiah Stamp*: Is not the universal experience of fluctuation that when prices are rising, real wages suffer?—(*Witness*): Undoubtedly.

9073. And that when prices fall, real wages gain?—Undoubtedly, and just when the change over comes, they always tend to touch. It may not be for any period, but at any rate it is not very relevant to the point, I imagine, for the moment.

9074. *Mr. Bowen*: I was just wondering what the disturbance was like and who lost and who gained?—I think there are purely individual displacements in the change over. There is no reason why any one particular class should be injured for the moment, except on the lag of which we have spoken; that is to say, labour will be badly hit at the start, undoubtedly, because it cannot get its adjustment as quickly as a price adjustment can be made.

9075. That explains everything?—That is what I meant by saying you would have a great deal of disturbance before you got the wage adjustment made. You always do.

9076. *Chairman*: Mr. Bowen, do you dispute Mr. Coates's statement that wages have overtaken cost? *Mr. Bowen*: No; Mr. Coates modified that when he said they touched somewhere in the change. I am quite prepared to accept that, but not the other. *Sir Josiah Stamp*: But does that move at the same rate? It lags behind, does it not? *Professor Hall*: What would have been the position supposing there was free movement of gold and all prices were raised as the result of higher taxation? What would be the immediate and the ultimate effect upon foreign trade?—(*Witness*): I think you would begin to lose gold at once and the Bank Rate would be put up and a check would immediately be exercised on the raising of prices and they would be brought down again.

9077. Would there be any final effect upon the volume or the direction of our foreign trade?—Undoubtedly. While we were quoting prices on the basis of a price including the tax, our export trade would fall away badly.

9078. And that would cause a movement of gold?—Yes.

9079. But after the gold had moved, what would be the final position?—I think we should take steps to bring it back.

9080. So that apparently a higher tax would not affect our foreign trade?—No, nor would it affect prices.

9081. That is a rather important point?—You have always got to follow it; it is the one golden method of economic reasoning to say: Now what is the next step and what is the next one after that? You can never stop; you must carry it through; and you find when you do carry it through that you always get a compensating effect tending to bring it back to a position of stable equilibrium.

9082. I agree with your view, but that is not the view that has been held by some of the witnesses who have been here?—Of course I am not responsible for them.

9083. *Chairman*: Now your next point, please?—When I mentioned the importance of the export trade, I thought I had some figures from the 1908 Census of Production, which just illustrated how important that aspect was. But I am afraid I did not bring them with me; I have however a quotation from the "Economist" which in October, 1924, estimated that the export trade was two-thirds roughly of the iron and steel industry, and three-fourths of the cotton, and 60 per cent. of the engineering, and over 50 per cent. of shipbuilding, wool, worsted and chemicals. This indicates how big a field there is in which we cannot, in competition with the foreign producer, attempt to add the price to our home products. (*Paragraphs* 17 *and* 18 *read.*)

9084. *Mr. Bell*: In paragraph 17 you argue that the pressure of fourteen million people with small incomes would be successful obviously in keeping down prices; in fact that has not been the case, has it?—As regards tax I meant.

9085. As regards keeping down prices?—Clearly not. If you provide them with the additional purchasing power there is no difficulty in their spending it.

9086. The point that you make at the end of paragraph 17 is: "Little effort is needed to imagine the unremitting pressure of low earnings on the woman who expends the bulk of the purchasing power of the working classes."—The point I intend to convey there is that if you have a low income—and by "low income" I here adopt the standard of, say, £3 a week—you will be alert to differences in prices in various shops. Now I admit that some evidence before the Food Commission did not support that view.

9087. That is my point.—But that evidence (I heard it myself) rested on a very slender basis, and I do not believe it is true. I think if you go through the markets where poor people shop in London, say, Queen's Crescent Market in Kentish Town, and markets like that, you will find people watching and comparing prices,—I think you will even find that in the case of people with larger means.

9088. *Sir Josiah Stamp*: I take it that the argument would be qualified to the extent to which you could get a sufficiently firm ring that nobody could break away from in the way of sellers to keep the prices up?—I think so, but I think it would at once have an effect upon the distribution of the purchasing power of the people; they would tend to restrict their purchase of that particular thing, and to spend on others. There is a considerable power of substitution as regards expenditure on food.

9089. In the case of bread, demand is highly inelastic?—Yes.

9090. And if you could get a firm ring on the supply side you could hold up even against the unremitting pressure of millions of people to the extent of a halfpenny a loaf?—Yes, I believe that would be

so, but then you get away from competition to a monopoly trade, if you have a firm ring which can control prices.

9091. *Mr. Bell*: That is just the trouble?—But there you get to the other dilemma that if you have the supply absolutely fixed, then the price that you charge will be such as to yield you the best monopoly profit, and when once you have got it to that point you could take a tax of 19s. in the £, and it would not affect the price.

9092. *Mrs. Wootton*: As everybody wants to put his own Income Tax into his price at his own rate you probably would get different prices?—Not if they are working on the standard rate of Income Tax.

9093. But probably they will not be, as you have pointed out in your evidence?—There may be a tendency in a case like that for the ring to say: "We will have the standard rate as a typical rate for us all," but in any case if you move that standard rate up, the price will not alter, that is to say, the Income Tax is not the determinant of the price.

9094. *Sir Josiah Stamp*: If the ring is strong enough to do that, they could have done it in any case, whether the tax was there or not?—Yes, and then the tax becomes a mere matter of indifference, that is if it is a tax of this nature which is levied merely on a profit. There is no difference between the State coming in and saying: "I am going to take a quarter," and every monopolist suddenly saying: "My son is 21, and I am going to bring him into the business and he is going to take a quarter of my profits." You would not put up the price because your son came into the business, if you were a monopolist. You obviously could not, at least not if you were a good monopolist, because you would have put it up before he came in.

9095. Otherwise you would be a very inefficient monopolist?—If you are an efficient monopolist you would put the price up before, and if you brought your son in and said: "My boy, I will give you a quarter of the profits," it has precisely the same effect, giving it voluntarily, as it has if you give it to the man from the Inland Revenue who says: "I am going to have it."

9096. *Mrs. Wootton*: Speaking generally, I think the people who believe that they put their own Income Tax into the prices of goods that they sell, also believe that the taxes which are paid indirectly by their employees are shifted back again on to the business people: that they go hand in hand, and that there is a kind of exchange. What is your view on that?—I am afraid that I did not come to give evidence on indirect taxation, though I have a view on that particular point.

9097. *Sir Josiah Stamp*: There is a theory that the taxation first of all on the upper section is really borne by the lower and the tax that is supposed to fall on the lower is really borne by the upper. They are usually held by the same people—that we stand on our heads?—It really sounds like Alice in Wonderland, but I should hesitate to say that those two views go hand in hand. I think it has only come to be recognised in quite recent years that in the determination of wages many factors do enter in, and that the amount of indirect taxation which is being borne is a factor in the struggle. For that reason I am opposed, and have been opposed in the past, to increasing indirect taxation, because it has always seemed to me that it does tend to precipitate disturbances in the labour world, and also because it does, I think, at once enter into the cost of production and militate against our position *vis-à-vis* the world as an exporting nation. I think that is really the strongest reason against indirect taxation and the one main consideration which should be borne in mind when considering the question which often occupies the House of Commons: viz., Should the ratio be fifty-fifty, or should it be forty-sixty, or should it be thirty-seventy. No one during the period in which I have listened to those debates has ever seemed to come to any point of principle, and I think the only point of principle does turn upon the question of the marginal cost of production. The whole question of the fixation of wages is extremely difficult and not subject, so far as I can see at present, to any precise determination or measurement.

9098. *Mrs. Wootton*: On the face of it you are inclined to agree that indirect taxation is an element?—I believe it is an element in the question. I believe if you turned away from direct taxation in favour of a turnover tax, such as the sales tax in Canada or the Umsatzsteuer in Germany or the French tax, you would at once set up forces tending to move that tax back on to profits in a flat manner and not in a graduated manner. That is on the proportional basis and not progressive.

9099. *Sir Josiah Stamp*: That particular view would be very much accentuated of late years since the idea of changing wages with changes in the cost of living index has got so popular?—Yes.

9100. That has been put into the heads of people as a method of equalising wages?—Yes.

9101. And to that extent it would defeat the object of indirect taxation?—Yes. Perhaps I may add that I did not really answer Mr. Hichens on his point this morning. I should be prepared to admit of course that in individual concerns you may get considerable movement of turnover of the description he mentioned. But in my investigations I was dealing with a block, and a very substantial block, in which there may be individual changes from small to great and from great to small; but on the whole the question turns on whether the volume of trade in those two years was substantially the same.

9102. *Mr. Hichens*: Exactly. That is the point I wanted to get at?—On that particular point the only evidence I have to offer is the investigation of the London and Cambridge Economic Services which, although in my opinion it was dependent on data which were not entirely satisfactory—not from any fault of their own but simply because they are extremely difficult to obtain—indicated that the quantitative production of the United Kingdom for mining, industry and agriculture as a whole, fell by about 15 per cent. during the period from 1912 to 1922. Now, as I indicated, I did take the total profits of certain industrial groups in 1912-13 and 1922-23, and ascertained the percentage increase in the latter year. Then I modified that increase in the ratio of this fall in production so as to bring that in. As a result I got then a movement in the profits which was very close indeed with the movement of the cost of living figure. It diverged, of course, more from the movement of wholesale prices, but personally, while I have a high opinion of the indices of wholesale prices for many purposes, I think it is very often overlooked that they do represent commodities before much labour has been expended upon them, and that they therefore are a very poor guide to the movement of profits. Because, after all, products that are sold for final consumption come in on the level of the cost of living, not on the level of wholesale prices. When you go to buy a thing you cannot buy it on the basis that it is only 50 per cent. over pre-war. You are more likely to have to buy it on the basis that it is 80 per cent. over, because of the labour element in it. So I was not dissatisfied when I found that my comparison gave me an increase of profits for public companies, private companies, individuals and firms, as a whole, within a number of important industrial groups, which was not at great variance with the movement in the cost of living. It seems to me that that disposes of the difficulty which you put to me just now.

9103. There were two points I would like to put. The first is this. You contend quite definitely that you cannot add Income Tax here and now?—Yes.

9104. Can there be more effect over a longer period of time? I am thinking this way. I suppose the ordinary investor requires a certain rate of interest on his money. It may be that if he is in a strong

position and he has the whole world to pick and choose from, he may say to himself: "It is not worth my while saving, in view of the high Income Tax which exists, unless I can get a certain rate of interest on my money, which is higher than the pre-war rate." Therefore if he cannot get that rate of interest he just spends that money and does not save. Hence he is in a position to hold up industry unless they can provide that rate of interest which he demands, which is to some extent governed by the question of Income Tax. Do I make myself clear?—Yes, you make yourself quite clear.

9105. I wanted to know whether in your opinion in the long run it might not be that either some adjustment has to be made rather indirectly through the rate of interest which you have to pay for your capital, or your industries shrink, you do not get the new capital that is required?—Theoretically I think there is a very great deal indeed to be said for that view; that is, that the only way in which Income Tax enters into prices does take place through a change in the rate of interest; that is to say, there is a reaction upon the total volume of savings, which puts up the rate of interest and gives back to the saver some portion of the amount of the tax which he has to pay on the interest on his savings. For a long time I held the view that that must happen. But in the Memorandum you will see that I have attempted in Part 7, to make some investigations in that field, and for that purpose I observed that Mr. Gibson had been endeavouring to explore the movements in the rate of interest as typified by the price of Consols, and in wholesale prices and he had given a chart showing the relation. But I carried that a little further by taking the co-efficient of correlation between the gross yields of Consols and the Statist index number of wholesale prices for one hundred years and treating it in three ways. First of all I took out the gross yield of Consols in the same year as the prices; I got the correlation co-efficient of ·893, that is eighty-nine hundredths. One would be perfect correlation. Then I tried it with the gross yield of Consols in the succeeding year, to give time for a lag, when the correlation co-efficient rose to ·903. Then I tried it again with the gross yield of Consols in the preceding year, and, as I expected, it fell to ·808. Those are very high correlations and appear to show that the rate of interest does move concurrently with the price level. But as I have, I suggest, established, that the price level does not move with the rate of Income Tax, then it would follow that the rate of interest also would not move with Income Tax. I tried it also, of course, for the last 17 years.

9106. It would be over a long period?—One hundred years seemed to me to be sufficient. I did indeed also take it out, and I have shown in the tables for 17 years, those 17 years being from 1908 to 1924, when I got even higher co-efficients. On those particular years, from 1908 to 1924, I took out the gross yield for Consols in the same year and got the correlation co-efficient of ·9. Then I took it out on the same time basis on the net yield and the correlation co-efficient at once fell to ·74. That is to say, it fell considerably when you took off the tax and tried to check it on that. There is a much higher correlation between the gross yield and the prices than there is with the net. I admit that 17 years, including 1914 to 1924, may legitimately be challenged as a very narrow basis. So it is, but in addition I did it for 100 years, and the figures are very close together; one is ·893 and the other is ·9.

9107. *Chairman*: Then your conclusion would be, would it, that the capitalist does not shift the burden of the Income Tax?—I am inclined to that opinion.

9108. Not because he does not want to, but because he is unable to do it?—I think he could.

9109. Then why does he not do so, if he wants to?—I do not think he wants to. I think that the emphasis which is laid by economists on the rate of interest is largely exaggerated.

9110. *Sir Josiah Stamp*: A great deal of the capital comes into the capital market by other measures?—Because of the capital and not because of the interest.

9111. *Mr. Hichens*: According to your evidence, that is from people with more moderate incomes?—People with more moderate incomes; but people with more moderate incomes constitute this nation.

9112. Do they give the capital?—Take the number of people with large incomes: how few they are. You are familiar, of course, with the Reports of the Board of Inland Revenue, and you will find in them that, while there is a considerable amount of wealth in the higher ranges, the number of those incomes is comparatively small relative to the total number of the population.

9113. *Chairman*: Mr. Coates, we have to adjourn now. The Committee are very interested in the paper you have put before us, and we should like you to come before us again on Thursday if that is convenient to you. Can you do so?—Yes, with pleasure.

(*The Witness withdrew.*)

(*Adjourned to to-morrow morning.*)

THIRTY-THIRD DAY.

Wednesday, 2nd December, 1925.

Present:

The Rt. Hon. LORD COLWYN, *Chairman.*
Sir CHARLES ADDIS, K.C.M.G.
Mr. HENRY BELL.
Professor FRED HALL.
Mr. W. L. HICHENS.
Sir JOSIAH STAMP, G.B.E.
Mrs. BARBARA WOOTTON.

Mr. G. R. HAMILTON, *Secretary.*
Mr. G. ISMAY, *Assistant Secretary.*

Sir Richard Hopkins, K.C.B., Chairman of the Board of Inland Revenue, called and examined.

9114. *Chairman*: I am sorry that a number of our members have found it impossible to attend to-day, but what you say will be read by every one of them. You have been good enough to offer us evidence on various points. The first in order appears to be the transfer of residence abroad by British companies and individuals?—Yes. In regard to that particular question we have put in a short statistical paper,* which shows the total number of transfers of companies or branches of companies for a period of years since 1916. The profits which were earned by those companies amount in the whole to quite a considerable sum, but it will be observed that most of the transfers took place in a period very shortly after the end of the War, and the two last years for which statistics are available show only a very small transfer of this kind. We have no definite and precise information up to date, but I understand that since the end of the period which is dealt with in the memorandum the actual transfers still remain quite small.

9115. In 1921-22, when there were only a few, there must have been one or two very big concerns?—Yes. I can indicate it, I think, even more exactly than that. In 1921-22 there were at least four, and possibly five, large cases. One was a shipper and foreign distributor; another was a foreign tramway company, and so on. During the War period we were continually hearing from the directors of companies of this kind with large bodies of foreign shareholders and with their activities abroad that they would be forced abroad. On the whole I think it would be right to say that we have been surprised that no larger transfer has actually taken place. It occurs to me also that the actual statistical results show that a good number of the statements that have been made upon this subject from time to time are rather exaggerated.

9116. You remember at the Income Tax Commission there was one particular man who threatened to take his concerns over to South America?—Yes.

9117. Did he do that?—If I have rightly understood the name that you have in mind, I think you will find that that case occurred quite early on, and that the gentleman in question works very largely by subsidiary companies in South America and elsewhere. Of course, he admitted quite definitely that his purpose in going abroad was to avoid British taxation. That case is rather different from the majority of cases which would occur in my return, which, I think, would, in the main, consist of companies which, for one reason or another, had been registered here, but of which the shareholding was partly a foreign shareholding, and of which the activities were very largely, if not exclusively, abroad.

9118. *Mrs. Wootton*: I suppose you have not got in your list cases in which the shareholding was not largely foreign?—Yes, there would undoubtedly be some, for the list includes all cases of transfer abroad which have come to our notice; but I believe the majority are cases in which the foreign shareholding was probably predominant. A number of jute companies went, and those, I imagine, would have a considerable proportion of English shareholding. I would like to make one further observation, arising out of a statement which was made by one of your witnesses that the authorities do not recognise how much new business also is lost to this country by the rates of British Income Tax. If I am right in saying that there has been a tendency to exaggerate the movement abroad, the facts of which are shown by that statistical return, there may, of course, also be a little inclination to exaggerate by reference to personal experience with regard to the loss of new business. I think there is one point which it might interest the Committee to know, and that is, that, so far as foreign capital is desired at the present time to be introduced into the British Dominions, working through London is not so great a disability as would at first sight appear. Supposing, for example, a foreign syndicate wished to invest capital in India, it would there be subjected to 3s. 1½d. of Indian Income Tax and Super-tax. If it works here, its total burden would only be increased by 10½d., because of the double Income Tax relief which exists between this country and the Dominions. The general remedy which has been suggested is the review at the present time of the whole question of the imposition of the British Income Tax upon a foreign investment in this country. In regard to that, the Committee no doubt know that negotiations have been taking place at Geneva for some time, endeavouring to reach that objective, the exemption of the non-resident upon a reciprocal basis, and a further meeting is due to be held at Geneva for a further exploration of that matter in a few months' time. My own view would be that, until that method of exploring the matter has been fully examined, it would be premature to consider giving exemptions, without reciprocity, on this side only. That is all that occurs to me to say upon that branch of the subject, unless you wish for anything more.

9119. *Chairman*: Then do we come next to the subject of private traders and their capital resources?—Yes. The paper* put in on this subject is a rather lengthy and detailed statistical analysis which brings up to date an inquiry which we originally made in, I think, the year 1920 for the purposes of the War Levy. It was designed to show in regard to a large number of businesses conducted by individual traders or as partnerships the amount of the indebtedness to the bank, and the amount of the capital resources of the proprietors, whether forming part of the business assets or owned individually by themselves in their personal capacity. I do not know that that return will throw any very definite light upon one question which I understand the Committee has been especially investigating, the resort

* Printed as Appendix XVII to the Committee's Report.

* Printed as Appendix XIX to the Committee's Report.

by businesses to bank loans for the purpose of payment of taxation. I could supplement the information contained in this paper by some particulars, which I fear are rather rough, but may be of interest to the Committee, in regard to bank loans taken by companies, in the main large public companies, in the year 1912 and in the year 1922. The information that I have, which reaches only to a certain number of industries—four or five—goes to show that the ratio of the bank interest payable in the year, to the turnover of the concern in the year is very much the same in 1912 and in 1922, with the exception of one industry, which in the later year was undergoing a serious depression, and where the bank interest consequently had shown a very marked increase. Speaking very broadly, it would look to be the general case, pre-war, that the average amount of the bank loan during the year would be equivalent to about half the profit of the year. In 1922, taking depressed industries as well as others, it would be rather higher than that, and the distribution between the industries would be more varied. That leads me to this observation. When one has these very high rates of taxation which are in force at the present time, it seems to me that it must be the case, as certain witnesses have put to you, that at the particular point of time in the year when the taxes are paid the business man must go to the bank for the purpose of accommodation to meet them. That seems to me to be an ordinary and reasonable method of business precaution. The company would not keep a great growing balance at the bank for the purpose of meeting a sum which was accruing due throughout a year. But I do not find any indication in the figures, so far as I have them, that the bank loans are growing from year to year; that is to say, I do not find anything in the nature of a general indication that, on account of the weight of taxation, money which is borrowed in a particular January for the purpose of taxation still remains borrowed and is added to a year afterwards. On the contrary, such figures as I have would go to show, except it may be in the case of depressed industries, that that is not the case.

9120. *Mrs. Wootton*: These figures in your paper are rather striking, because you get very much the same proportions in two very different years?—You will, of course, notice that, in regard to concerns which are in debt in both years, the amount of the indebtedness to the bank has gone up very considerably as between 1919 and 1923, but many of the other concerns seem to have been prosperous concerns which were able to make profit both during good times and bad times. I think it may be of importance to bear in mind in this connection that the great trade depression, which came in 1920, fell with particular severity on the heavy trades—coal, steel, iron and things of that kind, together with textiles—and a very large proportion of the business conducted in those great industries is conducted by public companies. Probably those figures on the whole reflect an area of trade enjoying a greater degree of prosperity than the average degree of prosperity in the later year.

9121. In paragraph 12, referring to the distribution of the resources of the people owning the various businesses, I see you find that the business assets were 54 per cent. in 1919, and 48 per cent. in 1923?—Yes.

9122. It is a very small change considering the difference in the years?—Yes, that is so. Of course, the original purpose for which the 1919 figures were obtained—and, as I understand, we brought them up to date in response to an unofficial request from the Chairman—was for the purpose of examining how far it was true that a War Levy, which was under consideration in 1920, would directly impinge upon the assets of business. A War Levy was not contemplated to be levied upon companies, but only upon individuals, and it was clear that it would not take money directly out of the reserves of companies. But the question arose, to what extent it would take money directly out of the reserve resources of partnerships. The answer that the Board of Inland Revenue returned at that time to the question was that the extent to which that particular effect of the levy would arise was small, and this document was prepared for that purpose. All that the present paper does, I think, is to show that, broadly speaking, the same ratio of free resources to business resources in the case of proprietors of large private businesses is still maintained.

9123. It has a certain bearing on the question of the effect of the Capital Levy on private businesses?—Yes; I think it is quite legitimate to say so.

(*In the absence of Lord Colwyn, Mr. Bell took the Chair.*)

9124. *Professor Hall*: How far do you think the question of bank overdrafts would be affected by the feeling of business proprietors that it would be better to have temporary assistance from the bank in this later year than to enter into a permanent loan at the comparatively high rate of interest that may have been prevailing in post-War years; do you think that affects the validity of these figures at all?—I do not see that the figures show any increase in that direction. The proportion of loans to turnover is much the same as pre-War, except only in the case of the depressed industries, and there the reason for the increased loan is only too obvious; it is due to financial disability.

9125. Of course, if you are dealing with companies, that would have been a much more germane consideration, perhaps. A company may have hesitated, for example, to have raised debentures at the high rate of interest prevailing in 1920, 1921 and 1922, and have been more ready to carry on with temporary assistance from the bank?—I am sorry I did not make myself quite clear. The supplementary figures that I gave, with regard to the ratio of loans to turnover, related in the main—not quite exclusively—to companies. As I say, except in the case of depressed industries, we do not find from the particulars available to us any increase in the ratio of loans to turnover. Of course, you appreciate at once that with the altered price level turnover has greatly increased, and in that same ratio the loans have increased.

Now I will pass, if you agree, to the next matter, which is a question, as I understand, in relation to the practicability of a project, if it were held to be desirable, of granting a certain relief from Income Tax to reserves of public companies. I understand that the representatives of the accountants suggested before you that such a thing was desirable in the form that the relief should be given, not to all reserves, but to reserves set aside for the purposes of extension and development; that they did not definitely commit themselves to any view as to whether it was practicable to do so or not; but subsequently Sir Arthur Lowes Dickinson furnished certain answers to the Committee's questions which were directed to the question of practicability. That is the particular aspect of this question which we have had under consideration. I gather that Sir Arthur Lowes Dickinson felt that he had gone some long way, in the machinery that he put in, towards solving the practical difficulties of the problem, but my own view is that when he speaks of sums being properly carried to a development account, the question of motive must quite inevitably arise. When it is said that a certain sum that has been, for example, invested in securities is intended to be used for the purposes of extension of the business, one must ascertain whether the motive alleged is a real motive, or whether in fact the investment has been made to meet certain losses which the directors know have been incurred in connection with securities, investments, or the like, or which they anticipate. Our own feeling is that any attempt to grant a relief from Income Tax to reserves for extension, as opposed to other kinds of reserves, would on examination be found to be full of every kind of difficulty. After all, taxation is an arbitrary instrument, as I very often learn from its victims, but

that, I think, is an unavoidable fact, and it appears to me that if it were held right to grant some relief in respect of the undistributed profits of companies, it would be necessary that it should be done upon rough and ready lines. It would, for instance, no doubt be perfectly possible to grant a relief to the excess of the profits of any given year over the sums distributed in interest and dividends in that year. That would not, of course, precisely meet the objective which witnesses have put before you; it would go further than that, and allow reserves which are made against losses already incurred. Broadly speaking, my opinion upon this matter would be that a scheme upon those somewhat rough and ready lines could be framed to work reasonably satisfactorily, if it were held desirable that this particular relief should be granted.

9126. *Mr. Bell*: Are you speaking now of companies only?—I am speaking of companies only for the moment; that is the proposition which was put to you; but I wanted to go on and say that if it were held that this relief having been granted ought also to extend to partnerships, then the difficulty would become very much greater. It is obvious that it is exceedingly difficult to substantiate whether some profits which have been earned by a private trader—it might be quite a small private trader—have not been drawn out by him, and are represented, as he alleges, for example, in higher stock values or more book debts, or whether that is not the case. It seems to me that the practicability of this matter, if it were ever suggested that it should be carried beyond the case of companies, would have to be very seriously investigated.

9127. Could it with any justice and equity between a private firm and a company be confined to the latter?—That I think undoubtedly is one of the difficulties of the matter. It was not my intention, as you understand, to speak to the question of the desirability of this project. I merely wished to indicate that in some forms, if it were held desirable, it would in my judgment be impracticable; in other forms it would be practicable—that is all.

9128. *Professor Hall*: Is there not the difficulty of treating differently two companies, one of which raises the additional capital by a new issue of shares and one of which gets its extra capital by using its profits for development purposes?—Certainly; there are many things which can be said against this proposal. I had not come prepared to give evidence upon this question of desirability. Indeed, if you are willing to fall in with my view, I think it is better that this should be a matter which is examined by the Committee upon the evidence which it receives from outside.

9129. *Mr. Bell*: Thank you. Then I think that we might proceed to the note by the Board of Inland Revenue on Estate Duty and Private Businesses*?—Certain witnesses have, I understand, spoken of the serious effect which the Estate Duty may have in breaking up a private business on the death of the proprietor, and we were asked at an early stage to see if we could provide some statistical information upon that subject. This memorandum is the result of that request; it is rather a long one, but I think I could summarise it by saying that, while there must in all circumstances, when rates of duty are very high, be individual cases which are very hard, we have been quite unable by any statistical examination to discover any high percentage of cases in which the capital of private businesses, partnerships, and the like, would be seriously impinged upon by Death Duties. It has been suggested that very large numbers of private companies are formed on account of the heavy incidence of the Death Duties in these cases, and the formation of those companies may have had some effect upon the statistics which are before you, though private companies are included. I do not think, however, it would be right to imagine that the incidence of the Death Duties is by any means the only ground which has led to the formation of great numbers of private companies. One reason, to be perfectly frank, is tax dodging. That particular form of organisation of trade can be used for the purpose of legal avoidance of duties that might otherwise be payable, but I mention that only in passing. In addition to that, I imagine that private companies are very frequently formed from the point of view of the general convenience of the proprietors of the business, and particularly of the distribution of the estate on the death of a single proprietor where he is desirous of leaving an interest in his business to more than one person. However that may be, I think you will find the substance of this memorandum in paragraphs 18 and 19 at the end. We took all estates that came under our notice exceeding £10,000 in value for a considerable period which contained any substantial amount of trade assets, whether of firms or of private companies. Then, looking at the matter on a basis which was most likely, as we thought, to throw up any hardship if one existed—namely, this basis of examining how much of the net estate the gross trade assets came to, after assuming that all the debts were chargeable against the rest of the estate—we examined in what number of cases the net estate which remained after taking off the gross assets was less than the Estate Duty payable on the entire estate. Out of a total of 373 cases there were only 12 which fell in that category, even upon the hypothesis which was taken, namely that the whole of the debts, including those which were trade debts, might legitimately be treated as a charge upon the free assets.

9130. You say that the sudden impact of a considerable Death Duty, say the sum of £10,000 to take an example, would not usually be overwhelming. Would you state the exact reason, so that I may be sure I understand?—The broad answer is that if the Estate Duty amounts to £10,000, the free liquid assets, or fairly liquid assets, apart from the trade assets, such, for example, as cash in the house, mortgages, War Loan, readily realisable investments belonging to the proprietors in their personal capacity, are certainly in the great mass of cases as much as £10,000 and, indeed, far more.

9131. That is what I wanted to get at; it is the private, personal assets?—Yes.

9132. *Professor Hall*: Do you think there is any greater hardship in the case where the estates consist very largely of land?—I was coming to that. The position is different there. I was going to deal with that next, if you agree.

9133. *Mr. Bell*: You referred to your two paragraphs 18 and 19 in this paper. Have you any remarks on paragraph 19?—That was a saving paragraph in which we said we recognised that, although our statistics may be very beautiful, they work upon average, and one element that must never be lost sight of is that there are undoubtedly here and there cases which are extraordinarily hard. They have to be met, as far as we can, by easing the administration within the limits of the law, but the point is that, whereas the fact which was represented to you by a certain number of witnesses was that the Death Duty came tremendously hard on private business in very large numbers of cases, our investigation tends to show that that is true of a very small number of cases only.

9134. *Professor Hall*: Would you care to deal at this point, or later, with the suggestion which I think has been made by some witnesses that the period of payment for Death Duties might be extended?—It is, of course, a suggestion which has been made from time to time. There has been a provision on the Statute Book since the inception of the Estate Duty, under which Estate Duty in respect of real estate, landed property, may be spread by instalments over a period of eight years. If you were to introduce the system of optional instalments

* Printed as Appendix XX to the Committee's Report.

into other large classes of payment, I think we must assume that the difficulty which executors find in meeting the duty would be sufficient to make a large number of them anxious to adopt that arrangement unless it were accompanied by a rather high rate of interest. Possibly, regarded purely from the point of view of intrinsic merit, some provision for payment by instalments (I should say over a shorter period than the eight-year period, which is rather a long period) might be desirable in such hard cases as I have just been discussing now. On the other hand, there is this difficulty from the practical point of view, that the annual Budget has got to be balanced, and in the first year in which you allow payment by instalments you suffer a great postponement of revenue which only comes in afterwards, and the practical difficulty might well be held to outweigh the individual advantage.

9135. I think we had some witnesses who thought that in the case of big estates even eight years was hardly sufficient?—Eight years may be felt by some executors to be insufficient in dealing with the particular matter to which it refers, which is landed property. I think it is very widely held that the difficulty of payment of Estate Duty is far the greatest in connection with landed estates.

9136. Would you say from your experience that there have been many who have found eight years inadequate and have been seriously inconvenienced by having to pay within the eight years?—I do not recall anything in the nature of general experience of that kind. From time to time, undoubtedly, we receive applications to be allowed to postpone instalments for some limited period of time. I am afraid that the extent to which we regard ourselves as entitled to accept applications of that kind is comparatively limited, and perhaps the difficulty still exists after it ceases to come to our ears. Taxpayers who are paying by instalments have to pay interest at the rate of 4 per cent. without deduction of Income Tax, which is really now 5 per cent.; that is a very important consideration for them in deciding whether they will not make an effort to pay the debt rather than apply for a postponement. One of the difficulties, I may explain, in granting a longer period than eight years is that the length of time between successions varies very much. Sometimes a person may inherit property very young and live to a great age; on other occasions property may pass two or three times within a comparatively short period, and if you allowed, for example, 12 or 15 years you might easily have cases in which instalments were still being paid in respect of three separate charges of the duty.

9137. You have not found that the tax has proved an unsuitable tax by reason of the large number of people who could not pay in the eight years?—I do not think so, no. I am reminded that though there is a considerable body of people who avail themselves of the opportunity to pay by instalments, a larger proportion, according to our present experience, pay the money down. I think, if you agree, Mr. Chairman, it might be well, as this is going rather into the area of the difficulty of payment in the case of the landed proprietor, if I said just what I have to say on the statistics of that particular subject. I do not know that my statistics are very good; we have been very much pressed with other matters, and the getting out of statistics upon this is rather a laborious business. Such information as I have is derived from a review over a period of only six months in the year 1921. It goes to show, dealing with estates of over £15,000, that the number of cases where payment is specially difficult must be comparatively small. I think that estates of less value than £15,000 need hardly be considered in this connection, because the rate of duty then falls below 6 per cent.

9138. *Mr. Bell*: Have we your material in our papers?—No. I do not propose to put it in in writing, because it is tentative, and I would not profess that any very great validity attaches to it, although substantially I am satisfied that it gives you a reasonable picture of the position. It seems to show that in estates of £15,000 and over 75 per cent. have no land at all, and 19 per cent. consist of land only up to one-fifth of the total value. Then there is a balance of 6 per cent.; that may be called the region of the landed proprietor. About 2 per cent. consist more than half of land, and about 4 per cent. consist of land to the extent of one-fifth to one-half. These percentages relate to all estates which are brought in above £15,000. Transforming percentages into numbers, about 100 estates a year over £15,000 in value contain over 50 per cent. of agricultural land, and about 200 estates contain from 20 to 50 per cent. of such land. The numbers on the whole are small. Regarded by themselves I think they would be misleading, for this reason: that many sales have taken place in recent times, partly no doubt on account of the market being good, but I think quite certainly partly in anticipation of Death Duties which would have to be paid upon the deaths of the owners. Were it not for that fact, I think that one would certainly find that the number of estates of substantial size that consist almost exclusively, or very largely, of land would be very much higher than it is.

9139. *Professor Hall*: In other words, they have prepared for the payment of Death Duties by converting some of their land into other investments in advance?—That is so, or, as perhaps they would say themselves, they have been compelled by the Death Duties to sell during their lifetimes.

9140. Do you think the persons whose estates you have been describing have to any extent provided for these payments by insurance, or has it been entirely by the sale of land?—I do not know that I can give you any very definite figures with regard to that, but on the whole our experience goes to show that the wealthier members of the community do not very largely provide for Death Duties by insurance in the ordinary accepted sense; that is to say, they do not provide for it by life policies. Life policies are taken out mainly by people who leave comparatively small sums of money, from £1,000 to £5,000, perhaps £10,000. That, however, is not for a moment to say that wealthier people do not provide for the Death Duties by saving, because life insurance is only one particular form, and many wealthy people have more profitable or more desirable forms of saving than that. Generally speaking, I should say, however, in the conditions which have obtained recently in regard to agricultural land, agricultural land owners have had singularly few opportunities, as compared with other members of the community with equal wealth, of saving out of income for the purpose of meeting Death Duties.

9141. *Mr. Bell*: If I may go back to the former paragraph, I just want to clear my own mind. If there is a second death in the eight years during which instalments are being paid, is not an almost incredible complication set up?—Two instalments have to be paid *pari passu*, not by the same person, but by different executors of the two different persons, and not on the same value, of course; on the first occasion it would be on the value of the estate which passed on the first death and on the second occasion on the value of the estate which passed on the second death. There are also provisions for reducing the rate of duty which is chargeable on the second death in the case of a quick succession.

9142. But there is no administrative difficulty; no confusion arises?—No.

9143. From the outside point of view it is sometimes felt that there is a complication at once, but you think there is not much?—Subject only to this, that where real property or similar property is tied up in settlements there is always complication. The mere existence of the settlement makes a complication of itself, and when we have to be working on

two accounts under two settlements with two separate sets of trustees, it may get rather puzzling from time to time.

(*Lord Colwyn resumed the Chair*).

9144. *Chairman*: Are you going to make any remark on the allowances granted for depreciation?—I have not done at present, but I will by all means. We very often hear from various sources that the allowances which we make for the wear and tear of machinery and plant are, sometimes it is said, inadequate, and, sometimes it is said, very inadequate. I confess that we find this view very difficult to understand. Any taxpayer, who is dissatisfied with the allowance which is given in his Income Tax assessment for wear and tear of machinery and plant, is entitled to appeal to the local Commissioners, or to the Special Commissioners, the latter a very expert body dealing with matters of that kind; and, indeed, more than that, he can appeal one year to the local Commissioners, and if he does not like their decision he can appeal next year to the Special Commissioners or *vice versa*. We find in practice that practically no such appeals are taken. In addition to that, under legislation which was passed not many years ago, it was provided that the traders belonging to a particular industry might jointly approach a Board of Referees, which was set up for the purpose, and of which the Chairman is Sir Duncan Kerly, and ask that Board to fix rates of depreciation which should apply to that industry unless and until they were subsequently adjusted. Only one application has so far been made to that Board; the Board gave no decision upon it, but suggested that it was a matter which would be susceptible of agreement between the two sides, and my impression is that it has been satisfactorily and amicably settled. But apart from that one industry, nobody has thought it worth while to go to the Board of Referees. I cannot, therefore, help feeling that the general suggestion that our allowance is inadequate must be only a general impression derived by taxpayers from considering the general character of our business and the unpleasant duties that we have to perform rather than from a real examination of the merits of the case.

9145. Your surveyors do understand something of this machinery question, do they not?—Yes. We have also employed at Somerset House one senior expert officer and some assistants, who are engaged exclusively upon examining the wear and tear question where it is brought up by inspectors from the district, or when it is raised individually by traders, or on behalf of a trade as a whole. A great deal of time has been devoted to it of recent years.

9146. I do not think it can be argued from the fact that you have had so few coming up before the Commissioners that there are not many who feel that they ought to go before the Commissioners?—I do feel this, that if we were really wrong over a wide area there would be a certain number of cases. I know that many taxpayers are not anxious to appeal, and they may prefer to agree, but we for our part never place the slightest obstacle in the way of an appeal. I feel sure that a certain number of cases would have assumed the importance of being heard, and that we should have got a lead from the General Commissioners, or Special Commissioners, or from the Board of Referees, if we were working on a wrong level. We have never had any indication of that sort.

9147. *Professor Hall*: Besides the allowance for ordinary wear and tear, do you make a special allowance for obsolescence, say, where a new machine comes on to the market very suddenly, and the whole range of machines in a place have to be scrapped?—Yes. In those circumstances an allowance for obsolescence is made—the difference between the written down value of the old plant and the new plant.

9148. That removes one of the hardships?—Yes. That is, of course, on the old plant being scrapped in favour of the new. I wonder whether I ought to say a word about wasting assets generally which has also been brought up before you.

9149. If you please?—All I proposed to say here was that complaints, I understand, have been made by various witnesses about the allowance for wasting assets, and the position is unchanged since the time of the Report of the Royal Commission which is the *locus classicus* upon the subject. An allowance is made not only in respect of plant and machinery, but also in respect of mills and factories and other similar premises. The allowance in that latter class of case is excessive. Allowance is not made in respect of shaftings, foundations, and the like, nor in respect of foreign mineral substances.

9150. *Chairman*: May we revert to the Death Duties and hear anything you wish to say on the Rignano scheme?—We have put in a memorandum,* and have indicated that in the form in which the proposal is made by Professor Rignano it would be, we think, immensely difficult to carry out in this country at the present time. I have no hesitation in saying that whatever. He contemplates that there should be three rates of duty, firstly, a certain rate upon that which the taxpayer himself saves, a second rate upon that which he inherits from the person who has saved it, and a third rate upon that property which has been twice inherited. That final feature of the scheme—ascertaining what wealth has been twice inherited—means searching back through records over a lifetime and as a practical proposition is extraordinarily difficult. Of course, the extent of the difficulty would, as I remarked in another connection, be immensely enhanced or be immensely mitigated, according to the attitude of the taxpayer. The scheme of Professor Rignano, as I understand from reading his work, is an extremely far-reaching scheme designed ultimately to alter the basis of society, but, as other witnesses have said, the idea is capable of being used in a much more moderate and limited degree than he himself advocates. The more modest the degree in which it was applied, the more the acceptance of taxpayers would be likely to be forthcoming, and the more one could hope they would make the necessary researches to ascertain the truth as to the inheritance of their wealth, and the source from which it came, and the more the possibility, therefore, of raising the duty; but under any circumstances the thing must be full of great difficulties until at any rate a generation has passed and a whole body of records has been made for the purpose of tracing the definite transfer of blocks of wealth expressed in money from one person to another.

9151. *Mrs. Wootton*: In paragraph 4 you say that, from an examination of the proposals, you think it would not be impracticable to introduce this in a definite scheme subject to certain safeguards. You do not mean to go so far as to say that you think it practicable to introduce a scheme on top of the present high rates of tax?—I think the taxpayers would kill it.

9152. You definitely exclude that?—I think so.

9153. You cannot give us any idea about where you think it would come in the range of practicability?—If you could tell me at what point the taxpayers would accept it as a reasonable fiscal measure and would reasonably co-operate in working it, then I could tell you the point at which it could be practicable; I think that really is the answer.

9154. There is very little evidence as to how the taxpayers would regard it?—No. Of course, the idea is at present comparatively modern; it is being reviewed a good deal, and, at the same time, a considerable body of opinion, as I understand, is suggesting that the idea might perhaps be advantageously adopted in a modest dose. If that view grew

* Printed as Appendix XXVI to the Committee's Report.

and came to be generally held, I should say that it would be reasonably practicable to carry it out. The practicability would be much greater if there were only two rates, one for the wealth that the man had himself saved and a second for the wealth that he had inherited. The third rate must, under any circumstances, produce a very great deal of difficulty, unless you set to work to compile an immensely costly, elaborate and difficult record, which will only be complete for the purpose after the completion of a generation.

9155. I was going to ask you what you thought of a modified form?—There is no doubt that the two rates would be far easier to work than three, and for the rest the practicability of a great scheme of this kind must turn very largely upon its acceptation by the taxpayers.

9156. It is possible it might commend itself to the taxpayers rather more than some alternative schemes. For instance, one can imagine that it might be more agreeable than an all-round increase of the rates on the existing basis?—Yes, quite.

9157. One has to consider it in conjunction with the alternatives?—Yes. I think, if I may say so, it might be still more agreeable if a reduction of rate for the part which the man had saved himself were a feature of the scheme.

9158. That is the same point?—Yes.

9159. *Chairman*: Now, may we proceed to the idea of an inheritance tax on which we have a note* from the Board?—Upon that I do not know that I need say very much. There have for a long time been advocates in this country of a change in the general basis of the Estate Duty from the mutation basis, as it is called, to the inheritance tax basis, and it could be done. The main practical difficulty always occurring in connection with Death Duties is presented by the settlement question; I think there is no doubt about that; but, in addition, the ease of collection of an Estate Duty in the present form lies in the fact that it is payable by the executors before they distribute the estate. If one had an inheritance tax payable by the acquirer, I think that legislation would have to provide that the duty should be ascertained and paid by the executor and deducted from the acquirer, or that the acquirer should give some reasonable form of security for payment; otherwise we lose our handle, and the facility of collection has gone.

9160. Do you wish to make any reference to the other papers you have given us, that relating to the incomes of Super-tax payers† and that relating to the practicability of a Capital Levy‡?—I have put in, I think, all that I have to contribute upon those two subjects, and unless the members of the Committee wish to ask me any questions, I think the two papers really give all that I have to say.

9161. *Professor Hall*: May I ask a question not directly on the papers before us? Do you think that a tax on increase of income is a possibility as a matter of practical working? I mean, a tax upon that portion of a person's income in any year that represents an increase over the income of the previous year?—Of course, everybody's income is inclined to increase. A man makes more when he is 25 than when he is five, and he generally makes more when he is 45 than when he is 25. My general feeling with regard to that is that a tax of that kind is rather a fancy tax than a practical working proposition. Speaking generally, I should have said that it was appropriate, if at all, for an exceptional time. It might very well serve as an alternative to an Excess Profits Duty, and it was indeed examined as such at one time during the War; but for ordinary periods I should have doubted very much whether you could invent such a tax that was at all useful and that would provide you with an adequate yield.

9162. As you yourself have suggested, every taxpayer starts from zero?—Yes.

9163. And therefore the whole of the taxable income of the country becomes at some period assessable to such a tax?—Yes.

9164. Might it not be possible that a tax of that kind might make possible a reduction of the ordinary Income Tax, or avoid an increase of the ordinary Income Tax, or provide a supplementary Income Tax for a special purpose?—I should have said this, that there might very likely be something to be said for a view of that kind if the Income Tax were not graduated; but the Income Tax is graduated, and if a man in one year makes £500 he pays at about 5d. in the £, or something very small; if in the next year his income is up to £2,500 he pays something in the nature of a sixth of his income. That stiff graduation seems to me to be a compound of ability to pay, and the notion of taxation of an excess.

9165. If his income rises from £500 to £700, the tax upon the £700 is a continuous tax so long as he has £700. My question had reference to the tax upon the £200 margin during the first year of increase on the ground that in that year a man has an additional income of £200, but not necessarily any additional expenditure, and therefore, on the principle of ability to pay, that is the most favourable year for him in which to pay?—I think in putting that question you are taking the view that the additional sum of £200 is only charged at the same rate as the £500 was before.

9166. I am not questioning the rate at the moment. There might even be some rate different from the ordinary rate of Income Tax, but it might be an additional tax and serve as an alternative to an increased Income Tax?—Is not this a sufficient answer, that whereas in the year in which the man was making £500 a year he was paying Income Tax at a rate equivalent to about 5d. in the £—I am taking the ordinary case of a married man with three children earning his income, where the tax is a very small amount because of the allowances—in the next year, when he makes £700, instead of paying 5d. on each £ of income, he is paying 2s. in the £ on the excess money, making a total sum per £ of his income no longer of 5d., but in the neighbourhood of 11d.

9167. That is quite true, but he is only paying at the same rate as another person who receives £700 who has not had an increase of income during the year?—That is quite true, yes.

9168. I am just questioning it from the point of view of ability to pay. A man is best able to pay in that year in which his income goes up more quickly than his expenditure, and perhaps it might be preferred by the taxpayer that he should pay rather more in that year in which his income is increasing than have to pay perhaps a smaller amount of money for a longer period?—That is, of course, a question of opinion.

9169. Quite; it was the question of practicability that I was really asking you about?—I think on the question of practicability such a scheme could no doubt be worked. It would be rather an expensive addition to the existing Income Tax, probably, but it could be worked. May I just make one further half-serious observation, and that is, that my general experience is that a taxpayer's capacity to spend advances in accordance with his income; indeed, the whole troubles of my Department might be said to lie in the fact that a man who has an income of any given amount has an expenditure of an equal sum before he has begun to provide for his taxes.

Chairman: Thank you very much, Sir Richard, for helping us with your evidence.

(*The Witness withdrew.*)

(*Adjourned for a short time.*)

* Printed as Appendix XXVII to the Committee's Report.
† Printed as Appendix XV to the Committee's Report.
‡ Printed as Appendix XXII to the Committee's Report.

The Right Hon. Lord BRADBURY, G.C.B., called and examined.

EVIDENCE-IN-CHIEF handed in by LORD BRADBURY.

QUESTION 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?*

QUESTION 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.*

1. Under the normal working of the British banking and currency system the total volume of credit from time to time available for industry and trade is regulated by the Bank of England through operations affecting the volume of "bankers' cash." The volume of this "bankers' cash" in its turn determines the volume of bankers' loans to their customers since bankers generally work to a conventional standard of about 11 per cent. of cash to deposits, lending readily when the percentage rises and reducing credit when it falls.

2. The Bank of England's policy is determined by international gold movements—actual and prospective—which, in fact, under the working of the gold standard, reflect the international and internal trade conditions which are the proper determinant of the volume of credit under a healthy system.

3. Movements in the National Debt through repayment, conversions, etc., need not affect, and ought not to affect, the volume of credit available for trade and industry, though large operations require careful handling by the Bank of England to prevent unnecessary temporary restrictions, and great damage might be done by injudicious political interference in matters of credit policy which ought to be dictated solely by financial and economic considerations.

4. Such movements can only affect the supply of permanent capital for trade and industry by increasing or diminishing the total volume of savings or by influencing the direction in which savings are applied. Repayment of debt out of Income Tax probably stimulates saving, since the recipient of the repayment treats it as capital to be reinvested while the taxpayer tends to economise his current expenditure to meet the tax burden. On the other hand the pressure of a high rate of Income Tax on the entrepreneur restricts the savings which he is himself able to make for reinvestment in his own business, and there is a danger that undertakings which, by reason of their size or constitution or of the character of their assets, have no ready access to the general investment market will find difficulty in satisfying their necessary capital requirements.

5. It is sometimes suggested that the holder of Government stock, having become accustomed to gilt-edged securities, will tend to reinvest repayment money in similar securities rather than in trade and industry, and that, if the home supply of gilt-edged securities is insufficient to meet the demand, he will prefer foreign or dominion loans to home industrial investment.

6. As regards excessive investment abroad, I am satisfied that the normal working of the gold standard will supply a speedy corrective. The preference for gilt-edged securities at home, in so far as it may persist, will tend to lower the yield of those securities relatively to the yield of industrials. I do not myself believe that the process will have to go very far before equilibrium is restored, and, so far as it does go, it will lead to economies on the debt expenditure by facilitating conversions to a lower rate of interest and any loss to industry through making ordinary capital dearer will have at any rate a partial set off by cheapening borrowing on debentures.

7. The Floating Debt is not at the present moment an active agent of financial or economic mischief. Indeed, so long as the public and the banks continue to treat it as "investment" it differs very little either in its nature or in its effects from a long-dated Government stock with a variable rate of interest. On an average it has cost, and is likely to cost, the Exchequer less than an equal amount of long-date debt. On the other hand, the variable rate of interest may impose heavy burdens on the Exchequer at inconvenient moments, and there is a danger that this inconvenience may deflect the judgment of the Treasury in times of crisis. Again, the habit might grow up (as it has done in France) of using Treasury Bills as currency. This would have a disturbing effect on monetary policy. Further (in so far as the Bills are held by the banks) their exceptionally liquid character might tend to relax the banks' conventional standard of "cash" reserves. In view of these possible dangers—remote no doubt at the moment, but circumstances might arise in which they would become very real—I would use a certain proportion of the sinking fund moneys available to reduce the Floating Debt and fund a large part of the remainder after the outstanding short-date bonds have been dealt with. I do not attach much importance to the consideration that the existence of a large Floating Debt is a convenience—and probably a source of considerable profit—to the London Money Market. If its reduction is desirable in the general interests of the community, the Money Market must adapt itself to getting on without it. The adjustments involved in parting with it will no doubt be rather more painful than those which accompanied its assimilation in the first instance. But if the reduction is gradual no serious consequences to the "mechanism of the market" need be apprehended.

QUESTION 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?

8. From the point of view of abstract economics, I do not attach very great importance to the internal debt, provided that the interest and Sinking Fund is provided by the taxation of the dividends of the debt itself and of other forms of *rente*. This is already the case to a very large extent in this country and the process could with advantage be carried further to the relief of the rewards of personal exertion and new enterprise.

9. For psychological and political reasons, however, I regard a progressive reduction of the debt as very important. But I should not be disposed to make an immediate increase in the annual provision for redemption except to the extent of the interest saved by redemption and conversion. I should favour a fixed debt charge of the amount of the present provision for the service of the debt for a period of ten years. At the end of that period the amount might

be revised to (say) the then interest charge plus £100 millions which would operate as a cumulative Sinking Fund.

10. I am not in favour of increasing taxation in order to accelerate repayment further than this. I am in favour of a severe restriction of expenditure, but I think the resultant saving should be devoted to relief of taxation rather than to increasing the Sinking Fund.

11. I would maintain the Old Sinking Fund, *i.e.*, devote to debt redemption all casual Budget surpluses in addition to the fixed provision. In deficitary years I should not object to meeting the deficit by suspension of a part of the fixed provision (in so far as it is not actually earmarked to contractual Sinking Funds) up to an amount not exceeding (say) the amount of special redemption out of surpluses during the preceding three or five years. Although there is not much scope for the operation of this suggestion at present (most of the existing £50,000,000 being absorbed by the contractual Sinking Funds) it might be a useful expedient as, in course of time, the unearmarked portion increases. It would tend to obviate the necessity for frequent changes in taxation, which I regard as undesirable, and also, if the Income Tax and Super-tax could be revised so as more nearly to reflect current income, to vary the provision according to the state of trade. I would not attempt any more exact adjustment to trade conditions.

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

12. Dealt with under **1** and **2.**

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

13. I think the public sentiment greatly exaggerates the real burden of the internal debt-charge. The debt-charge represents purchasing power taken from the community as taxpayers but returned to the community as bondholders in the form of purchasing power, and is in no way comparable with consumption-expenditure such as that on the fighting services or uneconomic civil administration. I do not think that the existence of the debt-charge in fact necessitates any restriction of public expenditure for other purposes beyond what would be required by reason of general economic conditions independent of the debt-charge. But I think that such general economic conditions do require a very rigid restriction of public expenditure, and I regard the effect of the debt-charge as an incentive to economy of other public expenditure as a most valuable influence.

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

14. In my opinion there is no reason to expect that repayment of internal debt will have any effect on the general price level. The rise in prices attendant upon the issue of the debt was due to the creation of credit by the Bank of England supported by the increase in the fiduciary paper currency (without which no doubt the borrowing would have been impossible). With the restoration of the gold standard, the volume of Bank of England credit and the dimensions of the fiduciary currency will be determined by considerations quite independent of the amount of the National Debt.

QUESTION 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?*

15. The percentage of annual saving to national income is undoubtedly lower than before the War. I believe this to be due to a general change in national habits (which indeed began long before the War) to a much greater extent than to the pressure of taxation. In so far as it is due to the burden of public expenditure, I think it is due to economically unproductive consumption-expenditure and not to the debt-charge. As trade improves the worst element in this (the unemployment dole) will be reduced, and increased production will provide a larger margin for saving.

16. I expect trade recovery to be slow and capital scarce and expensive during the earlier stages of the revival, but I am hopeful that the initial shortage will be steadily overtaken.

QUESTION 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?*

QUESTION 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 profits proportionate to managing ability and to the risks of personal enterprise, and higher on the average than the rate of interest on Government debt?*

QUESTION 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?*

See above.

QUESTION 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?*

17. If the gold standard and the free trade system are maintained—and I regard both as essential to an economic organism such as Great Britain—the general level of internal prices must adjust itself to the world level. In so far as Income Tax is upon the profits of capital already sunk in industry, it merely means that a percentage of those profits is transferred from the original owner of the capital to the fisc, but, in so far as it is upon the profits of liquid capital or new capital, it will tend to raise the gross return required to retain or to attract it. To the extent to which this happens, real wages will be forced down and social unrest and chronic unemployment are likely to result.

18. These dangers can be avoided by giving further substantial relief to income resulting from new saving and personal exertion.

19. Such relief can only be given at the expense of income of the nature of *rente*.

20. In practice, I would substantially increase the allowances for earned income, depreciation and wasting assets, and grant allowances for new capital invested in business (whether by capitalisation of profits or introduced from without). The cost of these concessions would have to be met by raising the basic rates of tax and possibly by a further increase in the Death Duties.

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

21. Death Duties do not involve a destruction of capital. The portion of the capital assets of a deceased's estate which is required to meet Death Duties is sold to a purchaser who has savings to invest. These savings pass to the fisc, and are

used for public expenditure instead of for production of new capital. In so far as the public expenditure is consumption-expenditure, the saving is, from the point of view of the nation as a whole, neutralised. But the same applies to Income Tax in so far as it is drawn from income which would otherwise be saved and similarly applied.

22. The case of businesses which are liable to be crippled by the withdrawal of capital might to some extent at any rate be met by facilities to commute the Death Duties by payment of an annuity calculated according to the age of the successor or possibly, the average succession period. The technical details would, however, require careful consideration.

QUESTION 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?*

23. I do not attach importance to the maintenance of any particular ratio between direct and indirect taxation. Indirect taxation is appropriate to luxuries, expenditure upon which it may be thought desirable on social or moral grounds to discourage. It is also fiscally the easiest method of taxing the less well-to-do. Subject to these two considerations, I regard direct taxation as preferable to indirect.

QUESTION 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?*

24. In order to gauge the effect of a system of taxation on the distribution of wealth it is necessary to consider how the money is spent as well as how the money is raised. I think there is no doubt that the less wealthy sections of the community receive greater benefit from public expenditure in proportion to their contribution to taxation than the more wealthy sections. The general tendency is therefore towards a more equal distribution of wealth as between rich and poor.

On the other hand, I think it imposes an excessive burden on new enterprise in favour of the rentier.

QUESTION 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?*

See above.

QUESTION 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?*

25. Taxation is not a direct cause of unemployment. The purchasing power taken from the community is either returned to the community as purchasing power, *e.g.* in the case of the debt charge, unemployment benefit and old age pensions, or used by the Government to pay for goods and services. The total *demand* for goods and services is therefore unaffected.

26. A particular system of taxation combined with public expenditure of a particular character may make individual industries—or even industry as a whole—unprofitable and so lead to widespread unemployment.

27. Widespread unemployment means a diminution of the national income, which, in its turn, lowers the standard of living and reduces the margin for saving. This reduces the demand for both consumption and capital goods and thus intensifies the unemployment. A vicious circle is in this way created in which it becomes difficult to distinguish between causes and effects, and the mischief becomes cumulative.

CAPITAL LEVY.

28. For the reasons explained in my notes on the general questionnaire, I do not attach any great importance to the actual redemption of a substantial percentage of the internal debt at an early date.

29. I agree with the advocates of a Capital Levy that the method by which the interest and sinking fund on the debt is at present provided tends to discourage personal exertion and saving, but I should favour alterations in the Income Tax, Super-tax and Death Duties under which that portion of them which is required to meet the debt-charge would become even more completely than it is a burden on *rente* generally, rather than an attempt to liquidate the debt itself by a levy on capital. Economically a permanent charge on the income derived from capital is indistinguishable from a share of the capital itself.

30. Practically it has the following advantages:—

(*a*) Though it involves fiscal problems of a formidable character, they are far less formidable than the corresponding problems raised by an actual levy on capital.

(*b*) It avoids the financial difficulties and consequential dislocation of the extensive liquidation involved in making fixed capital in the hands of A available to redeem Government debt held by B.

(*c*) It is far less disturbing to public confidence and even to the mind of the rentier himself, being merely an extension in the application of principles already embodied in our taxation system.

31. I regard an actual Capital Levy as impracticable at the present time by reason of

(*a*) the mechanical disturbance it would create;

(*b*) its effect on credit;

(*c*) the almost insuperable technical difficulties of devising and applying a plan which would be even roughly equitable.

32. If such a levy could be satisfactorily carried out, and adequate expedients devised for minimising the consequent mechanical dislocation, I believe its material effect would be salutary, though its psychological effects would be mischievous, and the mischief would probably outweigh the advantage.

33. I see no reason why the levy should affect the potential supply of credit. It might, however, seriously affect the demand for credit through dislocation of business, with the result that the volume of production might be reduced.

34. The operation of collecting the levy and the liquidation necessary to enable it to be paid would, while the process was going on, involve a considerable absorption of banking credit, which, in the absence of special action by the Bank of England, would lead to the calling in of bank loans to industry and to price deflation as a consequence. This could, however, and ought to be counteracted by *ad hoc* creation of credit by the Bank of England. Provided that the *ad hoc* creation was limited to the amount required to support the special extension of banking credit required, and called in again when the operations were complete, no evil consequences would result.

35. I do not think that the ultimate effect of the levy would be deflationary. It would not alter the total amount of purchasing power. The interest received by the bondholder would disappear from one side of the account and the taxes paid to provide it would disappear from the other. The relief to the entrepreneur would probably stimulate production, but that is much more likely to raise prices than to depress them, as, in practice, active trade is accompanied by a more than equivalent expansion of credit. Under the operation of the gold standard the general price level is determined almost entirely by world causes and operations in regard to the National Debt are likely to affect it very little.

9170. *Chairman*: Will you please read your answer to Question No. 1?—I might explain, perhaps, that I have not tried in this Proof to deal comprehensively with the whole of the Questionnaire; I have merely selected those particular points on which I thought the Committee would be interested in such opinions as I have. (*Paragraph* 1 *read.*)

9171. *Sir Charles Addis*: To what extent do you consider the ratio of bankers' cash to deposits is elastic in times of improving trade, or depressed trade?—I think it has a certain amount of elasticity —I mean quite apart from the credits granted by the Bank of England. Of course, the Bank of England has very considerable control over the amount of bankers' cash, and that automatically affects the amount of bankers' credit available. I think the amount of bankers' credit has a certain elasticity quite apart from the cash basis, more particularly since the growth of the Floating Debt; indeed, I am not sure that if we got a trade revival we might not find that it has a surprising elasticity and a dangerous elasticity.

9172. In fact, it may be determined to some extent by the nature of the assets held by the banks?—I think it might. On the other hand, this conventional percentage, as I call it, will certainly die very hard. It is ingrained in a bank to work to this conventional percentage; I think it is hardly more than a conventional percentage now; but if it were departed from the result on the whole credit system would, in my opinion, be very serious indeed.

9173. You talk about bankers lending readily when the cash percentage rises. Have you any particular borrowers in view; what, for example, is the first outlet when surplus funds are in hand?—Of course, a practical banker (I cannot pretend to be a practical banker) could answer that question very much better than I could. But I take it that when a bank is in a position to extend its advances it naturally looks for the best secured avenues. Naturally if banking credit is easy, trade and industry will benefit; on the other hand, people who have gilt-edged securities to pledge will also come in for a share of the additional credit.

9174. That would have its effect on Treasury Bills, for example?—Yes. Of course, I was rather assuming that Treasury Bills were a fixed amount subject to seasonal fluctuations.

9175. When you say increased advances, in your view do the bankers take practical steps to increase their advances; is there any overt action which one could describe as taken to increase advances?—I should have thought so. I should have thought when a bank finds its cash position strong it naturally adopts a more liberal policy in regard to advances. The reaction is almost automatic. Just as when money is tight and difficult to get at, proposals for loans are very severely scrutinised, so, when money is easy, loans are granted more readily.

9176. *Mr. Bell*: What has actually happened in practice in banking in the last few years is that all surplus money went into investments rather than in granting overdrafts because people did not want it?—Yes, I think that is true.

9177. Now that people are rather more in need of loans the investments have been sold?—Of course, the sale of the investments by the banks to the public naturally reduces deposits, and the lending power of the banks which is set free through the sale of those investments is available to create new advances, and so bring deposits back to the old level.

9178. *Sir Josiah Stamp*: We have had a theory put up to us which points rather to the converse of what you convey. Your evidence really tends to say that you can get no real deflation or inflation without an initial cause in the shape of a change in the amount of cash credit with the Bank of England, whereas it has been put up to us that you might get a pressure towards deflation or inflation entirely from the customer. I will give you an illustration. It is suggested that under the Capital Levy a considerable amount of good security would be handed over to the Government, and people who had been borrowing on that security as collateral would no longer have such good collateral, or would not have any at all, and there would be a certain amount of calling in of loans that they had previously had. Is not the answer that that would not cause deflation, because as fast as the banks were not lending money to that borrower, they would be lending money to somebody else—you do not get deflation from the customers' end at all. I take it you would rather agree with that view?—Of course, I think in all these cases it is very difficult to be absolutely dogmatic, but certainly I think that correctly describes the general tendency, that is to say, that inflation or deflation is rather independent of the customer.

9179. *Sir Josiah Stamp*: The money will be lent somehow or other; you do not throw it back on the banker, and, as it were, cancel him out of credit; it is given to somebody. *Chairman*: Now will you pass to the next paragraph? *Witness*: This is really a rider to No. 1. (*Paragraphs* 2 *and* 3 *read.*)

9180. *Sir Charles Addis*: We have had it put to us that, if Government securities were repaid on a specially large scale, the banks would then, having surplus cash to lend, tend to lend it in the first place to the money market, and generally to those who have advances from the Bank of England, with the result that the Bank of England advances would be paid off and cash proportionately reduced. Would you consider that to be the normal process and to what extent does it have the effect of restricting credit?—I think that there might be such a tendency in the first instance, but I imagine—I speak with great diffidence about the powers and capacities of the Bank of England—I imagine that the Bank of England could correct any restriction of that sort pretty easily by buying securities.

9181. *Sir Josiah Stamp*: The point put to us mostly in reference to the existence of a large National Debt is that it does provide, if it is well spread, an extraordinarily handy means of getting credit, and the average small trader who has got some Government stock can always get credit on it. But if War Loan were cancelled, or if it were not so widely spread, or were not so great in the aggregate, the small trader would have to rely upon his personal credit and upon what the banker knows of his business. You do seriously alter the potentiality of individual credit by the amount of War Loan that is held throughout the country?—I think that argument rather assumes that the average banker does not know his business. I cannot imagine a properly managed bank not being able to extend credits in proper cases to its customers, even to those customers who have no Government securities.

9182. The point is not so much the proper case. We will assume that a proper case will get it, but the man who has not what you may call a proper

credit will not get it at all, or he is the first to be starved?—I do not think it is a healthy condition of commercial affairs that the banks should make loans on the strength of Government securities to bolster up business the continuance of which on its own merits is not justifiable. I think to the extent to which credits in favour of industry based on Government securities were made more difficult you would get a healthier atmosphere in the commercial world.

9183. That might be so as a thing that ought to happen. The question is, what does happen in practice with the average man going to his bank? If he can put up his collateral he gets the loan more easily; it is not called in so quickly; restrictive operations are not brought to bear upon him; he is not watched so jealously?—I think there is a certain amount of truth in that, and it is certainly a very great convenience to banks, because it relieves them of the necessity of scrutinising propositions which might be very troublesome to scrutinise. On the other hand, I might add to that that I think there is a tendency through these very large holdings of Government securities nowadays, particularly when the middle classes are rather hard up, for people to borrow on securities to meet their housekeeping bills, and that seems to me to be rather bad for the general economic structure; it makes the consumption credits as distinct from production credits much easier, and I think that is a mischievous tendency.

9184. If a man comes to a bank with £10,000 of War Loan and asks for an advance and the bank say to him: "What are you going to do with it"?—"I am going to put it into my business"—"Let us have a look at it. It is a rotten business, you shall not have it," is it not rather an idealistic line for the average bank to take?—I did not intend to suggest that. What I did intend to suggest was that if this man had not £10,000 War Loan then presumably he would only get an advance from the bank if his business were fairly sound. As things stand the bank will quite naturally and willingly lend on the £10,000 War Loan, and the result may be that the money is lost. The bank is all right, because it keeps the War Loan.

9185. Many a business which is not actually in a position to get credit might by the facility afforded by War Loan be turned into a profitable thing; is not what you suggest rather a tendency to suspect or nip in the bud new enterprise?—Possibly. Such experience as I have of banking—and I speak with great diffidence in the presence of people who are much more familiar with banking than I am—is that bankers are not wanting in enterprise. Even for the comparatively small institution to which I belong, the assistance which we have given to customers in difficulties is very remarkable. I think bankers generally do their best to look after trade and industry and to make advances in hopeful cases even when they are not absolutely secure cases.

9186. Supposing a time of stringency comes and the word goes round to the banks to scrutinise and draw in; trade is getting a little tricky, and they look at this doubtful business and are ready to secure themselves in these doubtful cases; if the man has collateral of War Loan he is much less likely to be treated drastically, so that the elasticity of restriction is altered by the existence of War Loan?—Yes. I think there is a certain amount of force in that. On the other hand, in times of credit difficulty of course banks naturally treat customers in a somewhat shaky position with a great deal of consideration; otherwise they bring the house down about their own ears.

9187. *Professor Hall*: Do you make any distinction in what you have said in these paragraphs between the external debt and the internal debt?—I am speaking almost entirely of internal debt in this case.

9188. Do you make any distinction between the Floating Debt and the longer term debt here?—I come to that later in my evidence. I do not think at the present moment there is any appreciable difference in economic effect between the Floating Debt and the more permanent debt, but I think there are certain latent dangers in the large amount of Floating Debt, which I have dealt with later.

9189. I was wondering whether or not this answer had in mind that distinction?—This answer, generally speaking, applies to the internal debt, floating and long-dated.

9190. *Chairman*: Will you now proceed to paragraph 4? (*Paragraphs 4 to 6 read.*)

9191. *Sir Josiah Stamp*: It has been put to us strongly that heavy taxation for the repayment of debt has this effect, that it takes away money that would be used in risk carrying and waiting, and so on, and progressive private business, and finally through the repayment gets into the hands of people who are seeking secure investments. They cannot get a gilt-edged market, so they will take the next best thing they can get—a good debenture. That tends to make it easier for large corporations to raise debenture capital than it would otherwise have been, and to make it much harder for small businesses to secure capital, and therefore still further penalises the private business in favour of the large corporate enterprise. Would that be a fair corollary from your last sentence?—I think so. I think there is that tendency undoubtedly.

9192. *Professor Hall*: In paragraph 4 you deal with the effect of Income Tax upon the savings of the entrepreneur. We have had many witnesses who have emphasised very strongly the fact that the high Income Tax reduces the entrepreneur's interest in developing production, and in that sense also reduces the amount of available capital; would you attach very much importance to that?—I am a little sceptical about that. I think that what I may call the flaws in the Income Tax, by which I mean the extent to which the Income Tax is not a real tax on actual profits, do damage the entrepreneur and act as a drag on development, but in so far as the Income Tax can be represented by the formula that the State takes a share of the profits, then I do not attach very much importance to that argument unless of course the rate of tax becomes something phenomenal. I cannot myself conceive that merely taking away half of a man's profits makes him any the less keen on earning profits; indeed to some extent I think it might make him more keen, because having only half left he is naturally much more anxious to make money. A man may say: "Well, as I have to part with one-third of my profit, it is not really worth making profits at all," but I doubt if in practice he acts on the declaration.

9193. *Sir Josiah Stamp*: You are thinking of profit making in a business?—Yes.

9194. Would that include putting up new capital for extending the business to take care of new markets or turnover?—Well, if a man makes savings he must invest them somehow.

9195. Assuming he has a restricted scope for savings, he wants a good incentive to apply his energies to a new opening; he will hesitate?—I really do not attach very much importance to that.

9196. Some witnesses have attached enormous importance to it?—I do not attach much importance to it in any sort of Income Tax that we are familiar with. A point that I do attach importance to is the possibility of investing your savings in such a way as not to attract Income Tax; I mean to say the possibility of foreign investments.

9197. We are on the question of whether he saves at all. Witnesses have put the point strongly, not merely in regard to a very high rate of tax, but that there is a distinct dynamic psychological influence as between 5s. and 4s., 4s. and 3s., and 3s. and 2s. They say that every shilling either way will have a perceptible influence on the degree of enterprise that a man will undertake?—Of course, it is a psychological question, and it is impossible to dogmatise on it. My own feeling would be that the psychologically

important element is much more the chance of making profit than whether you are allowed to keep two-thirds or the whole of the profits when you have made them. I cannot imagine the rate of Income Tax acting as a drag on new investment provided that the prospects of new investment are sufficiently profitable.

9198. Do you mean that, if they can be very much more profitable than they would have been before, he will obtain the same net return; are you referring to that?—No.

9199. You are willing to accede to a smaller net return so that enterprise will not be unduly restricted?—That brings me to another point. I am not at all sure that the high rate of Income Tax does not, through the action of various causes, tend to make capital dearer for new enterprises; I think it does.

9200. And therefore to improve the possible rate that he will get when he does invest?—Yes. I think probably the high rate of Income Tax tends to restrict savings; savings being restricted, the supply of capital is diminished; the demand being constant, the rate of return tends to go up.

9201. Then you have conceded the point that the high rate of Income Tax has restricted savings, and if it is not restricting it from the point of view of the man who is investing it——.—As far as I can judge—again I do not want to speak very dogmatically on it—I do not think that portion of the Income Tax which is returned to the community in the form of purchasing power—interest on Government debt, or repayment of Government debt—does restrict savings. On the other hand, the other portion of the Income Tax that is used for what I call consumption-expenditure by the State does tend to restrict savings, because it comes to a large extent out of money which would have been saved by the individual which is not applied to capital purposes by the State.

9202. Therefore you would get a certain restriction of new saving, and that would throw up the rate of interest. You would, therefore, not suffer a high rate of tax to the full extent, because the net rate would not have fallen so much; that has not in its turn an unduly restrictive influence on the ordinary progressive business man?—It is a matter of degree, I think.

9203. But you do not attach very much importance to it?—Not first-rate importance.

9204. *Sir Josiah Stamp*: I am pressing this, because we have every variety of opinion from one extreme to the other.—*Professor Hall*: I was thinking of another point put by some witnesses. They have the opportunity of securing a contract, and they estimate the gross profit and what would be left after Income Tax has been deducted. If the Income Tax is at a high rate they say: "It is not worth our while." Quite obviously, if they do not accept the contract there is less wealth produced, and less opportunity for saving. It was really that type of question I was asking you to deal with, and I gather from your answer that your view is that they would take any profit rather than no profit; is that it?—*Witness*: Of course, all these questions have a very strong psychological element in them. If people engaged in industry who object to working one-third of their time for the State, so to speak, and two-thirds for themselves, sulk, potential enterprise is destroyed, but I cannot imagine any ordinarily constituted reasonable man taking that line.

9205. *Mr. Hickens*: But the fact remains, does it not, that to-day there must be hundreds and hundreds of firms who are taking contracts at a loss, or certainly no profit at all?—If they are taking them at a loss, presumably, in so far as the Income Tax operates fairly, Income Tax does not come into it.

9206. The point would be merely that the criterion of profit is not by any means the sole one, so that people are not solely influenced by making a large profit. There are many other factors in taking a contract?—Certainly.

9207. *Mr. Bell*: As far as I have seen, it affects private partnerships much more than it does companies. Companies have duties, vis-a-vis shareholders, and they have a continuity to look to which a private firm may not. In my experience at least half-a-dozen firms in the time of very high Income Tax and Super-tax did simply drop out; they said it was not worth it. They may be only a very few and would not affect the principle at all. I think the principle probably is sound. Ninety-nine men out of 100 would go on working and make what profit they could, but there was that little influence, I think, in the way of people going out, because it was not worth while?—There must come a point, naturally, at which an enterprise becomes not worth while. If the Income Tax and Super-tax together came to something like 18s. in the £, for the sake of argument, people would not think it worth while spending their energies, but to my mind no rate of tax which we have known up to the present *qua* rate ought to have that effect. I say "*qua* rate," because I do think the natural imperfections of the taxes, so to speak, in some cases make the real burden on profits very much larger than the apparent burden.

9208. *Sir Josiah Stamp*: Will you transfer the argument from the business man to the professional man? Take a man whose marginal rate is 8s. or 9s. in the £, say a surgeon or a professional man. If he is offered an appointment of £200 or £300 a year, he says: "If I get it I shall only get £150 out of it; I will let it go by." The argument is that it does seriously affect his tendency to do a little more, and somebody else next lower down the scale gets the opportunity and gets the appointment; it tends, therefore, to equalise the opportunity in the professional world?—I should have thought that as regards professional men, who perhaps are not very thoughtful economists in all cases, but men who can command high and possibly monopoly fees, the tendency rather is that they put up their fees so as to make good to them the loss of tax.

9209. That would be so far as they were dealing with a customer, but I was speaking rather of a thing like an appointment of a fixed character, which is a fair test of whether the tax is restrictive or not, as far as that man is concerned?—I think probably, with the operation of the Super-tax scale, that would tend to operate very largely. A man who has an income that brings him well within the range of Super-tax in regard to any additional income he will get, probably is only able to put into his pocket 50 per cent. of it or rather less. That being so, he might say: "I leave this particular job to someone who will get a larger share of the remuneration from it."

9210. And he tends to leave it to that field of opportunity where, so far from the tax having a restrictive influence on effort, it makes the man work harder, because he is trying to get a decent standard of living?—I should think it might have that effect with the Income Tax and Super-tax scale.

9211. *Chairman*: Supposing you have to pay 10s. in Super-tax and Income Tax, and you had the opportunity of opening up a new colliery or a new factory, would you, with that rate of tax, risk your money knowing that you would only receive half of your profits; would you do that as a matter of business?—I think I should be as likely to do it as if I were going to receive the whole profit.

9212. *Sir Josiah Stamp*: If you had saved the money and it was a matter of putting the money into something else in which your income would be equally taxed, surely there could be no restrictive influence in putting it into that mine?—No; that is what I had in mind in reply to Lord Colwyn's question.

9213. *Chairman*: But you would have your risk, and all that you would take is half the profit?—Yes. On the other hand, if it is the same concern, I presume if you incurred a loss on the new venture it would probably diminish your Income Tax and Super-tax as regards your existing venture.

9214. My only point is, can your feeling have an influence in the development of industry for the whole of the country?—I think the tendency, partly through the restriction of savings and partly also through the psychological effect of the high rate of tax, is undoubtedly to increase the return on business enterprise particularly of the risky kind, and therefore the full burden of the tax does not fall on the investor as compared with what would be the condition if there were no tax.

9215. *Sir Josiah Stamp*: Does it not increase the return on business enterprise by letting enterprise be spread over a less area than it would otherwise have been? It takes the cream of business enterprise and opportunity, and the rest does not come into being. The point put to us is that only the most eligible opportunities are entered upon, and the marginal opportunities are not touched. Surely that is the corollary of the restriction of the field of savings?—But that ultimately brings you back to the amount of savings. Naturally, if the amount of savings is limited, the most promising enterprises will secure what there are, and the less promising will get nothing.

9216. Therefore, the most promising enterprises are not paying more than they would have done, but your general average return is higher, because it is only those that are in the field. Supposing you have graded from 20 per cent. down to 5 per cent., and the existing supply of capital will take up the weight of that lot, your average rate may be 10 per cent. Supposing the supply of capital is restricted, and it only reaches 7 per cent., and all those below 7 per cent. are unborn, your average rate will be higher than 10 per cent.; it will be something like 11 per cent. or 12 per cent. It will be the average of 20 per cent. down to 7 per cent., whereas it was 20 per cent. down to 5 per cent. You have thrown up the general average because you have restricted the area by cutting out the small ones. I do not think you can say that any given trade in the field is going to have a higher return; I do not know whether I have made myself clear?—Yes, I think so. That brings me really to the question as to how far a shortage of capital, if there is a shortage of capital, may act on other costs, notably wages.

9217. *Professor Hall*: How far do you think the high Income Tax limits to any appreciable extent the investment in this country of foreign capital?—I think it is entirely a question of rate. Naturally, a foreigner, before investing money in this country, will think of the net return which he gets on his money.

9218. I am wondering how far there could be reaction between the high rate of Income Tax, the supply of capital, the rate of interest, and the burden of local rates. Local rates being very much affected by the rate of interest which local authorities have to pay, and rates being a charge that enters into prices, high Income Tax might possibly be affecting prices in that way. *Sir Josiah Stamp*: Rates are not big enough to make a tremendous difference to price. *Mr. Bell*: I thought with railways they did. *Sir Josiah Stamp*: Of course, in railways they would.—*Witness*: As regards the investment of foreign capital in this country, probably there is a greater investment of foreign capital at the present moment in this country than there has been at any time in our history, so it does not look as if the actual effect of the Income Tax were discouraging it.

9219. *Professor Hall*: The high Income Tax is a deterrent, but the conditions abroad are a greater deterrent?—Possibly.

9220. *Chairman*: Now, may we pass to paragraph 7?—(*Paragraph 7 read.*)

9221. *Sir Charles Addis*: When you say here that the variable rate of interest is an inconvenience which may deflect the judgment of the Treasury in times of crisis, have you in view there the possibility of resorting to Ways and Means Advances rather than paying a high rate of interest?—No. I am thinking generally that a Chancellor of the Exchequer, who knows that a period of dear money means a considerable burden to the Treasury in regard to interest on the Floating Debt, may not be able to form so impartial a judgment as it is desirable that he should be able to form.

9222. And that directly in connection with the Floating Debt?—Yes. The effect of dear money is to put up the charge to the Treasury for the Floating Debt, and this is a very serious item, of course, on the present very large amount of Treasury Bills.

9223. Have you formed any idea as to what ultimately will be the proper amount of Floating Debt to maintain?—No. I should proceed experimentally. As I have said, I am not at the present moment impressed by any actual and immediate danger from the present volume, but I should go on nibbling at it as opportunity offers, and ultimately perhaps cut it down to something like a quarter of the present volume; that is the sort of idea I have at present in mind. I do not attach any importance to the proportion; I should be guided by experience. I do not regard the situation as in any way urgent.

9224. Would you exclude from that estimate that part of the Floating Debt which is represented by the advances of Government Departments; would you make a distinction there?—Yes; I think that a large part of the Floating Debt held by public departments is merely State bookkeeping.

9225. A book entry?—Yes.

9226. *Sir Josiah Stamp*: We have tried to get some lead from witnesses as to what they think is the true proportion of money that should be held in this form, and we get this curious paradox: the idea of convenience is that when there is a time of depression and not much money is wanted, the market for Treasury Bills is easy, and when the market is greedy for money, then the Treasury have rather a job to get their renewals and have to pay a high rate. Supposing that the total held between commerce and the Treasury is held 50-50, and that the difference between boom and depression in commerce is 5 per cent. either way—45-55—you throw the strain of that difference of 10 entirely on the Treasury Bills; whereas if the Treasury Bills only form 10 per cent. of the total, to take an extreme case, and you have a 5 per cent. fluctuation on the remaining 90 per cent., you are throwing nine upon 10, and the strain on a small Treasury Bill issue is enormous. Therefore, the argument is that it is better for the Treasury and less strain on them if they have a large quantity, because they have more on which to take up the commercial slack. I do not know whether I have made the point clear. Do you think that with a very large holding in commercial hands and a very small holding in Treasury Bills, and with any big fluctuation on the commercial side all thrown on to that very narrow margin of Treasury Bills, that the rates are likely to vary very much more than they otherwise would have done?—I should not like to express an opinion on that without some reflection. My feeling, speaking off-hand, would rather be that other elements have to be taken into account, particularly the Bank of England policy. I am not quite sure, as you put it, that it represents the whole of the problem.

9227. No, I do not suggest that it does. I put it as nearly as I could in the simplest form; that with fluctuations between 81 and 99 in commerce the brunt of bearing it is going to be thrown on to a margin of 10, and the variation between one and 19 is an enormous fluctuation. This is the argument against having a small holding in Treasury Bills in the

money market. It all proceeds from this suggestion that it is a convenience to industry that there should be a large holding of Treasury Bills?—Well, I remain a little sceptical about that. I should not like to try to reply to the point you put to me without a certain amount of previous reflection. (*Paragraphs* **8** *to* **10** *read.*)

9228. *Sir Charles Addis*: It has been put to us more than once that taxation for the repayment of debt really means a transfer from the poorer classes to the richer. How would you contrast that view with the view which I think you have expressed yourself that the rich pay their own interest?—Well, of course, it depends entirely on the character of taxation. If you could imagine the whole of the Sinking Fund being raised by the Super-tax, that would involve to some extent a transfer from the wealthier classes to the poorer classes, because there are a very large number of bondholders who are not Super-tax payers.

9229. Would it be fair to say that as things are at present the existence of the debt does mean that the poor are taxed more heavily than they otherwise would be?—Well, the proceeds of Income Tax and Super-tax are, I believe, sufficient to provide for the whole service of the debt, with something over. If you regard a part of the Income Tax and Super-tax as earmarked to the service of the debt, then you get a pretty complete taxation system, so to speak, apart from it. At the same time, if you got rid of the debt and a corresponding amount of Super-tax and Income Tax, no doubt people would come to the conclusion that on the remainder of our fiscal system the poor were rather overtaxed, and indirect taxation might be diminished and direct taxation increased; so that I do not think it is fair to say that the whole debt service is provided by the wealthier classes. The question really merges itself into that of the comparative incidence of taxation as between classes which involves ideas of political justice and so on, on which I have no special competence to express an opinion.

9230. Are we to infer from your statement, then, that you are in favour of maintaining taxation, or of increasing it, if necessary, in order to maintain the debt charge at its present figure?—I should certainly keep the debt charge at its present figure almost at all costs.

9231. *Professor Hall*: I wonder if you would explain the last sentence in paragraph **8**: "The process could with advantage be carried further to the relief of the rewards of personal exertion and new enterprise"?—I come on to that a little later in paragraph **20.**

9232. You have nothing to add to what is in paragraph **20**?—I shall be happy to answer any questions I can. I might say at this stage that, of course, I cannot pretend to be an expert in the machinery of taxation at all; I have a certain amount of Treasury experience, but I have no Inland Revenue experience; and when it comes to questions such as further differentiation of the Income Tax and so on, my opinion on the practical administrative questions involved is only the opinion of the man in the street. (*Paragraph* **11** *read.*)

9233. *Sir Josiah Stamp*: Can you tell us more closely what you mean by revising Income Tax and Super-tax so as more nearly to reflect current income?—I was thinking of the old question of the three years' average; that you might, so to speak, get your assessments closer to the actual. I appreciate the difficulty from a technical point of view.

9234. You realise that that would make bigger fluctuations of tax revenue?—Yes. (*Paragraph* **13** *read.*)

9235. *Sir Charles Addis*: Even though taxation for the debt charge is mainly a transfer of purchasing power, it remains true that the *rate* of taxation is higher than it would otherwise have been and to that extent may deter enterprise?—I was addressing my mind now to this question: people say that because we are spending so much money on the debt we have less money to spend on other purposes. I do not believe that myself. I do not believe that the money we spend on the debt really reduces our spending power on other purposes, except psychologically. I think that the ordinary man in the street says: "This burden of taxation is appalling; we must insist on economy all round." My own view is that to some extent this is a fallacy, but I think it is a very useful fallacy, because I want to have economy all round.

9236. *Chairman*: Do you feel uneasy about the size of the National Debt?—Yes, certainly. I would very much rather it was smaller.

9237. *Chairman*: Mr. McKenna in his evidence did not seem to be perturbed by it. *Sir Charles Addis*: He had the idea that one got accustomed to it.—*Witness*: I think the main danger of the size of the debt is again psychological. I mean that if by any misfortune, which Heaven forbid, we should be forced into a state of war again, I think our power to borrow for a war would be very seriously prejudiced by the existing volume of the debt.

9238. *Sir Josiah Stamp*: That is the chief argument, is it not?—I think so. (*Paragraph* **14** *read.*)

9239. *Sir Charles Addis*: Arising on that paragraph, would you attach importance to the repayment of debt now rather than at a time when prices may be lower?—I think so—if repaying debt at a time of low prices means a greater sacrifice, in so far as it is a sacrifice, on the part of the taxpayer, than repaying debt at high prices. If we were certain that prices will fall, that might be an argument for a special immediate effort, but I do not think the future course of prices can be foreseen with sufficient certainty to base any practical policy of debt redemption on the prophecy. (*Paragraphs* **15** *and* **16** *read.*)

9240. *Professor Hall*: Are you thinking there of changes in personal habits, that people are less thrifty and spending more personally?—Yes, in all classes

9241. *Sir Charles Addis*: Have you formed any estimate as to the amount of the national saving now? Mr. Coates, who was here, gave us £500,000,000?—Yes. On another Committee of which I was a member recently—Sir Josiah Stamp was a colleague of mine—we had to go into that question, and all the members of that Committee were unanimous in adopting a figure of something like £450,000,000 to £500,000,000 as a working hypothesis. I do not think it is a subject on which you can dogmatise with any accuracy.

9242. *Sir Josiah Stamp*: In contrast to the equivalent of the pre-war figure which would be somewhere between £650,000,000 and £700,000,000—that is to say, if we were saving as much per head as before the War, and making allowance for the price level—it was thought we were saving in the neighbourhood of £450,000,000 to £500,000,000. *Sir Charles Addis*: Had that £650,000,000 relation to the increase of population? *Sir Josiah Stamp*: Yes, it was the savings per head. *Sir Charles Addis*: It is in reality roughly two-thirds then? *Mr. Bell*: I thought the estimated amount had been brought down to something like £200,000,000 since the War. *Sir Josiah Stamp*: There were low estimates soon after the War, and before I had addressed my mind to it I should have said £300,000,000 to £350,000,000 and it is only in the light of discussion that it has gone up to £450,000,000. I do not think myself that it is higher than £450,000,000, even after hearing Mr. Coates. *Witness*: I think Sir Josiah would agree that however accurate or inaccurate this figure may be as an estimate for the moment, it applies only to the moment, and in the event of a trade revival and increase of production the margin of saving would increase very rapidly. (*Paragraphs* **17** *to* **19** *read.*)

I use the word "rente" to include economic rent of land, interest on the public debt, and all kinds of return on fixed investment of existing capital.

9243. (Including preference shares?—Well, preference shares, I think, are rather intermediate between debentures and ordinary capital. In so far as dividends both on preference and on ordinary shares represent interest on capital already sunk in industry they would come under my definition. (*Paragraph* 20 *read.*)

9244. On the question of depreciation, would you allow for the life of an asset more than 100 per cent. of its cost?—Would you explain that further?

9245. At the present time, whatever rates of depreciation you have over the life of an asset, it is getting 100 per cent. You may quarrel as to the rate at which it is got at in the beginning or the latter part of its history, but supposing you had had higher rates of depreciation for the last 20 years, there would be a lot of machinery which would not be getting that rate, because it would be written off. If you take obsolescence allowance and depreciation allowance together, you are getting for the life of the plant the whole value of that plant. Can you show us any way in which in the long run the taxpayer's position would be improved by having a higher rate?—I cannot pretend to be an expert in Income Tax law—of course, Sir Josiah Stamp knows it very much better than I do—but I imagine there are cases at any rate in which the rates of depreciation allowed for Income Tax during a certain series of years are less than the depreciation which an ordinary prudent commercial man would charge to his profits.

9246. It is open to considerable argument whether you ought not to allow at higher rates at the beginning of the life of an asset to keep pace with its real value; but in the long run, as a big business has assets of all different ages—its assets for which the deficiency allowance is being given in the year X and its assets for which an excessive allowance is being given in that same year, because of the deficiency allowance in earlier years—the total allowances for the year X would not be different whatever your rates of depreciation were in a continuing business?—I speak subject to Sir Josiah Stamp's superior knowledge of Income Tax, but if the present allowances for depreciation are commercially adequate, that is to say, really represent the amount which a prudently managed business ought to retain from its profits and not distribute to its shareholders, assuming it is not extending its business, of course, then I think that point has been adequately dealt with.

9247. It might be demonstrated with great success that on a particular machine that is not the case, but if the old and the new assets are looked at together, it could equally well be demonstrated, having regard to the obsolescence allowance, that the total allowance is all that can be allowed, because it eventually wipes out the whole plant?—Speaking offhand, I cannot see any reason in that case for allowing more than 100 per cent. of the value. Of course, there may be cases where the value, say, is a pre-War value, and the present value is a post-War value.

9248. The question of renewing at a higher rate is a question of whether you are introducing new capital or not?—Yes.

9249. *Mr. Hichens*: But nothing is allowed in the case of buildings. *Sir Josiah Stamp*: There is an allowance in the case of buildings. *Mr. Hichens*: But a very small one, and sometimes none at all. *Sir Josiah Stamp*: I was not dealing with the question of buildings. *Mr. Hichens*: But buildings are equally important, and I think deserve consideration as much as plant really. It appears to be the case that whilst it is a principle of the Board of Inland Revenue that plant should be amortised, buildings on the other hand are regarded as in some mysterious way a part of your capital, and therefore need not be depreciated at all; is that reasonable? *Sir Josiah Stamp*: That is rather linked up to the question of wasting assets too. I would like to ask Lord Bradbury whether he would dissent from the recommendations of the Royal Commission on the subject of wasting assets, if he remembers them?—*Witness*: I am afraid I do not remember them at all well, and I do not think I had better waste the time of the Committee with any amateurish analysis of the technicalities of Income Tax application, because I cannot pretend to be an expert on that subject. I was merely here dealing with general principles.

9250. Yes; the encouragement of new enterprise, and so on?—Yes. What I wanted to do was to encourage people who know the technicalities better to try and make the Income Tax more perfect in the sense of being a tax on real income. *Sir Josiah Stamp*: I think Lord Colwyn will agree with me that if the recommendations of the Royal Commission were carried out, then the Income Tax would be nearly perfect. *Mr. Hichens*: Not as regards buildings even yet.

9251. *Mr. Bell*: I would like to explore this question of what is called earned income. How would you deal with a pensioner of 70, who had retired and after a long series of years of hard work had got a pension?—Of course, I was using "earned income" here rather in the economic sense, that is to say, the direct earnings of current personal exertion. In that sense a pension is not earned income, but is a species of rente. There will, no doubt, be all sorts of moral considerations for giving a special consideration to the pensioner. As a matter of practical politics I do not at all object to treating a pension as earned income, but the point I had in view here was that I wanted to relieve current personal exertion. A pension is, after all, a means of investing your savings, no doubt, through your employer.

9252. Take the case, which is more definite still, of a man who has lived hardly and saved enough for his old age, and has bought enough railway debentures to secure himself a living allowance of £250 a year: it is proposed to call him a rentier and tax him something more than he has been taxed formerly?—I certainly regard him economically as a rentier. Again, I would not be in favour of taxing him at the same rate as other rentiers, but that is a moral and political consideration, rather than an economic one.

9253. You would adjust the claims of people of that sort?—Yes. I think in all matters of taxation you have to have regard to political and moral considerations. I left them out of account rather, because I was approaching this from the point of view of high and dry economics. With regard to things like pensions, and so on—I speak subject to correction—I imagine the total amount is comparatively insignificant.

9254. It seems to me so hard upon a man, an earner on his 69th birthday, the next morning to call him a rentier at 70?—If he has retired from active participation in industry his character has changed. Of course, there is this qualification, in so far as the pension is a deferred remuneration for his actual services, then I think he is entitled to the earned income rate upon it. Indeed, if you wanted a theoretically perfect system of taxation, I suppose you would have to reopen his assessments for the years in which he ought to have got it, or assess him during those years, on the value of his pension rights, and then exempt the corresponding portion of his pension and treat as unearned the portion representing accumulated interest; but in practice you cannot go into those niceties.

9255. *Sir Josiah Stamp*: Would you not tempt the servant rather to come and say: "What will you give me for my services?"—"I will give you £900 a year and a pension when you leave." "I would rather have £1,000 a year and provide my own pension, because I shall get the earned income allowance." If a pension is deferred pay, it is earned income, and you cannot, by altering the particular period when it is paid, alter its character?—That is true, of course. Take the simplest case of the pension which is given by the

employer as part of the contract of service. There is no doubt that part of that pension represents actual earnings that have not been paid, so to speak, at the proper time when they were earned; that is entitled to every concession that you make to earned income. Another part of it represents the accumulation of compound interest, which belongs to my category of rente. You cannot treat the thing scientifically; therefore, you have to take some rough and ready method. Probably the best method is to treat the whole pension as earned income at the time when it is received.

9256. As far as it is rente it is interest built up at compound interest into capital, and it ceases at his death?—Yes.

9257. Therefore there is the wasting element?—Yes.

9258. It seems to me almost as broad as it is long—allowing earned income on one section and wasting asset on another; you might just as well allow earned income on the whole?—I do not suggest that the pension should be treated as other than earned income as a matter of practical politics.

9259. *Professor Hall*: But he does, as a matter of fact, get an allowance during the time that amount is transferred to the Pension Fund. If the Pension Scheme is approved he is allowed to deduct from his salary the amount paid to the Pension Fund from his salary, and he only pays on it once.—*Sir Josiah Stamp*: Yes, in the case of a contributory fund.—*Professor Hall*: And the other can be considered as being in the same category, surely; instead of his receiving, say, £500 a year, he is willing to accept £450 and a pension of the equivalent of £50 a year. I take it Mr. Bell's point is that he does not get an allowance for the £50 in the same way as the man who is a member of a contributory fund.—*Sir Josiah Stamp*: In one case he is merely showing a gross salary less a deduction. In the case of a civil servant all you see is the net salary, and in the case of an industrial official with a contributory fund you see the gross and the net. He is charged with net either way.—*Witness*: With the graduated Income Tax probably the pensioner scores to some extent, because he has a lower salary and so attracts a lower rate of tax during his active service, yet the pension is not sufficient to bring him to a high rate of tax after he has retired. I do not suggest making any alteration in the treatment of pensions. I think as practical politics it is quite proper to treat them as earned income.

9260. *Professor Hall*: I would like to ask a question as to the nature of the allowance you suggest for new capital invested in business; what form of allowance have you in mind there?—I think something in the form of a definite abatement from the tax; whether it should be a lower rate of tax on that part of the profits which is apportioned to the new capital invested, or even an exemption altogether, is, of course, a matter for consideration.

9261. *Sir Josiah Stamp*: In the year in which it is put in? How long would it remain new capital?—Oh, for ever, according to my notions.

9262. Is that practicable, do you think? Think of 20 years ahead. You are really stereotyping the tax at a higher rate upon existing capital?—Yes, certainly; that is what I am aiming at. I want to take a large part of the Income Tax definitely on the yield of wealth existing at the present time. It is really a substitute for the Capital Levy. It is trying to work the idea of the Capital Levy through the Income Tax.

9263. I suppose you have not explored the practical difficulties—I mean the actual accountancy difficulties?—I think they are very great, just as they are with the Capital Levy. I do not think they are greater than the Capital Levy; I think they are probably equal in that respect.

9264. Do you regard as new capital the money turned in from profits to provide renewals for old capital that is going out?—I think logically I must, because I think it is as necessary to make concessions to what I call liquid capital as to new capital.

9265. And in 20 years' time there will be none of this old capital left?—Probably comparatively little. I would not apply this to the whole of the Income Tax, but only to that portion of it which is regarded as earmarked to the payment of interest on the public debt.

9266. The renewal of plant over 20 years would gradually make that plant new capital?—Yes.

9267. But the renewal of stock year by year would not?—No, except in so far as you have treated stock as liquid capital. I suppose it is not liquid capital in most businesses.

9268. Then you have a large intermediate stock which partly enters into both?—I admit the technical difficulties are enormous. Whether you might not meet some of those points by giving special preferential rates of tax to different businesses according to the character of the business, and so on, I do not know, but the whole idea, of course, requires very careful technical exploration.

9269. *Chairman*: Have you ever had that suggestion before you, Sir Josiah?—*Sir Josiah Stamp*: Oh, yes. *Witness*: The problems, and I think Sir Josiah will agree with me, are precisely the same as the problems raised in the Capital Levy.

9270. They are very similar, but they are more analogous to the differential allowance for companies' reserves. We have had those before us, and we have explored them; they were put up to us by the accountants and then dropped on the practical question?—Yes.

9271. *Mr. Hichens*: On this question of reliefs, would you be prepared to grant a relief of Stamp Duty in respect of amalgamations as was done, you remember, in the case of the railways? It is urged by many people that, for example, in the coal industry—I do not profess to know with what truth—amalgamations would be of advantage to the industry as a whole. It is also suggested that amalgamations on a big scale are made appreciably more difficult owing to the Stamp Duties which on a big amalgamation are very high?—Yes. I really do not know enough about the details and technicalities of Stamp Duties to express an opinion of any value. Generally speaking, of course, I should be anxious to get rid of Stamp Duties even at the expense of increasing the more staple taxes.

9272. It was done in the case of the railways, you remember?—Yes.

9273. I was wondering whether you would see any objection—I do not mean in detail, but more as a matter of principle—to extending the same right to any other form of amalgamation. (*Paragraphs* 21 *to* 33 *read.*)

9274. *Mr. Bell*: Might I stop you there and point out this to you: if I have £10,000 of War Loan which I am accustomed to use in my business as and when I require it for raising credit and there is a Capital Levy and I hand over that actual £10,000 of War Loan, surely that would affect the potential supply of credit so far as I was concerned; I would no longer be able to get credit upon it?—No, that is perfectly true.

9275. Where it is tendered in that particular way that would be so, but would you hold to this: I have given one case where a levy might affect the potential supply of credit——?—Yes, I certainly think so, but I think in the whole system of things there would be a corresponding amount of credit which would become available for someone else.

9276. There would not be in that particular case; that would be a mere tearing up of my security, and it would disappear?—Yes, but the whole volume of Income Tax payers would be relieved of the corresponding Income Tax.

9277. *Professor Hall*: Your point is that somebody else has it though that individual loses it?—Mr. Bell takes the case of the actual taxpayer who surrenders War Loan for the levy. Of course, to that extent an existing security is destroyed and

an existing potential basis for credit disappears. On the other hand, the banker who would have lent money to Mr. Bell on his War Loan has that money to lend; he has that lending capacity, and as Mr. Bell is not a potential borrower he can lend it to some other customer who can give him security for it.

9278. That is the potential supply of credit but it is not the potential borrower of credit?—I have admitted that the general dislocation might result in a diminution in the demand for credit.

9279. I should like to ask if in paragraph 31 you attach importance to the amount of the Capital Levy. Would you think, for example, that the £1,000,000,000 levy that has been suggested by some witnesses comes under the ban in paragraph 31?—I should have thought yes, undoubtedly—anything like that amount. If I were an advocate of the Capital Levy I should say, "By all means have a big one." I should have thought it was not worth doing at all unless you could get rid of something like two-thirds of the internal debt by that means.

9280. It is impracticable in any case, whatever the amount is?—I think a little Capital Levy would be open to nearly all the objections of a large Capital Levy, and not have as much advantages as would attach to a large Capital Levy.

9281. It was suggested that it would not have the same effect in dislocating business as a large Capital Levy would have; it would not take as much away from a man, and therefore he might have a surplus available for payment?—That is true. To take Mr. Bell's case, if you took only one-third of the man's War Loan instead of the whole of it, he would have the other two-thirds left to borrow on.

9282. You do not attach very much importance to that difference between £1,000,000,000 and £3,000,000,000 or £5,000,000,000?—I should have thought the disturbing effect of a levy of £1,000,000,000 would be perhaps not as great as a levy of £3,000,000,000 but still very considerable. My objections would apply, I think, to a levy of £1,000,000,000 almost equally as to a levy of £3,000,000,000.

9283. *Mr. Bell*: If you are going to do it at all, in fact, you had better do it for some substantial sum?—Yes. Of course, obviously if you had a Capital Levy it is not an expedient to be repeated, at any rate at frequent intervals. Unless you are going to get rid of most of the burden of your internal debt by it, it seems to me that the game is not worth the candle.

9284. Your general answer is that it is preferable to use the existing machinery of Income Tax and Super-tax for any debt reduction that you wish to effect rather than have a Capital Levy?—Yes.

9285. *Chairman*: Have you gone into the figures of the real saving to the country afforded by a Capital Levy of, say, £3,000,000,000? Originally it was suggested that there would be a saving of £150,000,000 by a Capital Levy of £3,000,000,000. Then upon further examination that was reduced to a saving of about £50,000,000?—Yes. Of course that raises all sorts of abstruse problems. The fact of a large part of the national income being interest on Government debt really to my mind makes the apparent burden of the Income Tax very much less than the real burden, and probably if you got rid of the debt by a Capital Levy and cancelled all that fictitious national income, you would have to have a higher rate of tax. On the real income I do not think the burden of taxation would be increased, but, of course, the apparent rate of taxation would be increased and the discontent of the taxpayer, who at present has his real burden camouflaged by the fact that he is paying on paper income as well as real—speaking of the taxpayers as a whole—would disappear. I do not for a moment think that the interest paid on the debt is a part of the national income of the country, or is really, except on paper, a source from which revenue can be derived.

9286. Is it a national burden on the country?—No, I think not.

9287. That is the main contention?—I think it is neither a national burden nor a national advantage. (*Paragraphs* 34 *and* 35 *read.*)

We are very much obliged to you for your evidence, Lord Bradbury.

(*The Witness withdrew.*)

(*Adjourned to To-mororw.*)

THIRTY-FOURTH DAY.

Thursday, 3rd December, 1925.

PRESENT:

MR. W. L. HICHENS, *in the Chair*,
SIR CHARLES ADDIS, K.C.M.G.,
SIR ALAN G. ANDERSON, K.B.E.,
MRS. BARBARA WOOTTON.
MR. G. R. HAMILTON, *Secretary*,
MR. G. ISMAY, *Assistant Secretary*.

Mr. W. H. COATES, LL.B., B.Sc., recalled and further examined.

(The Evidence-in-chief handed in by Mr. Coates will be found on page 636 *et seq.*)

9288. *Mr. Hichens*: We had reached the end of paragraph 18 of your paper when we adjourned on Tuesday. But as Sir Alan Anderson was unable to be present then, I suggest that he should first of all put any questions he may wish on the earlier part of the paper.

9289. *Sir Alan Anderson*: I have read your paper with very great interest, Mr. Coates, and almost all your arguments appeal to me. But what does not appeal to me is the point at which you start; I think that is the real difference. About the effect of Income Tax on prices I reach a different conclusion, and I think that is the reason; but I would like, if I might, to ask you some questions to see whether I have correctly understood where we differ, because we certainly do differ about the result. In the first place, if the Income Tax casts a direct burden on a firm, you would agree that it would put up its prices?—It is the whole object of my paper to differ from that point of view.

9290. I know, but if any part of the Income Tax has to be borne by the firm you would agree that to that extent the prices would rise?—Am I quite clear as to what you mean by a direct burden? Do you mean that occasionally the tax is not entirely a direct tax falling upon the firm?

9291. What I mean is Income Tax paid by the employees on their salaries—the Income Tax paid by the people employed by a firm?—I regard that as part of the salary, and as part of the salary it must be a cost of the firm.

9292. And if the fact that Mr. Smith, employed by the firm, has to pay Income Tax, causes the firm to pay Mr. Smith a higher salary, then that would tend to put up the costs of the firm?—If that were indeed so it would tend to put up the costs of that firm, but I dissent from the view that the tax tends to put up the cost of his salary, and even if it did I still dissent from the view that that would affect the price of the product that that firm was dealing in.

9293. Shall we take it in two bits: first of all whether the fact that Mr. Smith has to pay away part of his salary in Income Tax puts up his salary. Are you aware that a large number of mercantile houses pay net salaries, paying the Income Tax themselves?—Yes, I am aware of that fact, and I am also aware, on the other hand, that the practice is confined largely to banks and a few other houses. Taken by and large it relates to a comparatively small part of the salary area.

9294. Are you aware that practically all the people who employ clerical labour study the rates paid by the others, and that, whatever the form of payment may be, they try to relate their net reward to their staff to the net reward of everybody else?—Yes, I imagine that is so.

9295. And that when one concern sees that its neighbours are paying their staff net, while they may not follow their plan—they may think it is bad to pay the Income Tax—they add on to the gross amount something, so that the net amount to the employee corresponds with the net amount paid by the other firm?—I think this practice, so far as it exists, must be very severely localised. I have not met outside London any cases of firms of magnitude who bear the Income Tax on the salaries of their employees. I am speaking now from my own personal experience in dealing with these matters. At the same time I should doubt also whether the knowledge of that practice is very widely diffused; that is to say, if you inquired in Sheffield or Middlesbrough as to the extent to which that practice existed in London or in Cardiff you would be met largely by ignorance.

9296. The practice of paying Income Tax for the employees, you mean?—Yes.

9297. I am not saying it is a good practice at all, and I am not saying it is widely diffused?—Or the knowledge of it.

9298. Or the knowledge of it, and I do not care about that. What I am saying is that all mercantile firms endeavour to pay approximately in relation to one another whatever form the payment takes?—I should not regard it as the dominating principle that you judge the rate of payment of your employees by what other people are paying theirs. I should accept it as a factor in the matter, but not as the guiding principle.

9299. You would not regard that as the dominating principle?—Not as the dominant factor.

9300. We differ. I regard that as one of the dominant factors?—I should regard as a dominant factor their endeavour to get the ability they require at the lowest cost.

9301. The ability they require and satisfaction in the mind of the employee?—Yes.

9302. Do you think they can get that by paying something less than their neighbours?—Yes, if the area in which the other remuneration is being paid is of a very limited extent.

9303. Do you think the clearing banks who pay the net sum are deliberately paying more than they need pay?—Yes. When I say deliberately paying more than they need pay; in one sense, yes, but only in the sense that those contracts and arrangements and practices grew up long before the War, without any foresight, or, I should imagine, any thought whatsoever of the increase in the rates of tax which would come about through the War. They were in force, to my experience, as early as 21 years ago, and probably before.

9304. Those particular clerks are getting very much higher salaries than their employers need pay?—Not necessarily; because being bound by that contract and no doubt wishing to honour it, as they have done, I believe these employers may have applied factors working in a contrary direction in determining what increases they would give to their staff when they were moved, or when they came up to a different rank, or in weighing the amount of the increases which have to be made for the changes in the cost of living, or in any other way. It is, I believe, the habit of banks when they move a manager, say, from one branch to another to consider quite by itself what his new salary shall be, having regard, of course, to what he has been getting; and it is perfectly feasible, in making such changes, to apply correcting factors. It may result that either the remuneration they are paying to-day has been brought back to a reasonable level compared with other spheres—because this principle works both ways; it works not only by the industrial concerns seeing what is being paid by the banks, but also it works by the banks seeing what is being paid by the industrial concerns—or, on the other hand, it may conceivably have left them a little on the high side. That could only be tested by a real investigation on a statistical basis of the line of distribution of salaries in comparison with that of other industries, modified by a judgment which it would be very hard to form as to the relative nature of the tasks carried out by the employee.

9305. You do not think the employer regards the net need of the employed person?—I do not think it is possible with an Income Tax of the description which we have to-day. This point, if I may mention it, came up incidentally in the course of my previous examination. If the employer considered that, he would have need to alter his employee's salary if he increased his life assurance, if he had an increase of his family, or if he became a widower.

9306. I do not suggest that the employer goes into details of that sort. He would take simply a rough and ready amount that he reckons the employee has to pay in Income Tax; and I can tell you, in answer to your argument, that I have to deal with salaries in several pretty large concerns, and they all of them look at what they believe to be the net requirement of the employed person.—Do they take into account his other income?

9307. No.—Is not that a very large factor?

9308. They assume that he has no other income and they assume the varying stages in his career: That he is married and has got two children or something of that sort. They take a very rough average shot at his requirements, and they also assume his needs for sending the children to school, and that sort of thing; and what he has to pay away in Income Tax is undoubtedly one of the factors in their minds in fixing salaries.—Even on that basis I would suggest that they would make that comparison relative to other employers on the same basis.

9309. And they are all doing it?—The fact that you pay the tax for the man does not make the least difference.

9310. Not the least, I agree; they are all exactly the same; that is my point. If the tax was suddenly taken off and the man got 4s. in the £ more, or whatever it is, the employers would all seek to reduce the wage they paid the men.—All I can say about that is that it seems to me that a similar course of affairs would apply if industry were in a less prosperous

condition compared with a more prosperous condition, and that having handled the relevant statistics during the whole period, and the very prosperous period, of 1919 and 1920, and the subsequent severe depression, I have found no evidence of any such movement.

9311. I am afraid I do not follow that?—I should have expected, on the line of reasoning which you are explaining to me, that the state of industry and the movements of the price level in particular would have had a very great effect in changing the rates of remuneration paid to salaried employees.

9312. Why?—Because the employer, on the thesis you are outlining, takes account of the net requirements of his employee. When the cost of living falls, then the requirements of his employee in money are considerably less, because he can get so many more sacks of potatoes or loaves of bread, and so on, for the same money. But my actual experience contradicts the view that that takes place or that it did take place.

9313. Mine does not; mine agrees with it—that practically every employer put up the pay of his clerk when prices rose, and was forced to do so.—But when prices fell the salary did not fall relatively.

9314. No, and the fall has never come relatively.—That is to say, he did not take full account of the net amount relatively.

9315. No, I agree.—He is prepared to vary his principle.

9316. What the employer does undoubtedly is to reduce the rises he would otherwise give?—Exactly; that is what I suggested happened in the case of the banks when they found that the contract they had with their employees was operating, in a period of exceptional taxation, to give an advantage to them and throw on to the banks a burden of national taxation which it was intended employees should bear.

9317. *Sir Alan Anderson*: I do not think I need go on with that point. I am perfectly clear in my own mind that the Income Tax paid by the employee does increase the wage paid by the firm but quite clearly you do not assent to that. *Mr. Hichens*: Having got to that stage, do you not want to carry it a stage further?—(*Witness*): Yes, it needs to be carried much further. *Mr. Hichens*: And inquire, assuming that the firm does bear the Income Tax or does increase salaries when Income Tax goes up, whether that will have any effect upon the price which the firm gets. That is the point.

9318. *Sir Alan Anderson*: On that assumption Income Tax becomes one of the costs of the firm; and the question is whether that direct cost to the firm will put up the price that will be charged for the commodity. That is one of the things we have to consider; but let us leave that on one side for the moment. The other point on which I do not accept your final result, because I do not accept your premisses, is about the Income Tax paid by the firm itself having no effect on the price that the firm can charge for its articles. What I suggest to you is that what brings about new enterprise is the net reward that the enterprising person expects to get; it must be net reward?—Yes.

9319. And in arriving at the net reward he charges the rent for the capital and the risk that he is running in his adventurous business and the pay he wins for his own energy and so on; and I submit he also charges, or has in his mind, the amount that he will have to pay away to the State when he succeeds, in the form of Income Tax. So I suggest that Income Tax undoubtedly raises the figure of temptation which is needed before a new enterprise will start?—I do not accept that view, because to-day the preponderant part of enterprise in this country is carried on by corporate bodies, limited liability companies. That system, of course, spreads risks and has a very great flexibility in the manner in which it can do so. If an opportunity is seen of earning a profit which will cover the normal risks and the earnings of management—the salaries of directors and staff and so on—and pay a reasonable return upon the capital—that is to say, having eliminated the risks, the gilt-edged return—then I think those whose business it is to promote companies or to form new companies as subsidiaries, or otherwise to undertake new business, will undertake it. If they are satisfied as a fact that they can pay, after providing for the normal risk of the enterprise, the normal rate of return, or the rate of pure interest, then they will not be influenced by the rate of tax; because wherever you put your money, if you are a resident in the United Kingdom you have still got the tax to meet. You may put it into Consols, you will bear the tax; you may put it into house property, you will bear the tax; you may put it into Ecuador, you will bear the tax. People carrying on an enterprise know quite well that if they can present a balance sheet and profit and loss accounts to their shareholders at the end of the year with a dividend which covers the normal risk and includes the normal rate of interest, the fact that Income Tax will be deducted from that dividend will not have an influence leading those shareholders to condemn the directors; and indeed the directors do not know how much of the tax which the company has paid and which it recovers from its shareholders, will ultimately reach the Revenue. It may be that every single one of those shareholders has an income which does not subject him to liability to Income Tax. The Company in paying the money deducts tax from the shareholder, who then presents the particulars of his total income to the Revenue and recovers the whole of the tax. You may have side by side competing with one another two companies, in one of which all the shareholders are exempt, and, in the other, all the shareholders are liable to some rate or other of Super-tax. It was within my knowledge when the Excess Profits Duty, which is a similar direct kind of tax, was in force, that there were two competitors whose establishments were within a stone's throw of one another; one of them was paying large amounts of Excess Profits Duty, the other was paying none, but you could see no difference in the marked prices in their windows.

9320. Of course you could not; that is perfectly obvious. Supposing we keep to the simple case of the person who is investing his own money, because, after all, if we assume he has to go to someone else to get that other person's money or to a number of people to get their money, it surely is merely complicating the same problem. The simplest problem is the case of the man who has his own money to invest in a business. I submit to you that he must look at the net reward that he will get for that money?—The net reward from that business as compared with some other method.

9321. As compared with what he would get for his money in gilt-edged investments?—Quite, the tax being charged in both cases.

9322. In gilt-edged investments you will have noticed that the reward has gone up since the War almost exactly by the amount of the increase in the Income Tax, I believe. Have you noticed that?—The rate of interest has changed.

9323. The net reward to the investor in gilt-edged investments has, it so happens, gone up so that he gets as much now as he would before the War?—In terms of money?

9324. In terms of money?—Not in terms of commodities?

9325. No, not in terms of commodities, but in terms of money; his Income Tax is paid additional to the interest. I do not know whether that is a proof of what I am saying: it just happens to be so.—I think when you turn it into terms of commodities it loses its whole point.

9326. I quite agree we have all got to pay?—It loses its point, because the real return is how much bread you can buy.

9327. That merely shows that we all have to pay; we have squandered our money and we all have to bear the burden. The question is whether it is

possible for Parliament to put the whole of the burden on to A. or B. or C. It so happens that in these gilt-edged investments the net reward after paying the Income Tax, to the person who owns £200,000, is to-day the same as it was pre-war?—May I just refer to the figures which I think I have here. In 1913 the net yield of the average price of Consols after deducting tax was £3 3s 11d.; in 1924 it was £3 7s. 11d. That is to say, it was more. In 1923, when the rate of tax was higher than it was in 1924, the net yield was lower; it was £3 5s.8d.

9328. *Mrs Wootton*: Taking off the tax at the standard rate?—Taking off the tax at the standard rate. At what other rate can I take it off?

9329. *Sir Alan Anderson*: Would you give those figures again?—In 1913 the net yield of Consols was £3 3s. 11d.; that was when the tax was 1s. 2d. When the tax was 4s. 6d., in 1924, it was £3 7s. 11d. In 1923, when the rate of tax was higher, it was £3 5s. 8d.

9330. That I think bears out pretty well what I was saying. Of course I am not pretending that the exact rent for the money varies quickly or immediately as the Income Tax, but it does so happen the net reward now is about the same as it was before.—If we depart from the particular figures of a few years like that and just look, as I have looked in this paper, at the comparison between the gross yield of Consols over 100 years, with the movement of wholesale prices as published by "The Statist" (and Sauerbeck), you will find that they move almost together despite the changes in the rate of Income Tax. If, on the other hand, you compare from 1885 up to 1913 the movement of "The Statist" index of prices with the movement of the rate of Income Tax, it is impossible to find any close correlation at all. I am dealing with this of course statistically by methods which have been well tried out for proving whether there is a relationship between two factors, that is to say, whether they move up together and down together; or whether there is inverse correlation, i.e., that when one moves up the other moves down.

9331. It so happens—it may be an accident but it does so happen—that the net yield from gilt-edged investments has gone up so that it leaves the man in the same position after he has paid his Income Tax now as he was in pre-war.—I would respectfully dissent from that and say that is not the fact.

9332. I had the figures taken out about three weeks ago?—I am prepared to give you the average price of Consols as published in the "Bankers' Magazine."

9333. I thought you gave it to me higher in 1924 than in 1913?—That is the net return, the net yield of Consols. When the rate of tax went down the rate of yield went up.

9334. I said that the net yield to-day to the investor was as large as the net yield in 1913, and I think your figure was that it was more?—It is more.

9335. That is all I said. If the Income Tax has any effect on the price of Consols, on the rent of money, that would come into effect, would it not, in the case of the enterprising person?—He would no doubt be aware of it.

9336. Will he not require to get that net yield before he adds on the reward for his risk and his enterprise?—No, because if he could get it in business and he cannot equally get it in the rent of house property ——

9337. He can get it by investing it in Consols; that is the assumption?—He cannot get it.

9338. In determining what reward is needed to make him build a ship, let us say, he has to charge first of all a certain rent for his money, which he might invest in Consols. He could get £3 something net?—In that case he will take into account the net amount, not the gross.

9339. Exactly; I have said all along the net; he will always look at the net. That is exactly my point. Then he takes into account the net reward that he will get for the use of his money, and then he has to be paid for his risk?—Yes.

9340. Occasionally he will make a profit; on the other hand, if it is an adventurous business he will sometimes make a profit and sometimes a loss?—Would you give me an instance of what is in your mind as to what is an adventurous business?

9341. I am getting on to your marginal firms. You envisage certain marginal firms and you say, I think, that the supply governs the price and the supply is very largely affected by the marginal firms who are just on the border line of making profits?—Yes.

9342. But I think you will see certain firms that live in a sort of twilight margin all their lives, because you say that these marginal firms never pay Income Tax?—I do not think I have committed myself to that, because I am well aware of the fact that people move in and out from the margin.

9343. I think you certainly said that Income Tax could not affect the marginal firm?—No, nor indeed will it if he makes a loss or if he makes no profit.

9344. Your argument, as I understood it, was that Income Tax clearly could not affect prices, because the prices were so much ruled by these marginal firms, and Income Tax could not come into their figures, because they were marginal. That is your argument?—Yes.

9345. Now I submit to you that a marginal firm is rather like a heraldic beast, it has not any real existence. There are always certain firms on the margin, but no firm can continue indefinitely to be a marginal firm?—No, he goes bankrupt.

9346. He makes a profit some years and a loss others?—Ultimately the weakest of those marginal firms always go bankrupt, and my experience is that they normally have been in that marginal position then for a number of years.

9347. Let us look at them while they are in this marginal position. Surely their state then is that in a good year they make a profit?—No. It is inefficiency, it is not adventurousness, very often.

9348. I do not care at all what is the cause, but if a firm is able to keep its head above water for any considerable time it must in some years make profits?—No; you may very well find that a firm like that is carried on on bank loans or on the private resources of the trader.

9349. How does he get those things?—He may have acquired private resources either by inheritance or some other means.

9350. Surely it is out of some profits?—It may have been out of money left him.

9351. How can the money be made except out of profits; it must come out of profits?—It may have been bequeathed to him from abroad or anything like that.

9352. That is rather far afield?—He may have private resources not in his business; he may carry on as a marginal concern at a loss for perhaps half a dozen years.

9353. Is not the normal and obvious thing that a large number of firms are not able to make a good and steady profit; they are somewhere about the profit point and they sometimes make a profit and sometimes a loss, and your argument is that Income Tax cannot come in with those firms. Well, I say it can, because they occasionally make a profit, and when they are not making profits they have to live upon reserves, which have to come from past profits of someone, and, because there is Income Tax, that fund out of which they pay their losses is reduced and they collapse quicker than they otherwise would?—I assure you that there are marginal concerns which do exist on losses, if I may use the phrase, and remain in that state for a number of years before they do collapse. It can be proved every day. One has only to read the actual cases printed by the Board of Trade in their annual Bankruptcy Report, to pick out case after case. In addition it is possible for a concern with good prospects—take a company, for instance—to have acquired resources

from its banker, and then to come upon a period of losses, and for its banker, in the hope of saving some of his loans or perhaps the greater part of his loans, to continue to finance losses for one, two, or three years, in the hope that matters will take a turn. Those marginal concerns, in my experience, are not necessarily concerns which are going from losses to profits. But even if you eliminated entirely cases where they were consistent losses, you would still have the fact left that in any production you can carry your work to such a point that any further supplies you put on the market will so depress the price that they may give you a loss; that is to say, the principle of increasing returns in every industry in which it operates sooner or later touches the principle of decreasing returns and you pass over a stage at which your expenses for a unit of production are just about equalled by the price which supplies at that point will give. If you go beyond it you will depress the market and, your expenses remaining the same, you will make a loss. Every firm, therefore, is in that potential position. On the other hand, it is always to their interest to push their production up to the point at which they are just making a little profit. So far as they succeed in just carrying their production to the point at which there is no profit or no loss, then the same argument applies, that it is that increment of supply which is affecting total supply and which is determining the price, and in that price there is no profit.

9354. That is all entirely remote from my point, which is, that the Income Tax reduces the net reward for enterprise and therefore puts higher the temptation that is needed for enterprise to be set in motion, and that Income Tax deducts something from the profits of a firm and therefore brings the marginal firm nearer to the day when it has to put up its shutters. Those are two points, and both of them in my view definitely restrict the supply when prices fall and keep low, and definitely increase the price, because new competition does not enter or old competition does not continue unless the price gets up to a certain point.—May I put to you an international comparison? We have in this country taxation which I think runs out at about £15 a head, or something over. When the Income Tax was 6s. in the £ our taxation was at the rate of about £17 per head. Let me take it to-day. To-day it is, say, about £15 per head. I am not quite sure of the exact figure; I have not got it with me. In the United States you have taxation on a very much lower level, yet we are both on the gold standard, and when you compare the price indices of this country and America you cannot find in them any trace of that great difference in taxation. Now if your thesis were correct I should expect to find that, profits being calculated as you suggest, on the net basis, and the risk being calculated in the same way, it would give us a figure of price which was distinctly higher than that ruling in a country where the rate of taxation is distinctly lower. It is indeed impossible to reconcile the doctrine that Income Tax enters into price when you have two countries both on a gold standard with free movement between them, in which you have different levels of taxation, and the same level of wholesale price.

9355. The price, of course, as you have a world market, is the world price, obviously. You cannot get any more, and what happens, surely, is that the people working here have to submit to a lower standard of life because they are burdened by this debt; that is what I think is happening now?—Surely that overlooks the fact that when you take by taxation from the taxpayer some consuming power you do not lose it. You still spend it, and indeed of the total burden of taxation in this country to-day, with a Budget of £700,000,000 or so, you have £350,000,000 in the shape of interest and sinking fund transmitted straight away back to the taxpayer. You have also the War pensions and Old Age Pensions and the so-called "dole" transmitted straight back to individuals to be expended as consuming power. If indeed you re-drew our Budget on the assumption that the War debt was held proportionately to ability in the same manner as taxation is calculated, and if by waving some fairy wand you could cancel these two entries, one of the payment in and the other of the payment out, then, on your thesis, one would have to expect that prices would fall.

9356. I should not at all?—Because the tax would be smaller; how could prices be the same?

9357. I think I have made sufficiently clear what my point is, and you have made sufficiently clear that you do not accept it.—I am endeavouring to bring our minds into as close touch as I can. I am endeavouring to appreciate your arguments and to deal with them.

9358. I think I have made my points clear?—I understand them.

9359. Let us see how far we have got. To-day, with Income Tax at its present level, you say that certainly it does not enter into cost. Would you extend that? Supposing three-quarters of the man's profits was taken away as Income Tax. Would you still say that he would not regard the net return?—I will not deny that he regards the net return, but I say that, regarding it, he is powerless to influence the price. If he does not do that business, somebody else will.

9360. I entirely agree that he is powerless to influence the price; but he will not be set in motion unless he is offered a higher price, and in that way his indisposition to enterprise does affect prices?—This turns, then, entirely upon the reaction of people to the conjuncture, to use the German expression, in which he is working.

9361. It is part of the human brain that I think you exclude in your thesis?—That is to say, a man's actions will be influenced almost entirely by comparison with a period now ten years ago.

9362. No, not a bit, nothing to do with it.?—Very well: by the net reward, as you say, after paying taxes. But I think that overlooks the fact that human nature can change very much in the amount of the reward that it expects. In 1913, for instance, the wealth of this country, of course, was very much larger than it was in 1850; that is to say, the amount of real goods and services, which is the ultimate test of welfare, was very much larger then than it was in 1850. Now, just as human nature adjusted itself to that larger stream of wealth, so to-day in a harder time, people who are now coming into productive enterprise, the younger men, by whom these 1913 prices are almost forgotten—they were only boys when this happened—may well be prepared to work for a smaller unit of reward per unit of effort than older persons who remember quite well the good things they have lost, even as we do see to-day in Germany, I think, men are prepared to work for a smaller unit of reward for a unit of effort. As it was put, I think, by Mr. Petter, the engineer, the price of a loaf of bread in the future may very well be the number of hours a German is prepared to work to get it. The psychology of the young man is different from that of the old man, and, as I put in my Memorandum, children to-day do not think prices are high. They think they are perfectly normal.

9363. Are you answering my question?—Yes; I am putting to you that the psychological reactions may be very different.

9364. You say that if people were accustomed to a 75 per cent. Income Tax they would get so used to having only a quarter of the reward that they would not look at the net result, they would look at the gross?—I think that one must not lose sight of the fact that it would be of very great importance to know what happened to the 75 per cent. If it were levied in order to be paid straight back to the taxpayer, that is to say, to sustain a burden of interest infinitely larger than that which exists to-day, then the actual stream of commodities and services to be consumed would in the aggregate be possibly very nearly the same.

9365. You mean the reward then to enterprise would be greater?—He would get it partly in his net reward on his price and partly in the interest which he received back in the shape of his taxation.

9366. But he would get that, anyway, even if he did not go into enterprise. He would get the interest on his money that he had lent to the State, anyway, would he not? If he did not start his enterprise, he would still get that. The question is whether it will pay him, instead of investing in good investments, to go in for something rather speculative and start a new business; and my question to you is this. You have said that the taxation at its present level does not really decrease the expectation of the enterprising man, who knows that he is going to pay away one-third of his profits. I say it does. Then I ask you: do you say that it would not decrease the expectation of the enterprising man if he had to pay away two-thirds or three-quarters? Because it seems to me inevitable, if you take away enough from him, he must begin to see that it is the net reward he ought to look to to pay him for his risk and for his effort?—This man has no means; we will assume that he is a man of no means.

9367. No, I do not assume that, because he has got to put in capital?—But only with that capital—no other means.

9368. I do not mind what other means he has?—Let us assume that he has no other means, but he has just this £10,000, and he says: "Out of my profits 75 per cent. is going to be taken away; I will not put it in."—Then what does he do with it?

9369. He either invests it abroad or invests it in gilt-edged investments?—But he is in exactly the same position; he has got to pay the tax.

9370. If he is in gilt-edged securities he has not got the risks?—No, but he has got just the same small amount of income; in fact he has a less amount of income.

9371. He has a regular income; if you have your income sporadic, the good year has to pay for the bad, and the good year is reduced, we are assuming now, by 75 per cent., and therefore it has obviously to be a very good year to pay for a bad year; whereas under the present scheme he only has to pay away one-third, so that a less good year would pay for his bad year. My suggestion to you is that every increase of Income Tax very much increases the difficulty of establishing speculative enterprise?—Does not that argument overlook the fact that he has got to meet the tax in any case? The higher the rate of tax the more he will cast around for an income to meet his needs If he puts it into gilt-edged investments, he definitely sacrifices that element of profit which is known as the earnings of management, that is to say, he sits idle. If he puts it into business himself, his whole hope is that in his earnings of management and by his own efficiency as producer, even when he has borne a high rate of taxation, he will have much more left than he would have had if he merely put it into gilt-edged securities or into a foreign security.

9372. *Mr. Hichens*: Supposing a very large number of people put their money into gilt-edged securities what would be the effect?—It would increase the price of them.

9373. And bring the rate of interest down?—And bring the rate of interest down. That is the regulator of the whole thing: that the tax applies to every sphere of income, with very trivial exceptions, and if you could get back the tax in the price of your goods and so shift your tax to other people, then inasmuch as, accepting Sir Alan's argument, you just get the same net for gilt-edged, then you require to get the same net on your business and you would be driven ultimately to ask: Where does the money that the State gets, come from? Because we would all be recovering the tax from somebody else. I, as a Civil Servant, would be recovering it from the Government, the Government, as a tax collecting authority, would be recovering it from the taxpayer; but the taxpayer would have recovered it from his customer, who in return would have recovered it from him. Ultimately you would have to get to the position that it was being borne by the people who were not taxpayers. But to contemplate £700,000,000 being extracted from the people whose income is below £150 a year, is astonishing. One would be driven then to the conclusion that they shifted it again, in accordance with Mr. Hobson's theory, back on to industry in the shape of additional wages, and ultimately back in the shape of reduced profits.

9374. *Sir Alan Anderson*: I do not contemplate any of those things that you do. I think it gets borne by the whole of the community?—Equally?

9375. No not equally at all, and I do not think necessarily in accordance with the taxes they pay; I think there is no doubt at all of that. On this immediate point, whether the imposition of an Income Tax puts up the cost of enterprise and therefore puts up the level of temptation that is needed to start new enterprise, I think it does, but I have taken up a lot of time and, as far as I am concerned, I think I have put all the ideas I have got, and I have entirely failed to shift your views in the least; you are quite clear in your view and I remain of the same mind?—May I add one further thing? That is, to call attention to the fact that, tested by some hundreds of millions of turnover in relation to profits, these statistics have shown that, in terms of real goods, the proportion of each £100 of turnover which emerges for the producer as profit is comparatively the same as it was when the tax was 100 as against 428. Now that is a very hard thing to get over. Can you deal with that and show me where that is wrong?

9376. No, I cannot at all; I should want to have it in much more detail to deal with it at all?—It is in the statistics.

9377. I notice in your statistics you compare 1913 and 1921?—No; 1912 and 1922.

9378. I do not think that gives us any clue at all, because I entirely agree that the variations of years upset rewards very much more than anything else we can do with taxing, and that is because, I suggest to you, that must take some time to operate; it operates on your marginal firms?—It has had eight years in which to operate.

9379. It can only operate over a term of years. Of course I entirely agree with you that the actual price, once people have started in the enterprise, depends upon the market; they cannot influence it at all. A great deal of your argument is trying to show that A, although he wants to get a larger profit, is unable to get it. I entirely agree with you; he cannot at all?—But these later statistics of 1922 include the new concerns as well as the old.

9380. Of course they do.—That is to say, when a new concern comes in, he is content to get what the old concern gets.

9381. I think what was shown was that there is approximately the same profit per £ of turnover in 1922 as in 1912?—Yes.

9382. I was wrong in saying they did not convey anything to me; they did convey exactly the opposite to what they convey to you. Here are two years, one of them a normal good year and the other one at the bottom of the worst slump we have had?—No, not the bottom.

9383. 1922?—No.

9384. At any rate, part of a very bad slump; and you find that the reward in that very bad part of a very bad slump is the same?—I respectfully deny it is a very bad part of a very bad slump; we are certainly in a very bad slump; but after all, the huge fall in the value of stocks had been mainly written off before 1922.

9385. You will agree with me that 1922 was not a good year?—Not as good as 1912.

9386. It was a bad year, in my experience a very bad year. What you have proved is that the net

return per unit with a heavy Income Tax in that very bad year was the same as the net return per unit without the same Income Tax in a normal good year. I think that goes to show that the net return wanted has to go up in order to compensate the Income Tax?—What had shrunk was the volume of trade.

9387. *Sir Alan Anderson*: Because an enterprise cannot be started unless there is a reward. That is my point. *Sir Charles Addis*: Might that be followed a little further. Do you mean that although the reward unit is the same, the volume is affected?—(*Witness*): The volume to-day undoubtedly is considerably less than it was in 1912.

9388. I do not see that that is a necessary corollary?—No, I do not say it is a necessary corollary, but I say it is a fact; that is to say, there is not the business to be done. On the business that is being done the reward is practically the same.

9389. What you would deny is that the reward in this case, at least, has affected the volume at all?—Yes.

9390. You attribute it to other causes?—To other causes. One has only to refer to the First Report of Sir Arthur Balfour's Committee, to see it. It is set out in very full detail.

9391. *Sir Alan Anderson*: May I just put one more question. In 1912 new enterprises were being set in motion by the reward then offered. The reward offered in 1922 was approximately the same and, to my view, new enterprises were not being set in motion then in the same way. Everyone was saying: "This is a rotten bad year, we are not going to start new things"; and there is, I think, a difference?—There is an economic pressure. Men have to do something and the pressure is very great.

9392. *Mrs. Wootton*: I am still thinking of Sir Alan Anderson's man with £10,000. He has to consider whether he will invest it in enterprise or in gilt-edged investments. He presumably looks at the relative net return he would get. That relative net return will, under any tax condition, be greater in the speculative investment, on the average, than in the gilt-edged?—Yes, it will include remuneration for risk.

9393. But supposing he has very considerable means, supposing he has more than £10,000. If he goes into the gilt-edged investments, he may get so much smaller income that he would actually bear a considerably less heavy burden of tax?—Yes.

9394. He may, therefore, at the sacrifice of a substantial block of that income, get the advantage of a lower rate of tax?—Yes.

9395. My point is that the ratio of the net return would be altered?—Yes. I should agree with Sir Alan that inasmuch as the remuneration for risk also bears the tax, when you start to push the rate of tax up to a very high point, you begin so to cut into the net return for risk that it requires a very profitable rate to induce you to go in.

9396. *Sir Alan Anderson*: But directly you begin putting on tax, you begin doing that?—You begin doing that.

9397. It tends that way?—Undoubtedly. I admit that it has that effect.

9398. *Mrs. Wootton*: May I pursue it a little further. I still cannot help feeling that in any case you are going to decide by comparing the ratio between the net return in the two cases, and the taxation may be relevant so far as it affects that ratio, because if it cuts down the return of enterprise it also cuts down the return of gilt-edged, too?—Yes.

9399. Take one case, with somebody who has very considerable means. In his case, if he changes away from a speculative investment to gilt-edged investment, there will be an appreciable difference in the ratio, because he will be liable to a high rate of tax?—Yes, that is true.

9400. That is not likely to be a very common case?—I think, as I put to Sir Alan at the commencement of the evidence, you have got to take account of the fact that corporate enterprise is the predominant form of enterprise which takes risks in this country; only in the distributive trades, to a certain extent in the world of finance, and in the professions, have you got any large mass left of private enterprise. I gave some figures to the Committee at my last appearance, indicating how in the cotton industry and in the iron and steel industry the proportion of corporate enterprise as a whole was between 80 and 90 per cent., and there you have got one standard rate of tax on the company.

9401. Supposing we keep to your private person illustration. If you take another case, a man who has a moderate income invested in business and who is proposing to make further investments, he has a choice whether he puts that money back into his business or into some other business, or whether he puts it into gilt-edged?—Yes.

9402. But taking any probable proportion of savings to income, whatever your tax, then the ratio between the net return on the gilt-edged to him and the net return of putting it back into his business, will hardly be affected by changes of tax, would it?—It just depends on the rate of tax. Sir Alan was envisaging 17s. 6d.; then you may begin to cut in.

9403. But you have to take a very high rate indeed?—You have to take, I think, quite a high rate before you begin to have an effect in that way. I think Sir Alan also overlooks the fact that automatically as you discourage A. to come in, so you reduce the supply of the people who are willing to go in and you force the price up; that is to say, the remuneration offered will rise *pro tanto*.

9404. *Sir Alan Anderson*: That was exactly my point. It is stating very clearly exactly what I was putting.—But I deny that in normal conditions you can trace that effect. It is a theoretical effect, I agree, but I am dealing with a real one.

9405. That is a great step. Now, here am I, a pure theorist, and you say that is the theoretical effect. I say that on the theory that is bound to happen, practically when you begin to put on tax you begin to discourage the new man from going in, and you tend to restrict the supply and to put up prices; and I say, as a practical person, that actually happens. I am certain that it does?—I say that, basing my evidence on statistics of what happened, it has not happened, and the figures prove it. It has not happened.

9406. Then we are entirely agreed on theory, but we differ on the practice?—Yes. I think you may get a different set of psychological reactions. I do not believe that psychological reactions to the weight of taxation are permanent; just as to-day men will make a given effort for a given reward—that is one thing; but the effort they were prepared to make in 1650 may have been, and probably was, equally great for a much smaller reward. Men's comparison between disutility and utility, effort and reward, is not a constant factor; it is a moving factor, and it is conditioned by the terms and circumstances in which the man lives. People thought that they lived in the lap of luxury in the Middle Ages when they slept on a rush bed, but to-day, if you asked a labourer to do that, he would think that you were asking him to sleep in conditions of the utmost squalor, yet we know that that was the condition of the wealthy classes in those days. One judges things differently according to the circumstances that exist, and what may be not enough to tempt a man of 55, may to-day tempt a man of 25 strongly, and you have got every degree in between. On the whole, it is the younger men who are more enamoured with the adventurous trades of which you speak, not our sober elders. I think those things make a great deal of difference when you come to transfer the theory, on which we agree, into the fact which we find.

9407. *Sir Alan Anderson*: I personally do not think they do, a bit. I think the fact stands out that by taking away some of the man's gross reward you discourage him in starting, and therefore you decrease the number of the marginal firms and you decrease the supply and you tend in that direction

I entirely agree that all sorts of other things come in, but the tendency is bound to be in that direction, I think. *Sir Charles Addis*: I would like to ask, in the converse case: if taxation were abolished, in your view would that have no effect upon speculative enterprise?—(*Witness*): It might indeed have a great effect on speculative enterprise. After all, a sudden change in taxation at once produces a psychological result; there is no doubt about that

9408. In your view it would encourage enterprise?—I think it would. I think it would set up a state of optimism, and of course optimism is a factor in trade; in the same way that a sudden increase of taxation will set up a state of pessimism, and pessimism is a factor in trade. But when you have got over those stages and you have had taxation such as we have had since 1916—nine years—I do not think it will answer; a new set of conditions exists.

9409. The answer is this, then, that we have got habituated to a certain range of taxation?—Yes.

9410. And that being so, the incentive to enterprise is not affected?—The incentive to it is not affected.

9411. The argument in favour of a reduction of taxation remains valid?—Yes.

9412. It is no justification of taxation?—No, not the slightest.

9413. Would you apply the same reasoning to savings?—Yes, I think the same practically applies. I think its effects are vastly overrated, but I certainly agree that it does point in that direction.

9414. *Sir Alan Anderson*: Would you mind putting your question the other way round, Sir Charles?

Witness: I agree both ways.

9415. *Sir Charles Addis*: What I wanted to bring out was about habituation. Your argument is perfectly sound. *Sir Alan Anderson*: As to new taxation, either up or down. *Sir Charles Addis*: As to any new taxation. *Sir Alan Anderson*: You do not agree that a speculative man is at all a calculating person who will settle down and work things out?—*Witness*: Well, Sir Alan, you are in the City every day, and you know.

9416. I am in that sort of business and I think he is; but we differ?—I think one has only to look at the amount of money which is lost when the public is taken by a boom and carried off its feet, to see whether he is a cold and calculating person.

9417. *Mr. Hichens*: Shall we proceed with your paper now?—Yes. (*Paragraphs* 19 *and* 20 *read.*)

9418. Sir Josiah Stamp was saying yesterday that he thought your estimate of the national saving was on the high side; his own estimate, I think, was more in the region of £450,000,000. I do not know whether you have discussed this with him at all?—No, I have not discussed this with him. I told him I was going to say this, but I did not invite him to criticise it.

9419. Would you keep to your figure of £500,000,000?—I say a little later on that I should be prepared to modify it 10 per cent. either way because of the uncertainty of taking a real year.

9420. 10 per cent. would bring it very nearly to his figure?—It would bring it to his figure, on the low side.

9421. *Sir Alan Anderson*: I suppose that is very much of an estimate, is it not?—The first two items are facts; the third item is a fact; the fourth item is a fact; the fifth item is a fact. New houses is an estimate but it is based on a fact; and profits not distributed by companies and private traders is an estimate, but it is also based on fact.

9422. So you think you can get pretty close?—Yes, pretty close.

9423. *Mr. Hichens*: Does the figure of new issues include re-investments?—No; as I say in paragraph 21, "it excludes direct British Government Loans, shares issued to vendors, capitalisations of reserve funds, conversion issues, short-dated bills and private issues by private companies." They are all cut out.

9424. Supposing the firm of Cammell Laird, for instance, had an issue of £500,000 falling due this year, and made a further issue in order to pay it off?—That would not come in; that is a conversion issue.

9425. *Sir Alan Anderson*: What do "Investments sold by the banks" mean exactly?—It is based on the amounts by which the banks increase their advances and at the same time reduce their investments; they sell their investments to the public and the public get additional investments and the bank lends that money.

9426. That would not include the Bank of England?—No, it would exclude the Bank of England, because that is not a figure of the same nature.

9427. *Sir Charles Addis*: How do the banks acquire their investments, on that hypothesis?—They may buy them in the market.

9428. Out of their deposits?—Out of their own resources.

9429. Resources which they have received from the public?—It may be, or it may be their own internal reserves.

9430. The bank has received money from its depositors and it uses that money in certain ways to purchase gilt-edged and other securities. If they part with those, is there any real change in savings?—I think it depends on the whole of the movements and the movement of the balance sheets.

9431. It might be a transfer?—Yes; I have looked at the whole movement of the balance sheets; first of all, judging by the nine clearing banks and then by the movement of the banks of the United Kingdom, as a whole.

9432. *Sir Alan Anderson*: You have taken in deposits and all those things?—Yes, I have watched all those although of course it is very difficult; the banks give us very few statistics. The banks could render a very important service to this country, in my opinion, by giving more statistics.

9433. *Sir Charles Addis*: What I had in mind was that the bank really had no resources except those which it has acquired from the public?—I should dissent from that. I think no representative banker would sit in this chair and say that.

9434. Where does it get them from?—It saves them out of profits.

9435. In the ultimate analysis are not those taken from the public?—No, they are taken. for example, from me for rendering services to me.

9436. As regards their service?—As regards services. After all, that is what the banks do, I imagine, generally—render service.

9437. I put it too strongly. I rather put it that the bulk of their resources were acquired out of public savings, and if the investments are sold, they go back?—It depends on what you call their resources. Do you call deposits their resources, which arise solely from advances they themselves have made? The whole thing is very largely bookkeeping in that respect, as indeed a very large amount of the increase in the deposits since 1913 is bookkeeping. But a very considerable proportion does consist of savings.

9438. And there is a very considerable proportion also consists of advances, the reflex action of the advances. Really the only point in my argument is that that must be a very speculative figure, because it is so difficult to discriminate?—If you take the nine clearing banks, you will find that their investments and their discounts decreased in 1924 by £77,000,000; you will find that their advances increased by £54,000,000. Now if a bank increases its advances and disposes of its investments in order to do it, then the public have got investments whereas before they had deposits, and the borrower has got assets and a liability to the bank.

9439. And the two square each other?—There are greater resources; the money has been saved before the public can buy those investments. The bank is left more or less in the same position, but those investments have been absorbed by new savings.

9440. You have taken that into account?—Yes.

9441. *Mr. Hichens*: In your estimate did you exclude possible foreign subscriptions to new issues?—No; I took it that those new issues of the Midland Bank would be entirely United Kingdom subscriptions. There is some margin for an allowance of that nature in the fact that I have not taken any private issues by private companies. Only the City of London could tell us, I think, what that figure is, and they are silent. (*Paragraph* 21 *read.*) I have not taken in additional capital in individual businesses or firms which they may have borrowed from outside sources and not created themselves. (*Paragraphs* 22 *and* 23 *read.*)

9442. *Sir Charles Addis*: Do you understand that there is less value placed on savings?—Less value.

9443. Do you think that is one of the consequences of inflation?—It is very difficult to assign a cause to it, but I think myself it is partly due to the development of greater facilities for pleasure, such things as dancing, the coming of the motor-car, wireless, the wider adoption of annual holidays; all those things mark a very great change from the period of my boyhood in the 'nineties. They did not exist then, and people did not, so far as I recollect, attach such importance to those things. After all, that was the Reign of Victoria and this is the Reign of King George V.

9444. *Sir Alan Anderson*: I suppose you may put it in another way, that the general demand for comfort has gone up?—Yes, it may be expressed in that way, except that it is more than comfort.

9445. Luxury?—Yes.

9446. And that would be the natural effect of having a high wage; everybody has got accustomed to living better and having more money to spend, and therefore these things which were previously luxuries, have become necessities?—Yes; but it is also due partly, I think, to the fact that people have been made to feel new wants, just in the same way that the Kodak people made everybody feel that they had to have a Kodak camera. That was a new want created by skilful advertising and clever invention. Nowadays there is a feeling of a want on the part of everyone, almost, to have a motor-cycle, and so on.

9447. A motor-cycle now is not much more expensive than a bicycle was in your youth, is it?—Not very much, when you take into account the change in money values; perhaps it is no more expensive. (*Paragraph* 24 *read.*)

9448. *Mr. Hichens*: I think your last sentence is true only if you assume that the activity is going to be of the same nature as it was before. In business, methods are constantly changing?—We shall hope to see that revival, and I think in the constructional and export trade, if it comes, there is capacity, and that modifications which are likely to arise would not be so great as to call for a radical reconstruction.

9449. But even if you have an alteration from ordinary reciprocating machinery to a Diesel engine, that requires important alterations?—That is rather a drastic change. You would not anticipate that changes of that very great nature would be necessary, would you, in our iron and steel industries?

9450. I think quite important changes have to be faced if the iron and steel industry is going to survive at all?—New methods of manufacture, do you mean?

9451. *Mr. Hichens*: Yes; they will have to adjust and balance. We developed quite blindly during the War in the steel industry to make shells, and so forth. We then adapted our machinery to the first thing that came into our heads where we thought there was a profit, motor-cars, or whatever it might be. The thing is quite unbalanced to-day; it will have to balance itself out according to the demand in the future, whatever that may be, and a considerable amount of new capital will be needed, I think?—We are not going to get a revival of trade coming upon us like a thief in the night. It is going to come gradually, and in that case the rate of interest may rise; we may have a greater net reward, but I think industry will largely provide new capital itself. (*Paragraph* 25 *read.*)

9452. You are satisfied that there is a growing tendency for industry to finance its own requirements?—I think so.

9453. I think there is something to be said for the theory. In the earlier days of the industrial revolution in this country much more was done?—I cannot go back so far as that.

9454. The institution of the joint stock company was accompanied by a financing out of capital very much more than previously, I should have thought?—I was only dealing here within a period of say the last 20 years.

9455. During the last 20 years your experience is that there is a large appreciation of savings?—Yes. I think we are approaching more nearly to the position of America. We have not nearly reached the position which is current in America, where I think even a larger proportion of the total profits is reserved year by year than here.

9456. *Mrs. Wootton*: Have you any figures of that?—No, I only gathered those impressions talking to taxing authorities in the United States in 1919.

9457. I meant have you any figures of the change here?—I have no figures which I can disclose.

9458. But you think it is so?—I think it is so.

9459. The figure that Mr. Layton put before us showed, if I remember rightly, rather a more constant proportion of capital?—Capital, as I explained to the Committee on my last appearance, I entirely reject as a living standard by which you can measure anything, and in addition I am always very unhappy about Mr. Layton's figures, because those are the published figures; mine got behind the published figures.

9460. *Mr. Hichens*: I suppose the plain fact of the matter is that in good times people put a good deal to reserve and in bad times they neither put to reserve nor do they supply capital out of income?—I think there is a tendency in the direction of the first statement you made, but I should not be disposed to agree that they do not put money to reserve in bad times. I think perhaps there is even greater care expended then, because you can go to your shareholders and you can shake your head and say: "Times are very bad indeed; we have available such and such profits." Those profits, indeed, may themselves be profits after reserves have been made; but you may say: "We think that a dividend of so much is desirable, and put to reserve the larger part."

9461. There are a large number of firms to-day who are not putting anything to depreciation much less to reserve?—In certain trades.

9462. Certain big trades?—Yes, but not so important in the whole life of the nation as an income producing unit; important as the basic part of the nation's trade indeed, but from an income producing point of view I think of an importance which is often misconceived. Nothing struck me more when I first handled statistics of this nature than the very large proportion of the national income which has to be attributed to distributive services.

9463. *Sir Alan Anderson*: Taking the internal portion?—It is an essential part of production, because coal is no more use to us in a railway siding in Yorkshire than it is 2,000 feet under the sea. We want it in the coal scuttle; though of course it is usual to talk of transport and distribution as non-productive services. But production does not end until you have got the goods on your table.

9464. *Mr. Hichens*: Is there such a thing as a non-productive service?—It is exactly the same as the case of the errand boy.

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?

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

(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

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 Annexe 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 "	3·2
"	£10,000 " " £550 "	5·5
"	£15,000 " " £1,550 "	10·3
"	£20,000 " " £2,800 "	14·0
"	£30,000 " " £5,800 "	19·3
"	£50,000 " " £12,800 "	25·6
"	£100,000 " " £32,800 "	32·8
"	£200,000 " " £77,800 "	38·9
"	£500,000 " " £227,800 "	45·6
"	£1,000,000 " " £502,800 "	50·3
"	£2,000,000 " " £1,102,800 "	55·1
"	£3,000,000 " " £1,702,800 "	56·7
"	£10,000,000 " " £5,902,800 "	59·0

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 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 agrioultural 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.

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

* 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, £22,740; 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."

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 Committee. 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 payment of Income Tax.	After payment of 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 11½*d.*)
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.
	£	£	£	*s. d.*	*s. d.*	*s. d.*	*s. d.*
Estate A	2,342	7,807	919	1 4½	0 11½ (deficit)	2 4	—
„ 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
	£6,844	£12,096	£8,216

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. 847.

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 3,000 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 3,000 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.	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 6 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 1¼ 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, £600 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 £662 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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