CHAPTER III

A GENERAL LEVY UPON CAPITAL

§ 1. THE 'levy upon capital' usually advocated, as for instance in the able book of Mr Pethick Lawrence,[1] is not, however, confined to war-made capital. The proposal is to wipe out the whole, or a large part, of the war debt by a levy, single or in several yearly instalments, upon the whole body of accumulated wealth in this country. It is urged on general grounds of equality of sacrifice and of 'ability to pay,' as the only adequate alternative to a crippling income-tax. A levy confined to war-made wealth would, it is argued, involve a double valuation, pre-war and post-war, very difficult to work, and could not easily or possibly be made to yield an amount of revenue sufficient to wipe out enough of the debt. It may be admitted that the latter objection is fatal to the restricted levy, if it be insisted that the object of the levy is the immediate or early extinction of the debt and not its mere reduction to a level with which the income-tax could cope. But, even

[1] "A Levy on Capital." Allen & Unwin.

if our suggestion of a levy of 3500 millions, so as to wipe out half the debt, were accepted, it is still arguable that the basis of the levy should be the whole volume of the national capital, a process which would utilize a wider 'ability to pay,' and would be worked upon the simpler (though not too simple) plan of a single post-war valuation. It might be easier to gain the assent of the propertied and ruling classes to a lighter levy on the larger sum, and one capable of more graduation, than to a levy of at least 50 per cent. upon those forms of wealth alleged to be accumulated in war-time.

Accepting provisionally the conjecture of Dr Stamp[1] that the amount of capital values susceptible of such a general levy is 16,000 millions, and that one-fifth of this, could it be obtained by means of such a levy, would enable us to wipe out half the war-debt, we may best consider the feasibility and advisability of such a measure by examining the objections that are raised against the proposal. Some of them are economic, others ethical, and others relate to practical difficulties of assessment and collection.

§ 2. The economic and the ethical considerations are, however, related in that any feeling of injustice evoked by a levy may affect the springs of industry and saving, while practical

[1] *Economic Journal*, June 1918.

difficulties connected with the valuation or collection or realization of the levy have important bearings on the economy of the process.

(1) Is there any inherent injustice in a levy? Is it a policy of plundering the rich? Does it involve a breach of the faith to subscribers to war loans? Is it repudiation? These charges have no foundation. A levy upon wealth in the form of capital is no more a plundering of the rich than is a tax upon the income of that capital. Were it confined, however, to the holders of war loans, it would violate the implicit understanding upon which the money was lent to the Government, and would *pro tanto* constitute repudiation. But, applied on equal terms to all accumulated wealth, it is not exposed to this interpretation.

It is simply an emergency application of the principle of ability to pay. Small amounts of capital would be exempt because, upon the one hand, they involve the largest quantity of real effort or sacrifice in their saving, while, on the other, the interest they earn is of the highest personal utility to the recipient and his family. The graduation of the levy, so as to take a proportion of the capital-value varying directly with the aggregate sum, is based upon the same principle of cost and utility as is seen to be applicable for taxation of income.

The general economic defence of the levy is that it is a matter of urgent national importance that the sum of the indebtedness shall be reduced at the earliest possible moment so as to avoid an injurious increase of the income-tax, and that the only means of doing this is an appropriation to this important public purpose of that portion of private accumulated wealth which is of least importance to its owners.

The policy and ethics of the proceedings are closely analogous to those of military conscription, in which the urgent need of the State is held to override the private rights which each competent citizen has in the vital resources of his personality. The substantial accuracy of this analogy is sometimes denied on the ground that it is not proposed to exempt from the levy the property of men who have been conscripted for military services. But this is a casuistic evasion of the real issue. In the grave national emergency of the war the State calls upon the citizens to defend the nation by every resource which they can contribute. Those who have both fighting and financial capacity must contribute from both sources: those who have only fighting capacity must fight without paying: those who have only paying capacity must pay without fighting. In the great majority of cases direct personal service must be afforded by the young who have accumulated little or no property to serve the national cause. But where elderly men who are the chief owners of property can also contribute personal service, either to the fighting or the business conduct of the war, the State has just the same claim upon their persons as upon their money. A really monstrous wrong was done in financing the war by high interest borrowings and insidious processes of inflation, instead of a direct application of the conscription principle. The whole of the loan money contributed in this country represented a surplus amount of income and capital which could and should have been taken in taxation for the public need. To make an arrangement by which wealthy persons, with large resources available for assisting their country in its dire need, were, permitted to rack-rent the nation by a rate of interest some 75 per cent. above the pre-war level for the money they contributed to war expenses, was a policy of cowardly folly. When, as in modern warfare, it is the whole nation that is at war, the obvious and equitable economy of defence is that of conscripting all the necessary fighting, working and paying resources, and of putting the contributors on rations. It has been admitted that war-work and war-bonds are as essential to the winning of the war as fighting, why then this wasteful economy of high interest for those who find the money, high wages for war-workers, and a bare living allowance for those who risk their lives?

§ 3. The main economic objection rests on an insistence that nothing is gained to the State by the seizure of capital that cannot equally well (or better) be got by leaving the capital in its present hands and taking whatever proportion of its present yield may be required, in the shape of income-tax. For, it is argued, only the annual product from the use of the capital, *i.e.* the income, is of such a kind as to be available for meeting the current needs of public expenditure. If the State attaches the interest as it accrues, it is just as good as attaching the capital. In fact, so runs the argument, it is better. For if the State assumes the ownership of one-fifth of the capital of the country in the shape of land, houses, railways, mines, factories and so forth, or liens upon the same, it must either sell them in order to pay off the debt, or keep and work them as national assets. In the former case, it will cause a slump in the values of these properties or shares by loading the markets with them at a pace too rapid for absorption at previous prices. In the latter case, experience proves that the official management involved by their retention will be less economical and otherwise less efficient than the private management from which they have been taken.

Then follows an appeal to the ridiculous, in the picture of a Treasury choked up with miscellaneous wealth in the shape of bills of sale, mortgages upon estates, unmarketable shares, and even material wealth in the shape of pictures, jewellery and bric-a-brac.

Now, leaving for consideration later on the serious question of valuation for a levy, I find very little substance in this double contention that nothing is gained by substituting a single seizure of capital for an annual seizure of its interest, and that in fact a large part of the capital thus taken would be in forms ill-adapted for the avowed purpose of paying off the debt, or of accumulating sound assets to set against it. At first sight, regarded economically, it may appear to be a matter of indifference whether the State takes fifty or a hundred years to pay a debt (chiefly due to its own citizens, who have no power to make it bankrupt or distrain upon its assets), paying annual interest and small contributions to a sinking fund, or pays off the whole, or a large part, at once by means of a special levy upon funds possessing an ability to pay. But if it is a matter of grave urgency to reduce the debt at once, then a capital levy appears to be the only way of doing it. For, apart from the preliminary consideration of the positive danger of that increase of the income-tax which would be necessary in 1920 were no reduction of the debt possible, there are two strong financial arguments in favour of a levy. First, the borrowing effected under the pressure of immediate needs was at rates of interest reflecting this urgency, and the large volume of high-interest securities thus made has had two effects: first, to depress the value of earlier fixed-interest securities, and, secondly, to raise the general rate of interest for all newly-invested capital. Now the early extinction of a large proportion of the borrowing would necessarily reverse these two tendencies, helping to lower the rate of interest for new capital and raising the value of the depreciated securities. Both these effects are economically beneficent. For the high rate of interest, artificially created by war-borrowing, is detrimental to post-war restoration and expansion of industry and commerce, and is especially injurious to housing and other schemes of social improvement, whether carried out by private or by public enterprise. A reasonably high rate of interest may be desirable so as to evoke a large amount of saving and new capital, but the present rate would be so high as to depress the effective demand for capital (at any rate for home uses) more than to stimulate the supply of capital. Therefore, by paying off as soon as possible a large part of the war loans, the State would achieve an economy in production useful both for its own and the general needs. It would stimulate industrial and commercial enterprise and extend employment in a period when otherwise business men will be disposed, or obliged, to wait for an easier money market, with the result of causing grave risks of unemployment.

§ 4. Connected with this consideration is the special need for getting rid as soon as possible of two portions of the war-borrowing: first, the large floating debt in the shape of Treasury bills and other short-time obligations, and, secondly, the loans obtained from America and other foreign countries. The former is a shouting advertisement of the weak credit of a State which dare not fund its large floating debt, a weakness with damaging reactions both upon the market value of our funded debts, our future borrowing power, and, by a necessary implication, upon the soundness of our banking and other private financial institutions. The advisability of paying off as soon as possible the portion of the debt held outside the country is obvious.

Though no precise figures are yet available, it is generally held in financial quarters that during the war we have disposed of at least half of the 4000 foreign securities held in this country, and have, in addition, borrowed money abroad to the amount of perhaps 1000 millions. Against this no immediately available effort can be made on behalf of the sums loaned by us to our Allies and Dominions. This signifies that some 150 millions of our yearly imports, which formerly ranked as tribute from our foreign creditors, must either be dispensed with or must be paid for by increased exports of British goods at prices regulated by the necessity of finding foreign markets. Both of these alternatives involve great difficulties and hardships. To make so large a reduction of our imports of foods or raw materials would cripple alike our standard of consumption and our productivity. The reduced importation of partly manufactured goods, or of wholly manufactured goods, which are consumed in the productive processes of our industry and commerce, would have the same injurious reaction upon national productivity. The quantity of imports which do not fall within these categories forms a very small percentage of the whole. A certain quantity of foreign luxury goods, such as motor-cars, jewellery, silks, wines and the like, might be excluded by a prohibitive tariff, the effect of which would be to stimulate in this country such of these luxury trades as were technically feasible, drawing into them capital and labour otherwise available for more useful and important trades, and thus worsening the net economy of the nation. The other alternative, the extension of our export trade, so as to meet our deficit on imports, though more attractive, has difficulties of its own. If it involved sending out greatly increased quantities of coal, cotton and woollen goods, and other staple manufactures at prices which could force a largely increased world-market, it means a largely increased productivity in our industries at a low cost of production. Now, however desirable this may seem as a theoretical solution, it can hardly be deemed practicable at a time when the workers of this country are everywhere demanding an increased share of the product and are in a disposition to enforce their demand, and when high wages, reduced hours, and dear materials and fuel are seriously affecting the cost of production in most of our large export trades. In time, it is true, new stimuli of efficiency may enable us so largely to raise our manufacturing productivity as to effect the needed expansion of exports. The natural and normal instrument for achieving a new balance of trade, whether by reduction of imports, expansion of exports, or both, would be the pressure of an adverse exchange. So long as £1 continues to be worth less and less in American dollars, a force is operative, reducing our ability to buy and pay for American goods, and stimulating Americans to buy our goods with their appreciated dollars. But this corrective force, having a large amount of compensation to achieve, will be slow in achieving it. The pressure on American firms to sell their surplus abroad and to build up national, or perhaps international, credit arrangements, so as to maintain the emergency export trade set up during the war, is likely to interfere seriously with the normal action of the machinery of exchange. Unless our statesmen are more than usually discreet and foresighted, they may easily be led into accepting further credit from America and landing this country deeper in debt. In any case, the remedy of rectifying a bad exchange would be so slow as to leave our financial position weak for some years to come and to leave behind a permanent damage to our financial primacy. An early release from our foreign indebtedness is, therefore, of urgent importance.

§ 5. Thirdly, it is clearly advantageous to release the State from as large a part of the burden as is possible while the artificially inflated prices and money incomes still obtain. Most of the war-lending has been provided out of the high money incomes derived from inflations of purchasing power and the soaring prices due to this and other war conditions. This meant that the man who in 1918 lent £100 to the Government at 5¼ per cent. lent only half the quantity of real wealth which that sum would have represented in 1913. If his debt remains unredeemed and, as is almost certain, the level of prices falls considerably during the years over which his loan extends, every fresh year's interest will put a larger quantity of purchasing power into his hands, and the final redemption will give him back £100 worth a great deal more than the £100 he originally lent. Apart from this, there is the risk that, if the exceedingly high income-tax which the annual payment for his debt involves is long retained, a recurrence of cyclical trade depression and greatly reduced money income may put the finances of the country into a dangerous embarrassment.

§ 6. There is one argument, however, urged by Professor Scott in favour of a slow normal as compared with a sudden and immediate cancelment of debt, which deserves attention. If we reverted to the normal practice of paying interest with a low sinking fund over a long term of years, the burden could be gradually diminished by two processes; first, by a conversion of the debt when the abnormally high rate of interest had come down; secondly, by the normal growth of the yield of the income-tax owing to the growing number of contributors and the general rise of incomes. Now, I do not deny that, if we could get safely through the finance of the next ten years, we might reach a stage during which we could, availing ourselves of both these alleviations, bear with comparative ease the then diminishing burden of the war indebtedness. But the whole case for the levy rests upon the post-war period of financial emergency. To tell a man struggling against a dangerous disease with a diminishing power of physical resistance, that if he lives, he will be as cheerful as ever next Christmas does not carry much conviction.

During the war, our Government has plunged into diseased finance which requires a drastic treatment for recovery. Opponents of a capital levy say that the remedy is worse than the disease, and that we should leave Nature to take its course. Here is the issue. Yet this analogy like others is apt to carry us too far. The issue between advocates and opponents of the levy is not so absolute. All are agreed that it is a good thing to pay off the debt. They differ as to the time-economy of the repayment and the method. The opponents of a capital levy would spread that repayment evenly over the next (say) fifty years out of the ordinary revenue; its advocates would effect a large early repayment out of an extraordinary revenue, leaving the subsequent smaller annual sums to be defrayed out of the ordinary revenue.

§ 7. Such a levy as is here proposed has, like most emergency measures, risks and difficulties of its own. It seems to some exceedingly unjust that material capital should pay the levy and that what is termed personal capital, should not. A father has two sons, to one of whom he gives £1000 to set him up in business. With the use of this nest egg he builds up a business which brings him in an income of £1000 a year, and has a capital value of £10,000. The other son has £1000 expended on his education, and with this advantage enters a profession in which his earning capacity is £1000 a year. Why, it is asked, should the first son be called upon to pay a levy of £100, while the latter escapes scott free? Professor Pigou, in supporting a capital levy, is so harassed by this inequality as to insist that the professional son should be called upon to pay an extra income-tax in lieu of the levy. There is, I think, no objection to this course, provided that the rise thus imposed upon the income-tax of professional men does not exceed their true ability to pay, either in the sense of impairing their family standard of serviceable expenditure, or of stimulating excessive and ultimately wasteful effort to enlarge their income so as to meet the new charge upon it, or of reducing their output of professional energy by reason of the small proportion of the pay which it would secure for them.

It must, however, be borne in mind that there are good reasons against putting on the professional man an extra income-tax commensurate with the capital levy on the business man. For, though the capital value of many businesses is largely dependent upon the personal capacity of their success, a large part of that value is usually vested in material forms, and the goodwill element of a well-established business as divorced from the personality of its manager is a considerable asset. The capitalized value of a normal professional income is much smaller than that of a normal business income yielding the same annual income, because the former is more dependent upon the skill, health, personal devotion, and other precarious conditions of an individual life. It would, therefore, be unreasonable to endeavour to get by means of enhanced income-tax from 'immaterial' capital an equivalent to the levy upon material capital.

Professor Scott seems to regard all tax discrimination in favour of earned as against unearned wealth as "obviously inequitable." "Many proposals for a levy are naïve attempts to shift the payment of the proportion of war costs which would otherwise be borne by earned incomes to the owners of material capital. This is obviously inequitable. If the war had been financed by raising the whole cost through taxation at the time, these incomes would have paid much higher income-tax and super-tax than the amounts which were actually demanded from them. By urging a capital levy they would free themselves from such proportion of taxes as they would have been liable to, if there had been no levy."[1] But why is it "obviously inequitable" to recognize the higher ability to pay which owners of unearned income or accumulated wealth possess? Our present income-tax recognizes it for the lower grades of income. Is the higher rate for unearned income "obviously inequitable"? Had the war been financed wholly out of current taxation, it would certainly have been necessary to have enlarged the differentiation between earned and unearned rates of taxation, for

[1] *Economic Journal*, Sept. 1918.

two good reasons. First, there is a reasonable presumption that unearned income is usually supplementary to earned income, and can, therefore, bear higher taxation more easily. If the effect of high taxation on unearned income is to stimulate the taxpayer to an increase of his lower-taxed earned income, so much the better from the individual and the social standpoint. Secondly, as we have seen, a very high tax on earned income is much more likely to curtail the output of productive effort than a high tax on unearned income is to depress saving and investment. In other words, unearned wealth, whether as income or as capital, possesses a considerably larger 'ability to pay' than earned wealth. In attempting to supply the needs of revenue with the least injury to the taxpayer, and to the future productivity and revenue, it is equitable to take account of this distinction. Equality does not consist, as Professor Scott appears to think, in treating equally things that are not equal. In regard to taxable capacity £500 of earned income is not equal to £500 of unearned. If, as is contended, war-made and other capital possesses a real capacity to pay which has not been hitherto exploited, it is no valid objection to urge that the exploitation of this emergency source will relieve earned income from the obligation to pay a rate of taxation so high as to imperil the full use of earning power.[1]

When all these considerations are weighed, the proposal of an extra income-tax for 'personal capital' at a time when the ordinary income-tax must continue to be very high, will appear an expedient of doubtful value.

Moreover, it must be observed, that though equity in apportionment of taxes is very desirable, absolute equity will often be impracticable, and charges of unavoidable unfairness are not fatal to a tax unless they are so grave as to endanger seriously the earning power of some class of the community. I cannot think that this serious danger attaches to a proposal to confine the capital levy to material capital and to exclude personal capital both from this levy, and from an extra income-tax which under the special circumstances, would be very burdensome and difficult to collect.

§ 8. Public revenue must be collected where it can without too much difficulty be got. There will be some sources with 'capacity to pay' that are rightly ignored, if it is very difficult to trace, assess, and collect them.

[1] My own rejection of discrimination between earned and unearned incomes in a reformed income-tax is based upon practical difficulties, and not upon a denial of the distinction between ability to pay in earned or unearned income respectively.

If the sentiment of abstract justice be offended in such cases, there is no real remedy. But we may go further, and admit that these inequalities will have some detrimental influence upon personal and national economy. Some persons are shocked at the proposal to make a levy upon the accumulated income which thrifty persons have saved and invested, and which has contributed to the fighting of the war, or to the future productivity of national industry, while the income which unthrifty persons have extravagantly spent on their personal pleasures escapes such taxation altogether. They say with a certain amount of truth that this course penalizes thrift and industry. It was, indeed, to meet this objection that I suggested the possibility of a reduced income-tax upon smaller savings during a time like this when large quantities of new capital are needed. But this 'thrift' argument, if admitted, is liable to carry us too far. An industrious man who earns a considerable income has for his useful virtue to make a contribution to the State: an idle man who only works enough to provide himself with a bare living contributes nothing. Here is also a penalization of industry, or a premium on idleness. But what would you do? You cannot tax income which does not exist. Nor can you force ‘civilized’ men to produce taxable income in order that you may tax it, though there may be those prepared for this coercive policy which has often been applied to teach industry to ‘niggers.’

I admit that, if you tax the fruits of industry and thrift too high, you impede and reduce the production of the taxable body. But I do not admit that a graduated emergency levy on capital will carry any appreciable danger of this sort. And that for two reasons. First, because the greater part of the wealth on which the heavier portion of the graduated levy falls is not to any sensible degree the product of a calculated and costly thrift, but the automatic overflow of incomes which exceed the standard of expenditure reckoned by their owners as desirable. A high levy upon this portion of accumulated wealth would not be an appreciable deterrent to accumulation. If, indeed, the combined taxation of income and of capital became a regular practice of our State, the aggregate volume of taxation might well prove injurious to production and accumulation, and might even cause industrial enterprise and its *entrepreneurs* to seek areas of lower taxation for their domicile. For this reason the advocates of a levy insist strongly on its emergency character, and the opponents on the apprehension of its repetition. If the State discovers that it can once 'raid' capital advantageously, will it not recur periodically to this method? The answer is 'No, not if you accredit it with any true regard to the economic interests of the nation, or even to the future interests of public revenue. It will not do so, precisely because of the soundness of the objection that is raised to such recurrence. And this recognition of the obvious folly of failing to distinguish between this unprecedented emergency and the ordinary needs of State finance will remove the apprehensions of future raids from operating on the minds of the saving classes so as to prevent them from saving. Of course, if one assumes that State finance is going to be conducted in ordinary times in a recklessly shortsighted and incompetent way, with no regard to canons of ability to pay, or considerations of future revenue, the objection has validity. But in such discussions of finance as that on which we are engaged, we are entitled to assume a higher measure of competency and regard for the future than this objection implies. It is reasonable to regard this war-emergency as so exceptional and so severe that nothing resembling it is likely to recur in our time.

§ 9. The objection that a capital levy is likely to reduce the supply of business capital at a time when there is urgent need of large supplies rests partly on a simple fallacy, partly on the foregoing assumption that future saving will be checked by fears of another levy. The direct effect of a levy on the quantity of present capital available for financing new enterprise is nil. It is simply a book-keeping transaction by which certain sums will be taken from one set of capitalists to be paid over in cancelment of debt to another set—that is to say, so far as the levy is issued for paying off war-debt held within this country, as the great bulk is. The capital which is surrendered by the one set passes to the other set, or to the State, assuming that the latter chooses to hold certain parts of the levy (*e.g.* railway securities), instead of marketing them for the repayment of war-borrowing. The total amount of existing capital, real or monetary, available for promoting increased production of wealth, remains unaltered. Nor is it likely that its distribution will be very greatly affected, if we assume that all the well-to-do classes of our population have subscribed to war loans in a proportion roughly corresponding with their wealth. It is theoretically possible, no doubt, that the holders of war bonds paid off by the levy might spend the repaid loan, instead of re-investing it in business enterprises. But there is no ground for supposing them likely to take this course, unless we impute to them a most extravagant apprehension of another early levy. The capital levy, therefore, would not reduce the quantity of existing capital available for business purposes.

It is, however, sometimes suggested that though the present supply of real capital in the shape of plant, stocks, etc., would not be affected, the available supply of monetary capital might be reduced. A has £10,000 in war bonds which he has deposited at his bank as security for an overdraft of £8000. If £3000 of his war loan is taken and cancelled as his contribution to the levy, his bank advance will be correspondingly reduced. Since most business men utilize a large proportion of their war holdings for enlarging their bank credit, the levy for repayment of war debt may bring a considerable reduction of the bank credit otherwise available for re-establishing and enlarging productive enterprises. This objection has some force if it be assumed that pre-war banking business is to remain unchanged, and that the recently discovered powers of public credit are to remain unused, save for financial crisis, and are then to be applied only for the saving of private credit institutions from collapse. For the total volume of potential credit cannot be diminished by this reduction of private credit in repaying the public debt. What has happened is that the State has improved its credit by reduction of public indebtedness, and that this process has involved some (not, I think, a corresponding), reduction of the aggregate of bank-credit. The real wealth, the actual assets of the Nation, is not reduced, and so the aggregate of potential credit based on them is not reduced. But if the enlarged volume of State credit remained unrealized, the aggregate of actual credit, and so of power of industrial and commercial expansion, would certainly be diminished. This hypothesis, however, is hardly credible in view of the large experiments in the use of State credit during the war, and the large post-war capital-expenditure upon housing and other business proposals to which the Government is committed. The organization and use of State credit to supplement or to displace the private manufacture of credit by bankers must be recognized as a necessity of the near future and furnish a sufficient answer to the objection that the levy would reduce the available supply of monetary capital.

The further objection that a levy would

detrimentally affect the future supply of savings has already been met by implication. It rests entirely on the assumption: (1) that a capital levy is, and will be regarded as an act of repudiation; (2) that it will evoke grave apprehensions of repeated recourse to the same 'raiding' method in the future. The first assumption is entirely false. A levy exclusively directed to war-borrowing would *pro tanto* amount to repudiation. But the contribution of war loan to a general levy does not, as is sometimes pretended, constitute a weaker form of repudiation. If any special discrimination were made either against the ownership of war loan or the income it yielded to its holders, the charge would be valid. But a levy which hits this kind of wealth equally with others is no more chargeable with this offence than would be an increased taxation upon all forms of unearned income without a corresponding increase upon earned income. The second assumption, viz. that it will check future saving through apprehension of further raids rests, as I have shown, upon an imputation of gross folly to our taxing authorities, and a complete failure on the part of all concerned to appreciate the exceptional nature of the financial emergency justifying this unprecedented step. My contention is that capital has an ability to pay an emergency levy, but not a corresponding ability to pay a regular tax or a non-emergency levy, precisely because a general fear of a repetition of the process would check the saving, damage production, and so reduce the yield of further taxation. So far as any such apprehension is operative, I agree that it militates against the policy of a levy. But this apprehension I contend to be so feeble that its operation cannot be taken as a serious offset against the advantages of a levy.

§ 10. I pass to the objection, also raised by Professor Scott, that "The enforcement of a levy could hardly fail to have a most prejudicial effect on the position of London as an international centre of exchange." "There can be no little doubt that a levy, in the circumstances indicated, would produce a marked deterioration in the credit and reputation of London as an international money market, the effects of which would be felt for generations. Foreign capital that was in the habit of going to London would tend to be directed to New York or to other centres where there had been no levy." Would it? Why? No one proposes to levy upon foreign capital invested in this country. That will be quite safe. Why then should the credit of London suffer in the outside world? Professor Scott's contention here only assumes a general fear of raiding in the future, but ignores the grave results of the only alternative policy. I have already dwelt upon the menace to our exchange and our international financial position which a further large advance of income-tax involves. The danger from this, the sole alternative to a levy, is far more substantial than that which frightens Professor Scott. I am not, therefore, concerned to prove that *no* risk of this nature attaches to a levy, but only that a greater risk attaches to 'no levy.'

Finally, before quitting this part of the subject, I must express amazement at the charge that advocates of a levy are illogical if they do not stretch this levy to cover a complete repayment of the debt. Why is it illogical to use a levy as supplementary to high taxation which, if not thus aided, must become too high? A levy, as I have contended, is only an emergency method to reduce the value of indebtedness to a tolerable level and to ward off the early peril of having to meet the full interest and sinking fund demands out of ordinary current revenue at a time when industry is utterly unsettled and ordinary tax yields incalculable. The demand that a levy shall take all or more is but a shallow dialectical device for adding speciousness to the economic and ethical objections which are raised. The charge itself is utterly 'illogical.'

§ 11. But suppose that a levy is defensible in economic theory and in ethics, is it practicable? It seems to require, first, an early and reliable ascertainment and valuation of the various sorts of capital values; and, secondly, a collection in forms available for the purposes to which the levy is directed. Now, as regards valuation, the bulk of property exists in forms with a reliable monetary measure attached to them. Professor Pigou, in an estimate based upon returns for Estates Duty in 1913–14 and 1914–15, computes that some 60 per cent. of property at the end of the war will consist of stocks, funds, shares, etc., 4 per cent. of cash in home and bank, 4 per cent. in money on mortgage, etc., and 2 per cent. in policies on insurance. Thus 70 per cent. of the whole capital value should present no real difficulty for valuation. " Further, the most important of the other items, namely, house property, business premises and agricultural land " (16 per cent. of the whole) " could be roughly assessed on the basis of the income-tax returns, appeal being allowed to anyone who felt himself aggrieved." Trade assets, goodwills, etc., household goods, apparel and miscellaneous (largely personal) property (amounting to 10 per cent. as declared for estate duty, but probably underestimated these), present the real difficulty. Immediate official valuation for the purpose of early payment would not be practicable. But the adoption of Mr Sydney Arnold's proposal that the levy should be made on valuations made by owners and checked by subsequent official scrutiny, accompanied by heavy penalties for deliberate concealment or under valuation, would meet the difficulty, reducing evasion to a negligible minimum. It might, indeed, be well to recognize that some evasion will take place, partly in concealment of non-income-producing goods. It might be better to ignore this small percentage of wealth. The loss of yield would probably be less than that incurred by the failure of income-tax to reach the income which hides itself under additions to capital. Such escape, moreover, would not be final and complete, but would for the most part only mean deferred payment later on under death duties. The notion that, in order to avoid an impending levy, numbers of wealthy persons would buy diamonds and other valuables capable of easy concealment is fallacious. A few might take this course successfully, but, if many attempted it simultaneously, prices would rise heavily against them, and if, after the levy was over, they sought to convert their valuables again to cash, they would sustain a loss probably as great as the amount of the levy they had evaded. Something could doubtless be done in the way of concealment by buying bearer bonds, though it is likely that facility in evading income-tax and super-tax afforded by ownership of these securities has already had an effect in unduly raising their price. Any attempt on a large scale to use this as a way of avoiding an early levy would be attended by the same loss as in the case of valuables, the levy-dodger would lose both in the terms on which he bought and on the later terms on which he sold, and if he did not sell but held, in the low rate he would receive for his investment. In any case, the leakage thus caused would be no greater for a levy than for its alternative a higher income-tax.

§ 12. Could the levy be collected in forms available to secure its object, viz., the reduction of the debt and the improvement of further credit? And would not its collection absorb too much of the fluid capital needed for the reorganization and extension of old businesses and the development of new? In answer to the first question, it would be both desirable and feasible to collect the great bulk of the levy in cash or in war loan. This could be done by offering slight premiums for payment in these forms. Since most of the war loans must be held by persons who will be called upon to pay a levy, and the wealthy who will pay the bulk of the graduated levy will be in most cases holders of considerable blocks, there ought to be no difficulty in getting the greater part of a levy, amounting to half the total war-loan issues, paid in this paper, or in cash, and so available for immediate redemption. For the rest, the ingenious proposal of Mr Arnold, that the Treasury should issue a list of approved securities at certain fixed quotations and exchange them with war stock holders under an arrangement which offered the latter a sufficient inducement to effect the exchange, offers a way out of a difficulty. "The list would include Colonial Government Stocks, Indian Government Stocks, British Corporation Stocks, Loans of Public Bodies in the United Kingdom, Debentures and Prior Charges of the Home Railways, and of the best Colonial and Foreign Railways, and Debenture Stocks and Preference Shares of good Companies." [1] It might, however, not be necessary for the Treasury thus to dispose of these sound securities which the levy puts into its possession. It might continue to hold them as

[1] Mr Sydney Arnold, *The Economic Journal*, June 1918.

productive assets against the war-indebtedness, paying debt interest out of their annual yield. In certain cases, as with British Rails, and perhaps Mines, Banks and Insurance Companies, where an early policy of Nationalization was contemplated, it would clearly be advantageous to keep their securities for financing this operation, and even in other instances, where nationalization was not contemplated, a policy of tightening Government control in such matters as labour conditions, investment of capital, combinations and regulation of prices, might be facilitated by the retention of a large public interest in these enterprises. But, if the policy of getting rid of these securities at once, in order to apply the whole product of the levy to an immediate cancelment of debt, were preferred, the process upon which Mr Arnold relies, of procuring a voluntary exchange of these securities for war bonds, would, as he urges, present no difficulty at a time like this. Good irredeemable securities with fixed interest are better as a permanent holding than War Bonds, and there is a much greater prospect of their appreciating largely in capital value as time goes on, and as the high rate of interest upon new investments falls to which their temporary depreciation is due. If, as is possible, the sudden surrender of large quantities of war loans and gilt-edged securities injuriously weakened the credit facilities of business firms with the banks, the Government might take the course, already suggested, of bringing their own improved and largely unutilized credit into operation, either by way of guarantee to the banks or by direct dealing with this class of cases. Such cases, with others where the circumstances of ownership imposed peculiar hardships or damages upon the payment of a levy in serviceable forms, might well be referred to a Commission, empowered to substitute payment by instalments extending over a number of years. To such a Commission would likewise be referred hard cases, connected with trusts and other arrangements, where properties were loaded with obligations which reduced their real though not their legal ownership, and where a full levy would be inequitable. The difficulties, upon which so much stress is laid, connected with a levy upon real property and upon values locked up in the plant, stock, etc., of a private business, could mostly be solved by some such expedient. Spreading over the payment of the levy by a series of instalments would, of course, weaken the full efficiency of the levy. But it would not violate the principle which underlies it. That principle is that as much of the debt as is economically feasible should be paid off as soon as possible. If it can be shown that only a certain portion can conveniently be paid off immediately, but that another portion can be paid off by a fixed number of instalments extending over a few years, the rest being left to the action of the ordinary sources of revenue to defray the costs of a still slower sinking fund, it is right to recognize these limitations to the efficiency of a capital levy. But it is no argument against the use of the levy that it has these limitations. All I have contended is that, within such limitations, a powerful case can be made for incorporating such a levy in the financial policy which must be devised for dealing with the emergency created by the magnitude of the war indebtedness.

One word in conclusion. As in the case of the income-tax, small values should be exempted from a levy, and a careful graduation should be conducted so as to raise the rate proportionately with the size of the property. All economic, moral and practical considerations relating the ability to pay to the size of the taxable body are as applicable to a capital levy as to an income-tax, or ordinary death duties.

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In setting out the two forms of a capital levy, the one confined to wealth made during the war period, the other applicable to all accumulated wealth, and in discussing the advantages and difficulties of each form I have arrived at no conclusive judgment as to the form which may best be adopted in our financial emergency. A levy confined to war-made wealth would have the great advantage of a stronger and wider immediate appeal to the sense of justice which is outraged by the knowledge that great fortunes have been made out of the straits, the perils and the sufferings of our nation, and which would readily sanction the policy of reclaiming as much of this wealth as is attainable in order to apply it to the payment of war costs. A thoroughly sound war-finance would not have permitted this wealth to be amassed: its recovery by means of a post-war levy is a correction of this error. Many who would boggle at accepting any general theory of surplus wealth in relation to ability to pay would be glad to take large chunks from the ill-gotten gains or windfalls of war-profiteers. Such a policy would also have a particularly soothing influence upon the mind of the working classes, dangerously suspicious of the connivance and support given to this war-profiteering by a 'capitalist government.' As a stroke of popular justice it would win general approval. But it is beset by two practical difficulties, one of which at least might prove insuperable. The ascertainment of war-profiteering as embodied in new capital values implies a fairly reliable valuation of pre-war capital in its several ownership. For the levy could not be levied merely upon a comparison of the pre-war and the post-war value of the several businesses, even if that often difficult computation could be made. For, as we have recognized, it is only individual income and property that have a true ability to pay. A comparison of the market price of share-capital in 1913 and 1919, or of dividends before and after the war, might afford some tolerably accurate measure of the war-made gains upon which it was desired to levy. But this basis could only be equitable and practicable on the supposition that the shares were held in 1919 by the same holders as in 1913, no sales having taken place by means of which existing and prospective war-profits were realized by the vendors. Moreover, a 1913 valuation might prove impossible in the case of many private businesses, and, in any case, some other instrument would have to be found for dealing with profitable businesses, not a few of which have sprung up during the war itself. It is evident that this restricted levy could only be equitably worked by a comparison of individual wealth, involving a 1913 valuation. Many persons hold this retrospective valuation to be impossible. The other objection is also of a practical nature. To find so substantial a sum as 3500 millions from this source would appear to demand a levy of no less than 50 per cent. To recover this at a single stroke from the men who have received it and spent, invested, or even lost it, would in many cases be impracticable, and an attempt to enforce it would cause grave industrial and financial injuries to parties other than those immediately affected. Such a levy could only be executed in instalments which would extend over a good many years. But this slow restriction of the levy would defeat the main object of a levy, viz., to procure a large immediate relief from the oppressive burden of the war debt.

If these objections are insuperable, the popular preference for the enforced levy must give place to the practical advantages of the general levy. Upon the critical issue of the practical possibility of a direct valuation of war-made wealth I do not pronounce. It is certain that a good deal of this wealth could not be traced or measured, *e.g.* the considerable gains made by many private shopkeepers and farmers. But it does not seem *prima facie* impossible that a strong, able, and impartial Committee (were such procurable), with Statutory powers to call for accounts and to summon witnesses, might trace large quantities of war-gains arising in certain fortunate trades and businesses to their real recipients and reclaim the bulk of them for the public revenue. The fact that other war-gains could not so be traced and taken ought not to bar recovery where it is possible. It is no valid answer to the recovery of certain stolen goods from the receivers that other stolen goods cannot be found. This analogy is no whit impaired by urging that in most cases no personal guilt attaches to those who in business have merely taken advantage of a strong situation in which the war has placed them. Wealth made by a combination of war-made shortages and extravagant public finance ought to belong to the public, and if it is stolen or lost in transit, it should be recovered where it can be found. In any case, the appointment of a Special Committee on War Profiteering, with a view to such recovery, ought, I think, to be made without delay. Before it is appointed, it may be premature to pronounce upon the impossibility of a restricted levy, capable of making a considerable yield to the redemption of the debt.

The conviction of most of those who favour a levy is, however, opposed to the view that a sufficient sum of money could be got by such a levy, and they are firmly convinced that a general levy, involving a valuation of all accumulated wealth on its present value, is the only practicable alternative to a dangerously high income-tax.