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LABOUR AND
NATIONAL FINANCE

BY
PHILIP SNOWDEN

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LABOUR AND NATIONAL FINANCE

CHAPTER I

THE NATIONAL FINANCIAL POSITION

SOUND finance is the basis of national and commercial prosperity. Few people who have given thought to the subject will deny that the present financial position of the United Kingdom is one of the utmost gravity. There are, it is true, few outward and visible signs of personal or of public economy. This is one of the unfortunate features of the situation. During the war the working people, and the commercial and financial classes, have in the main enjoyed unparalleled prosperity. Wages have risen to unheard-of heights, and profits have soared to a point higher than that reached in the early years of the nineteenth century.

This prosperity has been wholly artificial. Wages have been paid out of borrowed money, and profits have been made out of inflated credits. The country has been living on the proceeds of money raised on mortgages.

This reckless prodigality must come to an end when the substance has been squandered, and the prodigal will be left with the burden of his debt, and with the obligation to meet the interest upon it. This country is now approaching that inevitable crisis.

The Chancellor of the Exchequer (Mr. Austen Chamberlain) speaking in the House of Commons on August 7, 1919, said, "If we were to continue to spend at the rate we are spending now it would lead us straight to national bankruptcy, and there is no doubt whatever about it—if we cannot increase production beyond what we are producing now, we shall go to national bankruptcy." This pessimistic statement was confirmed in the same debate by the Prime Minister. In evidence given before the Committee on War Wealth, Mr. Blackett, Controller of Treasury Finance, stated that "the financial crash would eventually come unless special provision was made to get back to a sound economic position."

When presenting his Budget statement eight months later, on April 20, 1920, the Chancellor of the Exchequer had to report that the expenditure for the year had exceeded his Budget Estimate by £238,149,000. It is true that the revenue receipts showed an increase over the Budget Estimate of £138,471,000, but more than half of this surplus was due to excess over estimate of

receipts from sales of war materials. The estimated expenditure for 1920-21 is £1,184,102,000. This shows a reduction of £255,000,000 over the expenditure of the previous year. But in view of the fact that the Chancellor of the Exchequer underestimated the expenditure of the previous year by £221,000,000 no great reliance can be placed upon the accuracy of his estimate of expenditure for the current financial year.

The total estimated receipts from taxes for 1920-21 is £1,035,150,000, and from non-taxation sources £383,150,000, making a total of estimated revenue of £1,418,300,000. Included in the estimated revenue for 1920-21 is an item of £302,000,000 from special receipts from the sale of war material. In his Budget for this year the Chancellor of the Exchequer has proposed additions to taxation which are estimated to produce during the current year an additional revenue of £76,650,000, and in a full year £198,230,000. The special receipts from the sale of war material he has appropriated to revenue. Otherwise, notwithstanding the additions to taxation, he would have had an estimated deficit on the balance sheet for 1920-21 of £68,000,000.

The last two Budgets introduced by Mr. Bonar Law were based upon the assumption that the existing taxation, if maintained after the war, would provide sufficient revenue

to meet the post-war expenditure. How fallacious this assumption was is proved by the fact that in the second year of peace, Mr. Bonar Law's successor has found it necessary to increase taxation to the extent of nearly £200,000,000 when the new taxes operate throughout a full financial year.

If Mr. Austen Chamberlain had believed in the possibility of any considerable reduction of present expenditure he would not have imposed new taxation of a permanent character. That he has no such faith was further proved by a statement made by him in a debate in the House of Commons on June 9, 1920, when he said that the Excess Profit Duty would have to be maintained, or its equivalent found. An analysis of the items of expenditure which make up the colossal total of £1,184,102,000 for the year 1920-21, will show that most of the expenditure is for services which are not likely to make a smaller demand upon the Exchequer unless there be some drastic change of policy, which is not likely so long as this Government, or a Government of a similar character, has the control of public policy. Many of the items of expenditure cannot be materially reduced, though small economies, without the loss of efficiency, might no doubt be adopted.

The expenditure upon the fighting services for 1920-21 is estimated at £125,000,000 for the army, £84,372,000 for the navy, and

£21,057,000 for the air forces, making a total of £233,429,000. Military expenditure is determined by policy. But in view of the nature of the Peace Treaties, and the additional imperial obligations which Great Britain has assumed under these Treaties, it would be a sanguine hope to entertain that there is any likelihood of a reduction in the expenditure upon these services. There is a much greater likelihood that the expenditure upon the army will this year exceed the Estimate. But a reduction in the strength of the fighting services does not necessarily mean a reduction of expenditure upon them. On the contrary, as Mr. Lloyd George himself pointed out in a speech in the House of Commons in August 1919, a reduction of armaments is likely to be accompanied by an increase of expenditure, because the smaller forces will need to be more thoroughly equipped and better paid.

If any considerable reduction of the present national expenditure can be brought about, it will be upon the fighting services, and upon some of the items included under Civil Service expenditure. There are under the Civil Service Vote a number of items of heavy expenditure which cannot be considered to be of a permanent character. These include £27,000,000 of a subsidy to the working of the railways, £45,000,000 of a subsidy on bread, £15,000,000 for the coal-mines, £27,323,000

for the Ministry of Munitions, £16,279,000 for the Ministry of Shipping, and £36,000,000 loans to Dominions and Allies. These items account for an expenditure of £166,600,000 out of a total estimated expenditure under the Civil Service Vote of £497,138,000. The only items which are not likely to be a charge upon the British public for many years to come are the Loans to Dominions and Allies, and the Votes for the Ministry of Munitions and the Ministry of Shipping. If the subsidies to the railways, to the coal-mines and on bread were abolished, and in consequence an increase in the charges and prices for these services and commodities were made, the amount taken out of the pockets of the public would not be less, though the Chancellor of the Exchequer would be relieved from making provision for this expenditure from taxes.¹

By the withdrawal of these subsidies the present Civil Service expenditure would be reduced by a sum of £166,600,000. In addition, minor economies might be effected by the stricter supervision by the Treasury of Departmental expenditure. The practice begun by Mr. Lloyd George of making the Treasury a spending authority has demoralised both the Treasury and every other Government Department. A Chan-

¹ Since this was written the railways and mines have been made self-supporting by increasing the charges, and the bread subsidy is to be withdrawn.

cellor of the Exchequer who is himself at the head of a spending department is less able to insist upon economy by his colleagues in the Government.

But, on the other hand, the permanent charges of the Civil Service Vote are certain to increase considerably. The expenditure on Public Education is £56,081,000 for 1920–21 against £38,841,000 for the previous year; for Old Age Pensions the corresponding figures are £25,969,000 and £17,892,000; for the Ministry of Pensions, £123,235,000 and £72,855,000; for the Ministry of Health £34,265,000, and £12,228,000; an increase of £97,964,000 in twelve months on permanent services. There is bound to be increased national expenditure upon public health, education and housing, and in view of the serious financial embarrassments of the local authorities the National Exchequer will be compelled to come to their assistance more and more by grants from the national taxes. There is, therefore, no reasonable ground for the assumption that in the future the present enormous expenditure of nearly £500,000,000 a year on the Civil Services can be materially reduced. The reduction made in the Civil Service Vote by the withdrawal of the subsidies will not at the best do more than cause a temporary reduction of expenditure under this head. Apart from minor economies the only hope for the substantial reduction of taxation is

by lessening the expenditure upon the fighting forces and the interest upon the National Debt.

For the year 1913-14, the last financial year not affected by the war expenditure, the national revenue was £198,242,897 and the expenditure, including the interest and sinking fund upon the National Debt, was £197,492,969. For that year the expenditure upon the army and navy was £77,179,000 (army £28,346,000, navy £48,833,000). The total Civil Service expenditure amounted to £51,944,000 (the Education Vote being £19,531,000 compared with £56,081,000 for 1920-21). At the outbreak of war the base rate of income-tax was 1s. 4d. in the pound. Super-tax was levied on incomes over £3000 a year at rates varying from 5d. to 1s. 4d. in the pound. In 1920-21 the base rate of income-tax is 6s. in the pound; the exemption limit for super-tax has been lowered to £2000, and the rates increased up to 6s. maximum, which begins to operate at £30,000 a year, under a graduated scale. The yield from the income-tax and super-tax in 1913-14 was £47,249,000. The estimated yield for 1920-21 is £385,800,000, and Excess Profits Duty, which is of the nature of an income-tax, is expected to yield £220,000,000 in 1920-21. At the outbreak of war the National Debt stood at £660,000,000. On March 31, 1920, it amounted to £7,835,000,000.

The approximate amount owing to Great Britain by her Allies in the late war was stated in March 1920 to be £1,666,000,000. Upon this indebtedness no interest is being paid to Great Britain, and the prospects of the debts ever being repaid are very doubtful. On November 15, 1919, the indebtedness of the United Kingdom to the United States was £850,000,000. The present indebtedness, therefore, of the United Kingdom for which this country has to shoulder the responsibility, may be set down in round figures at £8,000,000,000.

Notwithstanding the tremendous efforts which have been made to induce the public to subscribe to the various War Loans, there is outstanding a Floating Debt of £1,250,000,000 which is causing extreme disquietude in financial circles because of its effect upon currency and credit. The total Exchequer issues, that is, the total national expenditure from August 3, 1914, to March 31, 1920, amounted to £11,196,927,000. This sum includes the normal expenditure of the country in addition to the cost of the war. According to a statement made by the Secretary to the Treasury, 35·9 per cent. of this sum was raised from revenue, and 64·1 per cent. by borrowing. The percentage of the cost of the war raised by borrowing would, however, be much higher than the figure given, because the whole of the normal expenditure of

the country was paid out of revenue. The figures given above show that in 1920 the National Debt is twelve times greater than in 1914, that the national expenditure is, and is likely to remain unless there be a drastic change of policy, five times higher, that the income-tax, which had been regarded by financiers of the Gladstonian school as a resource to be drawn upon in times of emergency, has now been permanently fixed at a base figure five times above that of 1914.

Since the above was written the Chancellor of the Exchequer has issued a "Further Memorandum on the Future Exchequer Balance Sheet." His estimates of the national revenue and expenditure in a "normal" year confirm the figures already given in this chapter. His estimates of revenue are based upon the scales of taxation and Post Office charges proposed in the Budget statement, assuming that Excess Profits Duty and abnormal receipts from war assets have ceased.

The estimates of expenditure are based on the same assumptions as those of October, namely—

(a) That all war services will have ceased, and that Trading Departments (*e. g.* food, shipping, etc.) will have been wound up;

(b) That all subsidies and unemploy-

ment donations will have been withdrawn;

(c) That no further loans will be made to Allies and Dominions;

(d) That the training schemes for ex-soldiers, etc., will have been completed, and nothing new arisen in their place;

(e) That the cost of labour and materials will not have differed materially from that now obtaining.

. As before, nothing is included on either side of the account for interest or sinking fund on debts due by or to Governments of allied or associated countries; and no credit is taken for sums to be received on account of the cost of armies of occupation or for reparation.

The Chancellor estimates that the expenditure in a normal year for debt, interest, sinking fund and other Consolidated Fund charges, the fighting forces, the Civil Services and Revenue Services and Post Office will amount to £880,900,000. The yield of the present taxes (excluding Excess Profits Duty) is estimated to be £1,029,000,000. This leaves an estimated balance for further debt redemption of £148,100,000. This estimate of expenditure does not take into account the progressive cost of education, housing, subsidies and the public health department. However, the outstanding fact in this

Memorandum is the admission that there can be no remission of taxation (except the Excess Profits Duty) and that the country must be prepared for annual taxation of about £1,000,000,000 a year, excluding the Post Office revenue.

This is the financial position and the financial prospect of the country. Its seriousness cannot be doubted. Great Britain has so far stood the shock of this tremendous strain because of the financial resources it had accumulated in the prosperous times before the outbreak of war, and because of the unexploited sources of revenue upon which it has been able to call for the prosecution of the war. No country, however, not even one so rich as this, can continue to bear the burden of a debt which amounts to considerably more than one-half of the total wealth of the country in 1914, and an annual expenditure, provided by taxation, which represents nearly one-half of the total income of the nation in pre-war values.

CHAPTER II

WAR-TIME FINANCE

IN the previous chapter I have stated the present financial position, and in this chapter I propose to show how this situation has arisen through the financial policy of successive Governments during the last six years. When Great Britain declared war upon Germany in August 1914, there were few well-informed people who believed that the conflict would be of short duration. But even if the prospects of a short war had been promising, sound financial principles could not have justified the policy of the Government in resorting to borrowing for the purpose of meeting the special expenses of the war. The present National Debt of £8,000,000,000, and the charges of nearly £400,000,000 a year out of the revenue for the payment of the interest upon this debt, constitute the burden the country has to bear for the vicious policy of those who have controlled the national financial affairs since 1914.

The words of Mr. Gladstone, spoken in 1853 apply with greater force and truth to

the present huge National Debt. He said, speaking of the debt accumulated during the Napoleonic Wars, and which still remained a burden on posterity in 1914—

“ Our debt need not at this moment have existed if there had been resolution enough to submit to the income-tax at an earlier period.”

With that disastrous example before him, Mr. Gladstone insisted that the cost of the Crimean War should, from the beginning, be paid mainly out of current taxation. “ To begin the war by a loan,” he said, “ would be a confession of financial cowardice and economic weakness, unworthy of the character of the country.” In the first half-year of that war he doubled the income-tax.

The present Prime Minister, who was Chancellor of the Exchequer at the outbreak of war, had neither the courage nor the moral principle of a Gladstone, and he relieved the immediate exigency by resorting to borrowing, leaving the future liberation of public revenue to the care of posterity. It was necessary to gain public support for the war, and a large immediate increase of taxation might have had the effect of damping the patriotism of those who were prepared to applaud the military adventure, but who were unwilling to make a financial sacrifice for its support.

Apart from the economic and financial objections to the policy of borrowing for the prosecution of the war, there are moral objections which were very powerfully stated by Mr. Gladstone in a speech on the Crimean War. He said—

“ The expenses of a war are the moral check which it has pleased the Almighty to impose upon the ambition and the lust of conquest, that are inherent in so many nations. There is pomp and circumstance, there is glory and excitement, about war which, notwithstanding the miseries it entails, invests it with charms in the eyes of the community, and tends to blind men to those evils to a fearful and dangerous degree. The necessity of meeting from year to year the expenditure which it entails is a salutary and wholesome check, making them feel what they are about, and making them measure the cost of the benefit upon which they may calculate. It is by these means that they may be led and brought to address themselves to a war policy as rational and intelligent beings, and may be induced to keep their eye well fixed both upon the necessity of the war into which they are about to enter and their determination of availing themselves of the first and

earliest prospects of concluding an honourable peace.”

In 1914 the country was in an exceptionally favourable condition for bearing an immediate and heavy increase of taxation to meet the cost of the war. When introducing his Budget for 1914, two months before the outbreak of war, Mr. Lloyd George said—

“ The trade of this country has reached the highest point it has ever reached. Unemployment has touched the lowest point it has ever touched in the history of this country.”

His Budget estimate of revenue for the previous year had been exceeded by over £9,000,000, whereas he had budgeted for a deficit of £815,000. He stated that the very distinguished statistician, Sir George Paish, had testified that the increase in the national savings in the previous five years had reached the prodigious sum of £1,750,000,000. The gross assessment for income-tax in 1914–15 was £227,000,000 over the figure of five years before. The nominal rate of income-tax stood at 1s. 3d., and even a millionaire paid only 2s. 7d. in the pound, including super-tax.

To the reluctance of the Government to impose heavy taxation in the first years of

the war must be attributed most of the financial and economic evils from which we are suffering to-day, such as high prices, profiteering, lavish expenditure on luxuries, the employment of labour on non-productive and useless work, the huge debt and depreciated currency. The panic which prevailed in the early weeks of the war added to the circumstances favourable for increased taxation. The effect of this panic was to cause a restriction of expenditure, and if the Chancellor of the Exchequer had rushed in with proposals for taxation to meet the current expenses of the war, he could have appropriated these economies with highly beneficial results. The steps which were taken to re-establish financial credit, the absence of any suggestions for adequately increasing taxation, the foolish cry of "business as usual," deluded the public as to the financial burden they were incurring by the war, and set them on that career of reckless extravagance which has had such disastrous results.

It may be urged in support of the policy of borrowing that the cost of the late war was so enormous that the taxable capacity of the country could not have been sufficient to meet the current expenditure. This argument might have had some weight in the later years of the war when the expenditure reached £5,000,000 or £6,000,000 a day, but

it certainly does not affect the contention that during the first two years at least, the whole cost of the war might have been met by current taxation, as we shall see when we come to analyse the war expenditure and the receipts from taxation during this period.

The practice of borrowing had among other evil consequences the effect of actually increasing the spending power of the population, and as the demand among the civil population for necessaries was restricted there remained a larger sum to be spent upon superfluities. The normal practice of Governments in peace-times is to provide capital and exceptional expenditure out of revenue, thereby avoiding the creation of a National Debt. To provide the cost of a war the practice of borrowing is adopted, the alleged justification being that the country is fighting for the advantage of posterity. It is a fallacy to suppose that by borrowing for war purposes the generation prosecuting the war is relieved from any part of the payment of the costs of the war. The war must be paid for at the time it is being waged. The cost of a war is made up of payments for the wages of the soldiers, for their maintenance and clothing, and for armaments and munitions. All these things are paid for from day to day, and shortly after the conclusion of the war, when the accounts have been discharged, the whole cost of the

war has been paid. What happens in consequence of the policy of borrowing is that the present generation, having paid for the war, throws upon posterity the burden of also paying for it several times over. The generation which wages the war pays for it in food which is produced during the period of the war, in raw material which is made into clothing and camps, and in the coal and iron and livestock which are consumed for war purposes. The real cost of a war is in the reduction of the natural resources of the world which cannot be replaced, and in the loss of wealth which otherwise would have been created if Labour had not been diverted from peace production to war employment, and in the loss of human life.

As the State does not own the raw materials for war, nor the factories essential for producing war supplies, it obtains these from private owners and pays for them by borrowing from those who have savings to lend, or by the creation of credit. Borrowing adds nothing to the wealth of the nation. Though the War Debt has added 8000 millions to the nominal wealth of the country there has been no addition to the real wealth which is measured in land, coal, houses, livestock, machinery and the like. The War Debt is simply a mortgage held by certain people upon the future wealth production of the country, which enables them to exact a

contribution from future annual production of wealth.

The war, as we have pointed out, has been paid for by the present generation in three ways. A certain proportion of the cost has been paid by taxation specially levied for the purpose. The owners of Government stock, municipal bonds, debentures and other fixed interest-bearing shares, have paid for it by an enormous depreciation in the capital value of their holdings, and all classes have contributed indirectly in a large measure by the increase of prices which has depreciated the value of all fixed incomes. The depreciation in the capital value of fixed interest-bearing bonds, and the increase in the cost of living are the direct results of the policy of borrowing; and if, instead of borrowing, the holders of these stocks had contributed to the Government, in direct taxation, the amount of the capital depreciation, and if the consumers had contributed the amount of the increase of prices, the cost of the war could have been met without borrowing, and neither capital values nor prices would have been so adversely affected. By resorting to borrowing instead of employing taxation, this generation has not escaped paying for the war, but having paid for it during its progress, they are now left with this burden of debt which they themselves and posterity will have to bear.

The policy of borrowing, therefore, does not even achieve its pretended purpose. It does not relieve the present generation from bearing the full cost of the war, but it creates innumerable evils and adds unnecessary burdens. Government Loans are obtained from three sources: from real savings, from the reserve funds of business concerns, and by the creation of bank credits. When the Government borrows the savings of private individuals, or the reserve funds of public companies, the Government spends what would otherwise have been spent by these private individuals, and there is no inflation of credit. There is, however, this difference: that the Government's spending is unproductive, whereas if the savings and reserve funds had been used by the individuals or business firms, they would have been employed for productive and remunerative purposes. A considerable part of the Government's borrowings has been obtained by the creation of fictitious credits. When the Government borrow by the creation of new credit, the demand for goods on the part of the public is not lessened, but increased, with the result that an increase of currency is necessary to facilitate the exchange of commodities, and consequently an increase of prices takes place.

The Government have borrowed extensively on Treasury Bills, which is a pure instance

of credit inflation. The banks have been encouraged to lend to their customers for investment in war loans. By this practice additional credit has been created for which there is no security in real wealth. In addition to this, the banks have themselves subscribed largely to the war loans out of deposits standing to the credit of their customers. The war-loan scrip obtained by the banks for their investments have been deposited in the Bank of England as valid security for further loans to the Government. By this manipulation of credits a vast amount of Government indebtedness has been created which is not represented by savings.

The case I wish to establish in this chapter is that the National Debt, and all its evil consequences, need not have existed if the Government had courageously imposed taxation at a much higher rate in the early years of the war. It was not until November 17, 1914, that the Chancellor of the Exchequer (Mr. Lloyd George) introduced an Interim War Budget. In this Statement he estimated that the deficit in national accounts at the end of March 1915, after eight months of war, would be £339,571,000. He devoted a considerable part of his speech to a review of the war finance of Pitt, and pointed out that at one period of the Napoleonic Wars one-third of the total income of the country was taken for public purposes. But Mr.

Lloyd George failed to apply the lesson which the disastrous experiences of borrowing in the early days of the Napoleonic Wars had taught his distinguished predecessor in office. Faced with an estimated deficit of nearly £340,000,000 at the end of the financial year, Mr. Lloyd George contented himself with imposing a paltry increase in the income-tax and super-tax which was estimated to realise £12,500,000 during the financial year. In addition to this he imposed increased duties upon beer amounting to £2,500,000, but made a reduction of licence duty amounting to £450,000. In addition to this he obtained relief by the suspension of the Sinking Fund to the amount of £2,750,000. This left him with a deficiency of £321,321,000, which he proposed to meet by means of a war loan.

Even so early in the war as the date of this Budget, it had become manifest that certain trades were making enormous profits out of the war. No steps were taken by the Government to interfere with this profiteering. The figures subsequently published of the income-tax assessments for the year 1915-16 showed that there had been an increase in the gross income brought under review of £94,684,000 over the preceding year. When it is remembered that the gross assessment was calculated upon a three-years basis, the increase during the first twelve months of the war must have

been very considerably higher than the figure just given. In a time of great financial stress, Mr. Lloyd George was content to impose additional taxation upon the income-tax paying class of £12,500,000, although their gross incomes during the year had admittedly risen by certainly more than £100,000,000. In the course of his Budget speech Mr. Lloyd George said—

“ If we rose to the heroic level of our ancestors we should be raising to-day a revenue of between £450,000,000 and £700,000,000 and no borrowings would be necessary.”

If Mr. Lloyd George had, in the first year of the war imposed an income-tax at half the rate levied by Pitt, the whole cost of the war during the first year would have been paid out of taxation.

Bad as was Mr. Lloyd George's initial effort at war finance, his second Budget, introduced on May 4, 1915, was far more disastrous. Up to the end of the previous financial year (March 31, 1915) the net cost of the war had been £307,416,000. In his second War Budget speech the Chancellor of the Exchequer announced the wonderful buoyancy of the income-tax and super-tax which had yielded £8,000,000 over his estimate of the previous November. Up to the end of March, 1915, a sum of £458,148,000

had been added to the National Debt. On the assumption that the war would continue during the whole financial year, 1915-16, he estimated that the total expenditure would be £1,136,434,493. On the basis of existing taxation the deficit to be met would be £862,322,000. After making this appalling statement the Chancellor of the Exchequer launched into an eloquent dissertation upon the enormous accumulated wealth of the country, and finally concluded his statement without proposing a penny of new taxation, leaving the estimated deficit of £862,322,000 to be met wholly by borrowing.

By this time war profiteering had attained scandalous proportions. Every day the newspapers were reporting the profits of commercial firms far beyond anything which had been made in peace times. The cost of living was rising continuously. Labour, which at the outbreak of war, patriotically announced its decision to abandon demands for wages advances, was beginning to be clamant under the pinch of the rising cost of living. The Chancellor of the Exchequer deliberately left the profiteer without interference to pursue his exploitation of the national situation. He calmly faced an addition of nearly £1,000,000,000 of National Debt during the coming year. He left the buoyant incomes free to rise still higher. By refusing to increase taxation he per-

petrated an act of egregious folly and of criminal negligence. In the summer of 1915 Mr. Lloyd George found a new sphere of operations in the Ministry of Munitions, and he was succeeded at the Treasury by Mr. McKenna. In September 1915 Mr. McKenna introduced an Interim Budget. In the meantime expenditure had grown to an estimated total of £1,590,000,000 a year. Mr. McKenna made a serious—though by no means an adequate—effort to redress the fatal negligence of his predecessor. He raised the income-tax, increased the super-tax, reduced the limit of exemption from income-tax to £130 a year, and lowered the abatement from £160 to £120. He added to indirect taxation, increased the postal and telegraph charges, and made an attempt to appropriate war profits by the Excess Profits Duty.

On April 4, 1916, Mr. McKenna introduced his second Budget. He proposed to raise the revenue to £500,000,000, which was more than double the sum that Mr. Lloyd George raised in the first year of the war. Unfortunately political intrigue dismissed Mr. McKenna from the post of Chancellor of the Exchequer, and he was succeeded by Mr. Bonar Law, who, in his first Budget, introduced on May 2, 1917, proposed no new taxation whatever, and made small additions to three existing taxes, namely, the Excess Profits Duty, the Tobacco Duty

and the Entertainments Tax, which were expected to yield the sum of £27,500,000. Mr. Bonar Law's Budget showed a deficit of £1,650,000,000, and to meet this he proposed the paltry addition of twenty-seven and a half millions to taxation !

In Mr. Bonar Law's second Budget, produced in April 1918, when the total national expenditure had risen to £2,972,000,000 he made an addition of 1s. to the income-tax, raising the standard rate from 5s. to 6s. and raised the maximum rate of super-tax from 3s. 6d. to 4s. 6d. in the pound, beginning at incomes of £2500, instead of £3000. He also made additions to indirect taxation on spirits, beer, tobacco, matches, and sugar, and proposed his ill-fated Luxury Tax, which was afterwards abandoned. For the year 1918-19 the total yield from Inland Revenue taxation, which includes Estate Duties, Stamp Duties, Income- and Super-Tax and the Excess Profits Duty, was £670,575,356. This was more than three times the amount imposed in the first year of the war. The amount raised by Inland Revenue taxation in the first three years of the war was £764,766,000. If the average rate of taxation of the last three years had been levied in the first three years of the war, the yield would have been £1,100,000,000 more than it actually was. This sum available for taxation was left in the pockets of a

favoured section of the community, who, instead of paying this surplus in taxation, spent it in luxury or lent it to the Government at a high rate of interest, and thereby established a hold upon future production.

The financial policy of successive Governments of refusing to employ the weapon of taxation more energetically is not the only financial crime of which they have been guilty. Borrowing is bad, but borrowing at an unnecessarily high rate of interest aggravates the offence. At the outbreak of war the Government and public bodies could borrow at 3 per cent. The first War Loan was issued in November 1914. The issue price was £95 and the rate of interest $3\frac{1}{2}$ per cent. It was redeemable on March 1, 1928, or at any time after March 1, 1925 on three months' notice by the Treasury. In June 1915 the second War Loan was issued, and upon this the Government gratuitously raised the rate of interest to $4\frac{1}{2}$ per cent. In January 1917 another War Loan was issued, the price being £95 and the rate of interest 5 per cent. (actually over $5\frac{1}{4}$ per cent.). The effect of these successive increases in the rate of interest was not merely an additional impost upon the taxpayers, but it had a serious effect in raising the price of money, and in depreciating the capital value of all fixed interest-bearing stock.

The Government's borrowing policy was,

in effect, a repudiation of existing capital values, and an additional indirect impost upon all individuals and firms who required to borrow money. For a time the Government restricted appeals for new capital issues, and thereby to some extent prevented the competition of private interests for capital investment. But when this restriction was removed, after the cessation of hostilities, there was a flood of issues for commercial capital which had a considerable effect upon the money market and upon the rates of interest. The interest on Treasury Bills was successfully raised until it reached the figure of 7 per cent. : but even at this rate of interest, the Government's appeal for subscriptions to be used for the purpose of funding the Floating Debt has met with practically no response. To such an ignominious position as this has British credit been brought by the financial policy of successive Governments during the past six years. The British Government is unable to raise a loan from its own citizens for a patriotic purpose even at 7 per cent. interest!

Though I have dealt with war-time finance at considerable length, its bearing upon constructive proposals for retrieving the position is so important that this must be my excuse and justification.

CHAPTER III

LABOUR'S PRINCIPLES OF TAXATION

JUST and sound principles of taxation are equally applicable to peace and to war conditions. The financial methods which will have to be adopted for extricating the country from its present financial embarrassments will differ not in principle, but in the severity of their application from those which should be applied for dealing with national financial problems of peace-time.

The Labour Party has always attached supreme importance to just methods of taxation as a means by which social conditions may be ameliorated. Mr. Asquith once said : " Taxation is a potent instrument of reform." The Labour Party had realised that fact long before Mr. Asquith made this statement. The right of the State to take what it requires for public purposes is not disputed. The right to enjoy property exists by the goodwill of the State. There has never existed in any civilised community such a thing as an absolute right to private property. The State protects an individual in the enjoyment of private property so long as such enjoyment is not against the public interest, or so long

as the State does not require for superior needs the enjoyment of that property, or of the proceeds from it.

The State exercises its authority over private property in two ways. Where the acquisition of private property is required for public purposes the State acquires that property, giving to the possessor such compensation as may in the circumstances, or in the state of public opinion, be considered to be just. The second method by which the State acquires the means necessary for discharging its functions is taxation. There is no limit to the right of the State to levy taxation. But the only justification for levying taxation on private individuals for public purposes is that the revenue derived thereby will be used in the public welfare.

The Labour and Socialist argument for taxation is that a large part of the wealth and incomes now enjoyed by private individuals is the result of exploitation of the community, and that pending such changes in the system of property-owning, and the relations of capital and labour as will deprive individuals of the means to appropriate unearned wealth and incomes, the instrument of taxation may be usefully employed by the State to obtain a return of some portion of this exaction, to be used for the purpose of improving the conditions of life of the dispossessed classes.

A less extreme justification may be put forward. The State is a partner in all production and in all private enterprise. It is only by the protection which law gives that a private individual can enjoy his wealth and income. The State (including the municipalities) is entitled therefore to participate in the profits of industry and in the rents which individuals derive from land and other forms of property. Taxation, therefore, may be defined as that part of the national income which the State takes as its share as a partner. As civilisation advances the activity of the State as a factor in production increases, and it is in consequence entitled to an increasing share of the net return.

In exercising its rights the State must, of course, be guided by principles of equity. The State could not justify taxation solely on the ground that it had the right to impose taxation. Taxation must be justified by proof that the revenue derived thereby will be used in a way which will promote a larger measure of general well-being. The State must also levy taxation in such a way as not to discriminate unjustly between different individuals and classes. Taxation, when rightly understood, will not be regarded as a necessary evil. On the contrary, when justly levied for necessary purposes, it is a blessing to the community. If the proceeds of the taxes and rates are wisely and economically

spent they bring a return to the community far more abundant than can be derived from the private expenditure of the same amounts.

No country was ever ruined, or ever could be ruined, by high taxation, provided it is justly levied and the proceeds are wisely expended. Taxation, it is true, is often found to be oppressive, but that is because its incidence is not justly distributed. There is a popular impression that taxation diminishes the production of national wealth. The very opposite is the fact. If the revenue derived from taxation be wisely expended by the Government, or by the municipality, it is a direct aid to production. It gives greater stability to public confidence, it improves trade facilities, it increases the intelligence and productivity of labour, and, as McCulloch points out, "it stimulates individuals to endeavour by increased industry and economy to repair the breach taxation has made in their fortunes, and it not infrequently happens that their efforts do more than this, and that consequently the national wealth is increased through increased taxation." These beneficial results are of course conditional upon the just incidence of the tax and the use of the proceeds for beneficial purposes.

In the years immediately preceding the outbreak of war there had been a decided improvement in the methods of levying national taxation. The British system of

taxation, like the British Constitution itself, had not been devised according to any ordered plan, but steps were being taken before 1914 to eliminate some of the more flagrant injustices in the incidence of taxation, and to apportion the burden more in accordance with the capacity of the various classes to bear it. At one time by far the largest part of the national revenue was raised by the vicious system of indirect taxation, but by 1914 the relative proportions of the whole national revenue raised from direct and indirect taxes had been reversed. This satisfactory movement was in the main due to the persistent agitation which had been carried on by the Labour and Socialist Party for a reform of taxation.

The Labour Party's general principles of taxation may perhaps be best expressed by quoting from a Memorandum drawn up by the writer for the Executive of the Labour Party, and which was submitted to a special session of the Annual Conference of the Party held at Portsmouth in January 1909, and which was accepted by the Conference as the financial programme of the Party. This Memorandum stated that the following considerations should form the basis of democratic finance—

- (a) Taxation should be in proportion to ability to pay and to the protection

and benefit conferred on the individual by the State;

(b) No taxation should be imposed which encroaches on the individual's means to satisfy his physical and primary needs;

(c) Taxation should aim at securing the unearned increment of wealth for communal use;

(d) Therefore taxation should be levied on unearned incomes and should aim deliberately at preventing the retention of great fortunes in private hands.

These basic principles were embodied in a resolution passed by the Conference declaring that the present indirect taxation falls oppressively on the industrial classes and should be repealed; and being of opinion that the cost of social reforms should be borne by socially-created wealth, now appropriated by the rich in the form of rent, interest and profit, calls for the following reforms in the next Budget, namely, a super-tax on large incomes, a special tax on State-conferred monopolies, the increase of Estate and Legacy Duties, and a really substantial beginning of the taxation of land values.

In all the Budget debates which took place from the advent of the Labour Party in 1906 to the outbreak of war, these principles of taxation and these practical proposals were

put forward, and it became a commonplace observation during the debates on Mr. Lloyd George's Budget of 1909 that some of its more drastic provisions had been inspired by the suggestions made from the Labour benches of the House of Commons.

It will be noted that the main point in the Labour Party's financial programme as stated above, is that taxation should be in proportion to ability to pay and to the protection and benefit conferred on the individual by the State. There is a close connection between ability to pay and the protection and benefit conferred on the individual by the State. An individual's ability to pay is usually in proportion to the protection and benefit conferred upon him by the State. We may therefore say that the Labour Party's taxation programme is based upon ability to pay.

Let us try to make it clear what we mean by "ability to pay." No writer on this subject can fail to express his indebtedness to Mr. J. A. Hobson, who by his books and articles on this subject, has done so much to popularise "ability to pay" as the supreme canon of economy and equity in taxation.¹

Taxation is the transference from the individual to the State of some part of his resources. His ability to pay is determined

¹ See *Taxation and the New State*. By J. A. Hobson (Methuen, 5s.).

by the excess of his income over what is necessary to maintain him and his dependants in a state of efficiency—physical, mental and cultural. It follows upon this definition that no taxation should be levied upon the individual whose income is not more than sufficient to maintain him in the condition described. This principle of taxation is urged not merely in the individual's interests, but in the wider interests of the State; for it cannot be a social advantage to depress a standard of living which is already low. To do so would impair the productive efficiency of the nation, and would create social evils which would necessitate more expenditure by the State to treat and repair, than the sum derived by the taxation of this class. The wealth and income of the country from which the national revenue must be derived depends mainly upon the maintenance of the productive capacity of the nation, and that productive capacity depends mainly upon leaving unimpaired the standard of life of the working classes.

No arbitrary point could be fixed at which ability to pay begins, but it may in general terms be said that there is no ability to pay where the income of a family is no more than sufficient to provide the necessary food, shelter, clothing, education, health and reasonable recreation. Above that point there may be some small ability to pay, which

will rise as the income is larger. But here we are faced with this practical consideration, that with the advance of improvement, expenditure, which does not enter into the economy of the poorest paid classes, becomes incorporated as a part of the necessary expenses of maintenance. It is not desirable in the national interests that the aspirations after a higher standard of existence on the part of those who enjoy few of the benefits of civilisation should be discouraged. The ability to pay, therefore, of that large class above the poverty line, and struggling to raise themselves still higher by thrift and self-denial, is very small, and should not be encroached upon until the ability to pay of the classes above them has been fully exploited. This argument against the taxation of people with small incomes applies to the exemption of that part of the gross profits of employers which may be necessary for, or which could be advantageously employed in, improving the efficiency of the plant and business organisation. In other words, that part of the income justly available for taxation consists of the surplus after expenditure from income and profits of what is necessary to maintain and improve the efficiency of labour and production.

Contrary to the popular impression, the Labour Party has no hostility to saving, nor is it lacking in sympathy with the middle

class whose lot before the war was often hard to bear, and who, burdened with the high cost of living and war taxation, now find the struggle to live almost intolerable. The financial proposals of the Labour Party would relieve this deserving class. The Labour Party has no desire to discourage that laudable desire on the part of the self-respecting working and middle classes—

“To gather gear by every wile that’s justified by honour :

Not for to hide it in a hedge,

Nor for a train attendant ;

But for the glorious privilege of being independent.”

The practical application of these general principles involves a change in the incidence of taxation at both ends of the social scale. The total estimated tax revenue for 1920–21 amounts to £1,035,150,000. The expected receipts from the Customs and Excise are £348,650,000 and from Inland Revenue Duties £686,500,000. For the purpose of ascertaining approximately the amount of taxation contributed by the wage-earners and the middle and upper classes, we may assign the whole of the Inland Revenue taxes to the non-wage-earning classes, though since the reduction of the income-tax limit and the advance of wages in recent years, a considerable number of wage-earners are brought within the toils of the income-tax

authorities, though their aggregate contribution is not relatively large. Of the Customs and Excise Duties (that is, the taxes on beer, spirits, tobacco, sugar, coffee, etc.) it is estimated that four-fifths will be paid by the wage-earning classes, that is, a sum of £280,000,000. It is interesting and important to note, in view of the common contention that the well-to-do classes are being disproportionately taxed, that in the last three years the Customs and Excise taxes have been raised by £238,000,000 (of which £190,000,000 will be paid by the wage-earning classes), whereas Inland Revenue taxes have been increased by £179,000,000. Assigning to the well-to-do classes the payment of one-fifth of the Customs and Excise Duties, the amount of additional taxation upon them during the last three years (including Inland Revenue taxation) is £227,000,000, which can be compared with the addition of £190,000,000 to the taxation of the working classes. This division of the burden certainly is not in proportion to the respective ability to pay.

To exact £280,000,000 a year from the wage-earning classes in national taxation is an unjust and disproportionate imposition. Indirect taxation is a vicious method of raising revenue, and invariably places a much heavier burden upon the poor than upon the rich. Indirect taxation violates every principle of sound economy. It does not tax

individuals according to ability to pay, but according to their necessities or tastes. It takes out of the pockets of the taxpayers much more than it brings to the Treasury. It is uncertain in its incidence, and is open to evasion. It taxes one individual of the same class more heavily than another. Indirect taxation is a very bad schoolmaster, for it does not encourage the critical supervision of taxation among those who pay the taxes. Indirect taxation is defended on the ground that it is the only method by which the poorer classes can be made to contribute towards the cost of national government; but that contention assumes that it is just to tax those who have not the surplus of income which can be assessed by direct taxation.

Apart from the objections to taxation of the poor, which have already been set forth, it may be stated that the existence of a large population under or upon the border line of poverty, is a condemnation of the State for its failure to provide decent conditions of living for all its citizens, and that the State, having failed to afford them adequate protection and opportunity, has no just claim to impose taxation upon them. Waiving that point, however, and admitting that no inconsiderable proportion of the wage-earners may have some small ability to pay, the fact remains that the amount of taxation imposed upon them at present is grossly unjust and

burdensome. It may be properly urged that the bulk of the indirect taxation paid by the wage-earning class is upon articles of luxury, like liquor and tobacco. That is undoubtedly true; but expenditure upon these commodities by the working people is not really evidence of ability to pay. It is rather a case of ill-spent means which ought properly to be devoted to personal and household expenditure of a necessary and beneficial character. The taxes upon sugar, tea, coffee and certain food-stuffs is the taxation of necessaries—taxation which even the poorest are unable to evade.

The Labour Party, therefore, while it puts forward no claim for the complete exemption of the working classes from taxation, protests against the imposition of taxation upon articles of necessity, and against the method of indirect taxation in general, though for reasons other than economic, it is not opposed to the duties upon luxuries like liquor and tobacco.

The acceptance of the principle of "ability to pay" as the basic consideration in imposing taxation, opens up vast resources still available for appropriation by the State. The Labour Party's main principle of taxation is that the surplus of all individual incomes, after provision for the maintenance of a reasonable standard of efficiency and comfort, and provision for saving for capital

renewal and expansion, is available for taxation. If this principle be admitted there will be found available a surplus of incomes which in the aggregate amounts to a colossal sum. The methods by which these surpluses constituting ability to pay may be secured by the National Exchequer will be considered in succeeding chapters.

CHAPTER IV

HOW TO DEAL WITH THE DEBT

THE first step towards financial reconstruction is to deal with the National Debt. The Debt would never have been incurred if Governments had had the courage to call upon the nation for greater financial sacrifices during the war, or if they had really understood the nature and effects of public borrowing. But the Debt is upon our shoulders, and the immediate task of statesmanship is to discharge its obligation with least injustice and hardship and with the utmost expedition. "The same amount of sacrifice," wrote John Stuart Mill, "which would have been worth incurring to avoid the contracting of the Debt, it is worth while to incur at any subsequent time for the purpose of extinguishing it."

As I am endeavouring in this volume to state the views of Labour on national finance, it may be useful, in view of the popular idea that the Socialists are advocates of wholesale confiscation, to deal with the question of repudiating the Debt. Such a proposal finds no place in the programme of the Labour Party. Repudiation is not either

practical politics or social justice. A democratic community must pay for the sins of a Government it chooses to elect. It would be destructive of public confidence if, when wisdom returned after a period of temporary insanity, the evil results of past follies were repaired by visiting the sins of the majority upon an innocent minority. If the National Debt were held by all members of the community in equal sums, then repudiation might be adopted without injustice. But such is not the case.

It is quite true that during the war, as a consequence of the financial policy of the Government, there has been the anonymous repudiation of a vast amount of debt. The 387 representative securities, which the *Bankers' Magazine* has selected for the purpose of its monthly comparisons, were valued on July 20, 1914, at £3,371,000,000. On May 18, 1920, these securities had a capital value of £2,433,237, showing a loss of capital value since the outbreak of war of £937,773, or no less than 28 per cent. The market price of Consols on July 27, 1914, was 72½. In June 1920 they stood at 46½. This shows a decline of 36 points. All Government bonds and fixed interest bearing securities show a somewhat similar decline of capital value. But the decline in the nominal value of these securities does not by any means fully represent the amount of

anonymous repudiation which has taken place. The holder of Consols in July 1914 could have sold for £72 10s. To-day he would receive £46 10s., but that £46 10s. can only to-day purchase the same volume of commodities as £17 could have bought in 1914. In other words the real value of Consols has fallen from £72 10s. in July 1914 to £17 in June 1920. Such a decline as this approaches very near complete confiscation. A Government whose financial policy is responsible for this repudiation of the public Debt is certainly not entitled to hold up its hands in horror when deliberate confiscation is suggested.

In a sense all taxation is confiscation, but such confiscation can be justified, and indeed is often necessary to preserve the existence of the State. The justice of the conscription of wealth by the State was admitted by Mr. Bonar Law in a speech in the House of Commons on November 15, 1915. Speaking of military conscription he said: "We are asking these men who go to the trenches to give up everything, not merely their capital, but their lives. I agree absolutely that we have no right whatever to make a demand like that unless we are prepared to spread it over the whole nation and to take from every man and every class everything that is necessary to bring the war to a successful issue."

The State to-day is faced by a danger not less serious than that which confronted it in the summer of 1914. The very existence of the State and the security of the private property of its citizens are threatened by its financial embarrassments. It is sometimes said that the parallel which speakers from Labour platforms so often draw between military conscription and the conscription of wealth is of the nature of a claptrap appeal and rests on no sound parallel. But the relation of military conscription and the conscription of wealth is very close. Military conscription was justified on the ground that the peril of the State demanded that certain men (not every man be it noted) must be required to give up everything, not merely their capital, but perhaps their lives. It is, therefore, a relatively small thing to ask those who remained at home in the secure enjoyment of their property, now to make some sacrifice to save the country from financial ruin. The owners of wealth and property will not themselves deny that they are now in the enjoyment of their wealth through the sacrifices of those who lost their lives and others who fought and suffered in the war. Many of those who remained at home have been enriched as a result of the sufferings and sacrifices of others.

The statement has been put forward sometimes that the existence of a huge National

Debt is no drain upon the financial resources of a country. Where the Debt is owned internally, and is maintained by the payment of interest, it is no national loss, but a mere transfer. John Stuart Mill supports this view, though he admits that the transfer, being compulsory, is a serious evil, and the raising a great extra revenue by any system of taxation necessitates so much expense, vexation, disturbance of the channels of industry and other mischiefs over and above the mere payment of the money wanted by the Government, that to get rid of the necessity of all such taxation is at all times worth a considerable effort. But is it really true that the National Debt is not, apart from these admitted evils, an additional burden upon the community? If every member of the community held the Debt in equal proportions, and if he received as interest the same sum he paid in taxation, then this argument might be valid. But such is not the case, and the interest upon the National Debt is, in effect, an enormous tribute, not levied by the community on the community, but by certain individuals within the community upon other members of the community.

The older political economists never contemplated a National Debt of the colossal magnitude of that with which this country is now burdened. Adam Smith, however,

realised the disastrous effects of public debt and he wrote of "the progress of the enormous debt which at present oppresses and will in the long run probably ruin all the great nations of Europe."

To the evils arising from the existence of a huge National Debt, which have already been enumerated, others may be added. There is all the difference between a debt which has been contracted for productive and remunerative purposes, and loans the proceeds of which have been destroyed and left nothing but the obligation to pay an annual interest which must be raised from the general annual production of the community. The interest upon the war debt is a subtraction from the current wealth production. Were this sum not taken by the State for the payment of interest, it would no doubt, in a considerable measure, be reinvested as savings in productive enterprises, thus stimulating useful trade.

Government borrowing creates a *rentier* class who can live in idleness on the productive work of others. It enables them to withdraw labour from useful work and employ it in personal services and in the provision of luxuries. This is especially destructive at a time like this when, to repair the ravages of war, increased production of necessaries is so urgently needed. In the time of severe international trade competition which is

undoubtedly in front of us the burden of unproductive taxation, must be a heavy handicap upon the trade of this country. And it is by no means improbable that the State may find great difficulty, when the depression comes and the sources of taxation are diminished, in raising the sum required to pay the interest. In fact, this difficulty has already arisen. In June 1920 the Treasury had to borrow very heavily from the Bank of England in order to provide the funds required for the War Loan dividends. This made a substantial addition to the volume of inflated money, with the inevitable effect of raising prices.

The investing public realises these facts, and is not attracted by the appeals of the Government to invest in the "best security in the world." All the recent loan issues have been comparative failures, and the latest issue of Treasury Bonds bearing interest at the rate of 7 per cent., promoted for the purpose of funding the Floating Debt, is a grotesque fiasco. In the three months the subscriptions to these bonds amounted to the small sum of £10,000,000. The funding of the Floating Debt by direct subscriptions from the public is a matter of the gravest urgency. The present amount of the Floating Debt is about £1,200,000,000, and this wholly represents the creation of credit. It exists in the form of Treasury

Bills which are drawn by the Government against no existing assets, the only prospect of being able to meet them on maturity being the expectation of the acceptance of new bills. The increasing difficulty of securing the acceptance by the banks of these bills is shown by the necessity of having to increase the rate of discount on successive renewals. Should this Floating Debt remain, one of two things is bound to happen: either further increases in the rate of discount, followed by an increase in the bank rate, making money for trade and commerce still dearer; or, the refusal of the banks to discount these bills, which would bring the State to bankruptcy.

Two other reasons for the immediate reduction of the National Debt may be given. At simple interest at the rate of 5 per cent. the taxpayers return to the holders of the Debt the whole amount of the Debt in twenty years. The second point is this: the great bulk of the Debt has been incurred with money at its present depreciated value. Though there may be little prospect at present of an appreciation of the value of money which will bring the pound sterling to a point approaching its pre-war value, the State cannot afford to take the risk by the postponement of the reduction of the Debt of having in the future to repay the bond-

holders in a currency considerably appreciated beyond the value at the time the Debt was incurred. This important point may be simply stated as follows: The State borrowed when £100 represented, say, twenty-five quarters of wheat at 80s. per quarter. In other words, the State borrowed twenty-five quarters of wheat, but the obligation of the State was incurred, not in quarters of wheat, but in sterling. If the price of wheat should in the future fall to 40s. and the State should desire to repay the debt at that time, it will not be able to discharge its obligation by paying twenty-five quarters of wheat, but £100 sterling, which will represent fifty quarters of wheat. In other words should there be an appreciation of the sterling to the extent of 100 per cent. the State will have to repay the bondholders at a premium of 100 per cent. on their original loan.

The urgency of the matter of the immediate reduction of at least a considerable part of the National Debt having been established, we must now proceed to discuss practical proposals for achieving that object.

CHAPTER V

THE TAXATION OF WAR-TIME WEALTH

THE abstract justice of calling upon people who have made fortunes during and out of the war to refund at least a considerable part of their gains to the State for the purpose of reducing the War Debt is admitted. There is a widespread feeling that it is inhuman and immoral that certain individuals should have become rich by the exploitation of the opportunities afforded by a war. If the Government had, from the beginning of the war, taken drastic steps to prevent profiteering, and had, in addition, imposed heavier taxation, the problem of dealing with a colossal National Debt and the disgraceful spectacle of war-made millionaires, would not have existed.

The demand for the special taxation of the war-time increases of wealth is a belated effort to undo in a measure the evil results of financial mismanagement. Though this demand for the special taxation of war-time increases of wealth is undoubtedly a just demand, its practical enforcement presents many difficulties. Much of the wealth made

during and out of the war has, no doubt, been dissipated. It would be difficult, too, in practice to discriminate between increases of wealth made during the war and increases directly due to the war.

The question, however, of taxing war-time increases of wealth has been investigated by the Board of Inland Revenue, who, after an exhaustive and critical examination of the proposal, have come to the conclusion that, notwithstanding the difficulties, a practical scheme could be devised. The Board of Inland Revenue approached the consideration of this subject with the idea of ascertaining whether it might be possible to impose special taxation upon this class of wealth for the purpose of reducing the Floating Debt. The Controller of Treasury Finance, in evidence before the Select Committee on War Wealth, stated that the opinion of the Treasury was that it was almost impossible without some special provision, to obtain a reduction of the Floating Debt, and to get back to a sound economic position. To put a stop to the present vicious circle by which, first of all, the Government created a new credit, followed by a rise of prices and an advance of wages, and again a new creation of Government credit and further rise of prices and advance of wages, it was urgently necessary that a sum of £1,000,000,000 should be raised for

the reduction of the Floating Debt. The serious financial situation justifies expedients which might not be justifiable in ordinary circumstances. The Controller expressed the view that the revenue authorities could arrange for the collection and levy on war-time increases of wealth without doing serious damage to the country.

The Memorandum issued by the Board of Inland Revenue dealing with this subject is a document of great statistical importance. It gives the endorsement of the authority of a Government Department to the popular impression that great fortunes have been made during and out of the war. Though the following point has no special bearing upon the proposal to tax these war-time fortunes, it is interesting and important, as supplementing the figures given by the Board of Inland Revenue as to the amount of war-time made wealth still remaining in private possession. Since the imposition of the Excess Profits Duty, the yield of this duty has been £936,000,000. In the four years before the war the yield of the income-tax was £289,000,000. During the four years of the war the yield was £1,084,000 an increase of £795,000,000. That is to say, that out of profits made during war-time a sum of £1,731,000,000 has been taken in direct taxation in excess of the amount contributed in the corresponding period before the war.

Notwithstanding this appropriation from profits of the sum of £1,731,000,000, the Memorandum of the Board of Inland Revenue states that the value of the wealth remaining in the possession of individuals on June 30, 1919, was £5,065,000,000 in excess of that in their possession at the outbreak of war. Against this must be set a figure of decrease of £1,075,000,000 which has been suffered by other individuals. The estimate of Dr. Stamp puts the net increase much higher than the Board of Inland Revenue, namely, £5,300,000,000.

The aggregate of the post-war wealth of those individuals whose total wealth has increased since June 1914 which has come under the notice of the Board of Inland Revenue is £13,046,000,000. It does not include the post-war wealth of individuals whose total wealth has not increased. Of this total of £13,046,000,000 a sum of £3,948,000,000 is held by persons whose individual share does not exceed £5000. This class has increased their wealth during war-time by £1,334,000,000. Among these about 170,000 are from £3000 to £5000 richer than they were at the outbreak of war. Two-thirds of the aggregate net increase, that is, nearly £3,000,000,000 is computed to be in the hands of 340,000 persons. There are 3620 individuals each owning over £250,000, their aggregate wealth amounting

to £1,995,000,000. These 3,620 individuals have increased their pre-war wealth by £707,000,000. The Board of Inland Revenue have cognisance of 280 individuals each owning more than a million pounds and the aggregate war-time increase of wealth of these millionaires is put down at £200,000,000, the total of their post-war wealth being £590,000,000. The increase of war-time wealth involves a permanent charge on the industry of the country. At 6 per cent. the increased income of the owners of these fortunes would amount to £240,000,000 a year in perpetuity. The appropriation by the State of the whole of this income would relieve the community of this perpetual burden.

It is not, of course, maintained that the whole of these war-time increases of wealth is due to special opportunities created by the war. On a previous page we have quoted a statement made by Mr. Lloyd George that Sir George Paish estimated that the increase of capital wealth in the five years before the outbreak of war amounted to £1,750,000,000. This is probably an extreme figure, but if we admit that the normal increase of the national capital due to what may be called legitimate savings, was £350,000,000 a year before the war, we should reach the conclusion that more than one half, namely, £2,400,000,000 of war-time increment of wealth was directly

due to the special opportunities of war-time circumstances. This sum of £2,400,000,000 is therefore justly available for appropriation by the State if some practical scheme could be devised for securing it.

Fortunately it is not incumbent upon the advocates of a special tax on war-time increases of wealth to formulate a scheme or to defend its practicability. The Board of Inland Revenue, in the Memorandum to which reference has already been made, discussed all the practical difficulties, and though they do not minimise their seriousness, they came to the conclusion that they are not insurmountable. They propose that the owners of all forms of property should be called upon to make a return of the capital value of their estates in July 1914 and in July 1919. It is a great misfortune that there has not been in existence in the past any record of the capital wealth of all individuals. Such a return, if made annually, would not only be of great statistical importance as throwing light upon the distribution of national wealth and its movement, but would be valuable for new schemes of taxation which it might be considered desirable to impose. In the early days of the war the Commonwealth Government of Australia carried out such a census of capital wealth as is now suggested for this country by the Board of Inland Revenue.

The difficulty of making a return is not greater than that which is encountered and overcome in making the returns for Estate Duty. If the suggested tax on the increment of wealth between 1914 and 1919 were imposed, it would not be a tax exclusively on profits made either out of the war or in consequence of the war, but would be of the nature of a capital levy on all war-time increases of wealth. But as it is not proposed that the tax shall attempt to appropriate the whole of the increment disclosed as having accrued between these dates, that part of the increment left in private ownership might properly be regarded as the exemption from taxation of legitimate savings during that period. The practicability of the tax is admitted by the Select Committee appointed by the Chancellor of the Exchequer in their Report upon their inquiry. The Committee expressed the opinion that although the administration of a tax of this character would involve many difficulties, yet those difficulties would not be insurmountable, and they report that in its many features the scheme of the Board of Inland Revenue is practical in an administrative sense. The Committee, however, did not recommend the adoption of the scheme, but left this decision to the House of Commons. The House of Commons has since very emphatically rejected the proposal, a course which was only

to be expected from "hard-faced men who have done well out of the war."

The original proposal of the Board of Inland Revenue was to raise a sum of £1,000,000,000 by a graduated tax upon the war-time increases of wealth. Later a modified scheme was submitted to the Committee for a reduced yield of £500,000,000. Under this latter scheme provision was made for abatements equivalent to a percentage of the pre-war wealth. That percentage would be 100 per cent. where the pre-war wealth did not exceed £2500 and would diminish by very small steps until it reached a limit of 30 per cent. in cases where the pre-war wealth exceeded £500,000. After allowing for these abatements a graduated scale of taxation on post-war wealth was proposed, rising to 80 per cent. on fortunes of £500,000 and over. The great value of the discussions upon this subject of the special taxation of war-time increases of wealth lies in the fact that it has been admitted by the financial experts of the Government, and though the difficulties of such a tax are not less, but greater, than those which would be involved in the imposition of a general capital levy, that it is practicable. The advocates of a capital levy can now pursue their demand, fortified by the support, so far as the practicability of a capital levy is concerned, of the Government Department which would have the duty

imposed upon it of assessing and collecting the capital levy. It is with reluctance that one abandons a demand for the expropriation of the war profiteers. It is so eminently fair and just that the profits they have accumulated should be disgorged and devoted to restoring the financial stability of the country, which has been so rudely shaken by the war. It is only fair, too, that those who have made fortunes directly due to the war should be treated very drastically, more so than those whose wealth has been accumulated by methods which are still generally regarded as legitimate. Time is a material factor in any scheme for the special taxation of war-made fortunes, and if at an early date a Labour Government should come into power, it would be the duty of the Chancellor of the Exchequer of that Government to carry through some scheme, belated though it might be, by which as much as possible of the ill-gotten gains of war-time should be disgorged by their possessors for the relief of the financial embarrassment of the nation.

CHAPTER VI

THE LEVY ON CAPITAL

THE proposal to levy a special tax on increases of war-time wealth is advocated and supported quite as much on the ground that it would be an act of compulsory restitution as on the ground that the revenue thereby obtained is needed to assist national financial recovery.

But the demand for a general levy on capital is put forward solely on the ground that the reduction of the National Debt, being a matter of grave importance and urgency, it is necessary that some drastic step should be taken which will secure that object. Without stretching the application of the old adage in this case too far, that necessity knows no law, it is quite right to urge demands in necessitous circumstances which in ordinary times might be open to grave objections. This argument was used to justify military conscription during the war, and if, the urgency being admitted, the ordinary financial methods are insufficient to rapidly discharge a considerable part of the National Debt, then exceptional measures become necessary.

Taxation is insufficient to effect an immediate considerable reduction of the National Debt. The proposal for a general capital levy for that purpose is a plank in the financial platform of the Labour Party. From the early days of the war the demand for a capital levy has been made in resolutions passed by Socialist, Labour and Trade Union Congresses. It is only just, however, to give credit for the advocacy of this proposal in Parliament to Mr. Sydney Arnold, M.P., the Radical Member for Penistone, who has made a special study of this question. Mr. F. W. Pethick-Lawrence has also done much to popularise this question by his books and pamphlets and press articles.¹

It is not in Great Britain alone that financial embarrassment has driven the people to look to a general capital levy as a means of relieving the situation. A proposal of this character was made by the German Government in January 1919, and at the time of writing the newspapers announce that a capital levy and the appropriation of war fortunes are proposals put forward by Signor Giollitti, the new Italian Premier.

It is not proposed that the capital levy shall become a part of the permanent taxation system of Great Britain. There are grave objections to using the capital levy

¹ See *The Capital Levy*. By F. W. Pethick-Lawrence (Allen & Unwin, 2s. 6d.).

except in necessitous circumstances. It is incumbent upon those who oppose a capital levy for the purpose of reducing the National Debt to put forward some alternative scheme. So far they have failed to do so, for the simple reason that there is no other practical plan. That a capital levy will cause inconvenience, and may be in rare cases hardship, may be granted, but that objection may be urged against all forms of taxation, and with considerable force against a permanent high income-tax. Most of the objections to a capital levy, with some of which we shall deal later, are based upon the false assumption that the levy will be made periodically. If that were the proposal then there would be fatal objections to it. The possibility of a periodic levy on capital would discourage saving, it would keep the commercial world in a continual state of uncertainty, and it would arrest trade enterprise.

These fears, however, need not be entertained in regard to a special levy on capital once and for all for the purpose of reducing the National Debt. The words "capital levy," unfortunately, do not clearly express what is meant by the proposal. The words convey to the popular mind the idea that it is proposed to tax only capital which is employed in industrial enterprise. The scheme would be more accurately described as a tax upon accumulated wealth. The

‘capital’ which would be taxed would include all forms of wealth owned by individuals, but not capital collectively owned. Like the income-tax, a capital levy would be a tax upon individuals. The forms of wealth which would come within the grasp of a capital levy are land, minerals, houses, Government and municipal bonds, shares, mortgages, stock-in-trade, furniture, pictures, jewellery, in short, just the same wealth which would be liable for assessment to Estate and Succession Duties. In fact, a capital levy bears the closest analogy to the Estate Duties. It would be assessed in the same way and collected in the same manner. There would be no difficulty in the assessment and collection of a capital levy which is not encountered and surmounted in the assessment and collection of the Estate Duties.

The assessment and collection of a capital levy would present fewer difficulties than assessment for a war-wealth increment tax. In the latter case two assessments would be necessary: one of the individual’s wealth at a date six years old, and the second at a date five years later. But for the purpose of a capital levy only one valuation would be required, and that would be upon the wealth possessed by the individual at the time of the assessment. The Board of Inland Revenue were prepared with the machinery at their disposal to undertake the difficult

task of the dual valuation for a war-time wealth tax. For the purposes of a capital levy they would experience far less difficulty. The practical difficulties which would have been encountered in assessing and collecting a capital levy six years ago have been greatly minimised by the fact that so much of the wealth which would be liable to the capital levy is now held in the form of war-loan bonds. It was stated some time ago by an official of the War Savings Committee that nearly twenty million persons in the United Kingdom hold war-loan stock. If this be so the collection of the capital levy would be greatly facilitated. It must be remembered that the purpose of the capital levy is to cancel a proportion of the War Debt. Persons who were called upon to pay the levy would, therefore, surrender the due proportion of their war-loan scrip. There would be no penalisation of investors in war-loans. Their contributions to the capital levy would bear just the same proportion to their total wealth as that made by people whose wealth was in other forms.

The amount of war debt which would be cancelled by the proceeds of a capital levy would, of course, be much higher than that paid by holders of war-loan stock surrendered in payment of their contribution. A considerable part of the levy would be paid in cash or by arrangement, in some form of

saleable property. The Treasury could accept as payment of the levy marketable share securities in lieu of cash payments where it is inconvenient or impossible for the taxpayer to discharge his liability in cash or war bonds. It may be said that the payment of the levy in this form would throw upon the market a vast number of securities, the effect of which would be to disorganise the Stock Exchange, to cause a depression of prices, and to glut the market with unsaleable securities. But that assumption is wholly unfounded. As has been suggested by Mr. Sydney Arnold, the Treasury could issue a list of securities they were prepared to accept in payment of the capital levy, and in this list there would be only such securities as were of a sound character. There would be no immediate need for the Government to realise these securities. There would be several courses open to the Government. They could keep the securities if they thought fit and the interest upon them would be received by the Treasury and would augment the revenue of the country, or the securities could be exchanged for war-loan stock.

There might be a few cases where a person liable to the capital levy was not in a position either to pay cash, surrender war bonds or marketable securities. Such cases would be those of persons whose whole wealth was

locked up in business or in house or landed property. In such cases the Government could regard the capital levy as a debt on which interest would be paid, and arrangements could be made by the banks for credit facilities for its gradual payment.

The capital levy would, as has been said, be made upon individuals and not upon companies. It is a controversial point as to whether the reserve funds of public companies should be subject to the capital levy. It may be pointed out that these reserve funds are reflected in the Stock Exchange values of the shares of the companies, and that, therefore, they would be included in the individual owner's assessment.

We may now consider how much it might be possible to raise by means of a capital levy. Estimates of the total capital wealth of the United Kingdom vary very considerably. The Memorandum of the Board of Inland Revenue on the Taxation of War-time Increases of Wealth brings under review the estates of 340,000 individuals who are worth more than £5000 each. The Board estimate the total post-war wealth of these 340,000 individuals and the wealth of those whose individual estates are less than £5000 (the number of such individuals not being stated) at £13,406,000,000. As has already been pointed out, this estimate includes only the total post-war wealth of those individuals

whose total wealth has increased since June 1914. It does not include the total post-war wealth of individuals whose total wealth has not increased. For the individuals concerned the estimates include private wealth in the form of war-loan investments at their market value on June 30, 1919.

Dr. Stamp, in *The Economic Journal* of September 1918, estimated the value (expressed in terms of money) of all the property owned by individuals as a whole which would be available for a general capital levy just before the outbreak of war at £11,000,000,000. He estimates the war-time increase up to September 1918 at £5,250,000,000. According to this estimate there would be a sum of £16,250,000,000 available for a capital levy. Mr. Crammond, in a paper read before the Institute of Bankers on June 7, 1920, estimated the national wealth at the present time at a sum of £24,000,000,000. He arrived at this figure by taking his own estimate of the pre-war national wealth at £16,500,000,000, which he said would represent, in post-war money, £27,500,000,000. Mr. Crammond's figure agrees precisely with the estimate made by Mr. Sydney Arnold, namely, that for the purpose of the capital levy the taxable wealth of the country will amount to £24,000,000,000.

Mr. Pethick-Lawrence has based his estimate of the yield of a capital levy on the

assumption that the taxable capital of the country is about £15,000,000,000. The wide disparity between the lower and the higher of these various estimates is probably explained by the inclusion in Mr. Crammond's and Mr. Arnold's estimates of the war-loans as an addition to the capital of the country. The war-loans do not represent any addition to the real capital, but it appears to be sound to regard these sums as available for the purpose of a capital levy.

It is not much use at this stage to attempt to estimate precisely what would be the yield of a capital levy. The Board of Inland Revenue alone are in possession of the material for arriving at an accurate estimate of the yield of such a tax. Nor do tables setting forth the rates of duty upon estates of different values serve a very useful purpose. But it may be said that the capital levy is hardly worth imposing unless it can be made to realise a substantial sum for the reduction of the Debt. Labour Party Conferences and the last Co-operative Congress have passed resolutions demanding a capital levy which would operate on all individual estates exceeding £1000 in value. There are objections to imposing the capital levy on individuals of comparatively small means. The Board of Inland Revenue in their scheme for the taxation of war-time increases of wealth exempt all individual cases where the

total wealth does not exceed £5000. They did this because of the practical difficulties of assessment of these comparatively small estates, and because of the difficulties of collection and of the hardship which might be inflicted. A capital levy is not a vindictive proposal for the punishment of those who have saved a reasonable sum for protection against adversity, and unless it were proved to be impossible to raise an adequate sum without including persons in the lower ranges of individual estates it is desirable to exempt such.

There is this further important objection to beginning the capital levy at a very low point, namely, that the yield of the tax would not be commensurate with the trouble involved in assessment and collection. On the assumption that the capital sum assessable to a levy would be approximately the figure estimated by Mr. Crammond and Mr. Arnold it would require an average rate of tax of about 14 per cent. to yield £3,000,000,000. The graduation would, no doubt, follow approximately the scales of the Estate Duties, avoiding the abruptness in the graduation which results in an unfair charge when the higher rate begins to operate.

The sum which would be raised by a capital levy would have to be definitely ear-marked for the reduction of the Debt. There would have to be efficient safeguards against the

revenue being diverted to new militarist adventures. If the National Debt were reduced to the extent of £3,000,000,000, it would be possible if it were considered desirable to relieve annual taxation by nearly £200,000,000.

We may now proceed to consider some of the objections to a capital levy, in addition to those with which we have already dealt. It is said that a capital levy would destroy the incentive to save, and in consequence the sources from which trade and industry are fed would be stopped. The answer to this objection is that if the capital levy were imposed once and for all, and imposed as it would be on accumulated capital, it could not have any effect upon the incentive to save in future. It may be further pointed out that the existence of the Debt, with all its evil consequences in the form of the enormous repudiation of capital values by the depreciation of the value of money, is a far greater discouragement of saving than a capital levy could possibly be. The purpose of a capital levy is to relieve trade and industry, and the taxpayers now burdened by an intolerable income-tax.

Another objection which contains more substance is that it is as unfair to tax accumulated wealth and to leave free from special taxation large incomes which are made by professional and business men. To

meet this objection it has been suggested that these large incomes might be capitalised and their possessors should be called upon to pay a special income-tax. There would be practical difficulty in the way of carrying out such a plan, and it is doubtful if the revenue derived thereby would be commensurate with the trouble involved. The complete answer to the objection is that no system of taxation could be uniformly just in its incidence, that the capital levy is a special emergency tax, that capital is the most convenient form of wealth for such emergency taxation. An objection related to this takes the form of pointing out that a capital levy exempts from special taxation those who have squandered their incomes in riotous living, while it penalises those who have been thrifty. This is true, but the same objection may be brought against the income-tax. If a person increases his income by hard work, skill and saving, his contribution to the income-tax rises proportionately, whereas the lazy and indifferent persons suffer in income and therefore escape income-tax. There is no way by which revenue can be raised except by the taxation of persons who have taxable means. It may appear a hardship to the energetic and thrifty that the spendthrift and the indifferent should escape taxation, but this is inevitable in any system of taxation.

The business community is undoubtedly opposed to a capital levy, but their opposition is in the main based upon a misunderstanding of the nature of the proposal. Their objection assumes that the tax would withdraw capital from trade and would result in considerable embarrassment. The fact is that the capital levy would not reduce in the least the amount of existing capital available for business purposes. It would cause a transfer, it is true, and there might be individual cases where some temporary embarrassment might be caused, but, as I have pointed out, in dealing with the method of collection, it would be an easy thing for the Government to make arrangements with the banks by which exceptional cases of hardship could be eased by the grant of credit. The important thing that the business community should realise is this, that no hardship or embarrassment which could be caused by a capital levy could possibly be so great as that which is inflicted to-day by the high rate of interest, the depreciated value of money, the high income-tax and (if we accept the complaints of the business community) by the Excess Profits Duty. The capital levy is the only practical proposal for relieving the present financial situation. It is for those who object to it to propound some other plan for relieving the situation, and so far they have been unable to do so. The

simple fact is that there is no alternative to the capital levy. If this be not imposed then the existence of the National Debt will inevitably bring upon the country sufferings and hardships, compared with which the most dismal criticisms of the capital levy are of no importance.

CHAPTER VII

AFTER THE CAPITAL LEVY

IF a sum of £3,000,000,000 were raised by the capital levy, and devoted to the reduction of the National Debt, there would still remain a burden of debt amounting to roughly £5,000,000,000, involving an annual payment of interest of about £250,000,000. Other steps would have to be taken for the gradual liquidation of this debt. Various proposals have been made to deal with the Debt apart from the capital levy, among which is the suggestion of a forced loan at a low rate of interest. Mr. Austen Chamberlain on May 11, 1920, said that he could not see the advantage of a forced loan over a capital levy. The objections to a forced loan are stronger than those which could be brought against the capital levy. The objection to a capital levy that it would withdraw capital from industry, create commercial embarrassment, and increase unemployment, would apply equally to a forced loan.

The objection that a capital levy would be confiscation would apply to the forced loan if it were issued at a lower rate of interest than those who contribute to it could obtain

by the free disposal of their capital. It may be urged that the forced loan would possess this advantage over the capital levy, that the lender would have bonds which could be lodged as security for credit. But that is a very doubtful advantage, as it would lead directly to the inflation of credit and the consequent increase of prices. The forced loan could only apply to the Floating Debt, and the difference between the rate of interest payable on the forced loan and that now paid by the Treasury on its Bills would not make a very material difference, though there would be some advantage in funding the Floating Debt. A witness before the Select Committee on the Taxation of War-time Increases of Wealth suggested the issue of a loan for the purpose of funding the Floating Debt which would be free of income-tax and super-tax. This proposal is highly objectionable, as it would give preferential treatment to one set of investors who obviously would belong to the wealthier classes. It would destroy the principle of the graduation of the income-tax in accordance with ability to pay. It would in effect be the issue of a loan at a high rate of interest, and though we attach no importance to it, the capitalist objection to a levy that it would divert capital needed for commercial expansion would, if the objection is sound, apply equally to this proposal.

There are those who maintain that the only effective way of relieving the financial situation is by drastic economy of expenditure. This point has been briefly dealt with in a preceding chapter, but a few additional observations may perhaps be usefully made. In a speech delivered by Mr. McKenna—an ex-Chancellor of the Exchequer and at present Chairman of one of the largest Joint Stock Banks—at the Annual Dinner of the National Union of Manufacturers, on June 14, 1920, he said that the conclusion to which he had been driven was that the country could not afford to pay in taxation more than £1,000,000,000 a year. It should not be difficult, for the next few years, without sacrificing efficiency, to keep the national expenditure which has to be supported from tax revenue within the sum mentioned by Mr. McKenna, though we do not admit for a moment that the taxable capacity of the country would be exhausted by levying taxes under an equitable system to the amount of this sum. The total estimated expenditure for 1920–21 is £1,157,452,000. If the Loans to Dominions and Allies, the railway subsidy, the bread subsidy, the coal-mines subsidy, and the expenditure on the Ministry of Munitions and the Ministry of Shipping (none of which items can complacently be regarded as permanent expenditure) were abolished, the expenditure would be reduced

by £160,000,000, thus bringing the figure within Mr. McKenna's estimate of the expenditure the taxable capacity of the country is able to bear. If the League of Nations could be made a real instrument for securing international peace, a very considerable reduction of the present expenditure upon the army, navy and air force, which for 1920-21 amounts to £230,000,000, could be effected.

There is bound to be a progressive increase in expenditure upon many items under the Civil Service Vote. We cannot retrench upon expenditure on education. The grants from national taxes for public education in 1920-21 amounted to £56,081,000. This item of expenditure has risen since 1913 from £19,450,000. The Chancellor of the Exchequer in his last Budget statement said that the expenditure on education will go up to £70,000,000 a year automatically before very long. We must expect, too, a considerable increase in expenditure upon the public health department, including housing. The "New Jerusalem" which the present Prime Minister promised the workers of the country cannot be built without expenditure, and vast sums will have to be expended in the immediate future upon schemes of reconstruction which will not be immediately remunerative, though they will eventually become so. It may be pointed out that a

reduction of Government expenditure upon permanent services will not fall proportionately should there be a decline of prices and an increase in the purchasing value of money, because no Government would, for instance, dare to incur the unpopularity of reducing war pensions and old age pensions, nor the salaries of the permanent civil servants. We may accept Mr. McKenna's limit of a national expenditure from tax revenue as being sufficient to meet annual expenditure in the immediate future. The reduction of the National Debt by a capital levy would, as we have seen, release a sum of nearly £200,000,000 a year, which could be devoted either to a reduction of taxation or to transferring the receipts from revenue to meet the cost of improved education, the public health services and reconstruction schemes, or to making provision for a sinking fund which would rapidly extinguish the National Debt.

If, as Mr. McKenna admits, the country, even with production about 80 per cent. of the pre-war standard, is able to bear annual taxation to the extent of £1,000,000,000, there is no reason why the saving on the National Debt, effected by the proceeds of the capital levy, should be given to relieve taxation. It would be far better, both from the point of view of immediate and ultimate national benefit, that the country

should bear its utmost taxable burden until such time as the Debt had been extinguished. This does not, of course, mean that the incidence of particular taxes should not be varied. Present taxation undoubtedly presses with uneven weight upon different classes, and it will be the duty of some Chancellor of the Exchequer in the near future to re-arrange the national taxes to lighten the burden where it presses heavily; and to transfer it to stronger and broader backs.

In dealing with the possibilities of a reduction of expenditure I have pointed out that economies might be effected without impairing national efficiency or security which would keep the national expenditure within the limit of £1,000,000,000 a year. The total estimated revenue for 1920-21 from taxes is just over this sum, namely, £1,035,000,000, but some of these taxes are not productive for the whole of the year, and in a full year the revenue is estimated at £1,238,000,000. Included in this figure is the Excess Profits duty, which is estimated to yield in 1920-21 a sum of £220,000,000. The yield from this tax is a declining yield, and it cannot be regarded as a permanent source of revenue. It was imposed as a war-emergency tax and it has proved to be exceedingly remunerative. We may, therefore, eliminate the Excess Profits duty from our estimate of permanent taxation,

and excluding this the yield from the existing customs and excise duties, death duties, stamp duty, land tax and house duty, income-tax (including super-tax), should amount to £1,000,000,000, in a full year on the basis of the present yield. We should not be justified, however, in assuming that the existing taxes will maintain their productivity unless something is done, which is eminently desirable, to increase the annual output of wealth. If that be done, on the basis of existing taxation the revenue may be expected to yield sufficient, after the Excess Profits duty has been abolished, to meet an expenditure of £1,000,000,000 a year. It should be borne in mind that a considerable part of this expenditure will be devoted to the interest and sinking fund on the unredeemed National Debt, but each year this item of expenditure will decline, thus releasing millions either for the relief of taxation or for meeting the inevitable increases of expenditure upon necessary services.

With the limit of expenditure fixed at £1,000,000,000 a Chancellor of the Exchequer will have considerable room to operate in readjusting taxation. Though the limit be fixed at £1,000,000,000 for the immediate future as the extent of the taxable capacity of the country as a whole, we by no means admit that there are not individuals and classes who are well able to bear additional

taxation for the relief of those classes which at present are bearing a burden quite disproportionate to their strength.

The estimated yield from Customs and Excise duties for 1921 is £348,650,000. It is generally assumed that four-fifths of these duties are paid by the wage-earning classes. The family expenditure upon tea, cocoa, coffee, sugar, varies little per head among the different classes. Indeed, it is highly probable that the poorer classes spend as much per head upon tea, and possibly upon sugar, as the well-to-do. The Customs and Excise duties fall into two classes : taxes upon necessaries, and taxes upon articles which may be described as luxuries or non-necessaries. The estimated yield from the duties upon liquor for 1920-21 is £204,900,000, from tea £17,000,000, from cocoa £2,450,000, from coffee and chicory £650,000, from sugar £32,200,000, from dried fruits £1,000,000, from tobacco £62,500,000. We may take tea, cocoa, coffee, sugar and dried fruits as being necessaries of life, and spirits, beer and tobacco as non-essentials. The five necessaries enumerated are taxed in the aggregate to the extent of £53,300,000. Four-fifths of this sum which may be allocated as the contribution of the wage-earning class amounts to £42,600,000. This is a monstrous burden to be placed upon a class whose ability to pay taxation is in individual

cases very small, and in the majority of cases non-existent. The revenue yield from these taxes does not represent the whole of the contribution from the taxpayers through their imposition. It is one of the evils of indirect taxation that it takes out of the pockets of the taxpayer more than it brings into the Exchequer. As the tax is paid when the goods leave bond, the tax thus becoming a part of the cost of the commodity, traders' profits at all the stages until it reaches the consumer, are added to the tax, as well as to the prime cost of the commodity. If we take all the indirect taxes, which amount to £348,000,000 a year, we find that the amount of indirect taxation per family in the United Kingdom amounts to £35 a year or 13s. 6d. per week. It is, of course, true, that the bulk of indirect taxation is upon articles like tobacco and liquor, which are not necessaries. But it should be pointed out that taxes are levied on tobacco and liquor because these commodities are consumed by the working classes, and those who defend indirect taxation on the ground that it secures a contribution to the revenue from the poorer classes, would defend taxes on other articles in general use if liquor and tobacco were not available for that purpose.

The liquor taxes, it is true, are in a different category from other indirect taxes. The

liquor trade is a State-conferred monopoly, and heavy taxation on liquor may be defended as a means by which the State can appropriate some part of the monopoly value of the trade, though there is not much support for this argument in practical experience, for the monopoly itself enables the trade to transfer practically the whole of the taxation to the consumer. The Government have fixed maximum prices for beer and spirits, but when the last increases of the liquor duties were imposed, provision was made by which the retail prices could be increased to compensate the trade for the increased duties. The Labour Party is not in favour of the abolition of the liquor duties. It adopts that position for two reasons: first, because a cheapening in the price of drink would encourage indulgence; and second, because the relief of taxation would be a monetary gift to the trade.

It is a suicidal policy for the State to encourage expenditure upon liquor for the purpose of providing revenue. The taxes cannot justly be defended on the ground that the expenditure upon drink by the working classes is proof that they have a surplus income available for taxation. The expenditure of the working classes on drink comes in the main, not from a surplus income after all the needs of physical and intellectual life have been satisfied, but from the unwise

diversion of spending power to a wasteful and harmful indulgence which in effect reduces the physical efficiency of the worker and lowers his general standard of living.

The case of tobacco is somewhat different. Without fully accepting the contention which is sometimes put forward that tobacco is a necessary, it may be granted that it is a harmless indulgence, and that those who use tobacco should not be specially selected for exceptional taxation, because their indulgence in a moderate luxury takes a particular form. The present duty on tobacco is undoubtedly much higher than could be justified as a permanent imposition, and while not favouring the abolition of the tobacco duty, the Labour Party would no doubt reduce the duty considerably when carrying through a scheme for the readjustment of the burden of taxation.

The Labour Party, on principle, is opposed to indirect taxation, and would abolish all the taxes on necessaries. The Labour Party has never advocated the exemption of the working classes from taxation. What it does maintain is, that the taxes on food encroach on the necessary subsistence of the poor. If the working classes have a surplus income after providing for a reasonable standard of life, then some part of that surplus may be regarded as available for taxation, though the amount of taxation levied upon it must

be small, so as not to prevent the satisfaction of the desire for intellectual advance. It is just as bad, from the social point of view, to impose taxation which hampers the intellectual progress of the workers as to impose taxation which hinders physical development. For that reason the entertainment tax is to be deprecated.

I have set forth elsewhere at length the general objections to indirect taxation, but I may here briefly summarise them. Indirect taxation violates every principle of sound economy. Indirect taxes do not apportion the burden in accordance with ability to pay. The duties on articles in general use fall equally on the rich and poor without regard to their respective ability to pay. Indirect taxes are uncertain in their incidence and can be easily evaded. A grave objection to indirect taxation is that it does not encourage a critical supervision of taxes by those who are called upon to pay them.

Mr. Pitt, in the course of a debate on a proposal to levy a direct income-tax upon all citizens, uttered these remarkable words—

“ There is a far better way than that, a way in which you can tax the last rag from the back, the last bite from the mouth, without ever hearing a murmur about heavy taxation. And it is by taxing a large number of articles

in daily use. The tax will then be lost in the price of the article. The people will grumble about high prices and hard times, and they will never know that the hard times are caused by heavy taxation.”

All the general objections to indirect taxation apply with great force to a Customs tariff. Tariffs are, of course, defended on other grounds than as revenue-producing instruments. A duty, however, imposed on imported articles which do not enter into competition with home products is less objectionable than tariffs imposed for the double purpose of raising revenue and protecting home industries. The objection to indirect taxation—that it takes out of the pockets of the consumer more than it brings in to the Exchequer of the State—applies to an enormously greater extent to a Customs duty on imported articles which enter into competition with home products. Such a tariff enables the home manufacturer to raise prices, and thus the tariff imposed on imported goods becomes a tariff upon home productions as well. The Labour Party has repeatedly and emphatically declared its opposition to protective duties, and no such proposals are ever likely to find a place in the Budget of a Labour Chancellor of the Exchequer.

The financial policy of Labour as outlined in this chapter may be summarised as follows. There is no desire on the part of Labour to levy taxation except for the purpose of raising revenue which could be more advantageously spent than if the money is left at the disposal of individuals. The need for drastic national economy is recognised. National expenditure which is not remunerative in the sense of raising the standard of national efficiency and comfort, and of promoting trade and industrial development, should be ruthlessly eliminated. A high standard of efficiency must be exacted from all national administrative departments. By the elimination of unnecessary expenditure the tax revenue of £1,000,000,000 a year might be the limit within which for the next few years means could be provided for the rapid reduction of the National Debt, the abolition of the food taxes, meeting the progressive increase of expenditure upon necessary public services and the demands of social reconstruction. That limit, however, by no means exhausts the taxable capacity of the country. The unappropriated surplus beyond this sum will be available for call should necessity arise, a contingency which is highly probable in the not distant future.

CHAPTER VIII

THE INCOME-TAX

THE proposals and suggestions set forth in preceding chapters are intended to restore the finances of the country to a sound condition. We will now proceed to apply the Labour principles of finance to a more settled and permanent state of affairs.

National taxation can only be justly levied from the surplus income of individuals, surplus being defined as that part of the individual income which is left after a reasonable standard of life has been satisfied, and after adequate provision has been made for savings necessary in the case of individuals to safeguard them against misfortune and want, and in the case of business men, after making provision for new capital necessary for the legitimate expansion of trade.

All taxes are exactions from individual incomes. That obvious fact leads naturally to the conclusion that a just system of taxation will be in accordance with ability to pay of each individual income, and to such a method of assessing and collecting the tax as will, as far as it is humanly possible, tax each individual in proportion

to his ability to pay. Of all taxes the income-tax best fulfils these conditions. The income-tax was first imposed in a time of national difficulty, and was then regarded as a temporary imposition to meet an exceptional emergency. The belief in its temporary character caused the injustices of its incidence to be tolerated, but as the belief grew that it was likely to remain a permanent part of our fiscal system, the demand for reforms became more insistent.

The income-tax is now accepted, not merely as a permanent institution, but as a tax upon which the Chancellor must rely for a great part of his revenue. The necessity, therefore, for levying the income-tax in such a way as will remove anomalies and spread the burden as justly as possible in proportion to ability to pay, is very urgent. When the income-tax was 6*d.* or 1*s.* in the pound inequalities were quietly borne, which became intolerable when it was increased to 6*s.* in the pound.

If the indirect taxes on the necessaries of life were abolished, then a strong case could be established for calling upon the working-classes who have a surplus income beyond sufficient to sustain a healthy existence and to provide for the conventional comforts and luxuries which have entered into the recognised standard of working-class life, to make some contribution to

national expenditure through an income-tax. In recent years considerable concessions have been made to the income-tax payers in the lower ranges which have, to a great extent, removed legitimate causes of complaint. The allowances for a wife and children follow sound and just principles of taxation, and recognise the principle of taxing only surplus incomes. The combined income of a married couple without children "if earned" is now exempt from taxation if below £250. A married couple with three children are exempt from income-tax if the earned income does not exceed £350 a year. It may be justly urged that these allowances are still inadequate, and force is given to this contention by the fact that single persons are now exempt from income-tax up to £150 a year. It may, of course, be said that the necessary expenditure of a single person is proportionately higher than the expenditure per head of a family of five persons. But granting the substance of this point, it is not the fact that the present allowances for wife and children place the married couple on a footing of equality with the single person. It is most important from the social point of view that there should be retained for the use of the family a sum sufficient to rear the children well and to give them a good education, and to prepare them for a trade or calling.

To overcome the injustice of assessing at the same rate individuals who have varying responsibilities, it has been proposed, notably by the Fabian Society,¹ that the taxable receipts of all the members of a family living in the same household and sharing in its expense, should be aggregated for assessment as a family income. That is to say, that all the incomes of all the members of a family shall be added together, divided by the number of members, and each member shall be assessed upon the quotient. Let us take a concrete example of the working of this proposal. Suppose the family income be £900 a year, and the family consists of a husband, wife and four children. Under this plan the income of each member of the family will be regarded as £150, so that, with the exemption at the present figure of £150 no income-tax will be paid by this family. Reduced to terms of this concrete illustration the impossibility of the proposal becomes manifest. It is preposterous to maintain that an income of £900 a year, even with the responsibility of maintaining a wife and four children, has no surplus available for taxation. The adoption of such a proposal as this would make an inroad upon the yield of the income-tax which would dislocate the whole financial system. The cost of

¹ *How to pay for the War.* (Fabian Society.)

maintaining a family does not *pro rata* increase with an increase in the number of the members of the family. The larger the family the smaller is the cost per head of maintenance.

But though we may reject such an extreme proposal as this for doing justice to the man with family obligations, there is undoubtedly a case still to be considered for relief beyond what is at present given by the exemptions allowed for wife and children. Under the scales at present in operation the joint earned income of a married couple without children is exempt from taxation up to £250, and the allowances for children are £40 for the first child and £30 for each subsequent child. A moderate increase in the amount of these allowances would remove what injustice married persons may suffer at present. There is a demand from certain quarters that the joint assessment of husband and wife for income-tax purposes should be discontinued, and that they should be assessed as separate taxable units. This demand is urged upon two grounds: first, that the merging of the wife's citizenship in this matter of taxation in that of her husband's is derogatory to the woman, and is a survival from the time when marriage took away from the woman all rights to the separate enjoyment of her property. The demand is also made on the practical ground

that by lumping the two incomes together the income of the wife is taxed at a higher rate than would otherwise be the case. Recent concessions to married couples have, however, considerably destroyed the force of this argument.

In the lower ranges of incomes the grievance hardly exists. It is true that where the merging of the incomes of two persons who marry brings the taxable capacity within the range of the super-tax, the penalty on marriage is heavy, and it is from those who are affected in this way that the demand mainly comes.¹

There has been an agitation among the Trade Unions to raise the exemption from income-tax to £250 a year. This demand was incorporated in a financial resolution passed at the Labour Party Annual Conference in 1919. It has now been conceded in the case of married couples, and by the Finance Bill of 1920 the exemption for single persons is raised from £130 to £150. It is urged that the increase in the cost of living has brought the value of a present income of £250 to the equivalent of a pre-war income of £130, which was formerly exempt from income-tax. But the contention that an income of the same real value should be exempt from taxation as

¹ For a full examination of this question, see the Report of the Royal Commission on the Income-Tax.

before the war, assumes that persons about this range of income should make no contribution to the cost of the war; for be it remembered that those who make this demand for the raising of the income-tax exemption limit put forward at the same time the demand for the abolition of indirect taxation. The demand, therefore, amounts to a claim for the total exemption of the working-classes from taxation. Such a claim is indefensible, and finds no support among the responsible leaders of Labour, nor would any Labour Chancellor of the Exchequer be justified in making such a proposal.

The working-classes, like every other class of the community, must bear taxation upon any surplus of income where it exists, but the amount of their contributions will necessarily be very small. As this chapter is being written the announcement appears in the Press that a Conference of the South Wales miners has passed a resolution demanding the exemption from income-tax of all incomes below £400 a year, exclusive of allowances. Whatever may be said in support of raising the exemption of single persons somewhat beyond £150 a year, nothing can be urged in support of the exemption from taxation of a bachelor enjoying an income of £400 a year, and such demands, emanating from a well-paid body

of workmen, bring ridicule upon the Labour Movement.

There are three arguments advanced in support of raising the income-tax limit beyond £150 a year, in addition to the one already mentioned, namely, the depreciated value of money. These three arguments are: first, that a single man often has the responsibility of supporting parents or relatives; second, that it is important from the social point of view to leave a single man with a surplus of income that he may save in preparation for marriage; and third, that the trouble and expense of assessing and collecting the income-tax from the very large number of persons with small incomes is not worth the effort. In regard to the first of these arguments it may be pointed out that the case could be met by the extension of the system of abatements to cover cases where relatives or other dependents were partially supported out of bachelors' incomes. There is considerable force in the second argument for raising the limit of exemption, and if there were an assurance that the concession would be used for that purpose it would be socially advantageous to give it. When the limit of exemption is low a vast amount of work is entailed upon the income-tax authorities which is not remunerative. For example, in 1918-19 there were 5,346,000 separate

incomes brought under the review of the Surveyors of Taxes. Of this number 1,940,000 were entirely relieved from tax by the operation of abatements and allowances. Of 2,490,000 persons whose incomes fell between £130 and £160 no less than 1,590,000 were entirely exempted. The total taxable income of persons with incomes between these amounts was £339,500,000, and after making abatements and allowances, the comparatively insignificant income of £14,720,000 was left for assessment to income-tax. The net yield of this taxation was only £1,682,000. It is well worth considering whether such an insignificant yield as this is compensation for all the trouble involved in dealing with two and a half million returns. This practical aspect of the question is a strong argument in favour of raising the limit of exemption, though there must be set against this those reasons for maintaining the limit in the case of single persons with £150 which have been previously stated.

The system of taxation of income at source, though it has much to recommend it, is an obstacle in the way of a proper graduation of the tax according to ability to pay. The income-tax is essentially a tax on individuals, and it should be graduated in accordance with each individual's ability to pay. Under a proper system of graduation

there would be no base rate, but each individual would be taxed at a rate applicable to the class in which he fell, according to his ascertained ability to pay. Such a system of assessment would involve the abolition of the system of collection at source. The individuals who are shareholders in companies are taxed uniformly and collectively, though they have varying incomes. Some rough-and-ready attempt is made to adjust the tax to the ability of the individual recipients of the dividends by abatements, allowances and exemptions. These efforts at readjustments are irritating and inconvenient and not altogether effective. It is undoubtedly true that a good deal of the tax collected at source from the dividends of poor shareholders is never reclaimed. No efficient system of tax collecting would permit the poor to be unjustly taxed so that the richer might escape. The savings of the working-classes are being increasingly invested in municipalities and public companies, and, therefore, this injustice is a growing one. The irritation caused by the claiming of small amounts of income-tax which have been deducted is considerable. It is necessary to maintain a large staff to deal with such claims. The number of claims in the last year (1910) for which the figures were available was 566,356. The number must now be vastly larger owing to

the increase in the number of taxpayers liable to the lower rate.

The plan of collecting income-tax at the source is not followed largely in foreign countries. In the United Kingdom it is a survival from the days before the institution of differentiation and graduation and super-tax. If the system of collection at source were abolished, it would be easy to so reform the income-tax that a graduated scale of poundage could be adopted which would apportion the tax to ability to pay. Such a reform would probably abolish the present differentiation between earned and unearned incomes on the higher incomes. There is much to be said for this differentiation where the unearned income is the result of saving. But large incomes, such as those of professional men, directors and managers of public companies, cannot be regarded as wholly earned. There is an element of monopoly value in all such incomes. Moreover, as ability to pay is the principle of the income-tax, it can be maintained that a large income, whether earned or unearned, possesses the same ability to pay because a considerable part of that income is surplus to the reasonable needs of the possessor. The differentiation between earned and unearned income has already largely disappeared by recent changes, and has practically ceased to exist when the income exceeds £2000. For example, the total income-tax

and super-tax upon an income of £2000 a year enjoyed by a married couple is £439 if their income be all "earned," and is £499 if the income is wholly from investment. In the case of an income of £150,000 enjoyed by a married couple which is wholly earned the total tax is £87,551, whereas if the income be all from investment the tax is £87,611, a difference of £60 only. The rate being practically the same, namely, 11s. 8d. in the pound.

Two other reforms of the income-tax may be noted. It is a growing practice of limited liability companies to place large sums to reserves, and a portion of these sums are afterwards distributed in the form of bonus shares. The undivided profits of a company pay the ordinary rate of income-tax, but when they are allowed to accumulate or when they are distributed as bonus shares, individual shareholders liable to super-tax, evade the payment of the super-tax. The Royal Commission on the Income-Tax recommended that when the assessing authorities are satisfied that the profits of a company or a portion of them are retained undistributed, or are distributed as bonus shares for the purpose of evading or diminishing the liability of its shareholders to super-tax, the income of those shareholders may be treated as if the profits or a portion of them had actually been distributed as ordinary dividend.

Profits which arise from transactions which

do not form part of the ordinary business of the person who makes them are not held to come within the scope of the income-tax, and consequently escape taxation. A person may make large profits from successful transactions in shares, but if this is not his ordinary business his profits are not liable to income-tax. A man who buys and sells land or other forms of property and makes profits on the transactions is also exempt from income-tax unless this is his recognised business. The Royal Commission on Income-Tax expressed the opinion that "any profit made on a transaction recognisable as a business transaction, that is, a transaction in which the subject matter was acquired with a view to profit-making, should be brought within the scope of the income-tax, and should not be treated as an accretion of capital simply because the transaction lies outside the range of the taxpayer's ordinary business, or because the opportunities of making such profit are not likely in the nature of things to occur regularly or at short intervals." This opinion will be generally shared, and if the profits of such transactions could be brought within the net of the income-tax, a very considerable addition to the revenue would result.

We may now proceed to consider what is the possible further yield of the income-

tax by the appropriation of surplus income still untaxed. In Budget debates I have often laid down the dictum that in levying taxes we should look not at the amount we take, but at the sum which is left after the tax has been levied. Under the rates of income-tax and super-tax at present in operation a single person with an income of £150,000 a year pays in income-tax £44,866 and in super-tax £42,772, a total of £87,638. This is admittedly an enormous proportion of the income taken in taxation, but it must be remembered that after the tax has been paid there remains for the use of this single person a sum of £62,422. Can it be seriously maintained that a single person with such an income has not a further ability to pay? Let us take a much more moderate income, say £10,000 a year. The total amount of income-tax and super-tax paid on such an income by a single person is £4328, leaving £5672 in the possession of this individual. Again I ask, can it be seriously maintained that a surplus of untaxed income of £5672 for the use of one individual has no further ability to pay? There can be but one answer to this question.

Mr. McKenna's statement that we are over-taxed certainly does not apply to individuals with incomes exceeding, say, £3000 a year. The possession of a large untaxed

income is a social disadvantage and danger. But a comparatively small part of such an income can be spent in ways which are really a benefit to the individual or to the community. The number of persons in possession of incomes exceeding £3000 a year, according to the Report of the Commissioners of Inland Revenue for the year ending March 31, 1919, was 32,972. The total incomes assessed amounted to £285,300,859. Apart from the undoubted right of the State to impose further taxation upon the recipients of these incomes for necessary public expenditure, it is desirable from the point of view of social welfare to take away from individuals the power which the command of such an income gives them, to employ labour uselessly, to support luxury and to indulge in vice. The further taxation of such incomes can have no results other than beneficial. Not one of the objections to a capital levy can apply to the further taxation of these surplus incomes. Even the old argument that it was undesirable to unduly tax individuals because it would lessen the money available for necessary investment has lost much of its force, owing to the fact that commercial saving is now largely done by the limited liability companies themselves by placing profits to reserve funds for the renewal and increase of capital before the dividends are paid. Some part

of the untaxed income of wealthy people, no doubt, is still saved and reinvested, but if taxation upon them were considerably increased, it would not be likely to result in less saving, but more likely to attain the desirable result of lessening expenditure upon the maintenance of large establishments and upon luxury. The case of the land-owning class is somewhat different from that of the class whose incomes are derived in the main from commercial enterprises. But as the income upon which a landowner is assessed is net, after generous allowances have been made for the repair of property and the development of the estate, the argument that an increase of taxation upon the land-owning class would have ill results on agriculture, has not much force.

The possibilities of the income-tax are shown by the above figures to be by no means exhausted, and a Labour Chancellor of the Exchequer would have at call in case of need at least another £100,000,000 a year from income-tax and super-tax.

CHAPTER IX

LIMITATION OF INHERITANCE

It is remarkable that during the last few years, when the need for obtaining additional revenue has been so urgent, that practically no attention has been paid to the possibility of exacting a considerably greater yield from the Estate and Death Duties. The present rates of duty have remained untouched since 1914, when in that year some relief from Estate Duty was given in respect of quick successions. The yield of the Estate and Death Duties (including legacy, succession and corporation duties) for 1920-21 is estimated at £45,000,000, an automatic increase on the yield of the previous year of £4,096,000. The yield in the year before the war was £37,359,000. The increased yield may be explained by the war-time increases of wealth. The latest details of the number and value of estates liable to Estate Duty are contained in the Report of the Commissioners of Inland Revenue for the year ending March 31, 1919. In that year 91,499 estates came under review, ranging in value from less than £100 to over £3,000,000. The number of estates where

the net value did not exceed £1000 was 21,222. The number of estates exceeding £100,000 in value was 328. The estates of nine millionaires were assessed to Death Duties in that year, one of these estates being declared to be of over £3,000,000 net value.

The average duty is 10 per cent. on the net capital value, so that it appears the Board of Inland Revenue estimate that estates of the net value of about £450,000,000 will pay Death Duties in 1920-21. This leaves a sum of £400,000,000 a year, which is inherited after the State has appropriated what at present it considers to be its reasonable share. Here is a "hen-roost" which an impecunious Chancellor of the Exchequer might raid. It cannot be maintained that a contribution of £45,000,000 made by persons who inherit a windfall is at all an adequate payment to the State for the enjoyment of their good fortune.

This question of inheritance duties is much more than an economic problem. The abolition or drastic limitation of the right of inheritance would have social consequences of a revolutionary character. The personal right to dispose of property is the right of the dead to impose an intolerable burden on posterity. The only just claim which a democratic State can recognise to the possession of wealth is that the wealth has been created by the self-effort of the possessor.

The principle of equality of opportunity is violated by the law of inheritance. In a democratic State every child should start with the same chance to make the best of its opportunities. It may be difficult in practice to secure absolute equality of opportunity, but it is at least the duty of the State not to give its sanction to laws by which handicaps are deliberately placed upon certain individuals, and unmerited advantages given to others.

Inheritance creates an idle class who are able to live not upon the accumulations of their ancestors, but by the exercise of a power, or legal right, which has been conferred upon them to levy tribute upon their own generation, and upon the wealth produced by contemporary labour. The dead person has no rights. Whatever just rights he might have been entitled to during his lifetime expire with his death. The dead ought not to rule the living, but the law of inheritance enables them to do this. The dead person leaves instructions which millions of unborn persons must obey, and he imposes conditions under which they must live.

The land of the United Kingdom is paying an enormous exaction every year to the descendants of men who often obtained their title by very questionable means. Every shipload of goods which comes into the port of Liverpool pays tribute to the Earl of

Derby, because an ancestor of his bought the sandhills of Bootle a few generations ago, and because the law permitted him to transfer to his successors the perpetual ownership of this land and the increment value created by the industry of the community.

A poor German immigrant, possessed of keen foresight, about a hundred years ago bought the island upon which the city of New York now stands, with the result that his descendants appropriate millions a year from current wealth production. A former Duke of Norfolk received from the Crown the grant of estates situated in and around Sheffield. Included in this gift were the market rights of the place. The rents from these estates were enjoyed through many generations by successive Dukes of Norfolk, who reaped the advantage of an annual increment of their toll through the industrial expansion of this district. Between 1815 and 1840 the rent roll doubled. Some years ago the Corporation, finding it necessary to extend the markets, entered into negotiation with the Duke of Norfolk and eventually paid him a sum of £526,000 for his manorial market rights. The influence of the dead upon the present generation is not only that of the lords, who lived in the feudal days. As previously mentioned, in 1918 nine millionaires died in this country. Their estates were left mainly intact, and the heirs are now, through

no virtues or efforts of their own, enjoying incomes from these estates. These millionaires were in the main men who had amassed their fortunes by modern commercial methods.

It is not the descendants of men whose names are immortal because of the services they rendered, not only to their day, but to posterity, as statesmen, poets, scientists, artists and inventors, who are living by the enjoyment of rights bequeathed to them by their ancestors. In fact, the sons of social benefactors are often neglected by posterity just as great writers, artists and musicians have been neglected by their contemporaries. The copyright laws do not recognise any permanent property in the works of a man of genius.

The inheritance laws in the United Kingdom give a person the right to dispose of his property entirely as he may will. He may leave his nearest of kin entirely penniless and bequeath his property to strangers or to a society for the propagation of celibacy among the natives of Central Africa. That fact disposes of the claim that even in law the right of a wife to inherit the property of her husband, or of children to inherit the property of their father, is recognised. In law the nearest relatives have no right to succession except in the case of intestacy.

The right of a possessor of property to

decide what form the burden he bequeathes to posterity shall take is absolute. No stronger condemnation of the law of inheritance can be made than this statement of the fact.

A man may in these modern times amass great wealth, and in doing so may to some extent confer benefits upon his contemporaries. He has reaped the reward during his own lifetime in the satisfaction which comes from successful effort, in the admiration of his fellows and in the enjoyment of his wealth. To give to him in addition to these things the right through his heirs to continue to exploit the community when he can no longer render any service in return is utterly indefensible.

The evils of inheritance are obvious. It creates an idle class who have no claim to wealth through their own labour. The inheritors of wealth obtain immunity from labour either because their benefactors enjoyed such immunity through the favour of the law or because their benefactors had been successful in amassing wealth. Inheritance is destructive of the only sound principle upon which a democratic State can exist, namely, that duties come before rights, and the duty of every able-bodied adult member of the community is surely to maintain himself by his own labour. If it be maintained that inheritance is right because the property was honestly earned, then that

is a very strong reason why the law of inheritance should be abolished or limited, because property should only be enjoyed by those who have honestly earned it. The inheritance of property is not only an injustice to the community, but it is often an evil to those who inherit it. There is a North of England saying which runs: "It takes three generations to get from clogs to clogs." This means that fortunes accumulated by self-made men are dissipated by their heirs in one or two generations. Inheritance of wealth has a demoralising effect upon the recipients of it. Money lightly come by is lightly valued. These evil effects on those who inherit wealth are not, however, by any means universal. Many heirs to property simply continue from generation to generation to live idle lives without squandering their inheritance which they eventually leave to successors who carry on in the same way.

The social and political consequences of the limitation of inheritance would be far-reaching. The possession of wealth is desired because of the power that it gives to the possessors to control the lives of their fellows. It gives them a social position which is not due to their own merits but to their wealth. It enables the inheritors to dissipate great volumes of purchasing power in useless things. It throws additional labour

upon the rest of the community. It enables men to live idle lives who, if compelled to work, might show the possession of ability which would be a great social utility. The Duke of Marlborough, who is a personal illustration of the results of the law of inheritance, writing some time ago upon the question of the Death Duties, asked if the great country houses which are the fortresses of territorial influence are to be razed in the name of social equality. "Are these great historic houses," he asked, "the abiding memorials of events which live in the hearts of Englishmen, to be converted into museums to bear relics of a dead past? Is the social life of which they are the centre to be maintained and directed by officials appointed for the purpose by a benevolent Board of Works?" The Duke of Marlborough naturally looks at one side of the picture only. The existence of these "fortresses of territorial influence" is paid for at the expense of the tens of thousands of agricultural labourers who live in hovels in which a duke would not house his horses. The social life of which they are the centre is maintained by the condemnation of tens of thousands of workers to lives into which no comfort, enjoyment, recreation, or refinement enter. The limitation of inheritance would enable these historic houses to become indeed centres of social life, which would not be enjoyed

by a few idle persons, but by the whole community.

It is contended that inequalities of wealth are due to natural differences of character and ability, that fortunes are accumulated by superior merit and greater industry. That, as a matter of fact, is not true, but even if it were, it is an argument against rather than in favour of inheritance. What does it matter, it is sometimes argued, that the few are rich? They have paid for the work which has been done for them. But this ignores the fact that a large fortune can only be accumulated by the appropriation of community values, and pending State action which will prevent individuals during their lifetime from appropriating these community values, the limitation of inheritance offers an easy way of securing the reversion of them to the community at the death of the individual who has appropriated them.

The defenders of inheritance will ask: Has not a man the right to make provision for his wife and family? There are many answers to that question. First of all I may repeat that the law of inheritance leaves a man free to deprive his family of the enjoyment of his fortune after his death. The second answer is one which has already been given, that no man has a right to impose upon successive generations the burden of maintaining people in idleness. The third

answer is that when a man bequeathes a large fortune to his family, it enables them to live without working, which is at the same time robbing other parents of the opportunity to provide for the adequate maintenance of their own families. A fourth answer may be put in the form of an inquiry: Do most men who work hard to accumulate wealth do so in order to leave their descendants in a position to live without working? The answer to that question is in the negative. The largest fortune ever left by an Englishman amounted to £14,000,000, and this had been accumulated by a bachelor who bequeathed it to relatives who were already millionaires. Men who accumulate fortunes by successful business enterprise are men who work rather for the sake of work than for the accumulation of money. They are the men who, knowing something of the satisfaction which comes from work and adventure, have no desire to see their descendants leading the lives of drones in the community.

The testimony of a multi-millionaire like the late Andrew Carnegie upon this point is interesting and ought to be conclusive. In his book, *The Gospel of Wealth*, he says: "The Almighty Dollar bequeathed to children is an Almighty Curse. No man has a right to handicap his son with such a burden of great wealth." In the *North American Review*

he wrote: "By taxing estates heavily at death the State marks its condemnation of the selfish millionaire's unworthy life. It is desirable that nations should go much farther in this direction." He also wrote in the *New Nation* on March 4, 1893, that "drastic application of the inheritance-tax is eventually to be one of the most efficacious instruments in preparing the way for economic equality."

There is, however, something in the argument that men do work and accumulate wealth to make provision for their families. It is not proposed that the right of inheritance should be wholly abolished. Until the time when the community makes adequate provision for the maintenance of all who are not able to maintain themselves by work, and until provision is made for the education and start off upon a career of all children, it is desirable that a man should be allowed to make suitable provision for his wife and children. But it is not right that he should leave his descendants, or it may be, persons who are not relatives, in a position to live on the community without work. In advocating the limitation of inheritance we do not suggest its total abolition. The amount of inherited wealth any person can receive should not be so much as to allow him, if of the age and having the capacity to work, to live in idleness.

The limitation of inheritance is, therefore, as I said at the beginning, not merely a matter of raising revenue, but a question of great social importance. Of the £450,000,000 which is now annually left at death in the United Kingdom the State at present appropriates but one-tenth upon the average. A 20 per cent. duty upon an estate of a million leaves a vast sum, which ought to be appropriated by the Chancellor of the Exchequer for the service of the State. The limitation of inheritance to the right to make provision for dependants and to protect them against poverty, but not to relieve them from the necessity to work, would give the Chancellor of the Exchequer an additional revenue of at least £300,000,000 a year, which might be devoted to the reduction of the National Debt. The State needs money, and the money is there, and as the present Chancellor of the Exchequer appears to have exhausted his ingenuity in devising new taxation, I would recommend this suggestion to him, and would accompany the suggestion with the words of Mr. Bonar Law spoken to a Trade Union deputation on November 14, 1917. "If we cannot get the money one way," he said, "as long as it is there we will get it and will not allow what the nation believes to be a vital necessity to be sacrificed by want of money as long as the money is there."

CHAPTER X

THE ABOLITION OF INTEREST

IN a pamphlet published in March 1919, Mr. Sidney Webb wrote: "Let it first be noted, for the comfort of those who are apprehensive of all sorts of unsound finance that the Labour Party is exceptionally free from delusions in money matters. . . . There is at present scarcely a trace in the British Labour Movement of wild-cat ideas for solving all our financial difficulties by printing more and more paper money. . . . These projects come from perplexed country squires and from lonely members of the Indian Civil Service. . . . It is a comforting fact that on all this range of questions the British Labour Movement is, as Lombard Street would say, as sound as a bell. We shall probably have in this country a recrudescence of the currency crazes of past generations. I see no sign that the Labour Movement will be infected by them."

The ink upon this pamphlet was hardly dry before Mr. Sidney Webb was proved to have been a false prophet. There was an outbreak in the Labour Movement of the agitation for solving all financial diffi-

culties by the printing of paper notes. The Labour members of two important Town Councils, Wigan and Sheffield, brought forward resolutions on these bodies asking for Parliamentary powers to build houses and to carry out other municipal work by means of Treasury notes. These proposals have been supported at local conferences of Labour, and a resolution to the same effect was moved at the Annual Labour Party Conference in June 1920. It was referred to the executive for consideration.

In considering this craze we will take the Wigan Scheme, which has attained considerable notoriety and which is more definite than the proposal brought forward by the Labour members of the Sheffield City Council.

The Wigan Scheme is (1) the Government should provide to the Corporation the necessary number of virginal national currency notes at the cost of printing;

(2) The Corporation shall be held responsible for each currency note issued at its full twenty shillings value;

(3) The Corporation shall redeem the whole of the notes of each issue by general instalments within a prescribed number of years;

(4) The Government shall withdraw from circulation each annual contribution of the notes.

These notes, it is intended, shall be used for the payment of material for house building

and the payment of wages. The advocates of this scheme claim that by this method the Wigan Corporation can provide houses without incurring the burden of interest upon borrowed money. It is pointed out that the interest upon the capital is a burden which prevents houses from being built at a reasonable cost. The capital borrowed for housing purposes, when the repayment is spread over a period of sixty years, is repaid four times over in interest. The interest and sinking fund upon a house costing £1000 will amount to about £70 a year. This is an enormous burden, and any plan by which it can be reduced which will not cause greater hardship in other directions, is deserving of support. If the Wigan Corporation can prevail upon the Treasury to issue to them Treasury notes for nothing, then the Wigan Corporation will set to work, will buy materials from private firms, and will employ labour to build houses. The simplicity of the plan is alluring, and it is little wonder that it has gained support among people who are ignorant of the effect of increased currency upon prices. The scheme has been defended with great plausibility by some of its supporters. Their argument runs as follows :

The Wigan Corporation would give the actual value of the public works by issuing Treasury notes for the amount to the builders.

The Corporation will feed and clothe the people who are building the houses while they are engaged upon the work. When the houses are completed the Corporation will have money from the rents to pay for the houses. The notes would be issued, the argument runs, only as houses were produced. The notes would be orders to supply house-builders with necessaries and to pay the wages to the workmen employed. It is claimed that this exchange is barter. The security behind these notes would be the credit and the municipal property of the Wigan Corporation.

The fallacies underlying this argument are apparent to those who have even an elementary knowledge of the nature of financial and trading operations. The transaction would not be of the nature described by its advocates. To pay for goods with Treasury notes which have no assets behind them is not barter. Barter is the exchange of commodities, though for the purpose of facilitating trade, notes and cheques representing real wealth are widely employed. Whenever the amount of currency circulating is increased without a corresponding increase in the volume of marketable commodities there must be an increase of prices, because the increase of currency increases the amount of demand in the market. If the Wigan Scheme were, as its advocates claim, a proposal to

issue currency notes against new marketable commodities as these commodities were produced, then there would be no effect on prices unless the labour employed in the production of the new commodities had been diverted from other work producing marketable commodities. But under this scheme the issue of Treasury notes would always be in advance of the production it was intended to promote. The Wigan Corporation could not begin to build houses without first obtaining the Treasury notes. These would be put into circulation to pay for material and to pay wages. Notes to the value of the cost of each house would be in circulation before the houses were completed.

In addition to this fatal flaw in the scheme there is the further fallacy that houses are marketable commodities, and that when the houses are completed and rents are received for them, there would have been goods produced in proportion to currency issued. But the houses built by the Wigan Corporation would not be marketable commodities. The currency notes in circulation could not be used for the purchase of these houses. They would have been used for the purpose of marketable commodities like food, clothing and raw materials. The certain effect, therefore, of the Wigan Scheme would be to increase the amount of currency circulating locally without a corresponding

increase of marketable commodities. The effect of that in raising prices is not disputable. Just to the extent to which its operation was carried out, so would prices be affected. If it were carried out on a very small scale probably no serious effect on prices would be produced, but if the scheme is to be of any use in relieving municipalities from the burden of interest, it must be capable of unlimited extension without disastrous results.

Another argument put forward by those who support this paper money method of relief from the payment of interest runs as follows: "The municipal authorities, when they require to borrow for municipal enterprise, go to the banker pledging as security for the money they need—

" (a) The assets of the borough;

" (b) The power of levying rates and receiving rents.

The money they borrow is really nothing but notes issued on the security of their own assets or credit. Why cannot the city issue its own notes or currency without paying interest at all?" This argument makes assumptions which are quite without foundation. When a municipality borrows from a private bank it is quite true that the loan is secured on the assets of the municipality, but it is not true to say that the

money borrowed is really nothing but notes issued by the bank on the security of the municipal assets. If a bank financed municipal borrowing by the creation of credit and the issue of notes it would be simple inflation, and the same effect would be produced as has resulted from the issue of unsecured paper money by the British Government, and to a larger extent by other Governments during the last few years. When a bank lends to a municipality on the security of the municipal assets, it lends bank deposits which represent real savings and real wealth.

The argument that currency will not be depreciated by the issue of these paper notes because the credit of Wigan is good, is equally fallacious. The credit of Wigan may be good because the Corporation is able to meet the interest upon its borrowed money from the rates. Those who have lent money to the Wigan Corporation for its schools, parks, gasworks, electricity stations and the like, have done so because their interest is guaranteed by the ratepayers of Wigan and their capital by these tangible assets. The case, however, is different under the scheme now suggested. The value of a municipal bond is based upon the fact that it can be sold in the market, deposited in the bank as security for a loan, or at any time exchanged for another form of wealth. It is not so with the Treasury notes which the Wigan

Corporation proposes to use to pay for labour and materials. There would be no assets behind these Treasury notes until the houses had been built, and in the meantime the mischief will have been done, and the community would be paying in increased prices probably far more than the interest upon a loan obtained for the purpose in the ordinary way.

The reply which has been given by the advocates of the scheme to the point that the notes had no backing of assets during their currency, is met by the retort that the country has issued £350,000,000 of paper money during the war, unsecured by anything except taxation, and when the rejoinder to this is made that this increase of paper money is responsible for the increase of prices, the only answer which is forthcoming is that this is a fallacy and that the advance of prices is due to profiteering.

It is estimated by the Ministry of Health that not less than 800,000 houses are now needed. The cost of these would not be less than £600,000,000. The idea of those who support the Wigan Scheme is that all these houses may be built on this plan. But municipalities are not only worried with the housing difficulty at present but are desirous of carrying out other schemes, involving an enormous outlay of money. This Wigan Scheme therefore would, if generally adopted,

necessitate the issue of some hundreds of millions of Treasury notes. The effect of this on prices can be readily imagined. At the end of five years, during which we will assume these houses were built and these other works carried out, the Treasury notes in circulation for the payment of the materials and labour would amount to fivefold the amount at present in circulation. The currency notes, according to the advocates of the scheme, are to be gradually redeemed as the rents from the houses come in. That is a confession that the notes would continue in circulation until the rents received were sufficient to pay off the capital cost. It would take about forty years to redeem all these notes from the rents. During all this period the community would be paying in the form of increased prices a sum at least equal to that which would have been paid had the capital cost been borrowed.

The Wigan Scheme is intended to achieve the impossible, namely, to get something for nothing. The cost of the materials and of labour will not, in effect, have been paid until the whole of the notes have been redeemed from the rents. The value of the houses was consumed by the builders in the course of erection, and the community would be left with the burden of repaying this cost by annual instalments.

It has been argued that it would not be

necessary to issue Treasury notes beyond a sum sufficient to meet the weekly wages and payments for materials bought within the short period, that the notes received by those who supplied the materials and by the workmen would be passed into the bank and would be repassed into currency. But that, surely, is a fallacy. When the notes came into the bank they would be credited to the depositor's account and that amount of new credit would be created against which cheques or Treasury notes could be drawn. It is essential, too, that the notes must be kept in circulation if the use of money is to be obtained without interest. For when a note is passed into the bank it becomes a unit on which interest must be paid. If the notes were destroyed when they were returned to the bank, then the expectations of those who advocate the plan might, to some extent, be realised. But this is obviously impossible, among other reasons, because the notes would be the ordinary Treasury notes and there would be no means of distinguishing them from those issued for general circulation.

The aim of those who support this scheme is admirable, but their plan is impossible. The abolition of the payment of interest on the cost of public works is desirable, but it can only be done in two ways, either by financing public works out of revenue or by the public acquisition of the sources of supply

of materials or by a combination of both. If the State or municipality owned quarries, brickworks, timber forests, slate quarries, ironworks, it could then build houses and schools without having to borrow to pay for these materials. The wages would be paid out of current revenue. This is the practical alternative to such schemes as have recently found favour among Labour councillors at Wigan, Sheffield, and elsewhere.

CHAPTER XI

REVENUE FROM PUBLIC SERVICES

MANY countries before the war, notably Germany, derived considerable revenue from the State-ownership and working of public services. In the United Kingdom the Post Office yielded a net revenue to the State, after providing services at a ridiculously cheap rate, of about £6,000,000 a year. In those normal times Socialists looked forward to the great extension of revenue-yielding State enterprise. The enormous increase in the cost of the working of business concerns has compelled Socialists to abandon the idea until more normal conditions are restored, of providing at the same time a cheap public service by the nationalisation of monopolies, and the securing of revenue from profits for the development of the public services.

The scheme which was submitted to Parliament at the beginning of June 1920 by the Ministry of Transport for the amalgamation of the British railways illustrates the impossibility of keeping down railway charges, and at the same time providing a pre-war

return upon railway capital. The Post Office, too, has ceased to be a revenue-producing service, notwithstanding the increase of 100 per cent. upon postal rates. If there should be a stabilisation of values at a higher level than pre-war values, accompanied by a universal and corresponding increase of wages and incomes, which is very unlikely, it might be possible for the State-owned services, and public services like the railways still in private hands, to become once more profit-yielding enterprises.

There is much to be said against profits for revenue on State-owned undertakings. Profits from public services like the Post Office and municipally-owned concerns like tramways, gasworks, electricity-works, are a form of indirect taxation. This form of indirect taxation has all the evils and injustices of national taxation on commodities like tea and sugar. The purpose of a State-owned and State-managed service should be to provide the public with a cheap and efficient service. The motive of State management of public services should be to aid the commercial development of the country and to improve social amenities. By adopting this policy the State will derive an additional revenue in the increased prosperity of the general trade of the country.

But though it is inadvisable for the State to make a net profit on its trading enter-

prises for the relief of general taxation, it is perfectly legitimate, and indeed necessary, that State business enterprises should provide from revenue the necessary redemption funds and reserves for the extension and development of the business.

But there are many forms of property and business concerns now owned and controlled by individuals which contain more or less a monopoly value, and such forms of property and business concerns are eminently suitable either for direct ownership or for special taxation of the monopoly value. Outstanding instances of this form of property and private enterprise are the land, banking, life, fire and other forms of insurance, and the liquor trade.

The economic rent of land is a social product. Apart from that proportion of economic rent which is due to the natural advantage of particular sites, the expenditure of public money by the municipalities and the State results, without any effort on the part of the landowner, in increasing the economic rent. The operation of this law of unearned increment is too well known to need elaboration. It has long been admitted to be a grave scandal and injustice that these socially created values should be appropriated by private landowners. The value of urban land, due, not to the enterprise of the landowner, but to the increase

of population, the increase of the general wealth of the community and the expenditure of the public money, doubles about every generation. It is monstrous that this increment should be allowed to go into the possession of those who neither toil nor spin. There is here an enormous potential revenue which might be made available for national and municipal purposes.

Even if we admit that centuries of private ownership of land have established a claim on the part of the possessors not to be expropriated without compensation (a claim which might have some justification in expediency, but hardly in morality), there is no justice in tolerating a land system which will permit the private appropriation of future unearned increment. But short of appropriating the whole of the present economic rent of land there is an unanswerable case in support of the heavy taxation of the present economic rent of land. If the landowners were expropriated by the payment of such compensation as might be considered reasonable, it would be a remunerative operation for the State. The State would assume the ownership of the land, and all future increment of value would accrue to the community, and the income from the land bonds would be subject to the prevailing rates of income-tax and death duties. There are no absolutely reliable

figures of the present capital value of the land of the United Kingdom. The Financial Secretary to the Treasury stated in the House of Commons on July 12, 1920, that he was unable to supply these figures. Independent estimates have fixed the capital value at about £3,000,000,000.

The burden laid upon the community by the private banking monopoly is not less onerous than that imposed by private landlordism. So long as financial operations are controlled by private profit-making institutions, the State and the trading community will be hampered in all their enterprises and will have to pay a heavy toll to the banking interests. The increase in the rate of interest on public borrowings from about 3 per cent. to 7 per cent. during the last six years is an illustration of the stranglehold which the private banks have upon the Government, as well as upon the private trader. The nationalisation of great industries and services, like the mines and railways, can never bring satisfactory results so long as the State is dependent for its financial operations upon the private banker.

Banking is rapidly becoming a great private Trust in the United Kingdom. The Report of the Treasury Committee on Bank Amalgamations (May 1918) states that the number of private banks had fallen from thirty-seven in 1891 to six in 1918. The number of

English joint-stock banks during the same period had fallen from one hundred and six to thirty-four. Since the Report of this Treasury Committee was issued bank amalgamations have proceeded at a rapid rate. Since July 1918 the "Big Five" have absorbed twenty more smaller joint-stock and private banks. The private bank has now disappeared, and the number of joint-stock banks outside the Big Five is only about a dozen. Within the next few months it is very probable that the whole of the banking business of England and Wales will be controlled by five great joint-stock banks.

This development has resulted in the creation of a Money Trust. When the few small outstanding banks have been absorbed we may expect to see amalgamations of the Big Five, and it is by no means improbable that in a short time the whole of the banking business of England and Wales will be in the hands of a single trust. These banks are already extending their operations to Scotland and Ireland.

The deposits in the five great banks amount to £1,500,000,000. This money is lent either to the Treasury or to individuals at present at 7 per cent. Between October 3 and November 7, 1919, the rate of discount for Treasury Bills progressively advanced from 3½ per cent. to 5½ per cent. and is now

about 7 per cent. An increase of one per cent. in the rate on Treasury Bills means an addition of about £12,000,000 a year to the taxation of the country. The advance in the rate on Treasury Bills which took place in the autumn of 1919 was not due to any falling off of the purchase of Treasury Bills. Neither was the increased bank-rate due to the difficulty of getting money from depositors. The increase in the bank-rate was not accompanied by an increase in the rate of interest upon deposits, and the wider difference between the interest paid by the banks on deposits and the interest they received on loans, represented so much additional profit to the Money Trust.

The nationalisation of banks is a matter of the utmost urgency. The Bank of England holds at present an anomalous position. It is at the same time a private concern and a semi-public institution. It should become the property of the Government, and its powers for fixing the bank-rate should be in the hands of the Government. The amalgamation of the joint-stock banks has made it an easy matter for them to be merged into a State Bank of England.

Nationalisation of banking is necessary to safeguard public interest against the power of private monopoly. Nationalisation would effect economies of administration; it would give better security to depositors and easier

terms to borrowers. Without the control of banks it is impossible for the State to effectively regulate the level of prices. The national banking system would give the Government the power to rearrange the conditions of the National Debt, and a considerable saving in interest could be effected thereby.

Closely allied to the banking monopoly, and exercising tremendous influence upon finance, are the great insurance corporations. We see the same movement towards amalgamation and monopoly in the insurance world which we have noted in connection with banking. Insurance, both fire, life, accident and general, is a business eminently suitable for State management. The profits of the insurance companies are colossal. The assets standing in the balance sheets of the life assurance companies amount to about £700,000,000. The exposures made by a Committee which recently investigated the subject of industrial insurance have revealed a very grave public scandal. For the protection of the thrifty, apart from financial considerations, the State acquisition of life assurance is urgently needed. The certainty of an enormous yield of revenue from the State control of all forms of insurance is not a matter of controversy. Even if the existing life assurance, fire and general insurance companies were purchased by the

State on equitable terms, the economies which could be effected would enable the State to considerably reduce the premiums, in addition to providing a vast revenue for public purposes.

The State at present derives a revenue of over £200,000,000 a year from the liquor traffic. The private profits of the trade are enormous, and have risen considerably during the last six years. There is in the Labour Movement a section who desire to see the liquor trade nationalised for three reasons. First, they maintain that under State-ownership and control the worst evils of the traffic could be removed; second, that profiteering would be eliminated; and third, that a considerable addition of revenue from the trade would accrue to the State. The two last-mentioned reasons are mutually destructive, and no further comment upon them is necessary. This question of the nationalisation of the liquor traffic is more a social than an economic matter. The Annual Conference of the Labour Party which assembled at Scarborough in June 1920 rejected a resolution in favour of State-ownership and approved one declaring local option to be the policy of the Labour Party on the drink question. There is no doubt that the liquor traffic in the hands of the State could be an exceedingly remunerative business. But the drink traffic is one which no

community can afford to encourage. Profits from such a traffic are made at too heavy a cost in the physical and moral degradation of the community. The world-wide movement for prohibition, which has already made such progress that nearly two-thirds of the English-speaking people are living where no brewery, distillery, or saloon exists, must make its influence felt in Great Britain, and no Labour Chancellor of the Exchequer would be likely to look to the liquor trade as a means by which additional revenue could be obtained.

There is one other proposal for relieving the financial embarrassments of this country upon which a few words must be said. It is a proposal advocated by commercial and financial groups interested in the development of tropical and sub-tropical territories of the British Empire. Fascinating pictures are painted of the vast undeveloped wealth of these regions which could be exploited by the use of British capital and native labour. The selfishness and immorality of such a proposal as this are too glaringly manifest to need exposure. If such a policy as this were adopted it would be a reversal of what has always been professed to be British colonial policy. The justification for British appropriation and government of the territories of the black races has been that we were there as much for the benefit of the

natives as for our own advantage. Whether in practice Great Britain has always fulfilled this mission of civilisation is a question we need not enter upon, but this may be said, that the moral sense of what is best in the British race revolts against the deliberate adoption of the policy of exploiting our colonial possessions solely for the economic profit of British capitalism, and for the relief of the embarrassments of the British taxpayers.

CHAPTER XII

LOCAL FINANCE AND TAXATION

LOCAL finance and national taxation are closely related. The taxpayer and the ratepayer are not different persons. National taxation and local rates fall largely on the same shoulders. Local rates and national taxation must be drawn from the same sources of wealth. Like our system of national taxation, local rating has developed on no very definite lines of policy. The system of local rating in England and Wales is very much the same which has prevailed from the days of Queen Elizabeth. During the last hundred years there has been a wonderful advance in municipal government. Every year the local bodies make larger demands on the pockets of the ratepayers to meet the needs of a rising standard of public health and public comfort. Necessary services, which the individual was formerly left to provide by his own efforts and by his own direct expenditure, are increasingly supplied through communal services.

The ordinary ratepayer little realises the immense benefit he gains from this communal form of supplying his needs. If we

take the average rateable value of a workman's house at £8 and the average local rate at 12s. in the pound, the workman's family pays in local rates the sum of £4 16s. a year, or less than 2s. a week. What will 2s. a week give a workman's family if privately expended? It will provide them with two ounces of tobacco or three pints of bad beer. It will give three members of the family a seat at a picture-show once a week. It will give them three quarts of milk a week. It is the price of one suit of clothes a year. It will not provide for a week's holiday for the husband and wife. This is the purchasing value of 2s. a week in the hands of a private individual. What will 2s. a week give when expended through the rates? It gives a free education to all the children of the family; it provides a police force without which life and property would be unsafe; it gives a public health service which provides for the inspection of food, milk and sanitation; it gives a systematic street drainage and disposes of household refuse; it provides hospitals; it provides for the poor in times of need; it gives free libraries, parks and picture galleries; it places an adequate water supply within the home; services which could not be obtained at anything approaching the cost if individuals were left to make their own provision.

Though municipal enterprise gives such an economical and efficient service, and may be defended as the most economical form of individual expenditure, it still remains true that the burden of rapidly increasing local rates is becoming very serious, and reforms are urgently needed for lightening that burden by spreading it more evenly over the whole body of ratepayers and tax-payers.

Many of the services, the main part of the cost of which is now borne by the local rates, are of a national or semi-national character, and ought to be paid for in the main from national taxation. This particularly applies to the Education Rate, to the Poor Rate and to certain public health services. Children are not educated for the parish, but for the nation, and the burden of placing so large a part of the cost of education on the local rates is especially onerous in the case of comparatively poor localities. The same observation applies to the maintenance of the poor in sickness and old age. The Old Age Pensions Act, the funds for which are provided from national taxation, recognises that the provision for old age and poverty is a national and not a local obligation. National legislation during the last twenty years has been constantly adding to the burdens of local rates without making a corresponding addition to grants from national revenue.

Before the war the financial difficulties of the local bodies had become so serious that Mr. Lloyd George on May 4, 1914, devoted a considerable part of his Budget statement to a review of the relations between the local and imperial finance. He said—

“There is one undertaking which certainly cannot be postponed without injury to the interests of the nation, and that is the readjustment of the relations of local and imperial finance. The condition of local finance has long been a crying evil, an evil which has been admitted by all parties in this House, and which imposes grave injustice upon individuals and inflicts serious injury on the highest interests of the community.”

He referred to the innumerable and emphatic pledges which had been given by the leaders of both parties to deal with it, and to deal with it immediately. He pointed to the increase of rates which was taking place in most districts and mentioned that the rates in some places had doubled in the course of the last twenty or thirty years.

The financial difficulties of local authorities had resulted in the neglect to properly enforce the public health acts, in the toleration of slum areas which in the interests of public health ought to be removed, and the inadequate staffing and equipment of the

elementary schools. A system of local finance which is so unadaptable as this to meet growing needs stands condemned, and urgently requires to be reformed.

Committees and Royal Commissions on Taxation have unreservedly condemned the present system of local rating. The system of basing a ratepayer's contribution to local expenditure upon the value of the premises he occupies results in grave inequalities and injustices. It is, as the Chancellor of the Exchequer said on the occasion mentioned, objectionable from every point of view. It works unequally, unfairly, partially. Some properties are valued to the full and other properties are valued at a nominal figure. Valuable land escapes contribution altogether because it is not put to the best use. You get a house which may have cost scores or hundreds of thousands of pounds valued at a few hundreds a year, and you get a tradesman's premises which only cost a few thousands valued at the same figure. He pointed out that the present system of local rating did not exact contributions in proportion to means. A workman in the town contributes about 5 per cent. of his income to the rates, and a man within the range of super-tax pays but 1 per cent. The provincial tradesman contributes 9 per cent. of his income to the rates and the London tradesman contributes 13 per cent.

It appears to have been the intention of the Government in 1914, if war had not intervened, to deal with local finance by a reform of the rating system and by further substantial aid from the Exchequer. It was hinted that a system of national assessment would be adopted so as to get a uniform assessment over the whole country. The present system of leaving the assessment of property to local valuation results in extraordinary anomalies as between district and district; and as certain of the national contributions are based upon local valuation, injustices are done to districts which put the local valuation upon a higher scale.

The problem of local finance has been greatly aggravated by the effects of the war. Local rates are rising everywhere. In some districts they have already reached over twenty shillings in the pound, and it is no fantastic forecast to say that unless local rating be reformed we shall in the near future see some local authorities levying a rate of forty shillings in the pound.

Necessary local improvements are being held back because of the difficulty of obtaining money. In 1913 a local authority could borrow at $3\frac{1}{2}$ per cent., but in the last few weeks great authorities like the London County Council and the Bradford City Council have failed to place their loans on the market at rates approaching $6\frac{1}{2}$ per cent.

The burden of borrowing at such a rate of interest imposes a crushing weight upon local authorities. Unless something can be done to lighten this burden, municipal enterprise will be starved, with disastrous consequences on public health.

The most promising methods of dealing with the financial embarrassments of local authorities are, first larger assistance from the State for municipal activities which are semi-national in their character; second, a drastic reform in the method of assessment and rating; and third, the tapping of new resources of revenue for municipal purposes.

In Mr. Austen Chamberlain's *Memorandum*, outlining a normal Budget, published on June 30, 1920, he assigns a sum of £117,800,000 as grants in aid from the National Exchequer for services which are administered by the local authorities. The particulars are as follows—

	£
Education	70,000,000
Agriculture	1,500,000
Unemployment and Health Insurance and other Health grants	17,500,000
Police	10,800,000
Irish land purchase	1,000,000
Housing subsidies	15,000,000
Mental deficiency and reformatories	1,000,000
Transport development	1,000,000
	<hr/>
	117,800,000
	<hr/> <hr/>

Many of these grants will undoubtedly in the near future have to be considerably augmented, particularly the grants to education, housing, unemployment insurance, and public health. The Medical Consultative Council of the Ministry of Health has issued a report advising certain reforms in public health administration which it was stated at a meeting of the Medical Association at Cambridge on June 28, 1920, would, in the next ten years cost £150,000,000 a year. The municipalities cannot bear a heavier burden than they carry at present for services of a semi-national character. The increasing calls upon them for expenditure upon mere local services will absorb all the increased revenue they may be able to get from an increase of the rates and from new sources of revenue. The National Exchequer will have in the future to provide the money for duties imposed on the local authorities. The immediate problem of municipal finance is not to make provision for additional burdens, but to lighten those already on their shoulders and to meet the natural increase of expenditure for services of a local character.

Though in the abstract it may be maintained that such services as education, local medical centres and housing, are national in their character, it would be difficult to support the demand that the cost of these services should be placed wholly on the National

Exchequer, while leaving more or less of the management and power of expenditure in the hands of the local authorities. The solution of this problem is to be found in joint control by the municipalities and the State, each bearing a share of responsibility for the expenditure. This system is illustrated in the joint administration of the Education Acts by the local authorities and the State, though the proportion of the cost borne by the local authorities is much too high, and if a larger share were borne by the State, it is not likely that the efficiency of local administration would suffer.

A reform of the system of local rating would not only spread the burden of the rates more equitably but would bring in a larger revenue to the local exchequer. The idea of rating occupied premises for local purposes may be to secure a contribution in accordance with the ability of the occupier to pay, but it is a very rough and unsatisfactory method of achieving that purpose. In the case of house property there may be some fairly exact relation between the rateable value of the house and the occupier's ability to pay, but this is not invariably so. In the case of working-class property this system of assessing rates on the basis of rent acts as a deterrent to a better standard of housing. It is in effect a penalty upon a working man who desires to provide decent

and healthy accommodation for himself and family. This system of rating is particularly unfair on a large class of business men. A lawyer, architect, or other professional business man will occupy offices at a comparatively low rental, and though he makes a very large income will be assessed at a very low rate. A business man requires more expensive premises, and is consequently highly assessed, though his income may be very considerably lower than that of the professional man.

A municipal income-tax has been suggested as the best method by which municipal revenue may be raised. On the face of it this looks a just method of assessment, but on examination certain difficulties are discovered, some of which might be insuperable. It has been urged in opposition to the municipal income-tax that if it were confined to persons residing in the local area, rich persons who made their money in the area could escape by residing outside. There does not appear to be much substance in this objection, for it ought not to be difficult to assess them upon the profits of their business. A greater difficulty would be in deciding what proportion of the profits of businesses with branch works or offices in the area, ought to contribute in local income-tax, as, for instance, railways, canals, banks, insurance companies, and branch offices of

business firms. There is the further difficulty which would be experienced of determining whether the profits made by an individual or firm with premises within the municipal area were made out of business conducted solely within that area. No municipal area is wholly self-contained. It derives much of its prosperity from business done outside its boundaries. On the whole the practical difficulties of a local income-tax would probably outweigh the abstract justice of such a method of contributing to the cost of local services.

Municipalities must look for increased revenue to new sources of taxation, and the taxation of land values is one of the most promising of such untapped sources. The benefit of local expenditure on streets, roads, parks, tramways, and other municipal enterprise is in a large measure appropriated by the owners of land who directly contribute nothing of the improved value to the local rates. Instances of the enrichment of ground landlords by the growth of towns and the expenditure of public money upon their development are too well known to need reciting here. Recently innumerable cases have happened where local authorities have been asked to pay for land for housing purposes ten times the value at which the site was assessed for local rating purposes. Powers ought to be conferred upon the

local authorities to appropriate the whole of the increment of value which has arisen from social causes. In addition to this, powers should be given to municipalities to acquire and to hold undeveloped land for future use. The relations between local and national finance are urgently in need of readjustment, and the necessary reforms will involve larger contributions from the National Exchequer for semi-national services now maintained wholly or in a large measure by contributions from local rates. The surplus of income still enjoyed by the national taxpayer is well able to bear this additional impost.

APPENDIX I

NINETEENTH ANNUAL CONFERENCE OF THE LABOUR PARTY, SOUTHPORT, 1919

MR. PHILIP SNOWDEN (I.L.P.) moved the following resolution, which was passed unanimously.

“ The war having left the nation burdened with an enormous debt, which necessitates the raising of a huge annual revenue for the payment of interest and sinking fund, and as the existence of this financial burden is a serious hindrance to industrial and social reconstruction, it is essential that there should be a thorough overhauling of national finance and a drastic reform in methods of taxation; and, further, in view of the fact that during the war private profiteering has been rampant and huge private fortunes have been made by private exploitation of the national situation, this Conference declares—

“(a) That the methods adopted by successive Governments to finance the war should be emphatically condemned; that instead of creating fictitious credits by borrowing thousands of millions at unnecessarily high rates of interest, thereby creating a large class deriving permanent income from national taxation, the Government should have resorted to a far greater extent to the sound plan of imposing much heavier taxation, particularly upon wealth accumulated during the war.

“(b) That with the object of reducing the National Debt, and thereby relieving national revenue as quickly as possible, an equitable system of Conscription of Wealth should be put into operation at once, such a system to exempt property below one thousand pounds,

and to impose a graduated scale on estates above that sum.

“(c) That national revenue should be derived in the main from the taxation of land and accumulated wealth and on incomes and profits, and in order that such taxation may be as equitable as possible, the incidence of the income-tax should be reformed, death duties drastically increased, and heavier rates imposed on large incomes.

“(d) That taxation should not be imposed in such a way as to encroach upon the necessities of life or to reduce the standard of living of the masses of the people, all taxation upon articles of food should be repealed, and to raise the minimum upon which income-tax is imposed to £250.

“(e) That national taxation should not be used for protective trade purposes, as protective tariffs inevitably enhance the cost of living, benefit the profiteers, and cause international ill-will.

“(f) That the iniquitous policy of the Board of Trade of arbitrarily restricting imports for the benefit of British profiteers, whereby home prices are artificially raised, should be immediately discontinued.

“(g) That the whole system of land taxation should be revised so that the whole of the unearned increment of values should accrue to the State.

“(h) That in order to relieve the community from the exploitation of the private banking institutions, the Government shall establish a National Bank for national service with branches in all centres.

“(i) That simultaneously with the carrying out of these financial reforms the State should energetically pursue the policy of acquiring the ownership of the means of production, transport and distribution, thereby eliminating the profiteers and benefiting the community.”

APPENDIX II

CONSCRIPTION OF WEALTH—TRADE UNION CONGRESS RESOLUTION, BIRMINGHAM, 1916

“THAT, as the manhood of the nation has been conscripted to resist foreign aggression, the maintenance of freedom, and the protection of capital, this Congress demands that such a proportion of the accumulated wealth of the country shall be immediately conscripted as is necessary to defray the financial liability incurred by the prosecution of the war, and thus avoid borrowing huge loans upon which enormous sums will have to be paid in interest by future generations, which will handicap the industries of the country in national and international competition, diminish trade and impoverish the people.

“And, further, that this Congress instructs the Parliamentary Committee to initiate a huge campaign for the purpose of accomplishing the foregoing object, and, further, instructs the Parliamentary Committee to immediately demand from the Government a census of wealth—

“(a) Banking accounts and balances.

“(b) Currency.

“(c) The capital estimate of the whole material: (1) productive, (2) transport and distributive wealth, and the whole of the profits appertaining thereto.

“(d) An estimate of the value of property and real estate and other forms representing rents, interests, and profit.”

