

it with rules and regulations which nobody can understand.

To sum up, a capital levy, such as I would approve, involves a complete reversal of national policy, if the policy of the present government may be regarded as in any way national. We want, first of all, to realize that a system of government which is useful in the period of war is not the best form for a period of peace. We need to understand that the success of the nation is made up of the successes of all the individuals that compose the nation, and that the way to secure that success is to encourage those individuals. We need to realize the old truth that the best way to govern is to do as little of it as possible. We must put our personal and national finances on to such a basis as to enable individuals to do things and not so arrange matters that all personal initiative and all individual effort is damped down and discouraged. We should aim at a complete separation of politics and industry, and that would best be done by a strict limitation of the money which is placed at the disposal of politicians. There should, in fact, be a proper liquidation of the present intolerable position, and a new start on a sane and sensible basis. Part of the process of such a liquidation would inevitably be a levy on capital.

II. *The Case Against the Levy*

BY J. A. R. MARRIOTT, M.P.

I GLADLY accede to the request of the Editor of the *Review of Reviews* that I should summarize for the information of its readers the arguments against a levy on capital which I have more than once addressed to the House of Commons and to other audiences on this subject.

No one can doubt the insistent importance of the question. The nation is faced by a financial situation sufficiently grave to appall the stoutest heart. Even if the hopes of the optimists are realized to the full we must be content to shoulder an enormous load of debt. The gross debt will certainly exceed £8,000,000,000 — about 10 times the amount which we had to shoulder at the close of the Napoleonic wars.

Such a situation, extraordinary and unprecedented, calls, it is urged, for the application of heroic remedies. Why not impose a levy upon the accumulated wealth of the people, and thus by one clean, though painful, surgical operation get rid of the gangrene which otherwise will poison the whole body politic for at least half a century to come?

The proposition is an alluring one, more particularly to those who do not possess any accumulated wealth. But, though alluring, is it sound finance? Short cuts have an irresistible attraction for certain temperaments, but they are never safe for wayfarers who are not well acquainted with the lie of the ground; not always for those who are. Financial short cuts almost invariably lead into quagmires.

But a levy on capital may prove to be an exception to the general rule. Let us see precisely what is proposed. Suppose that the total accumulated wealth of the country amounts to £24,000,000,000 (I do not commit myself to this figure: but let us accept it for the sake of argument). Let all persons who possess more than, say, £1000 be required to contribute an *average* of one quarter (25 per cent) of their aggregate wealth to the state, in order to clear off debt. The smaller fortunes would, such is the proposal, contribute much less than 25 per cent; the largest fortunes considerably more;

but if the *average* were 25 per cent the tax might be expected to yield an aggregate sum of £4,000,000,000, or sufficient to wipe out half the gross debt, or perhaps even three quarters, if the more optimistic anticipations as to repayment of the debts owed to us by Allies and by Russia, and as to the German indemnity, be realized.

This is a most attractive prospect. Who among us would not rejoice could we, by any device, reduce the annual debt charge from say £400,000,000 to £100,000,000 or even to £200,000,000? Why not at any rate try the experiment?

In regard to any proposed tax or imposition three questions must be asked: (1) Is it fair and just as between citizen and citizen? (2) Is it feasible; can the tax be assessed, and collected without disproportionate expense? (3) Is it fiscally expedient; would it yield revenue without inflicting more than proportionate damage upon the *sources* of revenue?

How does the proposed levy on capital respond to these tests?

First: is it fair? I frankly admit that *no* tax that was ever devised can be perfectly fair. All taxes bear more hardly upon some individuals than upon others; notably the existing income tax. I do not, therefore, look for ideal justice in taxation. Still, any statesman worthy of the name will endeavor to attain to rough equity in his fiscal policy, and will do his best to avoid impositions which are likely to arouse resentment in individual citizens, still more those which are likely to exacerbate the relations between classes; above all, of course, those which are so manifestly inequitable as to discourage the production or the accumulation of wealth, or even to encourage evasion of the impost. Would a capital levy be equitable as between individuals, and as between classes?

There is one argument not infrequently urged in its favor to which I am almost ashamed to refer, but it has cropped up, so after that I cannot ignore it. Some two years ago the War Emergency Workers' Committee urged that the government ought 'in common fairness to accompany the conscription of men by the conscription of wealth.' Speaking in the House of Commons on December 20, 1917, Mr. Adamson, the leader of the Labor party, put the same point bluntly: 'I want to say to the Prime Minister and to the government in all seriousness, "If you imagine that you are going to go on making call after call for men, without some definite and distinct arrangement as to the conscription of wealth, then you will find that you are up against a very difficult problem."' This seems to me a nauseating suggestion — that sacrifice of life is to be equaled by sacrifice of wealth, and it rests, moreover, upon a twofold fallacy: first, that there has not been any 'conscription of wealth'; and secondly, that the wealthier classes have been behind the poorer in the sacrifice of those who were near and dear to them. Both suggestions are grotesquely untrue: all taxation is 'conscription' of wealth; and when the income tax mounts, as it does to-day, to 10s. 6d. in the pound it is conscription of the severest character. As for the sacrifice of life, no one class has been before or after another.

I could not, indeed, have brought myself even to notice this argument, if it were not the revelation it affords as to the temper of those who are demanding a levy on capital. Of some; by no means of all. Some are inspired far less by a desire to relieve the necessities of the state, than to attack the accumulated wealth of the possessing classes, careless, it is to be feared, of the results of the attack upon the

Commonwealth. There are many, on the other hand, who are genuinely convinced that nowhere else can fiscal salvation be found. With the latter only is this article concerned.

Would a capital levy satisfy the test of equity? I submit that it would not; and for two reasons: first, it penalizes the thrifty and patriotic citizen, while the reckless and the extravagant go scot free; and, secondly, it differentiates most unfairly between one form of saving and another.

Take the case of two barristers, each of whom has enjoyed for the last 20 years an income of £3000 a year. Both, let it be assumed, are bachelors, and 'without encumbrances.' 'A,' prudent and patriotic, has, to the great advantage of the Commonwealth, and in particular of its industrial enterprise, accumulated a fortune of £20,000 which he has invested in the ordinary way. 'B' has throughout life spent up to the last penny of his earnings. 'A' is not only under the existing law taxed heavily upon his 'unearned' income (every penny of it, let us note, being as much 'earned' as the fees from his briefs), he is now called upon to disgorge a considerable proportion, say £4000 of his modest *capital*. 'B' having in the current vulgarity, 'done himself well' all his life, has nothing to disgorge. He may indeed have been just sufficiently prudent to purchase a deferred annuity for his declining years. Even so it could hardly be made the subject of a capital levy — though he might conceivably be brought under proportionate contribution by other means.

Compare again, the position of 'A' with that of his college friend and contemporary 'C,' who instead of going to the Bar, has entered the Indian Civil Service, at the age of 50 or earlier. 'C' never having voluntarily saved a penny, retires on a pension of £1000 a

year. 'A,' having saved his own pension sees 20 per cent of it 'conscripted.' 'C,' having had it saved for him escapes. Yet 'A' has, in the economic sense, deserved far better of the state than 'C.' He has oiled the wheels of industry; 'C' has merely made his old age secure.

A 'levy' would, therefore, work, I submit, most unequally as between individuals. The inequity might be, to some extent, corrected by various devices; but it would not be easy to do it; and the chances are that if ever the proposal were adopted the methods would be too summary to admit of such scientific conviction.

But, equitable or inequitable, is the idea feasible? Mr. Arnold, for whose opinion on financial questions I have sincere respect, would answer with an emphatic affirmative. The state finds no difficulty in extorting in the shape of 'death duties' a lump of capital from the estate of a deceased person; why not take it from the estates of the living? If the bulk of a man's property consisted of 'real estate,' still more if it consisted of actual money (and there are plenty of people, I fancy, who still hug this illusion, or at least talk as if they did), it would be easy enough to assess its value and to claim for the state a share of it. But land and houses form but a fraction of the accumulated wealth of Britain, while the amount of 'cash' which a man possesses is generally in inverse ratio to his wealth. Other forms of wealth — personal belongings, furniture, pictures, capital invested in agriculture, in industry, and so on — are less easily valued. The wide diversity of 'valuations,' even when made by competent valuers, is proverbial, and already forms one of the difficulties incidental to the equitable collection of 'death duties.' But the existing difficulty is insignificant com-

pared with the difficulty of valuing simultaneously the whole accumulated wealth of the country.

Still, this difficulty, I admit, is not insuperable. There is another far more formidable. The mere announcement of a capital levy would, I believe, induce immediately such a shrinkage of values, as would seriously diminish the anticipated yield. Would not values sink to zero when everyone was simultaneously attempting to sell property and to realize securities, in order to satisfy the demands of the tax gatherer? But why, urges the advocate of a levy, should everyone rush to sell and realize? The state would claim its share not in cash, but in kind. Suppose an 'estate' consisted entirely of £100,000 railway debentures. The state would simply claim a quarter of them, and *would hold them*, without any attempt at immediate realization. If a man's capital was invested wholly in War Loan, the state would simply cancel 25 per cent of it. I admit that the conversion of so much of the wealth of the country into government securities has greatly facilitated such a process. But the very fact that it is facilitated brings the whole transaction ominously close to the border line of repudiation. Repudiation, in the naked sense, is, of course, unthinkable. A capital levy, though more respectable in form, would not, under existing circumstances, be in essence so widely differentiated from it, and it would deal, in my opinion, a fatal blow alike at credit and at thrift.

This leads me to another consideration: that of financial expediency. A levy might be at once equitable in theory and feasible in practice, and yet be hopelessly inexpedient. Is the idea open, in fact, to this criticism?

By its more responsible sponsors — such as Mr. Arnold, it is generally advocated as a preferable alternative

to the continued imposition of a very high income tax.

This plea deserves respectful attention. An income tax levied at the present rate is, beyond all question, dangerously deterrent to industrial enterprise and not encouraging to habits of thrift. It is a sorry prospect for the younger men just entering upon a commercial career to be faced by the possibility of a continuance of the tax at existing rates for half a century to come.

Would the proposed alternative be preferable? Can it indeed be seriously regarded as an *alternative*? When Mr. Bonar Law seemed, in January, 1915, to be tending toward an acceptance of the suggestion of a capital levy, this was, I have reason to believe, the main if not the sole argument which appealed to him. It is as an *alternative to a high income tax* that Mr. Arnold, in able and closely reasoned speeches, has more than once commended the proposal to the House of Commons. 'The choice is,' he said on May 20, 1919, 'between a levy on capital and a high income tax.' On May 1 he was even more specific, and pointed out that 'as a result of a capital levy the general rate of the income tax could be reduced from 8s. in the pound to less than 3s. in the pound.' He may be theoretically right; it might be possible so to reduce it; but is there any probability that the income tax would be reduced to less than 3s., or that if it were it would be permitted by those who favor direct taxation to remain at that level? Mr. J. A. Hobson,* expressly repudiated the alternative. 'I want,' he said in effect, '*both* a capital levy *and* a high income tax.' Precisely. So do all his Socialist friends — if they can get it. But is Mr. Arnold's alternative so very alluring? Take a simple case: that of a man whose whole for-

* *Manchester Guardian*, January 26, 1918.

tune consists of £100,000 5 per cent War Bonds. With an 8s. income tax his net income is £3000 a year. A capital levy at an *average* rate of 25 per cent would reduce his capital (for the reduction in his case would be *above* the average rate) to, say, £70,000, and would reduce his net income (after deducting income tax at 3s.) to £2975. He would have lost £25 of income and would have £25,000 less to leave to his children; while the state would have £25,000 less on which to levy Death Duties. For the state cannot have it all ways. The ingenuity of Somerset House is proverbial, but even the Inland Revenue Officials would find it difficult to assess Death Duties on capital which had already passed to the state in the lifetime of the deceased.

Perhaps I labor the point unnecessarily; but I am most anxious that every thoughtful citizen should work out an abstract proposition in concrete terms. The whole of this part of the argument for a capital levy rests, however, upon four assumptions:

- (1) That it will not exceed, in the first instance, 25 per cent.
- (2) That it will never be repeated.
- (3) That the income tax will be reduced to 3s. in the pound or less.
- (4) That the reduction in the rate will be permanent.

Unless you can grant these assumptions the whole structure of reasoned argument topples over. Does any practical politician, does any sane person imagine that the assumptions are otherwise than ridiculous? Who could make the bargain with the income tax payers? Who could enforce it, if made? Not the Treasury, nor the Cabinet, nor even the House of Commons. Who can bind a Sovereign Legislature? If there is one thing

about a capital levy more certain than another, it is that if it prove feasible and successful (which I do not anticipate) the device will be repeated, perhaps on an even more ambitious scale.

Should this happen, another result would infallibly follow; no one would ever save a sovereign or even a shilling again. And yet what is the crying need of industry to-day — indeed at all times — but particularly to-day? Even Sir Leo Chiozza Money can perceive that it is *capital*. ‘Now capital should be lavished upon mining properties.’ So he writes in the *Daily Herald* of October 31. I trust that the habitual readers of that interesting journal will take the advice to heart, and will ask themselves this simple question: Where is capital to come from for the development of the coal or any other industry? Capital involves two processes: the production of wealth, and abstention from the immediate consumption of the product. If the state is going to make its levies upon capital, who is going in future to accumulate it? Yet the accumulation of wealth is the indispensable condition of all material progress. Remove the incentive to saving and mankind would return (doubtless by very gradual stages) to the condition of primitive barbarism, and these islands would carry, at most, a population of 5,000,000 people, ill clothed, half-starved, and wholly unprogressive. Without capital you can have no progress; without saving you can have no capital; without security you will have no saving. A capital levy would, in my judgment, be fatal to security, and would, therefore, impose an insuperable barrier to all industrial development.

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TALK OF EUROPE

MR. NORMAN GALE of old Bilton, Rugby, England, has just published a *Merry-go-round of Song, containing poems for children, fathers, mothers, uncles, aunts, grandfathers, and grandmothers*. From it we have extracted the following original gem. It is called —

BOBBY'S FIRST POEM

ith rely is ridikelus
how uncle charly tikkels us
at cester and at mikkelmus
Upon the nursery floor
and rubbs our chins and bites our ears
like firty fousand polar bares
and rors like lyons down the stares
and wont play enny mor.

At the recent visit of General Diaz to London a small boy of the East End, merry and dirty and cheeky, drove his donkey's nose beneath the harness of a Sheriff's coach. The haughty stare of the coachman, who was all powder and plush and majesty, would have blasted any ordinary person to perdition. Instead of which the small boy cocked up his head, and said, 'Ello, 'Enry the Eight, 'ow are yer?'

MEGS was rewarded for being always a good little girl by the news of the arrival in the world of a baby sister. Megs was at her kindergarten school when the good news came; her father was in Ceylon, her mother in London. 'And where's baby?' asks Megs. 'With daddy or mum?'

ONCE the ball of self-determination has been started rolling, there is no stopping it. Now it is the voice of Azerbaïdjan that must be heard. There must be financiers there for the Azerbaïdjanians or Azerbaïdjanese have actually got out pamphlets and a propaganda. Where is it? Let the pamphlet speak. 'Situated,' it says, 'south of the Caucasus, on the Caspian Sea, at the mouths of the Kura and Arax, Azerbaïdjan was on the way of the great migrations of Barbarians, toward Europe, later some

Turkish tribes settled there. Any traveler can immediately recognize in the Azerbaïdjanians quite a different type of people from the Armenians and the Georgians, their western neighbors, from the Persians, who still occupy a large tract of Azerbaïdjan. The Azerbaïdjanian type differs also from those of the Caucasian mountain tribes, Circassians (Adiges), Ossetians, Tchetchenians, Ingoush, etc.'

What would one not give to see a Tchetchenian or a wild Ingoush?

SIR HORACE PLUNKETT, speaking at a luncheon at the National Liberal Club on 'An Irish Settlement,' said:

You are governing Ireland with the help of a huge army of occupation, with all the latest engines of destruction, which in England are already finding their proper place in the museums. This monstrous substitute for statesmanship is superimposed upon the largest police force in proportion to population in the world. People who dare to protest against a régime which would not be tolerated for a moment by white people in any other portion of the British Empire are ruthlessly incarcerated. Does it mean nothing to you that even your English jails will not hold prisoners whom every free-born jailer knows in the bottom of his heart ought not to be there?

Beneath all this tragedy, this futility, and farce, there is being established an Irish Republic with at least as much moral sanction as your government can claim, and with ten times its political influence, not only upon the thought and action of the Irish people but upon the anti-British sentiment throughout the world.

Let us consider what can now be done. I start with the assumption that you must at once substitute civil government for Prussian militarism. Never again must a British military force be employed for the establishment or support of any political system in any part of Ireland. Once this is con-