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REVIEW-ARTICLE

A LEVY UPON CAPITAL AND WAR FINANCE.

Economic Problems of Peace after War. (Second Series.) By
WILLIAM ROBERT SCOTT, M.A., D.Phil., Litt.D., LL.D.
(Cambridge: The University Press. 1918, Pp. xii+139.
6s. net.)

PROFESSOR SCOTT whets our hopes in his Preface by telling us that in this "second series" of Jevons Lectures "concrete illustrations" will be given of the "working" of the "method" indicated in the first. That earlier course, delivered at University College, London, in 1917, was, it will be remembered, reviewed in the December number of the *ECONOMIC JOURNAL* for that year (Vol. XXVII., pp. 530-532). In current debates, Dr. Scott contends, "undue concentration upon details" has meant the "neglect of wide and comprehensive principles, many of which," however, he observes, "are psychological rather than purely economic." It would, we feel, be perverse to quarrel with the general truth, or the special pertinence to present plans of "reconstruction," of his "paradox" that "what is most important in facing the future is first to reach the right point of view." Nor is the Adam Smith Professor of Glasgow University dishonourably, or, we may add, inappropriately, distinguished from many players at the fashionable game of bold prophecy by the cool circumspection of his horoscopes. So far as we can judge, he has not seized an opportunity when vast disturbance has occurred, or large commotion threatens, to push forward exclusively preconceived pet ambitions of his own. Nor does he try in a favouring situation to advance in haste the class interests of one or more sections of the community to the designed, if not avowed, injury or punishment of others. If he does not wish, or contrive, to escape all taint of propaganda, the chief objects that he seeks are, it will be evident, not precisely fitted to win popular applause. It is, we would suggest, wholesome, but it needs some courage, to recall in these surroundings the healing virtues of individual

liberty and the insidious wastefulness of government control. Such a moral, falling once again from our author's lips in his second course of lectures, is not pressed with exaggeration; but it may aptly serve to confirm the "proper attitude of mind towards the problems" of the immediate future which was earnestly enjoined in the first set of addresses.

We must, notwithstanding, add that on one at least of the two groups of questions handled now by Dr. Scott he appears to run imminent risk of a reproach invited, as we hold, more seasonably by the discourses of the previous year. The nature of the subject may not easily admit of treatment differing from that adopted; but, acute and forcible as are his remarks on the feasibility and results of the methods and the aims reviewed in the first two chapters, many, if not all, of the conclusions drawn are tentative, and the whole discussion seems somewhat nebulous. Here as in the former volume a rich command of apt quotation lends relief to refined, if not exhausting or laborious, argument; and the heading of the first chapter, "*Mare liberum; aer clausus*," will be allowed to be a happy choice. Yet in the opening lecture a hesitating and elusive subtilty will, we fear, often disappoint readers who looked for more plain direction. As we should anticipate from a previous partiality for Free Trade, Professor Scott in his second discourse is not slow to note, or disinclined to emphasise, difficulties attendant on the mode and measure of the economic control to be exerted in and by a "League of Nations"; but the final issue of a searching survey will not, we imagine, yield much enlightenment. For we are told that, while the "prospects of the future," without such a League, "can only be described as an unfavourable certainty," "with it, perhaps, these may be transformed into a favourable uncertainty."

The "remainder" of the lectures "deal with problems of finance"; and some restraint, we frankly allow, is necessarily imposed on full positive pronouncement at the present moment on what will, or should, happen during the "transition" from war to peace, and *a fortiori* on the situation as it is likely to be discovered "ten years after." Dr. Scott is no morose pessimist, and he gives substantial reasons for his cheering faith. But his justified confidence that we need fear neither "financial exhaustion" during the war nor "financial collapse" at its end was properly guarded by the proviso that reasonable prudence will be shown in the use of resources that have proved surprisingly abundant and enduring, and by the apt reminder that the restoration of tolerable economy on the side of the great spending depart-

ments of the Government should be swiftly and effectually achieved. His general prognostications and his particular suggestions in these concluding pages are, it need hardly be emphasised, based on large and accurate knowledge, and convey sage and opportune advice; but the balanced movement which is necessary in a cloudy atmosphere where the changing winds of guess and estimate prevail must be warily essayed, and the adjustment reached at last is so delicately poised that it may seem insecure.

It is in the earlier and not in the later of the "financial" chapters that we reach firm ground and obtain more certain help: and we are disposed to hold that these two middle lectures of the book are the most valuable, as they furnish the least indefinite, contribution made therein by Dr. Scott to the economic literature of war. We speak now of "war" in preference to "peace"; for the first of the crucial questions raised by him—that of the choice between taxes and loans as the "ways and means" of financing war—must, we think, be influenced predominantly by consideration of the great immediate stress caused by that current expenditure on military and naval operations which must *instantly* be provided from one source or another. Nor are the *pros* and *cons* of the second vexed debate, which is reviewed, on proposals made for the prompt extinction of debt thus incurred by a special levy from capital in a single contribution at the close likely to be unaffected in their turn by the enormous magnitude of such outlay. That cannot, as we have noticed, be deferred, but perforce is crowded into a brief period, in modern warfare waged between the large conscript armies of industrial countries. Reference to "peace after war" may, it is true, be suitably and obviously appended; but it is especially significant that the stern economic strain to be faced directly by the fighting peoples is in no small measure concentrated within narrow limits fixed by the actual continuance of the conflict. And for that very reason they may justly feel that all legitimate contrivance for relief, which is possible, should be employed by their financiers.

In his treatment of both problems Professor Scott secures an admirable breadth of view. With scrupulous fairness he expounds conflicting doctrines which he weighs in the just scales of temperate detachment. But he reaches conclusions which are as clear and final as they are sane and sure. In the process he dexterously contrives to illuminate old and bring forward new considerations. On the discussion of taxes *versus* loans, for instance, he urges cogently that, if taxation be found to be too heavy, it may,

forcing the payer to seek assistance from his bank, itself produce the very result which is the gravamen of the charge brought against the alternative of loans. It may cause "inflation," with its consequences. His historical summary of the past attitude of British and German economic writers—the former starting with an exclusive programme of taxation and the latter at the outset insisting upon borrowing alone as war proceeds, while subsequent experience has, in fact, suggested, or dictated, practical departures from either theoretical extreme—is as neat and terse as it is fresh and informing. For the complete rebuttal, indeed, of impossible contentions used in this dispute by recent supporters of the first position on both sides of the Atlantic we should recommend a masterly essay of Professor Seligman, noted, and summarised, in the March number of this JOURNAL for 1918 (p. 131). That authority on the economics of taxation, duly emphasising the new but necessary contrast between the "objective costs" and the "subjective sacrifice" of war, and rightly dwelling on the ignored or forgotten potency of credit—no less, and even more, in its public than in its private shape easing a pecuniary burden by spreading the time within which its irksomeness is borne—demonstrates *seriatim* the errors of commission or omission of the extravagant partisans of taxes against loans. But the Columbia University expert referred with appreciation to his Glasgow colleague's share in this controversy; and we feel with him that in the book before us, as elsewhere, Dr. Scott has lent timely help, correcting the excesses in the adoption, and enforcement, of a creed which, temperately stated and suitably advanced, is as salutary as it is beyond dispute. As he pithily observes at the end of this lecture, the plain duty of Chancellors of the Exchequer is "not to injure the future productivity" of taxation or of trade, but they should nevertheless carry taxes to the "verge" of the limit so prescribed.

In this book, too, as elsewhere, Professor Scott ably and fairly deals with the new, or revived, suggestion of a single special levy upon capital to be made for the prompt riddance of the heavy weight of war indebtedness. It is curious, and it is not without significance, that an identity, existing, we admit, along with a distinction, can be traced between adherents of taxes in the room of loans for financing current war expenditure and those who propose at the conclusion to mulct the thrifty who have saved, setting free previous extravagant selfish spenders, by assessing capital and using the funds obtained to extinguish the whole or most of the debt contracted. There is inconsistency, though there

is also some congruity, in the standpoints taken by writers who extend their favour to both plans. The former, shown in frowns at first and indulgent glances afterwards at the receipt by the State of capital in preference to income, may be due to an astonishing levity, or a negligent cordiality, with which the last scheme has been countenanced in academic quarters where we might expect a more rigorous scrutiny of its necessary limitations and a clearer recognition of the possible sequel of so hazardous a precedent. But the reconciliation of two views apparently opposed may be more probably discovered in that common idea of a redistribution of wealth, which is the end approved, if not the purpose avowed, by political advocates of the project of a capital levy. We have not adequate space in this review for exhaustive exploration; nor can we illustrate, as it deserves, the cool, decisive skill with which Dr. Scott inserts the keen edge of his probing criticism into the plausible analogies between capital and labour which are put forward under the disguise of the misleading phrase "conscription," or display the pitiless just resolve with which, removing the hollow pretexts, he lays bare the serious gaps of the vaunted programme. There are, however, two important points to which we think attention has not hitherto been sufficiently directed, and these we will proceed to state.

The treatment to be given to those who hold capital in the particular shape of the scrip of war loans has, it is evident, caused some trouble; and "special pleaders" have tried to combine recommendation of a quick plan for getting rid of debt, which may look like *novæ tabulæ*, with ancient prejudice against "repudiation," and a pristine integrity, which would jealously maintain the repute, hitherto not sullied, of British credit. An English Minister, dallying in what we would hope was no more than a passing whim of perverse guileless caprice with the poisoned bait, had excused his ominous unexpected deviation from the strait path of financial rectitude by offering the poor comfort to subscribers of war stock that they will at any rate not be treated worse than other capitalist taxpayers. Less responsible but more thorough friends of a policy of disputable wisdom, in considered articles written for scientific periodicals, have gone further, and, making precise what Mr. Bonar Law left vague, they suggest some discrimination, in less or more generous degree, in the proposed assessment in favour of this special class. But in the course of those identical essays these same writers proved to their own satisfaction that the levy which they urge would be facilitated by the lucky accident that at the end of the Great War a very large proportion of the capital

of the United Kingdom would have assumed the shape—specially amenable to such fiscal manipulation—of holdings of war loans. They seem indeed in this, as in other respects, to be attempting at once both to “eat” and to “have” their “cake.”

Yet, as Professor Scott has pertinently noticed, an active agitation of this sort for “conscription of capital” was ill calculated to promote the continued or augmented sale of war stock. It is more obviously fitted to discount the large assurance, widely advertised and often repeated, of Cabinet statesmen and minor members of the Government, of responsible officials specially concerned in such affairs like the Public Trustee, of Lord Mayors, of business experts, bankers, and insurance companies. They are quoted as vouching that the security is absolute, and the investment can be thoroughly recommended to the humble and the timid who cannot afford, and will not wish, to run the risk of forfeiting their future incomes, however patriotically anxious they might be to aid their country at the crisis of its fate and of their fortunes. A long list of such “prospectuses,” couched in terms of menace or cajolery, which may perhaps exhibit more vulgar blatancy than dignified restraint, has appeared in the daily and the weekly Press. But we will content ourselves with a single quotation from one of the most recent of such appeals. It is that of Sir Edward Holden, whose autograph signature, we were told, had been appended to a personal letter addressed to the customers of his bank. On the “value to the investor” of National Bonds the Chairman declares that he “need only say” that the London, City and Midland Bank is “taking them freely as being the best possible investment now open to a prudent and conservative bank for all funds which are available for that purpose.” Such an opinion from so great an authority must have due weight, and we understand that this message was being sent by all the banks to all depositors.

The particular point we now desire to urge is that it is not merely the perfect safety of the original principal which, guaranteed by the State, is, so to say, “underwritten” by this large, impressive group of financial and political magnates of fame; but the solemn covenant expressly covers the payment for a certain time of a definite rate of interest. The nation, represented by the Government, contracts in the case of each successive issue neither to compel receipt of the principal nor to force reduction of the interest before dates more or less remote from that of the invitation to subscribe. That additional fact, as it appears to us, has not perhaps been forgotten; but it certainly has received

no conspicuous notice, in discussions of a levy upon capital to be used immediately for the complete extinction of war-debt.

Yet, if, on the one hand, we are reminded by what may be the qualms of uneasy conscience that the proposal can be distinguished from the "red revolution" of probable affinity with which it may appear to arouse suspicion, we should remember, on the other, that this condition, or rather a commonplace concern for the continuing credit which successful practical finance demands, would imply that "repudiation" in any shape or degree should be, not loosely construed or lightly regarded, but, on the contrary, punctiliously, and even meticulously, avoided. It must indeed be shunned like the mortal contact of the plague by alert faithful guardians of public health. For the slightest whisper of approach even from a distance to so slippery an incline cannot be allowed once to get abroad without bringing grave risk to national security. Worldly wisdom imperatively enjoins such elementary precaution apart from any fine respect for the moral claims of strict good faith. Here, as elsewhere, it remains severely true that "two blacks do not make a white"; nor is a breach of public honour palliated or condoned because the suffering caused will be shared by a section consisting of war-stock-owners with the larger portion of the inhabitants of a country composed of the taxpayers possessing capital who are mulcted by the State as contributors to such a levy.

The fair edifice of British credit is, we fear, threatened at the present moment from two opposite directions. We do not know whether it is in more serious danger of its foundations being undermined, with specious apologies, by the economists and politicians who play thus with plans of "conscripting" capital, or of its superstructure shaking and falling, when it is overladen with insecure storeys added by the grandiose designs of daring builders: For, untaught by painful lessons from the past, these financiers have not learnt that the conjuring legerdemain of deft magicians juggling with paper substitutes for hard cash will not pass a stern test. They will prove in the end to have no enduring substance nor do they possess real worth. "Great experiments," alas! have been often made by credit-mongers at such periods of crisis, and, repeatedly, collapse, however long postponed, or adroitly, it may be, "camouflaged," has become inevitable and wrought far and wide disastrous ruin. South Sea "Bubbles," or even the misjudged ability or libelled intentions of a John Law, may find their parallels to-day amid circumstances such as those which the quick end of a huge long war may offer. We hope that the shrewd sobriety of

our countrymen will serve as a precaution against the imaginative extravagance of these "châteaux en Espagne." But we also trust that their known persuasion that in business "honesty is the best policy," which has deservedly spread reliance on English goods throughout the markets of the globe, will confirm their pride in observing unimpaired all the obligations of the National Debt, however onerous be the increased pressure of the augmented burden. Any other way deadly danger lies.

The second point, overlooked, as we suggest, in these discussions, recently set on foot or reintroduced, is equally important. Difficulties of assessment have been allowed with candour by supporters of the contemplated scheme of a single special levy to be made on capital: but the admission is forthwith followed in many instances by prompt attempts to minimise their gravity. Significant misgiving on the full dictates of rigorous equity is in this connection calmed or hushed by a refined comparison of relative magnitudes. That has been drawn, for instance, between the quantities of the possessions belonging to the more and the less opulent classes respectively, and of the kinds of wealth distinguished in contrast as "material" and "immaterial" or "personal." For it has been allowed, or urged, that the collection of the tax should be eased by omissions more or less considerable from its purview. Such exceptions may well invoke close notice in their inauspicious bearing on the underlying aim of reaching by this particular financial method the object cherished independently before by some of its advocates who wish for the redistribution of wealth; or they, or others, may seek to win by adventitious, if not by dubious, means a needed popularity for their alarming plan. But more unbiassed reflection on the obvious obstacles offered to achievement of the necessary work of the fiscal officials within limits of time, which will not be compared appropriately to postponement to the "Greek Kalends," has also been responsible for part at least of this attempt at adjustment. The preliminary business of valuation is indeed enormous, and its complexity is not less evident and terrifying than its size. Cynical critics of the twists and turns of the supporters of the wonder-working project may perhaps be ready to pour scorn on the ostensible readiness with which professions of scrupulous equity are advanced at first, and then, on second thoughts, are hurriedly withdrawn more or less completely, because they can with difficulty be fulfilled, and the convenient maxim *de minimis non curat lex* is, in the end, as a final resource, elastically applied. Still, this procedure has to maintain an equipoise between the forfeiture of needed revenue

and the economy and speed and ease of its collection, and it is hard, if it is not impossible, to balance exactly the claims of justice against the appetite of democracy. In this predicament we ought not perhaps to be much astonished by renewed recourse to an old unsatisfactory device. It is designed for shifting rather than removing a formidable stubborn impediment. Yet it is seriously urged as a good discovery that contributors should themselves take the trouble, give the time, and bear the cost, of assessing their capital, under the threat of fines to be exacted later. Their mistakes will be thus corrected, we are told, when some Government official, perhaps of petty station and of no special capacity or training for such expert work, has the leisure to review the earlier provisional calculations. There is, unhappily, an ominous precedent for this evasion of the plain safeguards and primary responsibilities of fair and smooth taxation. Mr. Lloyd George's original notion in his famous Budget was that land-owners should similarly be asked to render their own reckoning of site-value with the like menace of dire penalties for their errors. The good sense, or the rudimentary justice, of the general public, or the House of Commons, caused the prompt withdrawal of this makeshift; and the State undertook the indispensable preliminary to the collection of "increment," "reversion," and "undeveloped land duties." They have, however, yielded hitherto a ridiculous quantity of net revenue. It has, in fact, been clearly demonstrated that the "public value" of land has failed as yet to furnish the promised riches for the national Exchequer; and the disappointing issue of the ambitious enterprise, triumphantly announced, has been, in effect, a consequence of the many great complexities of equitable appraisalment which were at the outset airily dismissed by theoretical enthusiasts for the "new finance" of the Act of 1909-1910. Mr. Mitchell, in the September number of this JOURNAL for 1918, is not exaggerating when he writes of the "ghastly fiasco of the valuations" (p. 274). Confusion rather than finality, dissatisfaction and not content, irritating doubt in place of calm trust, have in actual fact resulted. The taxpayers have been much harassed, but the revenue has lost and has not gained.

The Chancellor of the Exchequer, then, like Professor Pigou and his companions to day, in the June number of the ECONOMIC JOURNAL for 1918 (pp. 149, 164) was perhaps astute—or shall we say adroit or "slim"?—in shirking great continuing trouble by placing upon others the heavy burden of solving a vexed conundrum. But it has not, we think, been shown successfully in those articles of the present date, to which we have just alluded, that it

will be easier, or more possible, to reach a satisfactory or quick result in the later than it was in the earlier case. For valuation is intrinsically an opportunity for varying estimates more or less uncertain and unfair; and doubts and disputes can hardly fail to arise in the process wherever and whenever it is used. In this particular connection we are reminded, indeed, by the writers to whom we have referred that the large quota of the total capital of the whole country now in the convenient form of war stock will simplify the problem of assessment which, they urge, has been purposely exaggerated. But the accompanying statement that "ideal perfection and exactitude, to five places of decimals, is not attainable" does not restore our trust. Nor is it reassuring to be told that "the problem of assessing and collecting such a tax presents no overwhelming difficulties."

What we have been more surprised to note in the whole debate is that little or no reference is made in recent controversial talk to relevant material forthcoming from another source. It may nevertheless still serve in time as a warning to move cautiously in this uncertain region of fiscal experiment. A brief study of accessible literature of recognised repute would have disclosed the pertinent fact that as a financial instrument a "general property tax" has evoked a loud continuing chorus of unanimous insistent blame from the authorities, and that its most patent defects attach to that valuation which is an inevitable attendant. Nor should it be forgotten that, if, for measuring "site-values," we are referred to a subtle product of abstract hypothetical reasoning, which can but imperfectly at the best be identified with the concrete substance of the tangible realities of practical life, on the other hand the estimation needed for a general property tax, as for a special levy upon capital, is a task of much wider range. It may well demand a longer period for its full achievement because the wealth with which it is concerned is more diversified in nature and in quantity. Whether levied once for all, as is now proposed in this country by those who would "conscribe" capital for extinguishing debt, or repeated, as in those fiscal systems where in the past and abroad it has given notorious dissatisfaction to payers and receivers alike, a valuation must be made. And, while there is no sure guarantee that the victims of a special levy for a definite purpose will henceforth be immune from the same or other methods of taxation, repetition may bring the compensating advantage to the sufferers that opportunity is thereby offered for the amendment of mistakes which cannot, it is obvious, be set right in what is already past and gone beyond recall. It is, however, difficult to draw en-

couraging conclusions from the significant fact that the ascertainment of land-values under the Finance Act of 1910 had not yet, in 1918, been finished, or the doubts and disputes to which it had given rise resolved. The law to-day still presents many loose ends due to decisions of the Courts on the correct interpretation of the difficult language of its intricate provisions. The Parliamentary draftsmen responsible were, indeed, put to unusual strain in their endeavour to translate into working practice the subtle niceties of refined economic theory. But American experience of the general property tax used in that country shows that in this case also complexities of valuation, with riddles different in kind perhaps but not less formidable in fact than those of our land duties, have prevented altogether a satisfactory and just assessment. The matter has become a byword in a financial system which takes no high place among arrangements made by civilised peoples. We do not propose to cite at length from the authorities on taxation who, we have suggested, could be consulted with advantage. One of the most acute and comprehensive scrutinies of the bad weapon of the general property tax, it is interesting to observe, is that due to the erudition and discernment of Professor Seligman. He pronounces it to be a dismal "failure" in America, and condemns it "as the main source of public revenue," "theoretically," "historically," and "practically" regarded. His reasons for this triple censure will reward attentive study in their application to the special levy upon capital proposed to-day for this country. Adverse opinions are quoted by him from officials charged with the administration of the tax in the United States. One of these experts, for example, has declared categorically that "a more unequal, unjust, and partial system for taxation could not well be devised." Another has said that it is a "farce, sham, humbug." But an unbroken harmony of damnatory judgment is revealed in the text-books, such as we imagine has rarely, if ever, been attained on any other topic in financial controversy. Professor Bastable, with characteristic temperateness but positive definiteness, affirms that there are "sufficient grounds to justify the very general abandonment of the property tax as a leading source of revenue," and writes of it as "merely a form of assessment" and "not really a fair gauge of capacity." Leroy-Beaulieu more drastically pronounces of the American use of the tax: "Rarement, dans la fiscalité moderne, on a inventé d'instrument plus grossier." Dr. Plehn asserts that experience replies without reserve in the negative to the inquiry whether an "effective" "method of assessment" will "reach uniformly and equitably all forms of property." In America this

result is definitely established, when the assessors are officials "in small districts" and are "popularly elected for a short term," and also when the impossible task is intrusted to a "higher," more "impartial" non-local "bureaucracy." Evasion has been general; the assessment of personal property becomes very hard, or impossible, to achieve, and the fair treatment of mortgages or debts or good-will is a veritable crux.

We would once more commend to light-hearted advocates or favourers of the swift extinction of war debt by a special levy upon capital a fresh, or repeated, perusal of the unimpassioned pages in the text-books of taxation and finance which record these verdicts passed by such authorities on a general property tax, and on its *modus operandi* (or perhaps we should be nearer the bare truth if we placed a "non" between "*modus*" and "*operandi*") in the United States. Let our wise administrators at any rate pause before they plunge into the treacherous currents of such unquiet seas. Let them pay due heed to the emphatic timely admonitions which the scheme has drawn already from the men of monetary affairs in our own land, like the Chairmen of our great banks, who know from inside the sensitive character of the delicate mechanism of our admired credit system. When they have advised investors to buy war bonds they dismiss from their minds, we may be sure, as impossible or impracticable the vision of a special levy upon capital. We rejoice at least to think that so learned a student, and so competent an expositor, of economic history as Professor Scott should unhesitatingly refuse to fall himself or to lead his many readers into such a snare; and we are amazed, while we regret, that others should have been, as we must think, unwarily or rashly entrapped.

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