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A Levy on Capital

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A LEVY ON CAPITAL

ITALIAN LAW AND ITS PRECEDENTS.

Summary.

1. THE various points of view from which a levy on capital may be considered, viz., economic, social and political. The levy on capital proposed in Italy for political purposes and abandoned on account of economic difficulties.

2. The opinion of Italian experts—politicians and officials almost unanimously adverse to a levy on capital.

3. The advantages and disadvantages of a levy on capital.

4. The ultimate object of the Government in suggesting a levy on capital and the tasks entrusted to the Advisory Commission and the Technical Committee.

5. The general principles of the Technical Committee's scheme for a levy on capital and a tax on increases of wealth arising from the war.

6. The export of capital abroad and the ceasing import of capital from other countries.

7. Transitory nature of the actual values of various categories of capital.

8. The impossibility of carrying out with celerity a valuation of wealth.

9. The dissatisfaction of holders of bearer securities.

10. The anticipated necessity of realisations on a large scale and the apprehended disorganisation of economic life.

11. The simplifications made possible and the exemptions rendered opportune by transforming the levy on capital into a thirty-year tax on wealth.

12. The abandonment of a forced loan and the issue of a new
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voluntary loan. The new scale of contributions and the abolition of deductions.

13. The assessment of the tax on increases of wealth.

14. Conclusion.

1. The discrepancies in the final judgments arrived at concerning the expediency or otherwise of the imposition of a levy on capital are attributable, in my opinion, only in part to the varying degree of importance attached to its undeniable advantages and to its equally incontrovertible disadvantages, but are due to a greater extent, perhaps, to the different points of view from which the levy on capital is regarded.

The levy on capital can indeed be regarded from *an economic standpoint* when it is conceived as a measure best adapted to extricate the State from its financial embarrassments with the least possible detriment to the national economic system. It is precisely from this aspect that the levy on capital is generally considered and discussed by students of economy and finance. And it is principally, if not exclusively, from this aspect that it has been examined and rejected by the Parliaments of France and England.

But the levy can also be regarded from *a social standpoint* as a means for the expeditious adjustment of fortunes rendered unduly disproportionate by the effects of the war or by the previous system of accumulation under the *régime* of capitalism. Regarded from this point of view, it is a secondary consideration whether or no it becomes temporarily detrimental to the national economic system. It is precisely from this standpoint that the levy on capital was considered and imposed by the Bolshevik Russian Government.

Finally, the levy on capital may be regarded from *a political standpoint*, whether it be considered, on the part of a defeated nation, as a means of speedily realising an indemnity in order to pay the victors and thus achieve emancipation from an irksome economic burden, or whether it presents itself as a precaution likely to placate the dissatisfied and to curry favour with the poorer classes, and, as it were, an insurance premium on the part of the capitalist classes against revolutionary movements and a more drastic confiscation of wealth.

Political arguments of the first type were adduced in favour of the levy on capital in France after the defeat of 1870; and similarly to-day, although they may not constitute the sole stimulus, they lend strong support to the proposal for imposing a levy in Germany.

Political arguments of the second type were certainly decisive in causing the inclusion of the capital levy in the programme which the Nitti Ministry submitted to the Chamber of Deputies in July, 1919.

The responsible members of the Government had not at that time sufficiently pondered the economic importance of the measure in question. Only by degrees, after conferring with experts and being obliged to reply to protests raised by the more seriously affected interests did they fully appreciate its difficulties and disadvantages. Finally, after protracted indecision, the levy on capital was abandoned. What is imposed by the Royal Decree of November 24th, 1919, referring to the extraordinary tax on property,¹ is not really a levy on capital, but an ordinary tax on wealth, limited to a period of thirty years.

2. Italian students were drawn into the discussion of a levy on capital by publications which appeared in foreign countries, especially in England. The investigations made by Lawrence, Pigou, Arnold and Hook—all of them favourable to the levy—found a ready echo in Italy. But further reflection induced the vast majority of our economic specialists to form a different opinion, and this not only from a consideration of the general disadvantages inherent in a levy on capital, but also from a consideration of the special disadvantages which its application would have encountered in Italy. Nor had the idea of the levy on capital met with much favour from the high officials, or in political circles, with the exception of some members of the Socialist Party.

3. It is true that there are some obvious advantages in a levy on capital. But are they, it has been asked, sufficient to compensate for the certain disadvantages and for others more uncertain which may be feared from so radical a measure?

The advantages consist in the liquidation, at an auspicious moment, of a large part of the national debt, in the restoration of elasticity to the nation's balance sheet, and in the diminution of the dissociation of income from labour which checks production and threatens social order.

Among the certain disadvantages is the flagrant injustice—so far as the victorious countries are concerned—to the present generation who, having borne the evils and losses of the war, would also have to sustain a quite disproportionate part of its financial burdens, entirely for the benefit of future generations who will enjoy the fruits of their victory. There is also the

¹ Cf. Royal Decree, No. 2169, in the *Gazzetta Ufficiale del Regno d'Italia*, November 26th, 1919.

difficulty encountered by the majority of the taxed in meeting their obligation, and there are further grave consequences, viz., the disturbance of prices, the depreciation of property which cannot be used for payment of the levy and the unwarranted appreciation of securities which can be so used, the uncertainty affecting contracts, an excessive demand for loans which might well bring about a general credit crisis, frequent indebtedness on the part of manufacturers, business men and agriculturists who may not be in a position to realise at short notice the share of their capital demanded of them; and their debts—let it be noted—will be for sums the real value of which would increase simultaneously with the fall of prices, thus aggravating the crisis—resulting from that very fall of prices—which the *entrepreneurs* and with them the capitalists (the two classes being practically the same) will, in all probability, have to face after this war as after all wars.

Many and grave are the doubtful issues in connection with the levy. What will be the duration and the cost of its collection? What fiscal troubles will result from it? What will be the opposition of the taxpayers to a levy which will, of necessity, claim a very high percentage? What anomalies in the incidence of taxation will follow? Finally, what will be the effect of the levy on the creation of wealth and on the emigration and immigration of individuals and of capital? Will not the fear of a repetition of the levy prove a greater obstacle to the accumulation of wealth than is that burden of taxation which the capital levy seeks to diminish? And what will be its actual result when the variations in prices which may be expected from it and the extent of evasion are taken into account? Will the alleviation of the pressure of taxation in the future be commensurate with the weight of the present burden and the dislocation of the entire economic system of the country?¹

4. In view of the foregoing, it is easy to understand that deputies and students of the problem experienced a feeling akin to surprise when Signor Nitti, who had been appointed Prime Minister, solemnly announced to the Chamber of Deputies that his Government had decided on the imposition of a levy on capital.² That the measure had been prompted by political

¹ For the special disadvantages which the levy on capital would have occasioned in Italy, cf. the articles "Sul problema finanziario del dopo guerra," in *Supplemento economico del Tempo*, January 3rd, February 3rd and 20th, March 20th, 1919, then collected in a volume by the *Biblioteca economica del Tempo*, 1919.

² July 9, 1919.—A concrete statement of the Government's proposal was made by the new Minister of the Treasury, Signor Schanzer, in his speech on the financial situation in the Chamber of Deputies on the following day.

motives was obvious to anyone who recalled the contrary opinions which had been expressed on former occasions by the Prime Minister and the new Finance Minister, Signor Tedesco. There was even a general impression that the scheme had been suggested not so much because of any real dangers of more radical demands on the part of the working classes, as from a desire to secure their favour for the new Government, which had been formed amidst unusual difficulties and was strenuously opposed by a large part of the nation.

Moreover, the political character of the scheme was clearly revealed by Signor Tedesco when, on August 4th, 1919, he inaugurated the labours of the Commission specially appointed to put forward the financial proposals. Among the members of this Commission were many university professors, the heads of the most important departments in the Finance Ministry and the Treasury, and representatives of both Chambers, chosen from those whose opinions on financial matters carried most weight. The great majority of them had on various occasions shown themselves opposed to a levy on capital. But, as Signor Tedesco stated explicitly, the Commission was not appointed to determine the expediency or otherwise of the scheme already decided on by the Government, but merely to suggest the technical expedients whereby the levy might be collected in the best possible way without departing from certain essentials. Their task was to levy an extraordinary tax on wealth, to be paid in a few years by annual instalments, small fortunes being exempt. The scale of rates was to be steeply graduated, and the rate was to be heaviest in the case of wealth derived from war profits. The Government intended to obtain from the levy the sum of *It. lire* 20 milliards, which would be applied to reducing the quantity of notes in circulation and to the redemption of part of the national debt.¹

The Commission, with the greatest loyalty, carried out the duties entrusted to it, laying down in a series of arduous sessions the main lines of the Bill. From its members a Technical Committee was selected by the Minister himself, consisting of Comm. Benettini, Professors Cabiati, D'Aroma, Einaudi, Griziotti, and the author of the present article, and to them was entrusted the task of preparing a final draft of the Bill. With the assistance of other officials in the Finance Ministry, the Committee quickly evolved a Bill whose provisions were inopportunately communicated

¹ The declarations of the Minister of Finance were quite uniform with those of his colleague, the Minister of the Treasury, in the Chamber of Deputies at the sitting of July 10th, 1919.

to all the members of the Government and to leading financiers, and soon became public property.

5. Following the general principles laid down by the Government and the more specific directions of the Commission, the Technical Committee advocated the imposition of a non-recurrent general progressive tax on fortunes existing in the country on December 31st, 1919, and also a non-recurrent tax on increases of wealth proved to have taken place between August 1st, 1914, and December 31st, 1919, in so far as they were derived from excess profits arising from the war.

Both taxes were personal in character and were to be levied on individuals and on corporations in respect of such property as was not already assessed in individual names. Private persons were assessed individually.

The general tax on wealth was to be imposed in the shape of contributions to a compulsory loan, whose stock would bear interest at 1 per cent. and would be redeemed within seventy years from 1930. Power was given to the contributors to abandon the right to the stock, in which case their contribution was to be reduced by one-third.

Fortunes the taxable value of which did not amount to *It. lire* 20,000 were to be exempt, while others were to be taxed on a scale starting at 5 per cent. on *It. lire* 20,000 and increasing to a maximum of 40 per cent. on *It. lire* 100,000,000 and over in accordance with a formula calculated *ad hoc*. Rebates were granted to males over fifty years of age and females over forty, and also to married persons; also in respect of parents, grandparents and direct descendants living with and being dependent on persons taxed, provided that they were not themselves liable to tax, and that in the case of male descendants they were under twenty-five years of age and unfit to work; and, finally, on a more generous scale, to all persons disabled in the war, and to widows, parents and orphans of persons killed in the war.

The contribution was due to be paid on January 1st, 1920, but the contributor was permitted to demand its division into four, six, or eight annual payments according as his property comprised less than 25 per cent., or from 25 to 75 per cent., or more than 75 per cent. of real estate. These annual payments might be increased in number in very exceptional cases, but in none of the three categories might they exceed in number six, nine, and twelve respectively. Each annual payment might be paid in bi-monthly instalments. The deferred annual payments were to bear interest at 5 per cent.

The tax on increases of wealth was levied on increments exceeding L.20,000 due to over-profits arising (even though indirectly) from the war. The rates were to vary with the amount of the increment in accordance with the formula employed to determine the contribution-ratio in the case of the forced loan.

The tax was due in one payment only on January 1st, 1920, but the taxpayer was permitted to demand its division into three annual payments, each of which could be paid in six bi-monthly instalments and would be charged with interest at the rate of 5 per cent.

Most of the administrative provisions of the scheme were common to both imposts. In both cases the taxpayer was required before March 31st, 1920, to make a detailed declaration of his taxable assets and of deductions therefrom. Committees of Investigation appointed *ad hoc* were then to assess the various items by a special procedure and following definite rules. Ample powers for the purpose were conferred on the revenue officials.

Payments either in respect of the forced loan or the tax on increases of wealth could be made in coin, in scrip or National Loan Bonds, or in postal orders, cheques, notes of issue banks, or first-class foreign bills; and with a view to rendering payments still easier the scheme authorised the Government to establish special credit organisations. Specially favourable treatment was accorded to estates which had suffered war damages. The possibility of extending the provisions of the scheme to the new Provinces was under contemplation.

Space does not permit here the addition of a full account of the discussions of the Committee, and it must suffice to enumerate simply the conclusions arrived at on the principal questions considered.

Although it acknowledged the theoretical expediency of extending the levy to human capital, the Technical Committee had considered it advisable to abandon this purpose in consideration of the practical difficulties which the valuation of such capital and the gathering of the tax would have met, and because a tax on earned incomes—which had been proposed in substitution—could not be considered as an equivalent of the levy. The Committee proposed not to tax the property owned abroad by Italian citizens, unless such property belonged to the owner before August 1st, 1914, and to tax the property of foreigners in Italy, except if introduced after the publication of the law. The value of lands and buildings was to be calculated on the basis of the income; shares on the basis of their average quotation for the months of

May to August, 1919. The value of furniture and jewellery and the amount of money were to be calculated in a percentage of 5 per cent. and 1 per cent respectively of the other assets. Deposits were to be valued on their amount on July 1st, 1919, or on the higher amount reached on January 1st, 1920. The bearer securities were to be converted into nominal ones; otherwise, the total property of the taxpayer was subjected to the highest rate of 40 per cent. The declarations were to be made on oath and severe penalties were inflicted on those who made a false declaration or refused to swear or declared a value inferior to the real one for more than one-third. In the case of fraudulent practices even punishments restrictive of personal liberty were inflicted. In order to prevent the evasion of property owned abroad, it was prescribed that consular authorities and public officials should refuse their concurrence to any deed concerning estates existing abroad which had not been declared. And in prevision of the case that all these provisions should prove ineffectual, the Treasury was authorised to have recourse to a presumptive valuation of the estate of the taxpayer if his style of life should appear not in accordance with the ascertained amount of his estate.¹

6. From the time that the Technical Committee had begun their labours on the Bill, many voices had been raised to point out the disadvantages, already apparent, deriving from the mere anticipation of its enforcement, or the disadvantages, real or apprehended, from the supposed provisions of the Bill not yet public property, but whose general outline was well known, owing first to indiscretions and then to official statements. To the Government's representatives, who with ever-increasing concern were always repeating to the Committee the warnings, complaints and protests of interested parties, the members of the Committee, the majority of whom had always shown themselves opposed to the imposition of a levy on capital in Italy, could only reply that these inevitable disadvantages had already, almost without exception, been perceived and pointed out by them, but that, though it was possible to diminish their effect, it was impossible to avoid them altogether, if the purpose of practising the levy on capital was earnest.

The recent noticeable increase in the amounts of foreign capital deposited in Italian banks had been checked, and it was even stated that a decline had already become manifest. Foreigners were evidently not pleased with the prospect of seeing their deposits harvested by the Italian Treasury. The Govern-

¹ For a full account of these subjects *cf.* the essay "La imposta straordinaria sul patrimonio," in *Studi sociologici sul dopo guerra*. Bologna, Zanichelli (*in the press*).

ment, impressed by this fact, was compelled to give assurances—which were subsequently embodied in Clause 6 of the Royal Decree—that foreign capital (including remittances from emigrants) which were found to have been deposited in banks or savings banks on January 1st, 1920, should not be subject to the tax on wealth.

The rate of exchange, which at the end of June showed a distinct improvement as compared with the end of May, declined rapidly after the announcement, on July 9th and 10th, by the Prime Minister and the Minister of the Treasury of their intention to impose a levy on capital, and this decline was not arrested until, about the middle of November, it became known that the levy on capital had been abandoned. The general impression is that these coincidences were not fortuitous. The stoppage of the influx and the beginning of the export of foreign capital, indicated by the cessation of the increase in foreign deposits and their observable diminution, may certainly have contributed to checking the rise and initiating the decline in the exchange. But the export and diminished import of Italian capital was a far more powerful contributory factor. The sending abroad of jewellery and other similar property in order to remove it from fiscal assessment may succeed in diminishing the yield of the tax, but cannot aid in depreciating the rate of exchange. But this result is certainly achieved by the export of Italian currency, prevented only to a limited extent by the prohibition (rarely enforced) against carrying more than a certain sum across the frontier, and by the export of bearer bonds, the interest on which the State will then have to pay abroad in gold. Some authorities contend that a noteworthy influence on the depreciation of the exchange was exercised also by the fact that exporters were induced to leave on deposit in foreign banks the money received as payment for exported goods¹ in the hope that they might more easily escape the investigations of the Treasury.

Complaints have been made in Italy at the Government's delay in giving effect to its advertised financial measures, a delay which permitted the hurried export of capital abroad, and at the publicity given to the proposals of the Technical Committee which was the main cause of that export. While admitting some foundation for these complaints, the fact ought to be taken into account that in no modern State could a transaction so vast and so radical as the levy on capital be carried through without the interested parties having ample warning beforehand. It

¹ This disadvantage was specially commented on by F. Flora in "Cambi e Scambi" in the *Economista di Firenze*, December 21, 1919 (No. 2381).

would seem inevitable that the carrying out of such a measure, so long as the principle of the levy is confined to one or few States, is bound to be preceded to a more or less serious extent by disadvantages analogous to those encountered in Italy. The results are aggravated by the fact that naturally the finances of the States which have recourse to it are not flourishing and their exchange is unfavourable.

7. One disadvantage which students who have considered a levy on capital did not take into account—perhaps the only disadvantage not already pointed out—is that which is based on a general and deeply-rooted impression that present prices are, so to speak, fictitious prices, and that it would be extremely unjust to make them the basis for a valuation of wealth for the purposes of a levy on capital.

Particular stress was laid on this idea by the Italian agriculturists in a resolution passed by the Bureau of National Agriculture and by the Society of Italian Agriculturists, which resolution found vigorous support in the newspapers and economic periodicals.¹

On whatever it was founded, such an impression had in any case its practical importance, inasmuch as it was so widespread and so deeply felt that it would have been difficult to ignore it without aggravating the resistance of the taxpayer. To take count of it, on the other hand, meant that the revenue of the Treasury would be seriously diminished, and this fact ought to be taken into consideration in arriving at a decision as to the convenience or otherwise of a levy on capital. Advocates and opponents² of the levy on capital agree in considering that one of the strongest arguments, if not the strongest of all, in its favour is that by its means a part of the national debt would be redeemed at a favourable juncture, when money is depreciated, and therefore at a time when a public debt represents (compared with all other forms of wealth) a smaller percentage than it will represent when money has regained its former value. But this argument pre-supposes that other forms of wealth would be valued at current prices and the assumed advantage would dis-

¹ Cf. among others, Luigi Pignatelli, "Il contributo straordinario sui patrimoni e la proprietà immobiliare" in the *Sole* of July 31st, 1919; and J. Aguet, "Sul prestito forzoso," in the *Corriere Economico*, October 30th, 1919.

² For the first, cf. A. C. Pigou, "The Problem of the National Debt" in the *Contemporary Review*, December, 1919, page 624; for the second, L. Einaudi, "Il debito pubblico e la svalutazione della lira" in the *Corriere della Sera*, August 10th, 1919. Cf. also our study, "Sul problema finanziario del dopo guerra," mentioned above, pp. 25-27.

appear if the valuation had to be made on the basis of prices which will presumably obtain at some future date.

The idea that prices current at the moment are, in a sense, fictitious prices, appears on careful consideration to correspond in part, though not entirely, with facts.

It is no valid reason to say that the owner of property can sell his property when he wishes at current prices. That is true normally of industrial securities, which as a rule can be sold freely and easily, but it is far more seldom true with regard to real property, the sale of which may be hampered by legal restrictions or traditional family reasons—whose existence, frequency and force no legislator can ignore—and very often, at present, also economic considerations. This latter is the case with owner-cultivators of the soil who at the moment see in their land not only a source of income, but the only sure mean of applying their own labour. If their land is sold, who will guarantee them any occupation? It is this fear of lack of occupation which, in the opinion of those who know the land market, explains the fantastic height of the prices which are paid in some places by the peasants who have made money. This fear, then, would operate in two ways to the disadvantage of the owners of the soil in the application of the levy: on the one hand, by raising the average prices, and, on the other hand, by preventing the owner-cultivators from realising whenever they wished it the commercial value of their farms.

There is a limit to the force of the objection¹ that if it be true that the lands are over-valued, it is just as true that the tax would be paid in depreciated money. The limit of the force of the objection lies either in the fact that the tax would not be payable in money only, but would have to be paid in part in securities, or in the fact that it could not be paid—especially in the case of owners of real property—at once, but would have to be paid in instalments spread over a sufficiently lengthy period, during which the money would in all probability be gaining purchasing power. It is here that the unfavourable side of the instalment system becomes apparent, to which, moreover, attention had already been called.²

If it be held that the owners of the soil are already finding themselves disadvantageously situated as compared with owners of personal property in the contest with the Treasury by the fact that they are unable to make any attempt at concealment, it is easy to understand that the impression that the system of

¹ Cf. B. Griziotti, "Per il disegno delle imposte patrimoniale," in the *Giornale degli Economisti*, November, 1919.

² Cf. "Sul problema finanziario del dopo guerra," pp. 39 and 58.

valuation acts with peculiar injustice towards them is bound to embitter them. And if account be then taken of the fact that real property forms the backbone of wealth in South Italy, while in the North personal property assumes greater importance, and that in every district war wealth consists almost entirely of personal property, it is obvious that the discontent of the owners of real property would assume some political importance, and would justify an appeal to considerations of equity. It appeared, therefore, expedient to take their wishes into consideration by being satisfied in the meantime with a provisional valuation and postponing to a later date the ultimate valuation of real property on the basis of income valued at more stable prices.

8. Another fact weighed heavily in favour of a provisional valuation of the national wealth, subject to taking with due deliberation a final valuation, viz., the difficulties of the operation and the time it would require, circumstances irreconcilable with the urgency of the needs of the Treasury. According to the remarks made by the Minister of the Treasury in his financial statement to the Chamber of Deputies on December 16th, 1919, this seems to have been the decisive reason which compelled the Government to abandon the idea of a forced loan.

A provisional valuation of wealth could only, on the other hand, be based on the data already at the disposal of the Treasury. As regards land, it was based on the principal fiscal tax (*imposta erariale principale*) of 1916, which was multiplied by a fixed coefficient of 325 in order to obtain the value to be imposed by the extraordinary tax, in the case of buildings on the taxable rent (*reddito imponibile*) for 1919, which was, multiplied by a fixed coefficient of 25. It is, however, a question of taxes which have for some time become rigid, and which now give rise, especially the land tax, to the greatest irregularities, which, if they do not offer any material disadvantages from the point of view of fair taxation, seeing that the great majority of the present owners have already redeemed the tax in the purchase price, deprive the tax paid or the taxable rents of all real value as a basis for the valuation of land or buildings.

The yield of the fiscal tax on land in 1916 and the taxable rent of buildings in 1919 are, of course, known to have been about It. lire 76 mill. and It. lire 750 mill. respectively. Multiplied by the prescribed coefficients, these figures would give a value to landed properties of 25 milliards of lire and to buildings of 19 milliards, but in reality at existing prices the respective values would in all probability not be less than 120 and 40 milliards. The

difference, which is marked in the case of buildings, is enormous in that of land.

It would, it is true, be possible to hope for an amendment when after six years a final valuation of lands and buildings is carried out on the basis of their income. The decree prescribes that when the valuation, even by reason of an alteration in the rent system, yields a result larger or smaller by at least a quarter than that obtained on the basis of the fiscal tax on land or the taxable rent from buildings, revision of the taxation will be possible by means of supplemental assessments or a reimbursement of the tax. In any event it will certainly be only a case of partial correction, both because it will only take place when the difference exceeds one-quarter, and because if the price of the buildings or the land diminishes in the six years owing to the revaluation of the lira, as is to be expected, part of the differences existing between the actual value and that obtained by means of the fixed coefficients will vanish.

9. The proposals of the Technical Committee aroused intense feeling among the holders of bearer securities. They contended that many people, rather than convert their bearer into nominal securities or pay 40 per cent. of their entire property, would try to sell their securities at any cost in the hope of concealing the sum obtained with the intention of exporting it to foreign countries by investing it in bearer securities, if they preferred that species of investment, or otherwise. There can be no doubt that, in addition to the motive alleged, the resistance referred to was largely caused by the fear of seeing a form of wealth taxed in its entirety which practically eluded the Treasury at the outset, and which, just for that very characteristic, has always been most popular. The fact that the announcement of the capital levy caused a fall in the price first of industrial securities and then—after the dispelling of the illusion that they were to be exempt—of public securities, is easier to explain as being due to the expectation that this abuse was about to cease than as a sign of alarm. Particularly with regard to Government securities accepted in payment of the tax it is to be noted that a large offer of bearer securities might have been regarded not as a danger but as an advantage, inasmuch as it would have removed one of the chief disadvantages of a capital levy arising from the difficulty for the taxpayers of finding the means of payment. It would, however, be an error to fail to recognise the fact that bearer securities, apart from the facilities for tax evasion, offer notable advantages, and, on the other hand, whatever may be the reason

for which preference is given to them, it is certain that to prohibit them in Italy would have caused much capital to migrate to other countries where that form of investment was retained.

Without giving here an account of all the solutions proposed and the arguments adduced, it will suffice to state that with the object of inducing the taxpayers to convert bearer into registered securities, the Royal Decree raised from 2 per cent. to 5 per cent. the annual deduction from the interest and dividends paid by the companies which had put bearer securities into circulation.¹ No special provision was made for public funds to bearer and the Treasury confined itself to the declaration that it would render compulsory the conversion of all bearer into registered securities if within a year a great part of them should prove not to have been declared.²

10. The main resistance of the taxpayers to the proposed levy on capital arose, however, from the anticipation of the realisations which would have been forced upon them to raise the amount of the tax, on account of the high rates and the limited number of years in which the payment would be due.

There is no better way, in my opinion, of gauging the extent of these difficulties than to reprint in full the words uttered by the Minister, Signor Schanzer, in his financial survey of December 16th, 1919: "I gave due warning beforehand," he said, "that the tax on wealth ought to be distributed and collected during a suitable number of years in order not to dislocate the economic system of the country, and so that we may not incur the danger of crises in the values of real and personal property. It was proposed in the first instance to distribute the collection of the tax over a variable period of from four to eight years, according to whether the property was personal or real, but after an exhaustive study of the arguments the Government became convinced that, given the present extremely critical conditions of an economic system which is gradually recovering after a period of the most acute crisis, the instalment system referred to would be insufficient. Obligated to pay the duty within the periods stated, the taxpayers would be compelled either quickly to realise their securities and sell their houses and property at an incalculable loss to the national economic system, or else to borrow money in order to pay the tax, and that on onerous terms. A suitable Department would have to be established which would advance to taxpayers the necessary amounts. But such a mode

¹ Cf. *Gazzetta ufficiale del Regno d'Italia*, November 26th, 1919. Royal Decree No. 2166.

² For greater details on the subject, cf. the above-quoted essay in *Studi sociologici del dopo guerra*.

of procedure would in the first instance have produced a further considerable increase in the circulation of notes which, however, ought by every possible means to be limited and reduced. These considerations show that the collection of the tax over a period of from four to eight or ten years would not, on the one hand, have admitted of rapidly achieving the object of reducing the floating debt and the note circulation, and, on the other hand, it would have disorganised the economic life of the country, so that there was no alternative but to distribute the tax in question over a longer period of time, which was fixed at thirty years. Thus the taxpayer, who neither will nor can reduce his capital year by year, is given the opportunity of paying the tax from his own income."

The extraordinary tax on fortunes was thus deprived of one essential requisite of the levy on capital and, on the other hand, could not retain other requisites. Why, those who drafted the Royal Decree of November 24th must have asked themselves, retain for thirty years the same basis of valuation if, for the reasons adduced above, it was out of the question for that basis to apply to the present time. Only by arbitrary methods would it be possible to fix one future period rather than another as the basis for making the valuation. In that case, was it not better to carry out successive valuations, and in harmony with their successive results to vary the amount of the impost? Accordingly, it was arranged that when the first six years, starting from January 1st, 1920, had expired, the taxpayers would have to present a fresh declaration of property and the Treasury should have power to re-estimate at a high value, and that the same thing should take place later on at the end of the first and of the second period of eight years.

"Such a provision," the official *communiqué* of the new financial estimates points out, "appears to correspond better to the principles of fiscal and social equity, and is one which, instead of placing the results of the war only on the shoulders of the taxpayer of to-day, distributes the burden over property existing to-day and that of future generations."

Does not this proposal, however, lack the advantage which, as opposed to elastic systems of taxation, the levy on capital presents in so far as—apart from the fear of its recurrence—it offers a greater incentive to saving? With a view to encouraging saving to the greatest possible extent, and especially, during the first period, the investment of capital in agriculture, the decree ordains that the value of the extraordinary works shown by the taxpayer to have been carried out during the first six years in

the way of permanent improvements of his own land shall be exempt from the tax for the duration of the next eight years, when his property is re-valued, and that, after that period, variations which take place in the increased value of the property and which do not arise from inheritance or donations will be taken into account only as regards two-thirds of the increase for the remainder of the period during which the extraordinary tax is leviable.

Finally, the decree takes into consideration the case of those taxpayers who, rather than pay their instalments annually, prefer to compound for each of the four periods mentioned above, and ordains that another decree *ad hoc* shall be issued determining the method of such compounding.

11. By the transformation of the proposed levy on capital into a thirty years' tax on property which could be paid out of income many of the difficulties which confronted the Technical Committee either disappeared or were so diminished as to be negligible. There was no longer any necessity for any special Banking Institution to place taxpayers in a position to pay the tax. Since the actual amount of the property was not to be determined once and for all on January 1st, 1920, it was impossible to make the whole tax due as from that date and to burden the successive annual instalments with the interest during the entire thirty years. The plan might have been adopted of considering the amount of the tax due at the date of assessment as limited to the period for which it would have remained valid and to confine the interest within the limits of each period. It was, however, considered preferable not to charge interest even within these limits, thus adapting the extraordinary tax to the standards of exaction of an ordinary tax.

By the successive re-valuations the danger of a withdrawal of deposits or the hoarding of money was also reduced.¹ In fact, it was no longer worth the taxpayer's while to have resort to such expedients, inasmuch as, to ensure successful evasion, he would have to allow that part of his capital to lie idle, not once only and for a brief period, but for the whole period of the successive valuations. For that reason the Decree abandoned the provision relating to the assessment of deposits based on their amount on July 1st, 1919. The fact that the tax was spread over a period of thirty years was certainly calculated to arouse less opposition on the part of the taxpayers, while the assessment of the most difficult part of

¹ Cf. on the latter point L. Einaudi, "Il danno della tesaurizzazione dei biglietti," in the *Corriere della Sera*, November 1919; and G. Borgatta, "La possibilità di evasioni dai vari oneri fiscali," in the *Tempo*, December 21st, 1919.

the property to assess, viz., lands and buildings, was to be completed in a period of six years, leaving the Treasury all that time in which to perfect and strengthen its administration. Therefore it was rightly considered useless to create special organisations and special assessment and judicial procedure. It also became possible to diminish the severity of the penalties, which was all the more expedient as it is well known that too severe penalties are often not applied and thus fail to have any adequate effect, as they permit guilty persons to hope that they will escape their application. The obligation to make declarations on oath as to the source of income was cancelled, and it was left to the Treasury and its legal assistants to insist on an oath when they considered it necessary. Instead of the penalties restricting personal liberty imposed in serious cases, there was substituted the confiscation of a sum equal to the amount of the tax which it was intended to evade. It was, on the other hand, found possible to reduce from one-third to one-sixth the margins of tolerance conceded to errors in the valuation of property, owing to the fact that the valuation was no longer to be demanded in the case of real property with regard to which it would have presented great uncertainty.

While many difficulties vanished, fresh difficulties arose. It was found dangerous to impose the tax on the capital of Italian citizens which was created or exported abroad between August 1st, 1914, and July 1st, 1919, as that might have discouraged them from bringing it into Italy during the period—twenty-two years—of the successive valuations. The decree settled such questions by exempting that item from the tax. Consequently, it was found possible to cancel the instructions given to consular agents and public officials of the realm relating to deeds in respect of property possessed by Italian nationals abroad, and to abandon the presumptive valuation of the property which had been admitted chiefly on account of the difficulty of a direct valuation of property of that nature.

12. The fact that the tax was spread over thirty years rendered superfluous the attempt to disguise it as a forced loan, an attempt, for the rest, ill received: on the one hand, by the Socialist Party, who maintained that by it the Government was falling short of its promise to impose a levy on capital, and, on the other, by the financiers, who delighted in unmasking its manifest ingenuousness.¹

¹ Cf. B. Griziotti, "Imposta straordinaria sul patrimonio e prestito forzoso," in the *Giornale degli Economisti e Rivista di Statistica*, September, 1919; F. Natoli, "Prestito forzoso e giustizia tributaria," in the *Ora*, September 1st, 1919.

On the other hand, the forced loan would have pre-supposed, as Signor Schanzer pointed out in his financial statement, an assessment of wealth which could not, it was recognised, be made very quickly. Yet it was urgently necessary to consolidate the floating debt and reduce, in as prudent a fashion as possible, the quantity of notes in circulation. But the proceeds of the first year of the extraordinary tax on wealth could not have provided for this, except to a slight extent. It was therefore necessary to have recourse to the issue of a new 5 per cent. voluntary loan, for the service of which the proceeds of the thirty years' tax would be employed.

The abandonment of the plan of the forced loan occasioned on the other hand a reduction of the rates owing to the circumstance that the contributor would no longer receive any stock in exchange for his contribution. Instead of varying from 5 per cent. to 40 per cent., the rates, according to the Royal Decree of November 24th, vary from 5 per cent. for estates of *It. lire* 20,000 to 25 per cent. for estates of *It. lire* 100 mill., according to a formula *ad hoc*. The Treasury, however, feared at the last moment that with these rates the yield of the tax would be too low, and was therefore induced to abolish—with evident injustice—all deductions based on the age of taxpayer, the number of persons composing his family, and invalidity arising out of the war.

13. The new complexion given to the extraordinary tax on wealth brought with it of necessity a change in the tax on increased fortunes.

Already the scheme of the Technical Committee had aroused objection on the part of the manufacturers, inasmuch as it varied the rate with the variation in the amount of the total estate, and they could not therefore pay the tax on increased fortunes before the assessment of fortunes had been completed. This meant a serious inconvenience for many joint stock companies which had been floated or developed in connection with the war and desired now to be wound up or to make up their balance sheets and to know therefrom quickly and accurately the amount of tax they owed.

This inconvenience would have been indubitably far greater under the new provisions which deferred the definite assessment of assets to the next period of six years. Hence arose the necessity of separating the tax on increased fortunes from the extraordinary tax on wealth and to make the former an independent organisation.¹ As it was necessary to apply the tax on increased

¹ The tax on increased fortunes was disciplined by the Royal Decree of November 24th, 1919, No. 2164. Cf. *Gazzetta ufficiale del Regno d'Italia*, November 26th, 1919.

fortunes first and independently of the assessment of individual fortunes, it became necessary to assess, not the individuals for the profits the war had brought them, but the firms for the profits they had realised. Companies were therefore assessed in their own name and not in that of the shareholders.

Also the system of taxation was necessarily modified in consequence, the rate being varied on the basis, not of the total amount of the estate at the present moment, but of the proportion between the increase in the estate and its amount before the war. An unnecessary modification which it would be difficult to justify was introduced on the other hand with regard to the object of the tax, exempting the increases of estates derived from earned incomes or from the income of undertakings not subjected to the excess profits tax. The tax on increased fortunes assumed, therefore, the character of a complement of the tax on excess profits existing during the war.

14. Apart from this limitation of the taxable increases of fortunes, and apart from some defects in the extraordinary tax on wealth, such as the lack of rebates and the insufficient severity of the assessment of bearer securities, it is certain that, regarded as a whole, the organisation of the extraordinary taxes imposed by the Royal Decree of November 24th is far preferable to that which the Technical Committee was obliged to prepare on the basis of the principles fixed by the Government. The advantage, as has been shown, is essentially due to the fact that the levy on capital had to be abandoned.

These hesitations and changes, however, brought with them some economic and political disadvantages.

From the economic point of view, the threatened levy on capital disturbed, as has been seen, the money market, instigated the migration of capital to foreign countries, and depreciated the exchange.

From the political point of view, its renunciation was greatly exploited by the Socialist Party in the recent elections, and was certainly not one of the most unimportant causes of its gaining a success greater than had been anticipated. There are promises in politics which may be made or not, but, once made, have to be kept, and perhaps the levy on capital was one of them.

The levity with which the Prime Minister and the Treasury Minister inserted the levy on capital in their programme truly lacked all excuse. In his financial statement Signor Schanzer attempted to justify it by saying: "Just as in the domain of science pure mechanics is one thing and applied mechanics

another, so in the domain of finance schemes which are to be realised must take into consideration the inevitable resistance and the practical obstacles of time and method to be surmounted." But how can such an excuse be admitted when scientists, statesmen and officials had almost unanimously foreseen such resistance and made note of such obstacles?

And we ought also to ask: Even if it be true that the extraordinary tax on wealth introduced by the Decree is much preferable to a levy on capital, is it really a measure preferable to any other? Would it not be better "to fix beforehand the proportion of the tax required for the annual service of the loan and to supplement it with a super-tax, *i.e.*, a progressive surtax on incomes subject to the global tax?" "The answer cannot be in doubt," says Flora,¹ "for the eight millions of owners would not any longer be obliged to value and give a return of their property; the tax collecting agencies, whose staffs are so depleted, would be released from the hard and costly task of supervision, and would be able to devote themselves to the work of the progressive tax on incomes; the legal assistants would no longer have to initiate thousands of financial actions at law to decide controversies with regard to the value of landed estates and taxed personal property."

It cannot be denied that these arguments are sound. And, against them, there is little value in the statement that wealth bears no proportion to income and that a general tax on wealth has the advantage of hitting harder property bearing little or no income than does an income tax. Such a statement is, indeed, true in general, but is of no value in the particular case of the extraordinary tax on wealth as it has been devised in Italy. For the purposes of the tax lands and buildings are valued by the capitalisation of their income: the prices of securities as quoted on the Bourse, on which their valuation is based, depend essentially on the income derived from them; money, furniture and jewellery are calculated in a percentage of the remaining estate. The value of the estate is then finally inferred from the capitalisation of the income, so that is much preferable, inasmuch as it is easier and more speedy to base the tax directly on income.

It is true that a super-tax on income generally would also hit earned incomes. But would this really be a disadvantage and not rather an advantage? When dealing with the levy on capital the Technical Committee acknowledged the theoretical expediency

¹ "Una imposta superflua," in the *Resto del Carlino*, December 1st, 1919.

and the practical impossibility of assessing human capital as well. The practical impossibility is due to the fact that the only possible way of charging human capital would have been by a tax on earned incomes, which, on the other hand, is not equivalent to a levy on human capital, just as a tax on income derived from wealth is not equivalent to a levy on wealth. But a levy on capital having been abandoned in favour of an extraordinary tax on wealth, which, in substance, resolves itself into a tax not only paid on income, but also proportionate to income, the question arises in another form: Why not force to contribute, in addition to incomes derived from real and personal capital, incomes from human capital also, *i.e.*, the earnings of labour?

The financial expediency of such an extension would not be doubtful, especially in Italy where, already before the war and to a greater extent still, perhaps, to-day, so large a part of the national income is derived from labour, nor do I see what objections, either theoretical or financial, could be made to the extension. By substituting for the extraordinary thirty years' tax on wealth a super-tax on incomes generally, we should only in substance be carrying out such an extension.

CORRADO GINI

Padua, Royal University, January 1920.

NOTE :--

The Royal Decree of April 22, 1920, n. 494 (*cf. Gazzetta ufficiale del Regno d'Italia*, May 1, 1920) modified some provisions of the Royal Decree of November 24th, 1919, alluded to in our article. It is not out of the question on the other hand that these provisions also should be modified in future. The limit of exemption was raised from *It. lire* 20,000 to *It. lire* 50,000. The scale of rates was modified and made heavier for the larger estates. From 4.5 per cent. for estates of *It. lire* 50,000, we pass to 50 per cent. for estates of *It. lire* 100 mill. The number of years in which the tax is to be paid was diminished from 30 to 20 years and reduced moreover to 10 years for estates made up of more than three-fifths of personal property. For the provisional valuation the definitive one will be substituted whatever the difference between the two. The successive re-valuations are abandoned, and right of redeeming the tax with a discount at 6 per cent. a year on the amount advanced is granted the taxpayer. The right of the Treasury to proceed to a presumptive valuation of the estate is re-established; and the capital of Italian citizens which was created or exported abroad between August 1st, 1914, and July 1st, 1919, were again subjected to the tax. The conversion of the bearer shares of companies engaged in credit transactions into registered shares becomes compulsory. For other companies which put into circulation bearer shares, the tax on interest and dividends is raised from 5 per cent. to 15 per cent.

C. G.