A LEVY ON CAPITAL
FOR THE DISCHARGE OF DEBT

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The founder of the chair from which this lecture is delivered, the munificent Drummond, expected too much from the study which he fostered when he thought that the conclusions of Political Economy were as secure as those of Astronomy.¹ No doubt the abstract theory of Economics avails to dispel popular illusions much as a rudimentary knowledge of Astronomy suffices to discredit Astrology. But in the capacity to afford positive conclusions and definite directions the most exact of the human sciences follows Mathematical Physics at a great distance. One deficiency which it is relevant here to notice is the frequent inexactness of economic data. For example, the amount of capital available for levy is not known to within thousands of millions. The highest authority on the subject, Mr. J. Stamp,² estimates the amount of capital in private hands as between 10,500 and 11,500 million pounds before the War. But what the amount is now he can only conjecture.³ Again, with respect to change in the level of general prices,

¹ 'The conclusions of Political Economy are drawn from premisses as susceptible of proof, are as much in agreement with each other, and are as little affected by the differences of writers who have treated it as those of astronomy itself' (p. 17, *Elementary Propositions on the Currency*, by Henry Drummond, published in 1826, the year after Drummond founded the Professorship of Political Economy at Oxford).


which it concerns us to predict, we are so far from having accurate measurements that we have not even an exact measuring-rod.\(^1\) Other data, or rather *danda*, are even more indefinite, not even ostensibly objective; relating to psychical phenomena, in particular the extent to which the disposition to save is checked by such and such an impost on saving. It is true that physicists also have to deal with inexact observations, from which they extract approximations to truth by the process of taking averages. And I believe that the analogous process of comparing estimates by different authorities is of some avail in the human sciences. But, with respect to taxation at least, this resource of modern science is limited by a circumstance which also discredits a lesson of ancient wisdom, the propriety of deferring to expert authority. It is plausible to say with Plato that the passenger who wants to get to Athens must submit to the experienced pilot, especially if there is a storm on.\(^2\) But what if the pilot is steering not for your destination, but for some island of the blest where equality and liberty are imagined to flourish. Such pilots are the politicians who employ taxation as a means for levelling possessions. So Mr. Snowden, in the debate on the Budget of 1909, professed: \(^3\) 'My object is to make the rich poorer and the poor richer, because there is no other way under heaven by which you can make the poor better off except by making somebody poorer than they are.' Others seek similar destinations more indirectly. They would take the destruction of the capitalistic system on the way. Often,

\(^1\) See below, p. 17.
\(^2\) Cf. Plato, *Gorgias*, 511; *Theaetetus*, 170; *Alcibiades I*, 125; *et passim*.
\(^3\) *Hansard*, vol. iv, p. 1073, May 1909.
indeed, those who steer for these unknown shores are discredited as pilots by their evident want of technical skill. There are those who think that the nautical astronomy by which Marx shaped his course was no better than astrology.¹ But the like cannot be said of all English Socialists. They differ from economists of an older school not so much in reasoning² as in first principles, ends, or the relations between ends such as security on the one hand and equality on the other—to use Bentham's terminology. There is room for some difference of maxim respecting these relations. Perhaps Bentham ruled too trenchantly, 'When security and equality are in opposition ... equality should give way'.³ It is a question of degree. A little insecurity may be risked for the sake of a great advantage of another order. In short, within the limits of common sense, there are differences as to the relevant major premisses which cannot be settled in the course of a lecture. Minor contributions to the argument only can be attempted. To remove ambiguities and define issues may at least be possible.

In this humble spirit I begin by pointing out that

¹ Even Professor Sombart, in his admiring—and indeed admirable—study on Karl Marx (reviewed in the Economic Journal, vol. xix), admits that the great man made no great contribution to the technique of economic science—a damning verdict on one who plumed himself on his elaborate technique. Professor F. Bernis, of Salamanca, in the course of his particularly lucid exposition of the doctrines of 'Karl Marx' (Madrid: Biblioteca Socialista, 1912), mentions having heard with astonishment from the Secretary of the Fabian Society that 'the work of Marx was not worth the paper on which it was written'. Cp. Marshall, Principles, Bk. VI, ch. vi, § 3.

² Léon Say, in his Solutions démocratiques de l'Impôt, assumes a little too confidently that all the science in the matter of taxation is on the side of the classical economists.

³ The Civil Code, chap. xi, Works, vol. i, p. 211.
under the apparent simplicity of the proposed subject there lurks a plurality of issues. As the term 'levy' does not necessarily imply immediate exaction, and the term 'capital' is not necessarily restricted to material wealth, so there are presented three questions relating to taxation for the extinction of national debt:

I. Should there be a contribution from capital in a much greater proportion than according to the present system of taxation in Great Britain?

II. If so, should that contribution be immediate and once for all, or spread over a period of years?¹

III. If the contribution of capital is speeded up, should there be a corresponding extra income-tax?

These three questions are closely connected with a fourth:

IV. How should the new taxes (if any) be graduated?

I. The mere statement of the issue, whether there should be a disproportionate impost on capital as distinguished from income, will put it out of court in the judgment of some theorists. For there is implied a violation of the received canon of taxation that the sacrifices incurred by the several taxpayers should be equal. If the present differentiation against property (and income accruing from property) is tolerably fair, or at least not much too light, it follows according to the canon that it would be unfair to increase that differentiation greatly.

¹ Mr. Henry Higgs, in his review of Mr. Pethick Lawrence's *Levy on Capital* in the *Economic Journal* for September 1918, and Professor Dietzel, in his article on the discharge of the war debt in the compilation by Dr. Herkner which forms the 156th volume of the publications of the Verein für Sozialpolitik, are the only writers known to me who have clearly exhibited the separation of Questions I and II, usually lumped together.
But the canon of equal sacrifice has been called into question of late years. It has been represented as a subordinate maxim deriving its authority from the principle of minimum sacrifice. The voices in favour of the latter doctrine have multiplied since the outbreak of the War. The difference between the two canons no doubt comes more clearly into view when taxation on a larger scale is contemplated. So it would not matter for a short journey whether one took the true pole or some neighbouring star as guide. But in a long voyage the difference between the two directions would make itself felt. It is thus that Dr. Marshall, dealing with taxation after the War, institutes a ‘search for the least detrimental distribution of the future heavy burden of taxation’. Professor Pigou also bases a drastic war finance upon the ground that ‘the aggregate amount of sacrifice would be a minimum’. The accession to the doctrine of minimum sacrifice made by Professor Seligman is particularly notable. For before the War he had lent his authority to the side of equal sacrifice. But now he teaches that ‘aggregate sacrifice constitutes the real burden of the War’, which to minimize is the problem of war finance. Upon this principle the levy

2 After-war Problems, edited by W. Harbutt Dawson. With reference to ‘taxation after the war’, Dr. Marshall observes that ‘the hurt caused by obtaining £1,000 of additional Revenue by means of levies of £20 from each of fifty incomes of £200 is unquestionably greater than that caused by taking it from a single income of £10,000’.
3 The Economy and Finance of the War, p. 80 and context.
4 See Professor Seligman’s article on Loans versus Taxes in the number of the ‘Annals of the American Academy of Political and Social Science’ for January 1918. He justly compares ‘the aggregate burden of gradual repayment’ with the ‘sacrifice involved in outright provision of the original amount’.
on capital is not necessarily to be rejected because it inflicts on the propertied classes a burden not shared by the recipients of earned incomes.

Let me illustrate the principle by an anecdote, one told by Herodotus.¹ When Xerxes was flying from Greece, the ship in which he crossed the Hellespont, being crowded with Persian nobles, was like to capsize, a storm having arisen, unless there were made jettison of the too numerous passengers. Upon which the Persian grandees, in order to save the life of their sovereign, threw themselves overboard. Now let us vary the anecdote by supposing that some of these loyal subjects had large cargoes on board, while others had little property either there or elsewhere. If safety could be secured for the Head of the State by the jettison of those cargoes no one would hesitate to resort to that course, although it involved an unequal sacrifice on the part of the propertied class.² Common sense, it may be said, and the safety of the State dictate such a measure without recourse to an elaborate theory.³ But it is not

¹ Book viii. 118. The characteristic touch added by Herodotus that the Persian nobles, before sacrificing their lives for the safety of the sovereign, did obeisance to the sovereign, may be utilized to suggest to our capitalists that, if they are induced to sacrifice a part of their wealth for the safety of the State, they had best do so with a good grace.

² A less recherché illustration is afforded by a Co-operative Society consisting of capitalists and workmen. In case of disaster, as I am authoritatively informed, it would be practically impossible to impose on the workmen any contribution towards the deficiency beyond the resigning of labour's share of the profits or bonus on wages, the reduction of wages to current district rates. The capitalists' (subjective) sacrifice may well be greater.

³ The suggestion is that the 'productional' canon of taxation can dispense with the 'distributional'. See as to the contrast and consilience of the two canons Economic Journal, vol. x (1900), p. 174 et seq. The consilience is well illustrated by Mr. Hartley Withers
unimportant to show that the measure when required by the exigency of the State is agreeable to received canons of what is reasonable. Discontent is thereby diminished.\(^1\) There is mitigated the sense of unjust treatment at the hands of the have-nots, the apprehension of unlimited confiscation which would weaken the motives to thrift and saving.

Acquitted from the charge of violating fiscal equity, the capital levy may still be arraigned for breach of contract: the definite contract which the Government has made with its creditors that the War Loan (if not previously redeemed) "will be repaid at par" at specified dates. If the holders of War Loan are to be mulcted of their capital \(pandi passu\) (or nearly so) with other capitalists, it is argued or felt that the repayment at par is nugatory; there is virtual repudiation.

On this it may be observed that the interpretation of a contract is a matter for law to settle. Law is influenced by precedent; and a weighty precedent is afforded by the acts of Pitt. According to the terms of the statutes relating to the loans raised by Pitt in the nineties of the eighteenth century, the dividends were to be paid to the stockholders "free from all taxes, charges, and impositions whatsoever."\(^2\) But when Pitt in his new book, *The Business of Finance*, where he shows it to be bad policy, quite apart from any humanitarian motives, to impose taxation on those who are struggling on the margin of existence. "From the most entirely utilitarian and practical point of view taxation that increases the misery of the miserable is bad."

\(^1\) It is not irrelevant, I think, to recall Wordsworth's just de-marcation of

\[‘\text{Calamity the chastisement of Heaven}\
\text{From the injustice of our brother men.}\]

*Excursion*, ii. 73.

\(^2\) Geo. III, xxxvii (1796), c. 10, § xiv; xxxviii (1797), c. 37, § xiv; etc.
imposed the Income-tax at the end of 1798 he made no distinction between stockholders and the general public. ‘There can be no question of a breach of good faith with the public creditor by thus imposing upon him what every other subject of the realm is to incur.’ 1 ‘If you (a stockholder) expect from the State the protection which is common to us all, you ought also to make the sacrifice which we are called upon to make.’ 2 Pitt’s position was in fact much the same as that which was attributed to our present Chancellor of the Exchequer when he explained that he would not discriminate against the holders of War Loan.3 Pitt reprobated ‘the idea of imposing upon the stockholders separately and distinctly any sort of tax’.4 It was on that ground that he protested against Addington’s Budget of 1803, when, as we read, ‘language in a tone of great asperity passed from Mr. Pitt towards Mr. Addington’.5 Pitt’s interpretation of the contract with the stockholder was fully confirmed by Gladstone in his great financial speech of 1853: ‘I think Mr. Pitt’s construction of the pledge was the safest and the wisest’: namely, that you should treat the dividends as ‘so much income’ without looking to the ‘nature of the source’. The levy, therefore, is not to be condemned as equivalent to repudiation.

But though acquitted in the court of reason on both the counts which have been dismissed, the levy will probably not be entirely freed from the suspicion with which

2 December 3, 1798, loc. cit., p. 15.
it is regarded by the propertied classes. Some will continue to harbour the feeling which Sinclair, a respectable financier, expressed with respect to Pitt's apology for the taxation of the bondholders, 'What a miserable evasion!' There will subsist a prejudice, prejudicial to thrift and saving. How great that check would be is a matter of observation; observation of the intending capitalist's mentality—a kind of observation which I cannot pretend to have performed with any precision. I am inclined to think that the check to accumulation would be considerable. To be deprived of a capital fund looms as a greater evil than an actuarially equivalent loss of income for a period of years. The novelty of the impost makes it to be felt as more burdensome.

The danger which has been pointed out is to be set against the advantages offered by a levy on capital. The advantages of a 'clean slate' (if they could be supposed net) would obviously be great and many. In particular the removal of a heavy debt (if effected without a shock to national credit) would put the Government in a better position to meet a possible future emergency by a fresh loan.

The advantages of a capital levy, less by its attendant dangers, are to be weighed against the continuance of the present régime with all its evils. The evils of a prolonged heavy taxation for the service of a national debt are thus well summarized by J. S. Mill: 'The

1 'It is said that we do not intercept the money as it goes into the pockets of the creditor; but that we only put our hands into his pockets afterwards. What a miserable evasion!' The proper course, according to Sinclair, would have been as follows: 'Let books be opened for receiving the names of all the creditors who assent to this new mode of holding their property, and let it go no further than to the persons who subscribe' (Parliamentary History, vol. xxiv, p. 83, December 14, 1798).
raising a great extra revenue by any system of taxation necessitates so much expense, vexation, disturbance of the channels of industry, and other mischiefs over and above the mere payment of the money wanted by the Government, that to get rid of the necessity of such taxation is at all times worth a considerable effort.'

So Ricardo is reported as saying of the National Debt in 1819: 'It was an evil which almost any sacrifice would not be too great to get rid of.'

But in estimating the extent of the evil and our capacity to bear it, there should be noted a circumstance which the classical writers did not emphasize: namely, that we have already borne a much heavier burden; not only the service of the debt, but also the expenses of the War, since these (so far as they have not been met by borrowing from abroad) have been defrayed out of resources which are of the nature of income. There is another circumstance to which the classical writers did not advert, as it was not relevant to the case before them; the fact that whereas the service of the debt contracted in the Great (Revolutionary and Napoleonic) War was largely met by indirect taxation, and so fell heavily on the poorer classes, now the direct taxation of income and inheritances plays a leading part. Accordingly the 'heart-burnings'—to use an expression of Ricardo's—engendered by the continued taxation of the poor for the payment of interest to rich fund-holders are no longer serious. The truth that in the case of

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1 Political Economy, Book V, chap. vii, § 2.
3 How far McCulloch was from emphasizing the truth referred to may be gathered from the criticism of his statements in my Lecture on The Cost of War, 1915, p. 15.
4 Mr. A. A. Mitchell has called attention to this circumstance. Economic Journal, September 1918, p. 268.
internal loans the receipt of interest by one set of citizens just balances the payment of interest by another set of citizens\(^1\) becomes more significant when the two sets belong to the same class—that of persons in easy circumstances. It should be observed that this mitigation of sacrifice would also attend the transference of capital from members of the propertied class to holders of War Loan. In neither case is it to be understood that the alleged compensation implies the total absence of sacrifice.\(^2\) Even when the payment of imposts is not aggravated by the thought that one is suffering privation in order to swell the wealth of people already much better off than oneself, we may still say with the author of Don Juan:

‘Alas! how deeply painful is all payment!’

We must be prepared for sacrifice, whatever course we adopt. The financial scars incurred in our tremendous struggle with armed oppression will not be healed without much suffering, whatever treatment we apply. We have only a choice of evils—those incident to the levy on capital and those of the present régime. The balance between these alternatives may best be struck after we have considered what would be the best—or least bad—form of levy.\(^3\)

II. If there is to be a levy on capital, should it be a unique non-recurring lump sum, or extended over a period of years, eked out by instalments?

(i) Let us first consider an argument which appeals

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\(^1\) The truth is stated in my Lecture on The Cost of War, with abundant cautions against the misinterpretations to which the statement is liable (p. 12 et seq.).


\(^3\) See below, p. 29.
to justice. It is urged that the burden of discharging the debt will be more justly adjusted among contributors of different classes if the adjustment is carried out while the spirit of patriotism kindled by the war is still glowing.\(^1\) Later the rich and powerful will be minded to evade their fair share. This argument would have force in an aristocratic or a plutocratic régime. It would have been more applicable to our fathers a hundred years ago than it is to us now. For we may boast not only that as bravely as our fathers, in defence of our country and to save Europe, we have shouldered an enormous financial burden, but also that we are better than our fathers in adjusting that burden with consideration for the poorer members of the community. The strains resulting from the tremendous struggle against wrong will be more equably distributed over the body politic. The danger is, indeed, now the reverse of that which is apprehended: the poorer classes may seek to evade their fair small share.

(2) I pass on to another argument, which has something of an ethical character. The project of extinguishing the war debt at one stroke derives support from laudable impulses: the honourable eagerness to get rid of debt, the glorious sense of effecting a great delivery by an heroic remedy, the courage which faces a terrible operation for the sake of regaining health. It is like having a bad tooth out at once, say advocates of the levy. But as that which it is now proposed to extract, namely money, is not bad, a better metaphor is furnished by the extraction of good teeth, as is sometimes necessary to avert a dangerous disease. I under-

\(^{1}\) Much weight is attached to this consideration, with respect to the issue of taxation versus borrowing, by Professor Dana Durand in the Journal of Political Economy for November 1917.
stand that where the danger is not pressing, the horrible operation is not always performed completely at one sitting. The extraction may take place by instalments, so to speak, where the constitution of the patient would not stand a severe shock. So the capitalist may be encouraged, indeed, to make his contribution integrally at once; but he may also be permitted to plead: ‘Have patience with me and I will pay thee all.’

(3) The shock given by the operation of extracting capital is deterrent, but not prohibitive. There need not be so great a convulsion as is sometimes imagined. A universal ‘slump’ in the prices of stocks and plant, and perhaps also of pictures, houses, furniture, and so forth, is not to be anticipated. For the supply of articles to be sold in order to raise the required contributions to the levy would be met by the demand for new investments on the part of the stockholders who were being paid off. As Ricardo puts it, ‘The stockholder would be eager to employ his money as he received it’.1 ‘These two parties would not fail to make an arrangement with each other by which one party would employ the money and the other raise it.’

Of Ricardo’s argument we may say that, like most of his arguments, it is true in the abstract. The equation stated by him would hold good on an average. But in the concrete there would be great deviations from that

1 *Hansard*, vol. xli, p. 1209, December 16, 1819.

Compare Pigou, *Economic Journal*, June 1918, p. 150: ‘The people from whom this (war) stock is bought will want other securities instead of it, and will therefore constitute a market for those that other people are offering for sale in order to raise money for the levy.’

‘There would be next to no selling,’ says the *New Statesman*, in its vigorous advocacy of the Capital Levy, December 8, 1917.
average. One capitalist who could borrow on good terms might perhaps make a profit of the transaction. Another, unable to borrow except at a ruinous interest, might be reduced to the direst straits in order to obtain the means of discharging his quota of the levy.¹

It may be said that if there are those who cannot, without great difficulty, raise suddenly a lump sum, their assessment ought to be correspondingly low. It may be said, but it is very unlikely to be done. This is not to deny that the valuation ancillary to a levy is possible. But when, in proof of its possibility, reference is made to the extraordinary defence-levy in Germany, 1913, and to our own Death Duties, it may be rejoined that the difference of degree amounts to a difference in kind. The German levy came to a matter of £50,000,000, whereas the amount to be raised (from a smaller population) to defray, say, half the British National Debt, would be some eighty times greater! The contrast with the British Death Duties is, indeed, not so marked. Professor Pigou ² estimates that in order to raise £3,200,000,000 it would suffice to double the 1917–18 estate-duty scale. But is not the sense of privation, the

¹ In this qualified adhesion to, and partial dissent from, the Ricardian theorem, I follow closely Professor Dietzel’s article in the publication of the Verein für Sozialpolitik, vol. 56, a portion of which article will shortly appear translated in the Economic Journal. With regard to the difficulties which some contributors may experience, it is fair to say that fair advocates of the levy, in particular Mr. Sydney Arnold, admit the possibility of such difficulties and concede that he (the owner of capital) ‘would be allowed to pay out of income in one way or another over an extended period’ (Economist, July 20, 1918. Cp. Economist, June 1918, p. 162). To the extent to which advantage is taken of this concession—not a great extent, Mr. Arnold thinks—the negative answer to our Question II is given. But this is not a reduction to absurdity as argued by some who have not distinguished Questions I and II.

² Economic Journal, June 1918, p. 155.
interference with going concerns, and habitual manner of living, at a minimum in the case of taxes paid by inheritors? Would not the sacrifices attending the proposed levy be more than double as great?

(3) I go on to a technical argument based on the theory of prices. If we defer the discharge of the debt till long after the War, then the monetary inflation consequent upon war finance will probably have subsided. Accordingly the same sum of money will mean a greater quantity of things than at an earlier period. The creditor will receive and the debtor will pay more in kind than was intended at the time of the contract. It might be wished, but not hopefully in the present state of monetary science,¹ that the terms of the loans had been such as to permit the payment of interest and the repayment of capital to vary with changes in the value of money.

(4) Against the probability of deflation, on which the preceding argument in favour of an immediate levy is founded, it has been objected—valet quantum—that the raising of such a levy would tend to counteract the monetary deflation. For many persons would not be able to pay down their quota of capital without having recourse to banks for loans. And the tendency of such loans is to produce inflation.

(5) The probability that if the discharge of debt is deferred the debtors will have more to pay in things is partly met by the expectation that they will (on an average) have more things wherewith to make payment, in consequence of a progressively increased production in the years following the War.

(6) I come now to an argument which, if valid, would

¹ As to the difficulties in the way of such adjustment, see Economic Journal, vol. xxviii, p. 178 et seq., and vol. v, p. 440.
invalidate all the arguments in favour of the levy. There is reason to apprehend that if an immediate integral levy of capital were raised the taxes, in particular the income-tax, now destined for the service of the debt, might be resumed at their present figure notwithstanding the discharge of a great part of the debt.¹ This sequel is certainly not intended by the honest academic advocates of the levy; but some approach to the apprehended duplication of imposts may perhaps be effected by Socialist politicians. It may be observed that there are various degrees of the danger, ranging from the immediate resumption, or even continuance, of the present taxes to the imposition of similar taxation at a distant epoch under new circumstances. The first extreme would probably be acceptable only to those who wish to abolish the capitalistic system. But the reimposition of heavy taxation, in some new emergency, after the recovery of our finances, might be unobjectionable. I must leave it to those who are more conversant with current politics to assign the probabilities of the different possibilities. I cannot claim much weight for the opinion that the danger is such as seriously to aggravate the objections to an immediate integral levy on capital.

Such, I think, are the principal arguments on both sides of this (our second) issue. I dismiss more hastily some considerations which may be described as of the second order of magnitude. Some of them have the peculiarity that they may be used on both sides of the question according to circumstances which it is difficult to ascertain and easy to take for granted. For example,

¹ This objection is strongly urged by Mr. Charles Robertson in *The Economist*, July 27, by Professor W. R. Scott in the *Economic Journal* for September 1918, and with particular authority by the distinguished Socialist to be mentioned presently (below, p. 20).
Professor W. R. Scott maintains that 'the steady pressure of a high rate of taxation over a long period would act as a warning against extravagance'. But others have opined that the 'edge of husbandry' is dulled by borrowing rather than by the repayment of debt. Gladstone, it may be remembered, at the beginning of the Crimean War, announced that to keep out of debt was ordained as a 'moral check'. Again, it is argued that the (integral) levy 'would produce a marked deterioration in the credit and reputation of London as an international money-market. But Ricardo, among the beneficial consequences of a levy such as is now contemplated, expected that 'the course of trade would become natural and right'. A German authority, Professor Diehl, advocates die einmalige Vermögensabgabe on the very ground that if the German people showed themselves willing and able to make so great a sacrifice for the payment of their debts their credit abroad would be much improved. Again, Professor Scott apprehends as a consequence of the levy its 'causing people to expatriate themselves'. But according to Ricardo the unredeemed debt 'occasioned many persons to emigrate to other countries'. Compare Professor Pigou: 'Men of enterprise and men with large capital will be under a strong temptation to take up their residence elsewhere,
(in view of the tremendous rates on income necessary to meet the interest on the National Debt).\(^1\)

Some of the subtlest, but not, I think, the strongest, arguments turn upon the nature of capital and the theory of banking. Thus the Chairman of the National Bank of New Zealand, Mr. Pember Reeves, along with some formidable objections to the projected levy, places this argument: 'Working capital would be diminished.' True, 'the money merely passes from X to Y. Yes; but Y's £10,000 of War Loan, a first-class piece of property, is extinguished.' 'The working capital of the community is for the time £10,000 less.'\(^2\)

Without going so far as to predict diminution of capital as a direct consequence of the measure in question, I suggest as a possible consequence a change in the holders of capital which would be undesirable. If it is contemplated to pay off as soon as possible the numerous small investors\(^3\) in British War Securities, and if, as probable, many of these would not reinvest the lump sum returned to them, the social advantage which is to be expected from the enjoyment of capital by the working class would be endangered.

In connexion with arguments turning on the nature of capital may be noticed the appearance of a distinguished Socialist on the side of the capitalists; as unexpected as the aid which the followers of Aeneas obtained from a Greek city.\(^4\) Mr. Bernard Shaw speaks with authority in support of an objection which has been here placed

\(^1\) Economic Journal, June 1918, p. 143.
\(^2\) The Times, July 25, 1918.
\(^3\) Amounting to some 12,000,000 according to the Bankers' Magazine.
\(^4\) Aeneid, Book vi. 96.
among considerations which are of the first magnitude.

'The weak point in Mr. Arnold's case is that he offers his capital levy plus a subsequent income-tax of 2s. 6d. in the pound as an alternative to an income-tax of 7s. 6d. or thereabouts. But he can give our capitalists no guarantee that, if they accept the levy, the present income-tax of 6s. will be reduced by a single farthing, or that it will not be increased. The candles of the capitalists would be burned for them at both ends with the greatest cheerfulness by a Labour Government, or a Government depending for office on the Labour vote.'

When this and other arguments against or for an immediate levy of a lump sum are weighed against each other, the balance appears to me to incline against immediacy. The alternative would be (on the supposition that our first question is answered in the affirmative) a series of instalments spread over years, say ten at least.

III. If in the payment of the instalments there should be some anticipation of the dates fixed by the terms of the various loans (National War Bonds, &c.), ought the contribution from the income of the non-propertied classes to be correspondingly speeded up? In favour of the affirmative there is the analogy between capital as commonly understood and those permanent potentialities inherent in persons from which income is

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2 As proposed by the Fabian Research Department, *Revolution in the Income Tax*, § viii: 'We may well make this colossal sacrifice as easy as we can by calling upon only 1 per cent. each of the ten years.'

3 If there is to be a capital contribution but no speeding up, no anticipation of the times prescribed for the payment of the loans, then on the principle of minimum sacrifice assumed in Section I there would be no presumption in favour of an additional income-tax. See note below, p. 23.
derived, ability and skill. That arts which subserve money-making are of the nature of wealth is one of the few contributions made by Greek philosophy to economic thought.

Adam Smith's conception of 'capital fixed and realized as it were in his (the acquirer's) person' is familiar. The idea of taxing personal capital is not very new, if I rightly ascribe to Swift the anecdote of a projector who laid before the proper minister a financial scheme for taxing brains. 'I declare you exempt from the tax,' replied the minister. The retort would not be applicable to some more recent advocates of such taxation, Dr. Farr and Joseph Hume and other members of the strong Committee on Income and Property Tax in 1851-2. They recommended that the 'tax should every year be valued on property, labour, and skill, being the property of large classes.'

Professor Pigou is in good company when he argues that as a means of providing actual or virtual income a man's brain is on the same footing as his factory or his house.

Apart from this analogy it may be recommended that if a levy on material capital is to be imposed it should be accompanied with an extra tax on income on the ground on which Mill argued, that a levy on material capital should not be imposed because it would have to be accompanied with a levy on the non-propertied classes. This ground may be described as the analogy between capital and the environment. 'Have we not

1 *Eryxias* (Pseudo-)Plato.
2 His qualification 'acquired' is not to the point *here*, I think.
3 Draft Report by Joseph Hume. Compare Farr: 'Each person should contribute every year in proportion to the property possessed by him in that year' (Answer to Question 4937). 'Skill is a sort of indwelling property' (4897). 'A prima donna is as much property as the theatre in which she sings.'
inherited a mass of acquired knowledge, both scientific and empirical, due to the sagacity and industry of those who preceded us, the benefits of which are the common wealth of all?" The, then, who have prospered in business and professions may be considered to have enjoyed a heritage. And the enjoyment of a heritage is accepted as a ground for the imposition of a capital tax.

In fine, apart from all analogies, it may seem reasonable that the non-propertied classes should submit to some sort of poll-tax to match the new differentiation in their favour against the propertied classes which is proposed.

But it must be insisted that, according to the principles which have been enounced, not even the subjective sacrifice of the non-propertied classes, much less their objective contribution, as determined arithmetically by some actuarial calculation, is to be equated to that of the capitalists. The doctrine of minimum sacrifice does not require an equation but only a certain relation involving some sacrifice—not in general an equal sacrifice—for the class characterized by less ability to bear taxation. Accordingly the reasoning by which high authorities, in particular J. S. Mill and Professor Scott, have concluded that a levy on personal capital would be fatal,

2 The abstract theory of the matter is that the contribution of each should be such that his 'final disutility', the marginal sacrifice (in a subjective sense) of the last 'dose', say the last £100 which he contributes, should be equal to the corresponding sacrifice of any other contributor. From which it follows that the owner of income without property, who may have great difficulty in raising a capital sum, should make a smaller contribution than the owner of an equal income derived from property.
3 Above, p. 7 et seq.
4 Loc. cit.
5 Economic Journal, September 1918, p. 266.
or at least absurd, does not carry conviction to one who has adopted the said criterion of fiscal justice.

IV. If there is to be new taxation of the kinds considered, should it be graduated? This subject touches the preceding inquiries at more than one point. The very existence of graduation in our present system affords at once warning and encouragement to one proposing a new impost. A warning is conveyed by M'Culloch in the following passage referring to the danger inherent in any kind of graduation: 'Having once given way, and having said that a man with £500 a year shall pay 5 per cent. and another with £1,000 a year 10 per cent., on what pretence and principle can you stop?... You are at sea without rudder or compass, and there is no amount of injustice and folly you may not commit.'¹ More persuasively, as admitting the now generally admitted principle of progression, Mr. Balfour, on the occasion of the 1909 Budget, dwelt upon 'the danger that the great body of the people, who necessarily do not belong to the richer class, having the whole power of taxation in their hands, may abuse it.'² Warnings of these kinds have not been without effect. We have not indeed, by adopting total abstinence from graduation, shirked the difficulty of determining the just mean; but we have been made sensible of the dangers besetting the opposite extreme. We have advanced cautiously and by tentative steps on an inclined plane where to rush would be fatal.

If there are to be new progressive taxes, the opportunity should be taken to introduce methods of graduation less clumsy than those at present employed for our

¹ *Taxation*, pp. 142–3.
FOR DISCHARGE OF DEBT

income-tax and inheritance (estate, &c.) taxes. The reform is of more than administrative interest. The determination of the contribution proper to each grade of income or property according to some clear and simple formula involving the fewest possible number of constants or coefficients would facilitate judgment and narrow controversy in case of proposed alterations, would permit scientific comparison between the weights of taxation in different countries. There is required, too, some improvement in substance, as well as in mere form, upon the present method of graduation.

The perfection of form is attained by a scheme which was proposed by Professor Cassell, of the University of Stockholm, in the year 1901. Indeed Professor Cassell exhibits a quality even rarer than mathematical elegance, the power to tax and yet to please. One might imagine him addressing representatives of the richer classes to this effect: The prevailing scale of graduation, based on the assumption that the abstraction of a certain percentage is less felt by the richer than the poorer taxpayers, is, as Mill said, 'too disputable altogether',¹ not 'capable of being decided with the degree of certainty on which a legislator or a financier ought to act'.² Rather, as Mill said later, graduated income-tax is graduated robbery.³ Let us return to the moderate scheme of J. S. Mill: 'making each contribute the same percentage on his pecuniary means, after the deduction therefrom of a certain minimum sufficient to provide necessaries.' When the applause following this announcement had subsided, the Professor might go on thus: But the existing practice, not countenanced by Mill,⁴ of deducting

¹ Book V, chap. ii, § 3. ⁴ Loc. cit.
² Loc. cit.
³ Select Committee on Income Tax, 1861, Question 3540.
⁴ Loc. cit.
a minimum only from the lower incomes (up to £700 in the British income-tax when Cassell wrote) is un-scientific. Rather we should go beyond Mill in a direction away from the present system. You, gentle-
men, who have conventional necessities more expensive than the minimum of subsistence, you who require a more generous style of living to bring you up to the level of professional efficiency, ought to receive an abate-
ment greater than that of the poorer classes. ‘A second Daniel!’ would be the universal acclaim. Then, turning to the left, the scientific conjurer would reveal that he had performed the trick of securing by this specious arrangement a strongly progressive graduation.

Such is the peculiar character of the scheme, which may be thus formulated: \( T = r (X - Y) \); where \( T \) is amount of the tax; \( r \) is a fixed proportion or per-
centage; \( X \) is the amount of income; and \( Y \) is the abatement, a subtrahend which increases with the in-
crease of the income.\(^1\) The subtrahend depends upon two quantities which, it is contended, may be determined on scientific principles, namely, (1) the minimum of subsistence, that abatement which even the poorest enjoy, and (2) the maximum abatement higher than which not even the abatement enjoyed by the richest rises.

For example, here is an income-tax instanced by the writer, comparable with the British income-tax at the time of writing. The data assumed are that the minimum of subsistence is £100; that the maximum abatement is £600, while the fixed general rate of taxation is 8 per cent. (about 1s. 7d. in the pound). From these data there results a graduation which is exemplified by the accompanying table:

\(^1\) *Economic Journal*, 1901, p. 488 et seq. I have taken some liberties with the author's notation.
FOR DISCHARGE OF DEBT

TABLE exemplifying Prof. Cassell's Method of Graduation.

<table>
<thead>
<tr>
<th>Income (in pounds)</th>
<th>100</th>
<th>400</th>
<th>700</th>
<th>1,000</th>
<th>2,500</th>
<th>7,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abatement</td>
<td>100</td>
<td>266.6</td>
<td>350</td>
<td>400</td>
<td>500</td>
<td>562.5</td>
</tr>
<tr>
<td>Tax</td>
<td>0</td>
<td>10.6</td>
<td>28</td>
<td>48</td>
<td>160</td>
<td>555</td>
</tr>
<tr>
<td>Rate of Taxation (per cent.)</td>
<td>0</td>
<td>2.6</td>
<td>4</td>
<td>4.8</td>
<td>6.4</td>
<td>7.4</td>
</tr>
</tbody>
</table>

It will be seen that as the income rises, so does the abatement; and though the abatement rises with the income, so does the rate of taxation.

It must be observed, however, that the Cassell formula does not fulfil every possible purpose. It is well adapted to moderate progression, such as prevailed in several countries before the War, but not well to the steep progression which has been introduced during the War; for instance, in the British income-tax and the American income-tax, both of which rise to 50 per cent for very large incomes. So high a figure for the ratio here called \( r \) could not be employed in the Cassell formula without destroying what is most characteristic in this scheme.

To remedy this deficiency I propose a surtax defined by only two constants, one of which may be described as \textit{par excellence} the coefficient of graduation, as it were a screw by a slight turn of which the progression may be made steeper or more gradual. It is claimed for this formula that, unlike Professor Cassell's, it is not restricted to moderate rates of taxation, while at the same time, unlike other formulae which have been proposed, it does not involve the anomaly that the taxpayer by increasing his (large) income will diminish the amount left in his hands after the tax is paid. As the income is indefinitely increased the amount left in the hands of the taxpayer also increases indefinitely, while at the same time the rate of taxation tends to become 100 per cent.
Further details relating to graduation are relegated to an appended note and a future study.

It remains to gather up the results of the preceding inquiries. For this purpose it is convenient to reverse the order of statement, thereby proceeding from the more to the less probable or acceptable conclusions. Firstly, there can be little doubt, I think, that the levy on capital, if adopted, should be progressive. There is not the same unanimity about the supplementary extra tax on income. The Fabian researchers recommend an ungraduated poll-tax (of, say, ten shillings per head per annum\(^1\)); and Fabians would presumably not omit progression without some strong reason. An untaxed minimum is in all cases to be assumed. Secondly, if the time now fixed for the repayment of the sums borrowed by Government is to be anticipated by a capital levy, some corresponding aggravation of income-tax is likely to be accepted. Advocates of the capital levy, while aware that, as pointed out by Professor Pigou, the supplementary personal tax will not amount to much at best, and perhaps accepting a theory of taxation\(^2\) according to which even that much would be too much, may still—either as an inference from theory, or merely for the sake of appearance—agree that the recipients of 'earned income' should make some extra contribution. Thirdly, as to the question whether a levy on capital had better be immediate and outright, or eked out by way of instalments, those who have advocated the first course without even alluding to the second are presumably not favourably inclined to the second alternative.

\(^1\) *Revolution in the Income-Tax*, p. 44. Mr. A. Hook, writing in the *Economic Journal* for December 1915, proposed that both the capital and income taxes (above a minimum) should be unprogressive.

\(^2\) Above, p. 7 et seq.
But when confronted with the opposition of those who are opposed to any kind of levy they may accept the less drastic scheme by way of compromise. In fine, is a capital levy—limited and safeguarded in the ways suggested—to be adopted? There's the rub.

In returning to this question I desire to recall what was prefaced as to the character of applied economics. The occupant of an economic chair cannot speak *ex cathedrā* in the same sense as the spokesmen of physical science. His judgment is greatly affected by what they would call 'personal equation'. The conclusion offered here rests largely on a principle which some ignore: the supreme importance of 'saving', in the sense of profitable investment providing for future production. I postulate the doctrine of Adam Smith as expressed by the most eloquent of his disciples. Pitt in 1792, Pitt in his prime before Revolution abroad had put to flight Economy at home, placed high among the causes of national wealth that constant accumulation of capital, that continual tendency to increase, the operation of which is universally seen whenever it is not obstructed by some public calamity, or by some mistaken and mischievous policy. 'Simple and obvious as this principle is, I doubt', said Pitt, 'whether it has ever been fully explained but in the writings of an author of our times (I mean the author of a celebrated treatise on the Wealth of Nations). This accumulation of capital arises from the continual application of a part at least of the profit obtained in each year to increase the total amount of capital to be employed in a similar manner and with continued profit in the year following. The great mass of the property of the nation is thus continually increasing at compound interest . . . the progress of which in any considerable period is what at first view would appear incredible.
A LEVY ON CAPITAL

Great as have been the effects of this cause already, they must be greater in future. . . . It acts with a velocity continually accelerated, with a force continually increased,

Mobilitate viget, viresque acquirit eundo.'

He who is fired with the enthusiasm of progress will consider it a duty not to obstruct the accumulation of capital (except so far as a preponderant advantage in the way of distribution may be secured by such limitation). Dr. Marshall has well said with reference to taxation after the War, 'The duty of each generation to those which are to follow is as urgent as that of the rich to consent to surrender a more than proportionate contribution from their income to the national purse; ethical considerations and those of high policy make alike for the preservation of capital'—and, I may add, the augmentation thereof. Our duty to the coming generation would not be fulfilled if without absolute necessity we admit a measure which, though described as unique and once for all, would serve as a precedent for exactions destructive of capitalization. The danger would not be so serious if all the advocates of the levy on Capital were such as the author of Wealth and Welfare, who indeed counsels 'transference' from the rich to the poor, improvements in Distribution, provided that they do not discourage Production and in particular that condition of Production which is apt to be ignored by those who counsel 'transference', namely 'waiting', the postponement of present satisfaction. The last proviso is apt to be omitted by politicians competing for popularity. Their attention is confined to Distribution, or to the more obvious factor of Production, Labour. In their eagerness to abolish the private capitalist they have not

1 Speech on public income and expenditure, February 1792.
realized that he performs an indispensable function, that in fact without him, if we relied upon Government Departments or Syndicalist Committees to provide for the future by saving—what hitherto has been done from motives of self-interest and family affection—the community would probably be reduced to extreme discomfort if not to the verge of starvation. (I borrow some of these expressions from the latest exponent of the old doctrines, one of our highest authorities on the mechanism of business.¹) To run the risk of such a consummation through hasty adoption of the proposed measure would be almost criminal. But there is no need for hasty action. For, if we are agreed that the levy is to be effected (if at all) by way of instalments extending over a period of years, by delaying for a year the institution of the levy, there would be lost only the difference in respect of advantage between a single instalment (with corresponding relief to the taxation of income) and the continuance of the present system for a year. On the other hand, the delay might confer great advantages. There would be opportunity for observation: as to the amount of war-debt and the costs of reconstruction, and our capacity to bear the load with the present system of taxation. There would be observed, too, the disposition of those chiefly affected by the new imposts; whether, after the novelty of the proposal had worn off, the richer classes, who have with patriotic cheerfulness submitted to an income-tax of unexampled severity, would on con-

¹ 'Any one who has had anything to do with a Government Department, as they are at present constituted, is likely to agree that... any community which handed over to them... the entire conduct of its material welfare would in a very few years be more than likely to find itself reduced to a state of extreme discomfort, if not on the verge of starvation' (The Business of Finance, Hartley Withers, p. 104 and context).
sideration offer an irreconcilable opposition to the partial commutation of that tax for a levy on property. Delay also would afford opportunity for more completely enumerating and more carefully balancing the complex considerations relative to the issue.

It may be concluded that we should hold ourselves in readiness to adopt a levy on capital, but that we should not initiate the scheme until after further observation and reflection.

NOTE ON FORMULAE FOR GRADUATING TAXES ON CAPITAL AND INCOME.

In Cassell's scheme described above (p. 26) the abatement $Y$ may be written $\frac{XM}{X-e+M}$; where $X$ is the total income, $e$ is the minimum of subsistence, and $M$ the maximum abatement. (I put $M$ for the author's me, and take other liberties with his notation.) It will be observed that when the income sinks to the minimum, the abatement becomes identical with the income. As the income increases, the abatement becomes more and more nearly $=M$. The tax, $T = r (X-Y) = r \frac{X(X-e)}{X-e+M}$. This becomes zero, as it ought, when $X=e$. It becomes (more and more nearly) simply proportional as $X$ increases indefinitely. To avoid this consummation, which is not, I think, to be wished for, I propose to add a surtax of the type $T_1= x-ax^{\beta}$; where $x$ is the taxable income above an exempted minimum, $a$ and $\beta$ are constants, $T_1$ is a surtax beginning at that value of $x$ which makes the right side of the equation zero. For the primary tax, say $T_0$, we may use (instead of Cassell's formula) an expression of the new type, with the constant $a=1$, say $x-x^{\beta}$. For example, if $b=0.974$, $\beta=0.962$, $a=1.22$, the compound tax $T_0+T_1$ (neither constituent to pass below zero into a bounty! ) fits the present British income-tax almost exactly for £2130, and fairly well for other values of $x$. If greater adaptability is required, a third term, $T_2$, with two additional constants, $a'$ and $\beta'$, may be added.

These formulae will be further discussed, and compared with formulae that have been proposed by others, in a forthcoming article in the Economic Journal (1919) on methods of graduating taxation.
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