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PAYING FOR THE WAR

IN TWO articles in *The Times* (14th and 15th November) Mr J. M. Keynes has discussed some aspects of the finance of the war and has suggested a method of dealing with the matter. He sets out from the basis that the working classes must not consume any more than they do at present. In fairness to Mr Keynes it should be said that his plan applies to all classes, and that he perhaps assumes that the other classes would voluntarily curtail their consumption by subscribing to the war loans.

If it be true that the volume of production will not be increased during the war, then it follows that in so far as production is directed to making war materials, the production of other materials will be reduced. On these assumptions it is inevitable that some people must restrict their consumption of ordinary commodities, because these will not be there to consume. If people have the same incomes to spend, prices will therefore increase, and the reduction of consumption will be brought about in that way. At this point another complication arises. The wages of many workmen are regulated by agreements under which they rise and fall with the variation of the cost of living. There is, therefore, a prospect of prices and wages chasing each other up a vicious spiral.

Mr Keynes is correct in saying that rationing is no remedy if applied to only a few articles, because demand would merely shift to others, and rationing of all articles is an impracticable task which, if it could be achieved, would prevent people from spending their wages and so result in forced saving. General price fixing (or anti-profiteering measures as they are called) is equally impracticable, but if feasible would lead to the same result.

If prices are allowed to rise, the money incomes of some portion, if not all, of the population will fail to keep pace with them, and although people will be free to spend their incomes, some at any rate will get less for their spending. The result of this will be that the sacrifice will fall most severely upon those who for one reason or another are not able to secure increases in their money incomes, or cannot secure such large increases as others. The sacrifice would therefore fall very unequally and in many cases, pensioners for example, on those least able to bear it.

Another way in which consumption can be curtailed is by heavier taxation, but this remedy Mr Keynes

rejects because it must involve taxation of the working classes, who are responsible for three-fifths of the net expenditure on consumption. Mr Keynes is referring to persons with incomes below £250 a year. He does not indicate what proportion they are of the population, but at a rough estimate they are probably nine-tenths. Nor does he mention what a large fraction of national revenue is now derived from indirect taxation of which a very large proportion falls upon the income group below £250. We therefore do not accept the view that additional taxation or curtailment of consumption should be imposed upon the lowest income groups.

Mr Keynes' proposal is that a percentage of income over a stipulated minimum should be paid into a blocked account in the Post Office savings bank. The percentage would be graduated from 20 per cent at an income of £150 up to 80 per cent at incomes of £20,000 and over. The minimum which would be deducted would depend on the size of the family. For example, he suggests that for a married man with two children it should be £150. Thus, if such a man's income were £150 he would not contribute.

The amounts deposited in the bank would be used for paying any taxes payable by the person concerned, except, of course, indirect taxes—a factor which Mr Keynes forgets here also. He suggests that amounts might also be released to meet pre-war commitments such as instalments to a building society. The money left would bear interest at 2½ per cent and would be used as a loan by the Government to finance the war. The depositor would only be allowed to withdraw his deposits gradually after the war was over. Mr Keynes evidently thinks that the release of this purchasing power after the war, when the production of war materials ceases, will stimulate the production of other things and ease the situation at that time.

There are many criticisms which might be made of the equity and practicability of this scheme, but there are two of a fundamental character. Mr Keynes assumes that the war materials cannot be produced without curtailing the production of the necessaries of life of the working classes. He pays no regard to the fact that we still have nearly a million and a half unemployed workpeople, nor to the possibility that the labour of others might be more fully or productively employed. Under the pressure of war conditions the Government has made an attempt to deal with some small portion of the problem by the provision of allotments upon which people may grow some of their own food. There are, of course, serious difficulties of travel to available land in the case of those living in the larger centres of population. No such difficulties exist in the smaller centres, where the obstacle has always been the holding of land for speculative prices which has made the acquisition of an allotment in most cases economically impossible. This is only one example of the waste of natural resources.

The other matter which Mr Keynes completely overlooks is the relation of his proposal to taxation. Borrowing for public purposes is always and entirely a means of postponing taxation, but eventually taxation has to be levied to pay the interest on the loan and usually to repay the principal. The question is: what kind of taxation? Mr Keynes appears to have no principle of taxation in his mind except the ancient

one of "plucking the goose with the least amount of squawking." He pays no regard to the way in which taxation is distributed at present; he makes no mention of the ill effects upon production and trade of our present methods of raising revenue; and he has nothing to say about the justice or the desirability of using the publicly created value of land for meeting public expenses. These are matters which cannot be entirely unknown to an economist of Mr Keynes' standing. It may be said that the need is for something which can be done quickly, and that it is not possible to improvise a system of land value taxation rapidly enough to meet the present emergency. To that we need merely reply that the means can be found to carry out what people wish to be done even in war time. But it is not merely a war problem, it is a post-war problem which the government should be preparing to solve now.

So long as our present methods of raising revenue are continued, it is inevitable that all borrowing means that a large part of the burden of taxation to meet the debt charges will fall upon the poorest section of the population. This is true of Mr Keynes' plan of compulsory lending as well as of voluntary lending. He proposes that a stipulated minimum of income should be exempted from his plan of forced saving, but he does not propose that that minimum should be exempted from taxation, and he must be well aware that this minimum necessary for subsistence is already bearing a heavy burden of indirect and concealed taxation. Mr Keynes therefore evades the most important issue.

His plan will have an attraction for some, and we may suspect for himself particularly, because of the suggestion that the unblocking of these compulsory savings accounts in the post office savings bank will release a flow of purchasing power after the war which will prevent a slump and ease the transition from a war economy to a peace economy. This is in line with a train of thought which Mr Keynes has been developing for some time. But let us see what will happen. In order to make use of their accounts in order to pay for commodities the depositors will have to obtain money from the post office. A post office savings account is not like an ordinary bank account; the depositors have no cheque books. The money will therefore come out of the general stock of money in circulation (assuming that the government do not set the printing presses to work at making more money). Those who have been obliged to save will therefore be able to spend the earnings which they were prevented from spending during the war, but can there be any more spending in total?

Let us look at the matter from another aspect. The transition from a war economy to a peace economy is made difficult by the fact that during the war a great mass of capital will be brought into existence for the purpose of making war materials. There is no reason to believe that most of this will be useful for any other purpose. The normal replenishment of capital for ordinary production will have been interrupted, and the efficiency of production impaired. It is not easy to see how Mr Keynes's plan can have any bearing upon this state of affairs, and if it has not, then it fails to effect its purpose.

What is wanted whether in war-time or in peace is a larger production and a more equitable division of

wealth. There are still nearly a million and a half unemployed people in this country, forced to live upon public funds for lack of opportunity to produce wealth. The statistics of income tax and death duties demonstrate that of the wealth that is produced, perhaps one half goes to one-tenth of the population, and the ownership of property shows still greater disparities. These are the conditions which call for remedy.

Borrowing, whether on Mr Keynes's plan or otherwise, is a device for postponing the levying of taxation and for reducing the amount which must be imposed in any year. It therefore helps to make our existing system of taxation more tolerable, and prevents discontent with it from becoming more acute. Borrowing, therefore, assists in protecting the unjust privileges which our methods of taxation create, and in the long run increases them. It is evident that our tax burden falls far more heavily upon the poor than upon the rich, it restricts production and trade, and it exempts valuable land from the contribution it should justly make with the result that land is held out of use and men deprived of employment and wages. It is imperative that our tax system should be recast so as to cure these evils by recovering for the public the value which the public itself has created and which registers itself in the value of land.

F.C.R.D.

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While every paper was thoughtful, valuable, and convincing in its assigned field, the one which appealed to me as covering a subject of research unique in our literature was Mr Douglas's "Karl Marx's Theories of Surplus Value and Land Rent." I cannot conceive of any conventional Marxist ever discovering in his study of "Das Kapital" the facts that Mr Douglas has revealed so significantly. If our socialist friends might once get a glimpse of the fundamental truth Karl Marx evidently saw but did not emphasize, their thinking would be clarified and their often fine and sincere enthusiasm for a better world order be turned into more logical and fruitful channels.

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