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No. 1

The Economic Causes of War and of Industrial Depression

*Memorandum Addressed to the World Economic
Conference, Geneva, May, 1927, by the International
Union for Land Value Taxation and Free Trade.*

The essential objects of the International Economic Conference convened by the League of Nations are to consider means of (A) removing the economic causes which lead to war, and (B) promoting the improvement of the economic position of the peoples of all nations. These objects are closely related, and cannot be attained independently of each other. The means which will promote the economic prosperity of the people of any country will also help to promote the prosperity of other countries and secure the peace of the world.

The world of to-day constitutes a single economic organization. In the changing conditions of modern times there is no longer any nation which is self-sufficient. Even the United States of America, which constitutes one of the largest and most diverse political States in the world, is vitally dependent upon foreign countries for a great variety of things which are essential to modern industrial processes. Mr. Herbert Hoover, who is a recognized authority, has stated that the United States is dependent upon other parts of the world for no less than seventy vital articles of commerce.*

The division of labour has long ago transcended national boundaries, and the arguments propounded by Adam Smith in *The Wealth of Nations* for the necessity of free intercourse between nations and for freedom of trade have now acquired an overwhelming significance because the interdependence of nations is immensely greater than any person in his day might have foreseen. This international division of labour is the economic basis of civilized life, and the duty of governments now is to reconcile the legitimate claims of nationalism with the economic internationalism which has grown up almost in spite of them.

In order that the organization of production should be carried on with the maximum of economy and efficiency, it is necessary that the raw materials should be grown or extracted in those places where it is relatively easiest to do so, and that they should be transported with the minimum of expense and interference to those places where it is cheapest to manufacture them and to those places where they are required for consumption. The serious injury caused to

* Statement on Raw Materials, Trade Information Bulletin, No. 385, Department of Commerce, Washington, January, 1926.

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the economic structure of the world by tariffs and other restrictions on the freedom of transportation and exchange is obtaining increasing recognition by the most authoritative commercial and financial authorities, as witness the Report of the Trade Barriers Committee of the International Chamber of Commerce and the Manifesto issued last year by bankers and industrialists of many countries.

Even more vital than the obstructions to the transport and exchange of raw materials and manufactured articles are the conditions affecting the production and distribution of wealth. The impoverishment of the peoples of Europe, the growth of unemployment, the reduction of wages and the gross inequalities in the distribution of wealth give rise to problems of more than national importance. They create a state of mind among the masses of every country which on the one hand threatens the stability of governments and on the other hand encourages the idea of economic improvement by means of territorial expansion. The improvement of the material condition of the people is essential not only from a purely national standpoint, but also because it will produce that psychology of belief in the advantages of rewarded toil which will make possible the intellectual and spiritual emancipation of mankind and make the idea of war alien to their thoughts.

(A) ECONOMIC CAUSES OF WAR

Apart from the general influence of the economic condition of the peoples, the specific economic incentives to war may be roughly classified into two groups :—

- (1) The antagonism and friction caused by interference with exchange and especially by tariffs ; and
- (2) The struggle for new markets and sources of raw materials, especially the demand for colonial expansion, concessions, and protectorates.

THE TARIFF PROBLEM

The present economic difficulties of Europe are in a large measure due to tariff barriers. The new States which have been set up since the war have in many cases had basic industries separated from the source of raw material which remained in the parent State, or *vice versa*. In the absence of a tariff, this might not have had much economic effect. It is the tariff which forms the frontier and makes effective the separation.

The detachment of territory from one State for the benefit of another or to form an independent State will inevitably cause some resentment in that State whose area is reduced. But if the transfer of territory is accompanied by no interference with the economic life of both States the feeling of resentment is less likely to persist and to become a menace to the peace of the world. It was not without reason that President Wilson, in his desire to prevent future wars, included as one of the Fourteen Points :—

“The removal so far as possible of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance.”

The very existence of a tariff or other artificial obstacles to trade is an implicit betrayal of the spirit of the League of Nations. The use of a tariff for the purpose of boycotting or putting pressure to bear upon some other nation is still more so.

From the point of view of war or peace there can only be one conclusion as to the desirability of abolishing all tariffs, and other barriers to international trade. The removal of the tariff is in the best interests of the peace of the world. No argument can be raised against it so far as international peace is concerned, and any objection must be raised on other grounds.

THE COLONIAL QUESTION

It is a truism of historical study that the struggle for raw materials and new markets, expressing itself in colonization, annexation of territories, establishment of treaty ports, and in wars for colonial possessions has been one of the chief sources of international jealousy and discord. The same force is still at work in the world to-day; and as the less civilized or less highly developed parts of the earth's surface have now been largely appropriated, the danger is all the greater though less openly acknowledged.

It is true that the possession of a certain colony by one country rather than by another need not necessarily be to the advantage or disadvantage of either. But at present fiscal and other discriminations are made in favour of the traders, settlers and industrialists of the possessing country. Most important of all, grants of concessions to work raw materials over large areas of the most productive territory are often made to individuals and companies who may be able to establish a virtual monopoly and become enriched, while neither the colony nor the parent country gains any appreciable advantage.

It is, therefore, the duty of those who desire to remove the economic incentives to war to make certain that the citizens of all nations receive equality of treatment in respect of access to raw materials. This can be obtained without detracting from the independence and self-government of any nation, if each government will take steps to secure that the territory under its control may be developed to the fullest extent.

(B) IMPROVEMENT OF THE ECONOMIC POSITION

The removal of the causes of the present stagnation of trade and the improvement of the economic position of the peoples depends upon three main factors:—

- (1) A sound system of public finance;
- (2) Removal of obstacles to exchange, particularly tariffs; and
- (3) Increasing the opportunities for the production of wealth.

PUBLIC FINANCE

The more violent fluctuations of the foreign exchanges have been mainly due to the inflation of the currency as a substitute for taxation. If means can

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be found to balance the Budget, the currency can be stabilized and with it the rate of exchange.

The difficulty of balancing the Budget is to find sources of taxation which will be adequate to meet the national expenditure. The repercussion on industry of the main existing sources of taxation is so serious that a further increase in the rate of taxation is dreaded. A new source of revenue must be found. There is one of the greatest importance which is as yet practically unused by every European and most other governments, namely, the value of land apart from improvements. Land-Value Taxation is capable of yielding a great volume of revenue. It has no injurious effect upon production, exchange or international trade because it is not added to the price of commodities. It is a source of revenue which automatically expands as society progresses and the need of revenue becomes greater; and it falls upon a value which is pre-eminently unearned by any individual, but is created solely by the presence and activities of the Community.

REMOVAL OF TARIFF BARRIERS

The abolition of tolls, octrois, and internal obstacles to trade has never been regretted in any country. The constitutional prohibition of such barriers to free production and exchange over the vast and diversified territory occupied by the 48 States of the American Union is an unquestionable factor in the relatively great prosperity of the United States. If the whole world constituted one State, no intelligent person would advocate tariffs between its administrative units. There is an evident inconsistency in supporting a League of Nations pledged to world peace, while at the same time advocating the maintenance of national tariffs on the theory that the producers in different nations are (in the economic field) enemies. In fact, the whole tenor of protectionist literature is that tariffs are means of making one nation rich at the expense of another. (It might be inquired what nation has made itself rich in this way, and what would happen if all the nations of the world endeavoured simultaneously to make themselves rich at the expense of each other?)

The arguments against removal of the tariff barriers are familiar enough, but there is one that requires special attention; namely, that the tariff supplies an important part of national revenues which cannot be obtained otherwise.

It is true that in practically all countries the tariff supplies a large fraction of the public revenue. But it is not true that the necessary revenue cannot be obtained otherwise. The revenue of any country must be obtained from the annual produce of its land, labour and capital. The system of taxation adopted is merely a means of determining what amount shall come out of the pocket of each individual citizen and the method by which it shall be collected. The tariff is a method which imposes the load in the most burdensome way, interfering with and handicapping the international division of labour. It also has the vicious effect of concealing how much each citizen does in the end pay, and of enabling some citizens to make an actual profit out of it by setting up monopolies. The necessary public revenue can be collected without placing obstacles on trade or production. In fact, public revenue can be raised in a manner that will relieve industry of the burdens of taxation and stimulate national production.

STIMULATING THE PRODUCTION OF WEALTH

Although the removal of tariff barriers will encourage the flow of commodities and facilitate the division of labour, and the stabilization of the exchanges will have a similar effect, these measures are not alone sufficient to ensure prosperity and international peace. They might lead to a position similar to or possibly somewhat better than that existing previous to the European War. But that, although advantageous as compared with the instability of the present time, leaves much to be desired and hoped for. M. Loucheur, in proposing the motion which led to the calling of this Economic Conference, said "Industrial disorganization led us to 1914 and it may lead us there again." The working masses, upon whose assent the present system is based, are becoming increasingly dissatisfied in the knowledge that their condition does not improve in the same ratio as science and technical knowledge progresses. Large bodies of men unemployed and great accumulations of capital lying idle are a menace to the stability of States, and consequently to the peace of the world. It is imperatively necessary, therefore, to discover means of stimulating the production and improving the distribution of wealth.

Modern civilization contains within itself a canker which destroys or frustrates its own progress. The increase of population, the improvement in the technique of production and the march of invention cause a stronger and stronger demand for *land* to supply the necessary materials and sites for industry, commerce and agriculture. The more rapid is the growth of population and the development of industry, the more rapid is the increase in the value of land. Speculation and holding of land out of use is, therefore, most acute just where its effects are most injurious. The result of land being held out of use is to diminish the available supply of something already limited in quantity, and, therefore, to increase the price of what is allowed to be used. The production of commodities of all kinds is then restricted, prices rise, and there is in effect an increase in the cost of production. The distribution of wealth is also affected more going to incomes derived from mere ownership, less to active producers.

The laws of most countries fail to prevent this speculative holding of land out of use. Indeed, this is positively facilitated by the exemption from taxation which valuable unused land generally enjoys. It is not necessary to elaborate here the argument that the value of land is particularly suited to be a source of public revenue. This has been demonstrated by economists of the highest standing. What we are concerned to show is that Land-Value Taxation supplies an essential link in the solution of most economic problems.

It provides an alternative source of public revenue, by which the tariff can be abolished, a measure which is vital to the economic organization of the world to-day and to the cause of peace.

It will enable the Budgets to balance and so obviate the excuse for inflation and violent fluctuation of the exchanges.

It makes for the economic stability of international trade, and for closer co-operation between the nations.

It provides a means of stimulating production by forcing unused land into use, the essence of Land-Value Taxation being that it is levied on the full

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value of the land even if unused. The result will be increase of trade, more employment, less competition for work, higher purchasing power and higher wages.

Applied in colonies and protectorates this policy means that those who hold the land there will be obliged to work it and to produce the raw materials which other countries require. Monopoly based upon limitation of production will be impossible, because it will not pay to limit production ; it will not pay to keep valuable land idle. Thus Land Value Taxation provides a solution of the colonial question, so far as it is an economic question, by ensuring that the supply of raw materials is maintained at its maximum ; and these under a system of free trade will be distributed to those who require them by the ordinary machinery of commerce.

Peace, justice, security and the progress of an ordered civilization all require that the inter-related problems of international commerce and of the economic betterment of the common man in every country should be solved.

To abolish the restrictions that now at every national frontier hinder and burden trade between peoples, is at once to remove a great impediment to the production of wealth while promoting those friendly human contacts that serve so well to dissipate national and racial misunderstandings.

But beneficial as would be the establishment of Free Trade across national frontiers, it would not suffice to effect any permanent elevation of the economic status of the ordinary citizen in any country so long as the evils of land monopoly and the destructive internal taxation that now restricts the employment both of capital and of labour remain untouched.

Both of these evils would disappear if governments could be led, upon the recommendation of this Economic Conference, to adopt the policy here advocated. The levy of taxes upon the economic value of all land apart from improvement would, on the one hand, immensely stimulate industry by forcing land into use, and, on the other hand, would provide a constantly growing source of public revenue, leading ultimately to the abrogation of the taxes and imposts of various kinds that in every country so grievously oppress and hamper the free employment of capital and labour.