

of such a country as Ireland, which is an exporter of foodstuffs and must of necessity always be an importer either of industrial products or industrial raw materials.

It is somewhat sad to see a patriotic and disinterested statesman working with such unselfish enthusiasm against the best interests of his country. But it is something not confined to Ireland. How long it takes to realize the simple fact that restriction is not the road to freedom but to bondage !

## PAYING FOR THE WAR

### Saving, Inflation, or Taxation

IN AN article in *The Times* (28th November), Mr J. M. Keynes replied to the critics of his proposal for compulsory saving in order to finance the war. In this he admits that "the need for compulsory saving depends on the assumption that we are straining our resources to the utmost, so that an increase of consumption is not physically possible. With more men out of work than before, this assumption is not yet fulfilled." This is one of the points which we made in reviewing his proposals in our last issue.

Mr Keynes anticipates, however, that as the war progresses more men will be employed and others will be working overtime, and that the earnings of the workers will increase. At the same time he says "goods available for increased consumption will not exist." Prices will rise and real wages fall. He reiterates, therefore, that his proposal for compulsory saving will not put the working classes in a worse position during the war than they would inevitably be in and that in the long run they will be better off, when their compulsory savings are released for them to spend.

He goes on to say that the alternative is inflation, and that "the political argument in favour of inflation is almost overwhelming" because "it greatly benefits some important interests. It oils the wheels everywhere, and a regime of rising wages and profits spreads an illusion of prosperity."

What are the important interests which would benefit by inflation? According to Mr Keynes, "inflation takes away compulsorily the purchasing power of the working and middle classes by diverting it into the pockets of the entrepreneur class, whence it is obtained by the Treasury partly through the excess profits and other taxes and partly through the reserves and voluntary savings of the entrepreneurs."

This is hardly an adequate account of the results of inflation. By entrepreneurs Mr Keynes presumably means the owners of productive enterprises of various kinds. It is true that inflation often creates for them the "illusion of prosperity." So far as wages lag behind prices and so far as entrepreneurs have purchased materials at a lower level of prices which are embodied in goods sold at a higher level of prices, they may make large profits. But as the price of raw materials will also mount, if the manufacturer desires to maintain the volume of his business he must set aside larger and larger sums for purchasing raw materials. Costs of repairs and renewals will also mount up and provision must be made for those.

The real profit of the entrepreneur from inflation arises from the "time-lag" in wages and from the fact that certain fixed charges such as debentures and mortgages

cannot follow the rise in prices because the owners of such charges are usually prevented from calling in the money lent for longer or shorter periods. A particular case of this is where the ordinary shareholders of a company benefit because the preference shareholders cannot demand a larger share of the profits.

But there are others than manufacturers who benefit by inflation. Owners of land are able to obtain higher rents, or if they have let the land on long lease, the lessee is able to get a higher rent. Indeed, inflation raises the value of land even before there has been much effect on rent. Those who see that inflation is taking place always wish to exchange money, which they anticipate will fall in value, for something else which will maintain its value. Of such alternatives the most durable is land. The demand for land and the price of land tends to rise during an inflation. The normal incentive to buy land because of the likelihood of an increase in value will therefore be accentuated. The owners will then demand correspondingly higher rents and prices for it, and in some cases hold it out of use until they can get the rent or price they demand. The consequences of this holding of land out of use in restricting the production of wealth are obvious.

The gains which come to manufacturers and middlemen from inflation are often spectacular, but these gains are temporary and sometimes come to a bitter end in the realization that the apparent profits have been dissipated and the business has not the means of meeting a higher level of costs of raw materials and manufacturing. The permanent gainers are more likely to be landowners and the permanent losers the workmen whose wages are never likely to catch up with the rise in land values.

The dangers of inflation are certainly great, but it is not correct to say, as Mr Keynes does, that it is the only alternative to his proposal. There is another alternative, and that is taxation. Indeed more taxation is inevitable, the only question is whether it shall be spread over a longer or a shorter period. Recourse to borrowing involves taxation in the end in order to pay interest on, and if possible repay, the debt. The question which ought to be exciting most attention is what kind of taxation shall we resort to? Is it to be taxation of foodstuffs, clothing, houses and other necessities of life, or is it to be taxation which will return to the people the value which their presence and industry has given to the land?

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