

DIRECT TAXATION BEST WAY OF FINANCING THE WAR.

Of the various methods by which a Government can get money for war or any other purpose the most obvious, the most unpleasant, the most honest and the most satisfactory in its ultimate results is taxation. By taxation a government simply takes money out of your pocket and mine and spends it on war or other purpose for which money is required. By this process our spending power is curtailed; the Government's is increased. We have to spend less on the goods that we usually consume, and consequently our demand for the goods and services produced by the community is to that extent reduced, as far as we are concerned, and is handed over to the Government to be used for the purposes for which it requires it. There is thus no increase in the demand for goods and services, and consequently no untoward effect in the way of a rise in price. Instead of our buying boots, for example, for ourselves, the Government buys boots for the soldiers, and there is no appreciable alteration in the condition of the market, for boots and for all the raw materials out of which boots are made and for the labour and machinery used for manufacturing them.

Taxation also has this great advantage—that when it is well and scientifically imposed it is raised from the whole community according to the ability of the various citizens to pay. It is only, of course, ideal forms of taxation which can claim this great advantage, and in most countries it is not easy to say that the ideal has been reached in this important matter. We certainly can claim that we have gone further than most other countries in this respect, since the bulk of our revenue is now raised by what is called direct taxation, which has the great advantage that it can be graduated and differentiated so as to fit the burden, with more or less success, to the ability of the taxpayer to bear it; that is to say, that direct taxation in its most well-known and obvious form, the income tax, is calculated according to the amount of the taxpayer's income, and its rate varies according to the extent of that income.

This is the great principle known as graduation. It is also differentiated; that is to say, that the worker who is earning an income from the sweat of his brow or the labour of his thighs and sinews pays a lower rate of income tax than the owner of inherited or saved wealth who derives his income from investments of one kind or another, and so is certain of receiving it whatever be his state of health and his ability to work.

Taxation that can be thus graduated and differentiated is clearly very much fairer than any other kind, but we have still a long way to go before we have made our income tax absolutely perfect. Some abatements are already allowed to fathers of families which have to be educated, but those abatements do not nearly apportion the burden of the tax fairly, and it is more than high time that some scheme of reform should, as could easily be done, wipe out this blot on this otherwise most equitable tax, so that it could be used more freely and with less injustice in the tax of raising money for the war.

When we compare the advantages of the income tax with the unfairness involved by what is called indirect taxation—that is to say, imposts levied on articles of general consumption, such as tea, sugar, tobacco, and beer—the inequality involved by the latter is at once apparent. The pound of tea or the

glass of beer, bought by the millionaire or by the crossing sweeper, pays exactly the same amount in taxation, although it is very obvious that the ability to bear taxation is entirely different in the two cases.

One of the notable features of our war taxation has been the very large proportion of it that has been raised by direct taxation as compared with indirect. In this respect, as in most others in war finance, we compare very favourably with the achievements of Germany, where by far the greater part of the war taxation has been laid upon the shoulders least able to bear it in the form of indirect imposts and in the shape of high prices due to inflation.

After taxation the most satisfactory manner in which a Government can raise money is by borrowing directly from the citizen money than he saves. By this means again money which the citizen would otherwise have spent upon himself or upon his friends or upon investment in ordinary enterprise, is handed to the Government, and so the buying power which the citizen would either have exercised for his own purposes, or for that of ordinary industry is transferred from him to the Government to be used for the war.

There is thus, in this case again, no increase in the demand for commodities as a whole, because the commodities that the Government requires are produced instead of the goods which the citizen would have consumed or which would have been consumed by the industry into which he put his money. No increase in buying power is created; only a transfer is involved from one kind of activity to another on the part of the country's industry.

The disadvantage of this system of financing the war, or anything else, as compared with taxation is that it does not affect the whole body of the citizens but only those who are patriotic enough or thrifty enough to respond to the Government's request when it offers loans or any other form of Government security for subscription.

It also carries with it this advantage, that in order to get subscriptions to its loans a Government has to offer a rate of interest and promises to repay the money some day. Consequently the higher the proportion of the war's cost that is paid for by borrowing, as opposed to taxation, the more serious are the problems with which the Government will be faced at the end of the war, when it will find itself obliged to raise an enormous revenue in order to meet the interest charge on the debt and to provide what is called a sinking fund for its reduction.

The effect of this process comes practically to this, that the war's cost which is met by borrowing has to be paid for three times over. First of all, during the course of the war by those who subscribe to the loans; secondly, after the war by the general body of taxpayers who provide the money to redeem the debt, and thirdly, by the Government which takes this money from the taxpayers and hands it back to those who subscribe to the loans or to their heirs and assigns.

A still more serious disadvantage is involved by borrowing, as compared with taxation, in the fact that it inflicts considerable injustice to those who go and fight for us or do war work for soldiers' and sailors' pay. Owing to the low rate of pay that is given to those who do the most important war work of all, viz., facing death, wounds and intolerable discomfort at the front, they have very little op-