War Profits and Industrial Enterprise

Since the outbreak of war it is the working classes who have carried the chief burden in Canada -- It is the capitalist that has gained primarily and principally through the war

By W. W. SWANSON, Ph.D.

On the whole Canadian business men have acquiesced with good grace, if not with enthusiasm, in the financial policy pursued by the Government since the outbreak of war. While much has been said in the daily press, as well as in the financial journals, concerning the "conscription of wealth," both for and against, it must be admitted that the various financial expedients for the raising of war revenue have received strong support. There are one or two notable exceptions among the distinctly capitalistic journals, however, and the Government has been assailed for its alleged recklessness in laying a crushing burden of taxation upon the corporations of the country. On the other hand, radical labor leaders and partisan organs have clamored for even heavier imposts upon the wealth of the nation as an offset against the burden carried by the common people. It may be well worth while, in view of the present chaotic state of thinking on this subject, to examine what are likely to be the precise effects upon capital and labor through the laying of heavy taxation upon consumption and incomes.

OPPOSITION.

In this connection it is worth noting that in the United States two of the leading authorities on public finance and taxation — Professors Saligman and Bullock — have offered strong opposition to the imposing of heavy taxation upon consumption and corporate incomes during the course of the struggle. Professor Saligman maintains that the Republic must, above all, seek to keep its economic organization intact and its industrial machinery running smoothly if it is to meet the impact of war with success. Advancing this as his main argument he advises that the Government should raise, of the $13,000,000,000 required for the current fiscal year on domestic and war account, only $1,250,000,000 by taxation, and that the balance should be spread over a period of ten years at least through the issuing of bonds. Professor Bullock, in an article in the June issue of the North American Review, takes a somewhat similar stand. He believes that it is of supreme importance to maintain the industrial efficiency of the nation and to speed up industry to the highest possible point if the burdens of war are not to assume crushing proportions. Both these eminent authorities fear that heavy taxation upon the comforts and necessaries of life will discourage the working class, and make them lukewarm in their attitude toward the present conflict. As everyone knows, exactly similar arguments have been advanced in Canada with reference to heavy taxation in the profits of corporations, and consumable commodities.

CONTRARY VIEWS.

It should be observed, however, that a number of powerful leaders in American financial circles take quite the contrary view, and notably Mr. Otto Kahn. They believe that the amazing prosperity that has come to the Republic since the days of depression in 1914, has been largely occasioned by the European war, and that this prosperity will likely countinue until the struggle shall have terminated. They emphasize the undoubted fact that many corporations in the slough of despond in 1914 now exhibit handsome surpluses and pay large dividends. Unfortunately there are no reliable data available in Canada concerning the profits of corporations that have held Government contracts; and even the spectacular revelations in connection with the alleged profits of the William Davies Company yet remain to be substantiated in fact. The Minister of Finance has, up to the present, for reasons that at least satisfy himself, refused to make public a statement of the earnings of Canadian corporations for the three years since the outbreak of war. Such data are, however, available for the United States. The New York Annalist gives figures on the profits of 104 industrials for the years 1914, 1915 and 1916, which are of great interest and value to Canadians as well as to American students of this question. This list includes all the industrials that have made public official reports; and the figures therefore may be regarded as authoritative.

According to the statement furnished by the Annalist all these corporations showed gains in net profits for the years 1914-1916, the smallest gain being made by the U. S. Rubber Company, which showed an increase of 37 per cent. The total net income of the 104 corporations for 1914 was $263,000,000 as against $575,000,000 in 1915—a gain of 118 per cent. In 1916 their total net income was $1,273,000,000 or an increase of 384 per cent over the income of 1914. How, in the light of these facts, can it be said that a tax that goes up to even 75 per cent of net profits, after excluding from taxation an amount equal to the annual average profit of three years before the war, is confiscatory in nature? It will need a good deal more than the arguments of special pleaders to convince the Canadian and American people that those industries which have profited so amazingly because of the war should not bear a heavy part in financing the military needs of the nation.

Examining somewhat more carefully the relative gain of American corporations, included in this list, we find that the Net Profit in 1916 was twice that of 1914 in the case of the American Smelting and Refining Company and the Kelly-Springfield Tire Company; three times in the case of Corn Products and Phelps, Dodge and Company; four times in the case of Central Leather, General Motors' and Maxwell Motors; five times in the case of General Chemical, International Paper, United Fruit and Standard Oil of New York; seven times in the case of American Brass, Yale and Towne; eight in the case of Bethlehem Steel; ten in Pittsburg Steel; twelve in Cambria Steel, Crucible Steel, Hercules Powder, N.Y. Aid Brake and U. S. Steel; seventeen in Baldwin Locomotives and Du Pont Powder; twenty-three in the American Writing Paper Company; and one hundred and forty-two in Niles, Bement and Pond. It is easy to realize, from a cursory glance at this list, why captains of industry in the Republic themselves advocate that a tax ranging from 40-80 per cent should be imposed upon excess profits reaped from war orders.

CANADA'S BURDEN.

Canada is bearing a relatively heavier part of the war burden by taxation than is proposed in the United States under the taxation measures agreed upon by Congress. Nevertheless, it should be recalled that much of our revenue—by far the greater part —is raised under a Protective Tariff; and that tariff taxes bear especially heavily upon the working class. The new income taxes will tap additional sources of revenue; and it is interesting as well as important to understand just how these taxes will affect industry. It is said, of course, that heavy taxation upon corporate incomes will leave little or no capital for new investments during the course of the war. It should be noted, however, that neither in Canada nor the United States have new businesses been undertaken since 1914, except on war account. The only enterprise that seems likely to suffer because of the dearth of new capital is hydro-electric development, and this may well wait until the close of hostilities. In the meantime provision is made under the taxation schemes of both Canada and the United States for the replacement of worn-out machinery and plant, and for the maintenance of industries at full efficiency. Such new enterprises as have been launched since the outbreak of war have operated on Government contracts; and, as the data above prove, have received such prices as have permitted them to provide against the inevitable collapse of business at the close of the struggle. It is safe to say that, even while the United States was still neutral, no new enterprises were undertaken, aside from those given over to war work. There is little or nothing, therefore, in the argument that heavy taxation will stifle industrial development during the course of the war.

NOT ESSENTIAL.

This leads us to consider whether, as a basic fact, profit is really essential to the carrying on of hostilities with efficiency and determination. It seems to us that the contrary is true. Notwithstanding all that has been said in a few Canadian financial journals, we are convinced that profit is not the driving force, the dynamic factor, in urging our captains of industry to herculean effort. We have been blandly told that high profits are essential to compensate Canadian manufacturers for the stress and strain and the terrific wear of nerve fibre imposed upon them by war work. We do not believe it. We believe that there is something higher and more worthy that compels them to put forth the utmost of which they are capable—not profit, but patriotism. This is made abundantly clear by the fact that the English railroad operators have consented to turn over the entire railway system of the United Kingdom to be operated for, an don behalf of ,the Government, at the normal profit earned before the war. More than that—the chief executives have given their services to the Government entirely without thought of war profits, and have operated British railways in a manner that has commanded the admiration of the world. The plain truth is, that if Canadian manufacturers receive through their enterprise normal ante-bellum profits they are doubly fortunate without wishing, in this grave time of peril, to gain at the expense of their native land.

Since the outbreak of war it is the working classes who have carried the chief burden in Canada. Notwithstanding material advances in wages, the cost of living presses cruelly upon them. They are not driving expensive motor cars, or buying silks and champagne. No, it is the capitalist class in this country that has gained primarily and principally through the war, and it ill behooves their journalistic protagonists to come to their support by crying ruin and disaster when they are asked to bear taxation according to faculty or ability. It must never be forgotten that 420,000 Canadians volunteered to fight the battle of democracy on the understanding that they were safeguarding human liberty and freedom. It would be fatal, therefore, in view of these circumstances, to hold human life cheap and capital dear. Especially so when it is recalled that the United Kingdom and France have laid their all, wealth as well as men, on the altar of patriotism, and all with little thought of profits on the one hand, or the burdens of taxation on the other. The simple truth is that capital has been protected and favored in Canada more than in any other belligerent country —whether in the United States, the United Kingdom, France, Russia or Italy.

SIGNS OF UNREST.

Let labor once be convinced that the present struggle is being waged in the interests of a class, and especially of the capitalist class, and the hope of victory for the Allied cause will have gone glimmering. Already there are signs of unrest in Europe, in England and in France, as well as in Russia; and the wave of unrest may soon reach our shores. Let Canadian leaders of industry, finance and politics recall the crisis in the political life of the United Kingdom just a few weeks ago. What was, fundamentally, the cause of that crisis? Simply the idea that had got hold of the most conservative and aristocratic elements in British labor that the reactionaries, the political oligarchies and the capitalists, were unduly prolonging the struggle for selfish ends. Mr. Arthur Henderson, the strongest man in the British labor world, gave place to Mr. Barnes—a man inferior in talent, who has made a bad fist of the pensions scheme—because of his intense convictions on these and similar points. It required the consummate skill of Mr. Asquith to solve the problem, and control the dynamic forces let loose. In a similar situation in Canada, where would our Asquith be found?

BUSINESS IN BRITISH COLUMBIA

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A case of salmon contains 48 pounds, and ranges in value from $3 to $10 Taking $7 as an average value, the present season's pack, at the hopeful estimate of 100,000 cases, would be worth only $700,000. This compares with about $5,000,000 for the 1913 "big run."

The run started during the latter part of July, and when the first report was issued on the 23rd of that month, the main river boats averaged 20 sockeyes; North Arm boats, 25; Canoe Pass boats, 15; and up river boats, 20.

This average was fairly well maintained, with occasional fluctuations, until August 6, when, apparently the run reached its height. On that date main river boats averaged 50 sockeyes; North Arm boats, 20; Canoe Pass boats, 50; and up river boats, 60.

The day following showed a heavy catch also, but since then there has been a rapid falling off. On Monday the main river boats only averaged 10 sockeyes; North Arm boats, 8; Canoe Pass boats, 5; and up river boats, 30.

It is a curious fact that the sockeye, now regarded as the choice and high-priced salmon, was the fish originally discarded by the aboriginal fisherman as unworthy of notice. They preferred the fish that are now regarded as inferior. The public demand for the lower grades has been improving as the supply of sockeyes fell off, and it now appears likely that this taste for the other varieties of salmon will have to be cultivated still more.