

"It would ill become anyone, at a time like this, to demur in the performance of any duty his country may ask of him, and true to that principle, the subjects of your taxation proposals are awaiting your final judgment, prepared to submit to whatever it may be. But on behalf of the general business interests of Canada, we feel it no less than our duty to express ourselves very frankly to you, first, because of our belief that by enacting these proposals into law, you would be dealing unfairly with enterprises that have deserved better treatment at your hands; and second, because of our firm conviction that no amount of revenue which this increased taxation of profits could possibly yield would compensate for the detrimental effect of such taxation upon the industrial future of our country.

#### Capital Made Timid.

"Upon the introduction of the tax on business profits a year ago, it was understood that it was to be operative for three years. While it may be true that no assurances were given that it would not be changed within the three-year period, the impression was created and allowed to gain currency that it would not be changed, and that if continued in operation after the third year, it would only be as one of various forms of taxation levied for the purpose of liquidating our war indebtedness.

"Before the Act has been on the statute books one year, however, the country is informed that the government must increase its emergency revenue and proposes doing so by taking a higher toll on the same profits it has already seen fit to tax. We do not go so far as to say that this is a breach of faith, but we do say that, rightly or wrongly, capital regards it as a breach of faith. Present and prospective investors in Canadian industrial enterprises have had their confidence shaken, and are asking themselves, has the limit of the profits tax been reached, or will next year see still further increases? Mindful of the fact that the confiscatory feature of the tax is accentuated in the new proposals, they are perturbed, not without reason it must be admitted, lest another year see this objectionable principle carried further, and applied to back profits that have been disposed of beyond recall.

#### Many Investments Abandoned.

"We are sure it is not the desire of your government to discourage the investment of capital, either in the establishment of new industries or in the expansion of old ones, yet we have no hesitation in offering it as our opinion that the effect of this legislation will be to cause such discouragement on a wide scale. We are the more ready to do so because of information that has come to us of projected enterprises that have already been abandoned, enterprises for which the capital had all been secured and which would have been definitely gone ahead with but for the misgivings which these tax proposals have unfortunately inspired. Even from the limited enquiries which we have made there has come to us word of enterprises abandoned that would have meant the investment of at least \$15,000,000 in manufacturing plants, details of which can be supplied in confidence if desired.

"Capital is and always has been extremely sensitive to legislative tendencies, and however reasonable the intentions of your government may be, capital will place its own construction upon Acts that tend in the direction of excessive taxation.

"Results such as those just mentioned are greatly to be deplored. A country like Canada, that has always been more or less dependent on outside capital for the development of its resources, can ill afford to place dis-

couragements in the way of such capital coming in. On the contrary, her fiscal policy should at all times be framed with a view to the encouragement of capital investment, for it is only in that way that her enormous natural resources can be converted into wealth.

"For the immediate future it is unlikely that there will be any inflow of capital from Europe, for Europe will require all the capital she can muster for her own rehabilitation. What was once an almost inexhaustible source of supply will therefore be closed against us. Under favorable conditions there would probably continue to be an inflow of capital from the United States, but the recent entry of that country into the war can only have the effect of reducing the amount it might otherwise have provided us. From the foregoing, it is clear that for some time to come Canada must aim to be increasingly self-reliant, and provide her own capital so far as it is within her power to do so.

"Now the main, if not the only, source of domestic capital is surplus profits. A company with a growing business, which is content to pay only a modest dividend and apply its surplus profits to plant extension, is in an exceptionally favorable position to secure outside capital, for the re-investment of profits is the best guarantee that outside capital could have of the safety of the investment it is contemplating. But the proposed measure of taxation would close the door to both sources, by taking the profits which would otherwise be used for extension, and thereby removing the guarantee upon which outside capital would prefer to depend.

#### Incentive to Enterprise.

"That, however, is but one aspect of the unfortunate effect upon capital. If it is true that new capital will look askance at Canada as a field for investment, it is equally true that the incentive to enterprise will be largely removed from such capital as is already invested, if 75 per cent. is to be taken of all profits in excess of 20 per cent.

"We are aware that this argument is ridiculed by the press and by the unthinking public, but in our opinion it is perfectly sound. It would not apply, of course, in the case of a business attended by little risk, for where capital sees an almost sure return it is content with a comparatively small margin of profit. But under present-day conditions, the hazards of nearly every line of business have been greatly increased, and it is a well-recognized principle that as the hazards increase, the prospects of reward must increase in proportion, if capital is to be attracted."

After a recital of the present-day troubles incidental to manufacturing, the memorandum continues:—

"With these and other difficulties certain to be encountered, any one of which, if not overcome, might make all the difference between success and failure, it is but natural for the manufacturer to hesitate. To begin with, he knows that success can be attained only as the result of ceaseless application and untiring endeavor. He might be willing to assume the risk and put forth the effort, provided the reward in prospect were commensurate. Certain it is that the greater the prospective reward, the greater will be the incentive to effort; conversely, anything which will detract from the harvest to be reaped where good seed has been sown will act as a brake upon effort. The manufacturer knows that if he makes a loss, he must bear it himself. He is now told that if he makes a profit he must contribute three-quarters of everything in excess of 20 per cent. Considering the risk involved under present conditions, hardly any venture would be justified that did not hold out good prospects of at least 20 per cent. profit; the reward, therefore, that would