The Chronicle

Banking, Insurance and Finance

Established 1881. Published Every Friday.

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Annual Subscription, $3.00 Single Copy, 10 cents.

MONTREAL, FRIDAY, MARCH 22, 1918

CAPITAL AND TAXATION.

At this time when new direct taxation is coming into force in Canada, and there is a reasonable expectation of additional impositions, it may be useful to discuss some of the underlying principles of that taxation. Within recent months, a good deal has been heard of the so-called "conscription of capital." The phrase is more picturesque than accurate, since all taxation by the State, whether direct or indirect, is a "conscription of capital." This is equally true, whether the taxation be paid by poor folk in the price of some imported article of common use, or by the millionaire under his super-income tax assessment. In either case, wealth is taken by the State, which under other circumstances might have been deposited in the bank or invested, thus making an addition to the accummulation of wealth—capital—available for new production and the carrying on of industry and commerce.

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It is only necessary to remember that wealth consists not merely in cash or credits convertible into cash to realize that conscription of capital—conscription of wealth—is impracticable. What the State needs and must have is cash, i.e., a form of wealth universally exchangeable, which will be accepted by its creditors in settlement of their obligations, and can be exchanged easily for goods or services needed by the State. But accumulated wealth consists of a great many other things than cash, or credits easily realisable in cash, which in fact form only a small proportion of it in any country. It includes real estate, railways, industrial plants, commercial organisations, raw materials, foodstuffs, cattle, furniture, paintings, clothes, growing crops and a wide variety of other things. "Conscription" of these in kind would be useless to the State. To make a levy on value, and require that levy to be paid in cash, would merely bring about a financial cataclysm. All would be sellers, and none buyers. Values would disappear, and probably the State would be unable to collect its cash.

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There is an alternative to this cash levy. The State, it is suggested, might take over various forms of accumulated and producing wealth. But any taking over of this kind would have necessarily to be of a very partial character, in proportion to the manifold forms in which wealth is accumulated. Moreover, the State could not assume their management — the care of their wealth-producing capabilities. It has no staff to operate them. The best that it could do would be to leave these properties in the hands of those who are at present operating them, to work in the service of the State instead of that of individuals or groups of private proprietors. Whether under those conditions, economy and efficiency, which are essential to wealth production, would be maintained is exceedingly dubious. Competitive individual management is sometimes wasteful, but it would be difficult to maintain that Government ownership of wealth-producing enterprises has thus far reached any equal level in economy and efficiency. And unless these enterprises taken over by the State were maintained at their present capacity for wealth-production, the object aimed at in this "conscription of capital" would not be achieved. The State would be in the position of "killing the goose that lays the golden eggs."

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Under present circumstances, the State through its taxation powers, is a silent partner in all wealth-production—a silent partner drawing no inconsiderable share of the products of the business, as those Britishers who are paying a 25 p.c. Income Tax, and an Excess Profit Tax of anything up to 80 per cent. are aware. Is the nation likely to benefit if the State insisted on drawing so large a proportion of the profits from the business in cash, that its wealth-producing capacity is impaired, or takes over the business, and runs it, almost inevitably, in such a way, that its wealth-producing capacity is markedly lessened? Taxes can only be paid without undue hardship in proportion as wealth is produced, and the rightful solution of the serious taxation problems which will have to be faced in Canada as elsewhere, for many years to come, probably lies in a policy which will encourage the production of wealth, discourage its wasteful uses and aim at such a distribution of the burden of taxation that it shall not be felt unduly by those of small means. This solution is perhaps as trite as it is ideal. But it seems that a deliberate aim of those in authority at this ideal is essential, if endless social unrest is to be avoided.

BANKING AMALGAMATIONS

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This point of increased capital is interesting in view of Canadian conditions. For the last few years, the Canadian banks' capital has been stationary, while their business has increased enormously in volume. The stationary character of the banks' capital has been more a matter of necessity than of choice, and it is to be anticipated that when conditions again become favorable for new issues of bank stock, the banks' capital accounts will be quickly enlarged, in order that the institutions may be placed in a more advantageous position to take care of the new opportunities and enlarged responsibilties, which will be theirs in the post-bellum future.

United States credits to the Allies now total $4,948,400,000, of which $2,520,000,000 are to Great Britain.