

## Lesson From the British Budget

The British Method is to Apply the Heavier Tax to the Unearned Incomes -- Our Income Tax Makes no Discrimination Between Earned and Unearned Incomes

By H. M. P. ECKARDT.

The cabled reports of the address of the British Chancellor of the Exchequer, in introducing the budget, intimate that the income tax is to be raised from five to six shillings in the pound. On earned incomes up to £500 the tax is not increased — it now is two shillings, three-pence per pound. The rate on earned incomes of from £500 up to £1,000 is raised to three shillings; and from £1,000 to £2,500, it will be five shillings, three-pence. Super taxes are now to begin with incomes of £2,500 instead of £3,000. These are substantially increased. Tax-payers in the United Kingdom fully expected that they would be required to increase their contributions and the Government's proposals will receive the ready acquiescence of the people, who are willing to make even heavier sacrifices, if need be, to destroy forever the baleful Prussian menace. It is to be noted that, even with the tax as existing for the past year, British incomes up to \$150,000 (or £30,000) were taxed much more heavily than similar incomes in the United States and Canada. Thus, the tax on a \$5,000 income in the United States and Canada is the same—\$80—but the Britisher with an income of that amount was required to pay approximately \$935 per year. In case of an income of \$20,000, the Canadian tax is \$1,260; the American, \$1,180; and the British tax was \$5,000. On an income of \$50,000, the Canadian tax is \$5,260, and the American, \$5,180, as against \$12,500 levied in Great Britain. On reaching the incomes of \$200,000, however, the toll taken on this side of the Atlantic becomes approximately equal to last year's British tax, the tax for Canada being \$43,760; for the United States, \$49,180; and for the United Kingdom, \$50,000.

It is to be remembered that in the revision last year of the American income tax, provision was made for a super-tax of 8 per cent. on earned incomes above \$6,000. Where this tax applies, an income of \$20,000 would apparently pay, in all, \$2,300 per year; an income of \$50,000 would pay \$8,700; and an income of \$200,000 would pay \$64,700. This feature of the American law was aimed at parties who earned large amounts but were not reached by the excess profits tax. It has been criticized very severely as it discriminates heavily in favor of the measured incomes of wealthy families. The British method is to apply the heavier tax to the unearned incomes, and that appears to be the more scientific policy. Our income tax as put into effect last year makes no discrimination between earned and unearned incomes. The new income tax law of France requires citizens to pay 1½ per cent. on taxable incomes of \$600 to \$1,000; on incomes of \$2,400 to \$4,000, the rate is 3 per cent.; on incomes of \$6,000 to \$7,000 the tax is 5 per cent.; from \$10,000 to \$12,000 it is 8 per cent.; and the maximum rate—16 per cent.—is levied on incomes above \$30,000.

It is worthy of note that the British Government includes in its new taxation a special impost on luxuries, somewhat similar to that applied in France. The French tax is applied to the expenditures of the citizens; apparently it amounts to 5 per cent. on case of expenditures on necessities, and 10 per cent. on non-essentials. Judging from the cabled news the British tax is to be confined to luxuries; and, as it is to be two pence in the shilling, it constitutes a heavier impost than that levied by the French Government. On economic grounds a tax on expenditures, especially on luxuries, is preferable to heavy income taxes. When individual incomes and business profits are very heavily taxed, the tendency is for the overtaxed parties to diminish their productive efforts, to the loss of the community in general; while on the other hand a severe tax on expenditures would undoubtedly promote thrift and frugality and encourage the accumulation of capital available for new enterprises. A recent compilation of the yearly income of, and annual tax on a number of very wealthy Americans, placed the income of Mr. John D. Rockefeller at \$60,000,000 per year and his annual income tax at \$38,400,000 per year. This very wealthy individual can consume but a small part of his income. Before the war, after providing for personal and family expenditures, the remainder would be reinvested and devoted to benefactions. One can see that the reinvestments, being on such an enormous scale, would have a great effect in increasing

the industrial capacity of the United States. The new Rockefeller money pouring every year into railroads, mines, oil properties, and other investments, has been an important factor in stimulating American progress and in providing employment for American workmen. The same remarks apply in lesser degree to the incomes of other very wealthy Americans.

As the United States Government has been obliged to take for war purposes a large proportion of the incomes of rich people, what they have for reinvestment is greatly reduced. The Government itself is obliged to provide for the railways, industrial concerns, etc., much of the funds formerly provided by the wealthy classes. While the war lasts, and perhaps for a considerable number of years afterwards, there will be no choice left to the belligerent governments—they will be obliged to appropriate a heavy percentage of the incomes earned by their citizens. It seems, nevertheless, that Canada and the United States might get good results through following England's example in adapting the French tax on expenditures, and applying such tax with special reference to luxuries, rather than through pushing the income tax to such lengths as to dry up the stream of private reinvestments. There are marked differences in the methods by which wealthy families dispose of their incomes. One family with an income of say \$20,000 per year will lay out perhaps nearly the whole \$20,000 in personal and house expenses, much of the money going for ostentatious displays and entertainments, most costly furs and other wearing apparel, trips to expensive holiday or pleasure re-

sorts, luxurious pleasure cars, etc., etc. Another family with similar income may live quietly and soberly on \$7,000 or \$8,000 per year, investing their surplus each year in war bonds, and in the securities of solid industrial or other enterprises which are extending their operations year by year. Under the terms of our income tax as passed in 1917, each of these families would pay an annual tax of \$1,260; but it would be for the general good if the taxation was levelled more directly at the free-spending family first mentioned. The British tax on luxuries is 16 2-3 per cent., as against the 10 per cent. levied in France. Supposing our hypothetical big-spending family above referred to had to pay into the Dominion Treasury a tax of \$1,000 on purchasing a \$6,000 car; \$200 on purchasing \$1,200 worth of furs; \$400 in connection with a \$2,400 trip to Palm Beach; with proportionate tax for household expenditures over and above a set figures — the national exchequer would benefit to quite an extent.

The general public, obliged to practice most severe economy, would view with satisfaction any move which Ottawa might make in the direction of special taxation of citizens who think they can afford costly luxuries despite the war. Possibly the imposition of the tax would check expenditures on such things to a considerable extent. The country gains in that event also — for if the big-spending family cuts down its outlay on non-essentials by \$5,000 or \$6,000 per year, there is that much more available for investment in war bonds. One might conclude that one of the purposes of the British Government in introducing the French tax on luxuries is to force the British people to economize more severely. The greatly increased tax on beer and spirits works in the same direction. It will give more revenue; or if because of the tax people consume less beer and less spirits, more money will be saved, and sober habits become more generally in evidence. If such a tax on business imposed here, along with the income tax, it might be gradually developed while the income tax could perhaps be modified in such manner as not to operate to repress productive effort.

### INDEX NUMBERS DURING MARCH.

The month of March was characterized by the highest levels for commodity prices yet recorded. A general advance was shown in British as well as American index numbers. For the first time in several months, four of the leading compilations showed a marked increase in the values assigned to groups of commodities.

The index number of the Department of Labor at Ottawa, based on wholesale prices of 272 commodities, similarly showed a further advance, touching a new high record at 269.2, against 263.5 a month ago and 220.6 a year ago.

On the first day of April, Bradstreet's index number was \$18,4656. This compares with \$18,0776 on the first of February. The latter figure was the highest recorded until the March returns were available. Dun's figure on the first of this month stood at \$230,213, compared with the previous high of \$227,977 on the first of March. The Economist showed a total number of 5867, compared with 5845 in December, 1917. Sauerbeck's number for March was 188.0, against 187.3 in February.

The following table gives the index numbers as quoted on the first day of April, compared with the figures for the previous month, and also the rating assigned on the first day of April 1917 (the British and Canadian figures are for the end of March and February):

	April 1, 1917.	March 1, 1918.	April 1, 1918.
Bradstreet's .. . . .	\$14.5769	\$18.0732	\$18.4656
Dun's .. . . .	190.012	227.977	230.313
Sauerbeck's .. . . .	169.0	187.3	188.0
Economist .. . . .	4013	5818.	5867.
Canada .. . . .	220.6	263.5	269.2

### THE LARGEST DAM.

Where is the largest dam in the world? Not in America or India or England, as one might think, but in Spain, says the Little Paper. It has been built by a firm of American contractors, and has lately been completed. The dam, which is to be seen near Barcelona, is 350 feet high, 700 feet long, and ranges in thickness from 240 feet at the base to 14 feet at the top.

By its aid a huge reservoir is formed that will

supply water to a large arid district 100 miles away or more, and in this case the wilderness will literally blossom as the rose. But the water stored up by this large dam is to be used not only for irrigation purposes; it will turn turbines and work dynamos, and supply electricity for light and power to a great stretch of country. Perhaps the completion of this large work may mark the beginning of a new era for Spain, in which her wealth will be derived from the energy and industry of her own people.

### CANADIAN TRADE IN MARCH.

The March and quarterly returns of Canadian trade offer the following comparisons with preceding years. March figures show:

March.	Exports.	Imports.	Balance.
1918 .. . . .	\$99,854,000	\$87,255,000	*\$12,599,000
1917 .. . . .	122,415,000	102,335,000	* 20,079,000
1916 .. . . .	88,414,000	62,034,000	* 26,380,000
1915 .. . . .	45,118,000	40,411,000	* 4,707,000
1914 .. . . .	26,700,000	53,111,000	† 26,411,000
1913 .. . . .	34,874,000	67,603,000	† 22,729,000
1912 .. . . .	24,980,000	58,053,000	† 33,073,000

\* Excess of exports.

† Excess of imports.

A comparison of different classifications shows:

	Mar. 1918.	Mar. 1917.	Feb. 1917.
Mine .. . . .	\$6,772,173	\$9,980,711	\$5,960,721
Fisheries .. . . .	3,365,222	2,373,258	4,336,162
Forest .. . . .	3,922,820	3,614,385	2,354,446
Animals .. . . .	9,552,749	14,809,941	10,918,931
Agriculture .. . . .	37,895,628	21,962,252	28,089,659
Manufactures .. . . .	37,999,663	69,239,486	34,436,308
Miscellaneous .. . . .	346,732	435,280	355,390

Total .. . . . \$99,854,987 \$122,415,313 \$86,361,617

For the first three months of 1918 returns compare as follows:—

1918 .. . . .	\$282,432,000	\$200,139,000	*\$82,293,000
1917 .. . . .	289,745,000	242,689,000	* 47,056,000
1916 .. . . .	230,076,000	163,858,000	* 66,218,000
1915 .. . . .	102,594,000	106,623,000	† 4,029,000
1914 .. . . .	72,471,000	132,572,000	† 60,101,000
1913 .. . . .	77,101,000	173,305,000	† 86,204,000
1912 .. . . .	63,327,000	138,896,000	† 75,569,000

\* Excess of exports.

† Excess of imports.

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