

The Chronicle

Banking, Insurance and Finance

ESTABLISHED 1881.

PUBLISHED EVERY FRIDAY

F. WILSON-SMITH, *Proprietor and Managing Editor.*

Office:

406-408 LAKE OF THE WOODS BUILDING,
10 ST. JOHN STREET, MONTREAL.

Annual Subscription, \$3.00 Single Copy, 10 cents.

MONTREAL, FRIDAY, JULY 12, 1918

THE GENERAL FINANCIAL SITUATION

(Continued From Front Page.)

New York clearing house banks, in their Saturday statement reported a decrease of \$145,400,000 in excess reserves, thus more than offsetting the large gain of \$124,000,000 shown the preceding week. The excess reserve was thus reduced to \$26,000,000. Loans decreased \$15,400,000; reserve in Federal Reserve Bank decreased \$155,900,000; and net demand deposits decreased \$98,000,000. The week covered the July dividend and interest disbursements, and doubtless these were in no small degree responsible for the loss of reserve strength. Possibly also financing by the United States Government would also have a tendency in the same direction. Reports from New York are that many financiers there look for a period of comparatively easy call money. They say that if money is easy circumstances will be favorable for a rise in stocks. Also if favorable news is forthcoming from France, Italy or Russia, this would react upon the stock market in all probability. For example should the Huns launch their great drive and encounter a defeat comparable with that suffered by Austria, the markets would doubtless reflect that happening very promptly.

CAPITAL LEVY FOR ENGLAND URGED BY MR. SYDNEY ARNOLD, M.P.

Sydney Arnold, M.P., discussed his proposal to ease the financial burden after the war by a levy on capital in a speech made before the Trades and Labour Council at Penistone recently.

Mr. Arnold said that national finance, always a subject of great importance, would be of vital importance after the war. "Looking at the country's financial position as a whole," he said, "higher direct taxation should have been proposed in the recent Budget. At least such an amount should be raised by permanent taxation now as would make the annual revenue of the country equal to the estimated peace expenditure when the war was over. Otherwise it would be necessary to impose fresh taxation after the declaration of peace. The heaviest burden of taxation should be borne during the currency of the war.

"Mr. Bonar Law estimated in his Budget speech that if the war ended next March the post-war expenditure would be about £650,000,000 per annum. I think that the figure would be about \$720,000,000, and I consider that the Chancellor of the Exchequer in his estimate did not allow enough for the ultimate cost of war pensions or for various other things.

"Must Raise Direct Taxation."

"A large sum must be available for social reform, particularly for national health and housing. In my indirect taxation, and therefore direct taxation will

view it is out of the question, on balance, to increase have to be higher. I calculate that if the war ends next March the general rate of the income tax would be 7s 6d in the £1. The only alternative is to reduce the national debt by a capital levy, and this in my opinion would be much the best way of dealing with the problem.

"It must be remembered that the choice would not be between a capital levy and nothing. The choice would be between a capital levy and a high income tax, and the balance of advantage lies with a capital levy. As a matter of sound economics this is clearly so, because the great bulk of the war debt would be wiped off from capital instead of being a charge for many years to come on income.

"War stock holders would not be penalized under a capital levy. On the contrary, those who held war stock would be in a better position than those who did not. It has been said that a capital levy would discourage thrift. It would be less discouragement to thrift than a high income tax. Surely it would discourage thrift if a man felt that in future 7s 6d in the £1 or more of the interest on his savings would be taken in income tax.

"No objection is valid against a capital levy if the same objection applied to a high income tax. In short, a capital levy after the war is practical, equitable and economically sound; and combined, as it would be, with a large and immediate reduction in income tax, a capital levy would be preferable to any alternative plan."

Plan Finds Supporters.

"Mr. Arnold put the main point of the advocates of a capital levy quite correctly," says the Manchester "Guardian." "An immense revenue has to be raised to meet an immense debt. It will have to come in the main from the classes able to pay. Those classes are the possessors of the larger incomes, whether from property already realized or from present earnings. They must be taxed, therefore, either on capital or on earnings.

"If the whole burden is put on earnings it will raise the income tax to a figure which few care to contemplate, and it will raise it with little prospect of relief, for the new charge will be permanent. Something may be done by further graduation of death duties, but the amount so obtainable is limited by the fact that when death duties rise beyond a certain point people begin to evade them by transfers of property during their lifetime.

"There remains the question of a levy on all accumulated wealth, land or capital. Such a levy has three advantages. It would be used to wipe off a sensible proportion of the debt at one stroke, thereby doing much to repair the national credit. Secondly, it would fall on wealth already realized, and would not be a handicap on the efforts of men to repair their position by increasing their incomes. Thirdly, from the taxpayers' point of view, though bad to meet it would have to be met once only and then would be over and done with.

"Mr. Arnold dismissed the fear that it would discourage thrift. That might be the effect of any predatory legislation undertaken in the spirit of a class war. People will not accumulate if they lack confidence in the social and political system. But there is no suggestion of predatory motives. The object is to pay for a war which intimately concerns the nation as a whole, and the propertied classes

(Continued on page 727).