

Monetary Times

Trade Review and Insurance Chronicle
of Canada

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TAXATION AND WAR COSTS

CANADA'S much vaunted patriotism may have been apparent during the actual war effort but it is difficult to trace any of its effects in the industrial disputes which are continually taking place, or in the political controversies which are raging on the subject of taxation. It seems to have waned as the bill is being presented, and the sterner test would seem to be that which affects the individuals own pocket.

The aim of every class seems to be to shift the burden elsewhere. The cost of living has risen so much, says labor, and we must have a proportional increase in wages. Very well, say the employers, the price of the goods must rise accordingly, and as we have now to pay additional taxes, and larger dividends are necessary to correspond with the increase in the cost of living, something extra must be included on account of these items. Thus the vicious cycle is set up, and when one revolution is completed all parties find themselves still out of pocket. The man with wages or salary finds that he is really no better off than he was before, and the manager of an industry finds that the additional costs have wiped out his margin of profit once more.

The conclusion to be derived from this phenomenon is that there are economic laws the action of which cannot be prevented by human effort. It is inconceivable that such an expensive war should be carried on and each individual at the same time be able to maintain his previous standard of living. The forces controlling the distribution of wealth may be modified but they cannot be fundamentally changed.

The source of the difficulty is found in the unusual demand for goods and the shortage of labor arising out of the war. This at once brought about a rise in prices, particularly of those essential commodities which are used by everyone. At the same time additional public revenue was found necessary to meet public expenditures, and as it was recognized that the high cost of living was already more severely felt by the wage earners, progressive taxes on incomes and on business profits were resorted to. Thus a fairly equitable distribution of war costs was obtained. But unfortunately the shifting process was then attempted, and it is just in these unpatriotic actions that we have failed to

carry out the high standards set in the early years of the war. Labor must recognize that changes in the cost of living do not constitute a conclusive basis for wage adjustments, but represent in part a portion of the war burden, and while higher costs of services and of material are legitimate factors in production costs, the income and business profits taxes are items which are not intended to be shifted by industry.

THE COMING DOMESTIC WAR LOAN

WHILE it is still too early for definite arrangements regarding our next domestic war loan, there are some points which are practically agreed on in financial circles. Although most of the funds will be required in connection with war expenditures, our finances are now on a peace basis, and this alters the situation considerably. So long as the end of the war was not yet in sight and Canada's requirements uncertain, it was essential that the terms of issue should be sufficiently favorable to maintain the bonds at a good price in the subsequent market. Now, however, the supply of high grade bonds is not equal to the demand, and the strictest economy should be observed in making the last issue.

As regards maturity, a ten year bond is favored generally. Although these may not be so attractive from an investment standpoint, yet the chances are that they will be more suitable for our national finances. Any shorter term would not be advisable, as the bonds maturing before 1925 will be more than equal to any funds which may be available to meet them. Early maturities comprise the war savings stamps and war savings certificates, debenture stock, and Victory loan due in 1922 and 1923. In 1925, the outstanding bonds of the issue made in December, 1915, will mature. If substantial balance remain each year to apply on capital account, as should be the case, there should then be something available to meet an issue due in 1929. The next maturity is 1931.

The question of price cannot be separated from that of tax exemption. The present tax exempt bonds are selling in the market at approximately a five per cent. basis, and a further issue of five per cent. tax exempt bonds could