

TAXES AND ABILITY TO PAY

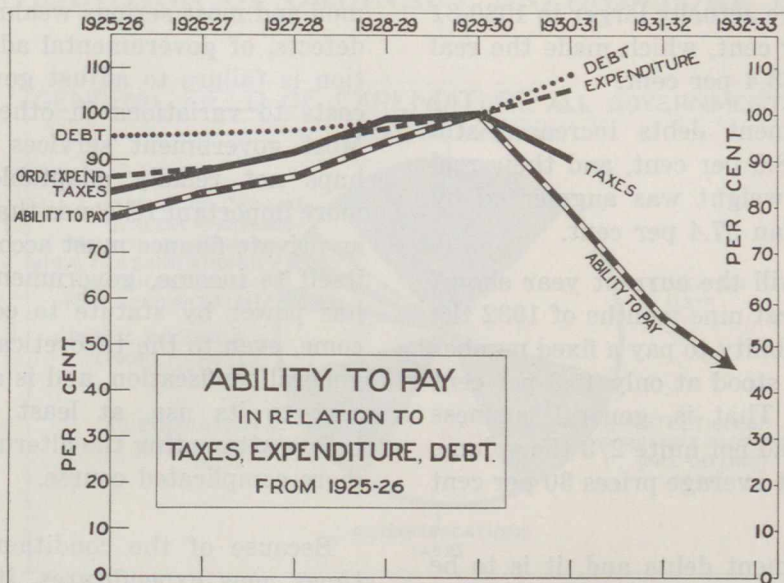


DIAGRAM NO. 10.

Measured by ability to earn and pay, the price of government has again risen very sharply during the past three years—perhaps more sharply than in any previous period.

Certain elements in the present position and in developments to date are here suggested for consideration. Government accounts are not, of course, available beyond 1930-31.

Everyone knows that the number of dollars he has to pay today is really many more dollars than the same number three years ago. Individual differences are infinite, but for the ability to pay of a country as a whole some sort of yardstick may more easily be found.

A country's ability to pay dollars must be in some direct relationship to the dollar value of the aggregate of all business activities that enter into the creation of values. The Dominion Bureau of Statistics has compiled as from 1919 an index of the Physical Volume of Business, which has just been recalculated on a still

more comprehensive basis. Then there is the index of general wholesale price levels. By combining the two, the index of Ability to Pay used in the above diagram was worked out.

Whether or not this stick measures exactly a yard and is suitable to measure all elements in the complex conditions, it is probably the best single standard obtainable. Unfortunately it can be used only in comparing post-war years among themselves.

From 1925 to 1929, ability to pay, as thus measured, was increasing, up to 1928 about in pace with rising government costs and in 1929 faster. But a great change has since occurred.

Tax yields in 1930-31, as will be seen, fell 9.6 per cent below those of 1929-30, but ability to pay had fallen 21.0 per cent and therefore real taxes, instead of declining, had increased 14.4 per cent in the year.