

A Tax on Individual Expenditures

By H. M. P. ECKARDT.

From time to time experts here have suggested that a tax on the expenditures of the people would give better results all round than taxation of incomes as usually applied. A news despatch of a few days ago refers to the tax on expenditures instituted by the French Government—5 per cent on necessities and 10 per cent on luxuries or non-essentials. Apparently the merchants, dealers, etc., are to collect the tax, adding it to the bill of goods as sales are made, and accounting to the Treasury for the percentages added to their selling prices. Under such a system of taxation it would be necessary for the Government to keep watch sharply on the business dealings and circumstances of the parties engaged in trade. It would require to guard against the tactics of dishonest merchants who would be disposed to retain for themselves a part of the extra price collected from customers; and also there would be the risk of loss in connection with taxes collected by weak or struggling tradesmen. An elaborate machinery would perhaps be necessary to guard against such losses. The merchants would be obliged to keep a record, on special forms, of all sales of goods subject to tax, and doubtless a force of inspectors would be required to check up the figures submitted. And it would not be advisable for the merchants to retain the Government funds for any length of time—it might be necessary to require them, in many cases, to turn in the tax money daily. For example, an auctioneer might be made for the merchant to deposit a certain sum each day to credit of the Government at the banking office where his account is carried, the Government making suitable arrangements to reimburse the banks for the work involved.

Of course, the average family expends a considerable amount of money every year on items other than necessities, etc. The outlay of a wealthy family on wages and salaries would amount to a considerable sum, and this doubtless should be taken into account in the tax and account for it. It would be better, probably, if it would be better if the employers file declarations at the end of each year setting out the amounts paid in wages and in other ways, not otherwise taxed. So far as rents are concerned there would be no difficulty in having the landlords collect the tax, just as the grocer and the butcher collect the tax on expenditures for provisions. It is a feature of the income tax as applied in the United Kingdom and the United States, that the rate rises sharply as the individual's income increases, the idea or intention being to tax the wealthy people a much larger proportion of their incomes. The same principle could be applied to taxation of expenditures. Thus rentals up to a certain amount might be exempted, and a small rate of taxation applied to small rentals with a rising rate for the larger ones. The item of wages could be treated similarly the larger the amount expended in this way the heavier the tax rate. This would be the rule regarding wages for domestic servants, chauffeurs, and personal attendants—it would obviously require to be modified in connection with the wages and salaries paid by business establishments. Thus the luxuries and special outlays of the rich would be subject to taxes at the highest rate; while on the other hand a man with a large income who lived simply would not be so heavily mulcted.

It is one of the strong arguments in favor of a taxation system like that just outlined, that it works powerfully to induce the people to save and accumulate capital—it would not penalize the man with brains and energy, who by skilful management of productive enterprises greatly increases his annual income. The income tax, as applied in the United States, has a tendency to drive capitalists into what might be called moribund gilt-edged securities, such as tax-exempt government bonds. Many of these men are highly qualified to make good use of their capital in connection with industrial and mercantile enterprises, and it is in the best interest of the country to have them employ their money in that way. It must be reckoned a public calamity if any large number of capable wealthy investors should be forced to cease exercising their good judgment in regard to investments in industrials, etc., in order to obtain the tax-exemption incidental to certain government bonds. No one doubts the wisdom and propriety of taxing the wealthy in proportion to their wealth—they should pay and most of them are quite willing to pay taxes at a much higher rate than men with moderate incomes are re-

quired to pay; but there is danger in going to extremes. The other day, a leading Toronto paper published a letter from an extremist, who in discussing the conscription of wealth, advocated that all incomes in excess of \$10,000 per year be confiscated in toto—his theory being that, as no man needed more than that annual income to provide for himself and family, the state should take the remainder. Of course, there is no likelihood that such a ridiculous proposal will be adopted, but it is necessary to remember that in democratic countries during a great crisis such as is now in evidence, there is tremendous pressure in the direction of going to extremes in this matter of taxing wealth and industry. In many cases the people who ardently press for the adoption of radical programmes of taxation have no conception whatever of the economic effects that would be produced by the schemes they propose.

That is one reason why it seems regrettable that the great democratic nations of the world have committed themselves so definitely to the income tax as a means of raising the huge sums required for financing the war. If the general custom was to rely to some extent on taxation of expenditures, the extremists who wish to get after the rich might be given considerable latitude without so much danger of injury to the national economic position. If they wished to soak the rich man buying a \$10,000 motor car for a thousand or two in taxes on his purchase, nobody would object very much and business would not be injured. The rich man need not pay the tax if he denied himself the pleasure of buying the car. In the same way they might pile on the taxes in connection with the purchase by the rich of other

luxuries. The buying of a costly painting could be made to contribute a considerable sum to the national exchequer—the same with purchases of high-priced rugs, china, gold and silver ware. No doubt, it would be desired to collect, if possible, a percentage on the millionaire's outlay when he takes his family for a trip abroad. This outlay, too, would be up in the "thousands"; and 10, 15, or 20 per cent on it would yield a respectable sum. It might be arranged to have the citizen include such outlay as this in his annual declaration of expenditure.

The beauty of a taxation scheme like this is that each man has a considerable say in the matter of taxation payable by him. If he keeps his expenses down, cutting out the items listed as luxuries or non-essentials, his taxes are low; and if he indulges freely and sets his standard of living on a high scale, his contribution to the national exchequer correspondingly increases. This would, of course, have a powerful effect in imbuing the people with thrifty and economical ideas, and the spread of such ideas would greatly strengthen the national character and the national finances. Non-producing spendthrifts would be separated from their belongings more quickly than under the present conditions. There would, undoubtedly, be some unpleasant developments. We might see examples of millionaires living in cheap lodgings and subsisting on fifteen cent lunches for the sake of avoiding their due share of taxation. It is, perhaps, not to be expected that Canada's new financial programme will include general taxation of expenditures in lieu of income taxes; but, all the same, the Government might with advantage give consideration to some of the points usually urged in favor of a tax on expenditures. It may be possible to so frame the income tax as to produce certain results similar to those which would follow taxation of expenses.

The Newsprint Inquiry

Paper Manufacturers Produce Figures Showing Greatly Increased Costs.

STATES.

The inquiry being conducted into the cost of production and selling price of newsprint paper in this country by Mr. R. A. Pringle, recently appointed by the Federal Government for this purpose, has produced a mass of interesting figures that must surely lead to some definite conclusion before long. The investigation was brought about by the insistent demand of Canadian publishers in face of advancing prices of newsprint. Commissioner Pringle, sometime ago, partially granted the publishers' demands by compelling the paper mills to sell their paper in Canada at 2½ cents, a pound in rolls, f.o.b., the mill. Since March 1st last this price has been in force. The investigation has been continued in an effort to justify this action, and if possible to obtain a still lower price for the publishing trade. A similar investigation has been going on in the United States, and while the American government has no jurisdiction over Canadian paper concerns, the American market absorbs over 80 per cent of the Canadian production of newsprint, and the investigation there has been of vital interest. In fact, much of the data obtained by Commissioner Pringle and by the United States Federal Trade Commission are of mutual interest and value.

A resume of the findings of the Federal Trade Commission was recently published, and given publicity here through the Canadian Press Association. This commission investigated the cost of production in Canadian mills for the first half of 1916, and of United States mills for the entire year.

COST OF PRODUCING NEWSPRINT.

The report shows that the average cost of newsprint paper during the first six months of 1916 in ten Canadian mills, producing about 75 per cent of the total Canadian production, was \$27.43 per ton. The cost in one mill is given as \$25.68 per ton. There is no report as to the increase in cost during the second half of 1916, but it is stated that returns for that period from the principal mills of the United States show an average increase of \$1.50 per ton over the cost for the first half of 1916. If the increase in cost during the second half of 1916 was the same in Canadian mills as in the mills of the United States, the average cost in Canadian mills during that period, according to the Federal Trade Commission's figures, was \$28.93 a ton. The prices asked by the Canadian

manufacturers commencing January 1, 1917, were \$60 a ton for roll news, and around \$75 a ton for sheet news.

SULPHITE AND GROUNDWOOD.

The average cost of sulphite in eight Canadian mills during the first six months of 1916 is given as \$24.85 per ton. It is stated that returns from sixteen mills in the United States for the second half of 1916 as compared with the figures for the first six months of that year. The arbitrary figure for sulphite used by many of the Canadian manufacturers in their returns to Commissioner Pringle for 1916, was \$50 a ton.

The Commission found that \$10.54 per ton was the average cost of ground wood during the first six months of 1916 in ten Canadian mills. Cost data secured from 35 mills in the United States, covering all of a portion of the second six months of 1916, showed an average increase in cost of ground wood of \$1.06 per ton as compared with the figures for the first six months of that year. Many of the Canadian manufacturers in their returns to Commissioner Pringle put in ground wood at the arbitrary figure of \$25 per ton.

The report states that the average profit during the first six months of 1916 of ten Canadian mills, producing about 75 per cent of the total Canadian production, was \$9.54 per ton, or 25½ per cent on the net sales. This was on a net selling price during that period of \$37.96 per ton.

THE CANADIAN INQUIRY.

A week or so ago the publishers withdrew from participating in the inquiry because of Commissioner Pringle's refusal to allow their counsel to probe into the affairs of the Canadian Export Paper Company, a Montreal concern representing five paper manufacturing concerns solely in their export trade. The mills have objected strenuously to the price of 2½ cents set by the Commissioner, and have produced information to show that increased costs do not permit of newsprint being sold at that figure at the present time. The sittings held in Ottawa last week were for the purpose of enabling the Commissioner to determine the basis of cost of production of newsprint. Principal attention was given to groundwood and sulphite pulp, the two chief ingredients.