The Chronicle

Banking, Insurance and Finance

ESTABLISHED JANUARY, 1881 PUBLISHED EVERY FRIDAY

Vol. XXXIX. No. 36. MONTREAL, SEPTEMBER 6, 1918 Single Copy 10c. Annual Subscription $3.00

THE GENERAL FINANCIAL SITUATION

In considering the factors responsible for the recent improvement in stock market values, here and in New York, one should not lose sight of the matter of taxation of excess or war profits. In Canada as well as in the United States, the investment community and the speculative fraternity have been undergoing something of a reaction from the state of extreme nervousness and apprehension, in which they were, as regards the intentions of Government towards the profits of industrial and other companies. A considerable number of potential purchasers became possessed of the belief that as the war proceeded, Government would take a larger and larger proportion of the earnings of prosperous companies, and that under those circumstances reports of large earnings ceased to be a bull factor on the stocks of companies reporting them. That timid investors should take this view is not surprising. Both countries have been full of well-meaning, shallow-thinking parties who urged the Government to go the limit, so to speak, in taxing the profiteers, both individual and corporation. Some extremists even went so far as to urge that all profits in excess of the normal pre-war figures should be appropriated by the Government; and as regards individuals, one heard it frequently asserted that any man who at conclusion of the war was worth more than at the beginning of it should be regarded as almost a criminal.

We do not hear quite so much of such foolishness now. In its consideration of ways and means of raising the enormous amount of revenue required for meeting the war expenditures of the fiscal year ending June, 1919, the United States Government took most seriously into account the fact that excessive taxes on industry repress production. After you raise your taxes on industrial effort beyond a certain point, industry produces less—plants become idle or cut down their output, and you get less revenue than would have been obtained from a more moderate tax schedule, while at the same time the production of national wealth is checked. So Washington decided that it would be wise policy to refrain from unduly increasing the taxes on war profits and look chiefly to the income tax for the increase of revenue required. Here in the Dominion also, there are signs that the responsible heads of the Government are aware that Canada's productive activity cannot be maintained at the present rate unless the corporations and individuals engaged in industrial work of various kinds are allowed to retain a fair or reasonable proportion of the extra profits they make in war-time through greatly increasing their efforts and perhaps more than doubling their risks and liabilities. So, as spreads the conviction or belief that the stockholders of industrial corporations will derive substantial benefits in cases where large profits are legitimately earned, confidence increases and an increasing number of parties are willing to buy industrial shares at current quotations.

The favourable turn of affairs in France also bears directly upon the question of excess profits taxes in Canada and the United States. The Allied victories have created general confidence that the war will be ended before the fall of 1919; and as it is understood that the excess profits tax will not outlast the war (the presumption being that there will then be no excess profits to tax) one might estimate that this particular impost will not perhaps, apply to corporation balance sheets after 1919. Even if profits fall for two or three years after the war, the reserves accumulated in the recent past should tide the representative companies over the depression; and there is also the probability that after a short interval the development of the Dominion will again proceed at such a pace as to call for the full capacity of well-equipped and well-established Canadian industries. Then, presumably, if profits again rise rapidly, there will be no excess profits tax to deprive stockholders of a considerable part of the benefit arising therefrom. Thus parties purchasing sound stocks, with judgment, at present prices, begin with a good rate of return on the investment, and they stand a fair chance of acquiring, in the course of several years, additional returns which may make the total return large indeed. Of course, there is the contingency of a drop in the market. Should that occur these same stocks could be obtained at reductions.

Canada's foreign trade for July shows some improvement over previous months of the present fiscal year. With imports at about $83,000,000 and exports at $103,000,000, the surplus of exports is $20,000,000, and total trade $186,000,000. During the three preceding months of the fiscal year, Canada had accumulated an export

(Continued on Page 929)