The Report on Millers' Profits

Limitation of profits will repress productive efforts—Repression of production cannot have an effect in reducing prices to consumers—it tends in the other direction

By H. M. P. ECKARDT.

The report on war time profits of Canadian millers, issued by the Cost of Living Branch of the Department of Labor, declares that the limitation of profits to 25 cents per barrel of flour does not effect the purpose for which it was intended in that "with increased production, even were the profits per barrel of flour limited to, say, fifteen cents, still ample dividends might be paid and reserves set aside." The flour milling industry, like other Canadian industries, is subject to the excess profits tax and to the Dominion income tax. The former requires corporations to pay into the public treasury 25 per cent of net profits in excess of 7 per cent on invested capital; 50 per cent of net profits in excess of 15 per cent on invested capital; and 75 per cent of net profits in excess of 20 per cent on invested capital. And the income tax as passed last year required corporations to pay 4 per cent of net profits — the amendment of this spring bringing the tax up to 6 per cent of net profits. In case of each corporation the Government applies whichever tax is the greater.

The Cabinet and Parliament considered these imposts as fair and proper. It was necessary to raise huge amounts of money and their judgment was that by means of the taxation a large revenue might be raised without crippling the industries of the country. The Government does not desire to repress unnecessarily the efforts of the individuals and corporations engaged in productive work; neither does it wish to destroy the attractiveness of Canadian industrial securities — as that would prevent the industries getting new capital from the investment public when extension or development is necessitated. The Finance Minister stated the other day that the Government wished the people (presumably including the corporations) to work, produce and make money so that they could lend it to the nation and also pay the heavy war taxes. He might also have added that it is in the national interest for the individual business men and companies to utilize a good share of such war profits as they are allowed to retain in strengthening their finances against the great uncertainities of the immediate future.

The parties responsible for the report on millers' profits appear to have a different opinion as to what the Government intended the excess profits tax to effect. The report notes, with a distinct race of disappointment, the notwithstanding the limitation of profit per barrel of flour, and notwithstanding the excess profits tax, the large milling companies have been able to distribute ample dividends, pay off bonded debt, write down the good-will a|c, provide liberally for depreciation, and largely increase the surplus a|c and other reserves. One would think, inasmuch as the companies accomplished this fairly and honorably by efficient management under Government regulation and after paying taxes on excess profits at the same rate as paid by other industries, that the result should give pleasure to everybody who desired to see Canadian industry develop healthily and vigorously. Apparently the Cost of Living Branch of the Department of Labor thinks it desirable that the millers should be prevented from doing this; and the report says the only way to do it is to increase the tax on the net profits on total investment. In other words the proposition is to subject the millers, like the packers, to special or discriminatory taxes because the excess profits tax has not injured them sufficiently.

Another part of the report dealing with the limitation of profit per barrel of flour, states that smaller companies, producing less than 100,000 barrels a year would find difficulty in surviving on a profit of 25 cents per barrel; that companies producing between 100,000 and 500,000 barrels per year would probably make a moderate revenue on such a limitation, while the large companies would make an excessive profit. This is cited as another reason for applying a special tax on net profits — it being apparently assumed that because it is war time the Government should undertake to even up the net results achieved by the different classes of millers. The great company, with mills equipped in the most modern style, a complete set of elevators, located where power is cheap and transportation facilities all that can be desired, is to be brought down to the level of the small local concerns. It is rather surprising that a Cost of Living Department should make such a recommendation, because the tendency in the long run would apparently be to deprive consumers of the benefits accruing from large scale production.

It is difficult to see how the cost of living is to be reduced or how labor is to be benefitted through imposing a special tax on net profits such as that applied to the packers'. When it is provided that all profits over and above a certain per cent on invested capital are to be forfeited to the Government, it would seem that either the tax must be a dead letter (that is the company's profits would not reach the percentage named) or that the company's activities would come to a dead stop when its profits had reached the prescribed amount. In some cases it would work differently. Thus, some of the great state banks in Europe must turn all profits over a certain per cent to the Government; but those banks are required to transact all legitimate business offered to them, even if their profits have passed the percentage referred to. Also in case of the American railways, if their net earnings exceed the average of net for three years ending June, 1917, the surplus goes to the U. S. Treasury. Nevertheless, the railways must carry the freight that is offered — even if they have already made the maximum profit they are allowed to retain. But an industrial company is not in the same position. It is not called upon to produce or manufacture beyond the point where its proprietors get a measure of compensation for the use of their plant, brains and energies. So, limitation of profits, if it has any effect at all, will repress productive efforts — deprive the country of business which is generally beneficial.

Repression of production cannot have an effect in reducing prices to consumers — it would most likely tend in the other direction. And, similarly, if industrial companies are prevented from strengthening their finances, the position of workmen employed by them is injuriously affected. A company making good profits, which can be expanded by increasing productive capacity, can employ more men and pay better wages than it could under a short-sighted policy of profit limitation. Instead of putting a limitation on the profits of the millers it would be a wise policy to abolish the limitation on the profits of the packers. So long as prices to consumers are regulated or fixed, and the margin of profit on a unit of production is limited, let the Canadian industries go ahead and make profits as large as they can, when it can be done legitimately through expanding their production — subject of course to the general war taxation levied equitably upon all industries. It is unfair, as some of the millers have pointed out, to pick out one or two industries and subject them to special taxes heavier than paid by other industries, just because zealous crusaders in one of the Government departments have investigated these industries. There are other industries in which profits as large as, or larger than, the profits made by the millers, are being made.

Another point is that a considerable part of the millers' profits in 1916 and 1917 came from the great rise in grain prices due to war conditions. The nature of their business compels the millers to buy wheat heavily in the fall, and ordinarily they hold much for milling purposes. An enormous rise in prices, such as we experienced, must necessarily have given the milling companies large profits. We know also that some of the companies had large speculative holdings. Even so, other classes have also derived great benefit. Many of the western farmers acquired wealth as a result of the increased value of their grain and land. Nobody thinks of limiting the profits of the farmers so as to check their productive efforts. With prices of wheat and flour fixed the opportunity for making speculative profits of the kind referred to has passed away. Henceforth the millers' profits will be limited to what they can make through operation of their plants.

WEEK'S RECORD OF ACTIVE MONTREAL STOCKS.

Sales.	Stocks.	Open.	— Month — High.	Low.	Last sale.	Net chge.	——Year—— High.	Low.
100	Ames-Holden pref.	59	59	58	58	—1	60	47
176	Asbestos	18	21	18	21	+5	21	16
202	Do. pref.	45	51	45	51	+4¼	51	45
150	Brazilian	33⅝	34	33⅝	34	unch.	40	32
115	Can. Car.	30½	30½	30	30	—1¼	32¼	18½
440	Do. Pref.	77½	77¾	76½	77	—1	78½	49½
635	Can. Cement..	59¾	60	59	59	—1	61	*57
135	Can. Steamship	39¼	39¼	39⅛	39⅛	— ½	43⅛	39⅛
322	Con. Smelting	25	25	25	25	unch.	26	25
2,810	Dom. Steel	61¼	61¼	57¾	59	—2¼	63⅞	*53
100	Dom. Textile	90	90	89	89	—1¼	91¾	80¾
350	Montreal Power	76	76	76	76	— ¼	80¼	68½
1,603	Quebec Ry.	22	22½	19	19	—1¾	22½	15
250	Riordon	119	119	119	119	unch.	123	117¼
250	Shawinigan	111	112	111	112	+ ½	116¼	*107
2,578	Steel of Can.	64½	64½	61	61¾	—3	67¼	*49¾
310	Woods Mfg.	66	67	66	67	+2	67	57¼
	——BONDS——							
$28,000	Can. Loan (1937)	93	93	92¾	93	unch.	93½	91½
	——UNLISTED SHARES——							
105	Can. Felt	4½	4½	4½	4½	— ½	6	4½
400	Tram. Power	24	24	24	24	unch.	33	23½

*Ex-dividend.

IMPORTED LUXURIES PROHIBITED.

Ottawa, June 3.

A list of imports, the value of which has been heretofore about twelve million dollars a year, has been prohibited by an Order-in-Council passed by the Government.

The order has been sent to Niagara to be signed by the Governor-General and the detailed list will not be made public till the papers come back.

The matter has been under consideration for several months as a result of investigation made by the War Trade Board.

The list is known to embrace higher priced automobiles, expensive lines of jewellery, fruits which can be grown in Canada, and those whose use is essentially a luxury. Bananas and oranges are not included.

The prohibition is designed to have an effect in reducing the adverse balance of trade with the United States, and also to better the exchange situation.

It is understood that the autos to be barred are those costing over $1,200. Parts of automobiles will not be prohibited.

SIR HORMISDAS LAPORTE, who was also knighted by the King is a member of the War Purchasing Commission, is an ex-mayor of the city of Montreal and is head of the wholesale grocery firm of Laporte and Martin. He was also a director of a number of financial institutions and is keenly interested in the work of Notre Dame and Montreal General Hospitals.