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THE GENERAL FINANCIAL SITUATION

In view of the similarity of the lines on which the war taxation of Canada and the United States has been developing, the new American revenue bill as reported to the House of Representatives, commands the interested attention of financial circles here. The bill is designed to raise $8,000,000,000 by way of taxes during the current fiscal year. A very large proportion of the money is to be derived from the war profits tax and the income tax. As the bill now stands both of these are heavily increased, but it is to be remembered that the measure, after passing the House of Representatives, requires to go through the Senate, and possibly it may be amended in some important respects. As regards the income tax the exemption limits are the same as in the existing law, namely, $1,000 for single persons and $2,000 for married persons. The normal tax now, however, is to be 6 per cent. from the exemption limits up to $4,000, and 12 per cent. on all incomes in excess of $4,000. Last year's bill provided for a normal tax of but 2 per cent. up to $4,000. So the tax on the incomes from the exemption limits up to $4,000 is trebled; and the tax on all incomes from $4,000 up to $200,000 is more than doubled. As compared with the existing law in the United States, our own income tax is the heavier; but the rates fixed by the new American taxation measure are considerably higher than those now in force here. The legislators at Washington have framed their bill in such manner as to cause or induce corporations to distribute in dividends a large proportion of the net earnings. Thus the tax on undivided profits is to be 18 per cent., while that on divided profits is to be but 12 per cent. This item is, however, left open for final determination, and it may be changed as it does not seem to be advisable to put such a heavy penalty upon the accumulation of reserves which place the corporations owning them in better position for meeting the dangers and uncertainties of the future. The purpose of the discrimination against undivided profits is merely to swell the amount of dividends paid and in that way to increase the amount of income liable for taxation.

The financial community has been discussing the Manitoba Free Press estimate of the western wheat crop of 1918. This estimate of about 150,000,000 bushels for the wheat crop falls considerably under the figures which had generally been accepted in the East up to a short time ago. If the Free Press turns out to be correct, the surplus we have for export will be considerably less than had been expected, and the effect of the wheat export movement on our exchange situation will not be as important as in other years. The Winnipeg newspaper calculates that the value of all grains produced this year in the three prairie provinces will be approximately $520,000,000. Of this amount the wheat crop represents roughly $300,000,000. Under the circumstances that is not a bad showing—but it is to be remembered that this is the total value produced, and that it is the value of the surplus exported that affects the exchange market.

In connection with the financing of our wheat crops, a statement issued in Washington at the end of last week has more than usual interest. Officials of the United States Treasury, in commenting on the balance of $350,000,000 against Canada in foreign trade for the year ending June 30, 1918, explained that this was more than offset by the use of British credits—something like $400,000,000 of the funds loaned to Britain by the United States Government being expended in the Dominion for British purchases of wheat and munitions. Then Canada, in the year mentioned, privately arranged a loan of $65,000,000 in New York with the approval of the American Government. And it is said that the contracts placed in Canada by the War and Navy Departments at Washington, now outstanding, amount to about $125,000,000. Attention is also drawn to the fact that a substantial part of the large American exports to Canada represent munitions or materials subsequently re-exported in finished form to United States or Great Britain—the transactions being largely financed by means of the United States credits to Great Britain.

This statement from Washington regarding the financing of our trade balance in the year ended last June, leads one to conclude that the British credits in New York will be similarly available for settlement of our grain exports during the coming fall and winter. Assuming this to be the case, we may count with confidence upon receiving funds in New York for the grain exported to England and France; and providing that the British purchasing agents here have completed

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