

COMPLICATIONS

Ernest J. Farmer

Lewis Carroll's Alice, during her sojourn in Wonderland, remarked at one point that things were getting curiouser and curiouser. If Alice had migrated to the Blunderland officially known as the Dominion of Canada, and had survived to the present, she might well remark that things are getting complicated-er and complicateder.

Most people old enough to drive a car have noted the constant rise in prices during the last 20 years. If the price of one article is reduced a trifle, the prices of six others are increased as much and/or more. To many, this is a matter of little concern; their incomes have risen in greater proportion. But many thousands of thrifty people have retired, after having purchased annuities or contributed for decades to pension plans - - and find themselves compelled to reduce their already modest standard of living. This painful necessity always entails complicated problems.

A mail-carrier of our acquaintance retired according to regulations at sixty-five, with a pension which, when he began to contribute to it, seemed sufficient for comfort. He soon found himself in such straits that he sought another job. The only one he could find was considerably more arduous than carrying mail. Being still vigorous, he was able to do the work, but remarked wryly that while he was officially too old to deliver mail, he was not too old for more strenuous work. He survived until entitled to the old age security pension, which made his lot not too bad. But how many men past sixty-five are able to find alternative employment?

In July, 1963, the government increased the old age security pension from \$65 a month to \$75, enough to support a "senior citizen" favorably situated at

least without privation. Since then the pension has been reduced in effect to slightly less than \$70.

Making Thrift a Complicated Matter.

This rise in prices has caused complications which the average citizen cannot figure out at all. The average worker pays a good deal in interest, in one way or another, during his working years. The thrifty ones build up savings bank accounts, for emergencies and as a provision for their old age. It used to be that they received a little interest on these accounts, which helped to build them up. Now they receive interest — nominally — but the chances are that their savings (if drawing the ordinary bank rate) will even with the added interest buy no more ten years from now than the savings without interest would have bought at the time they were deposited.

Many persons have noticed that trust companies are advertising that they pay four per cent (some even more) on deposits which may be withdrawn without notice and six per cent or more on savings certificates for terms of from one to five years. Few have thought of the connection between these high rates and the rise in prices. The fact is, that with prices rising at almost three per cent per annum (and, government policy being what it is, likely to rise even faster in the future) a nominal rate of six per cent is equivalent to a real rate of little over three. Many people are reluctant to entrust their money to trust companies, fearing that such high rates betray some unsoundness. They need not fear. Some companies with provincial charters are not so thoroughly inspected and controlled as they should be, but those with federal charters are as well inspected as the chartered banks.

It may well be that the banks would pay higher interest on savings accounts if they did not suffer from an unfair handicap. The limit of six per cent on the rate which they may charge for commercial loans, not too unreasonable when it was first imposed, is now altogether unrealistic. The situation is little differ-

ent from what it would have been twenty years ago if the government had arbitrarily reduced the rate which banks might charge to three and a half per cent. A business man of the type of those who borrowed at six per cent in 1946 would gladly pay eight, perhaps nine now, if he could get a loan. As it is, in many cases he limits or curtails his operations; in others he borrows from a finance company at perhaps 18 per cent - possibly paving the way to bankruptcy.

Dealing in Real Estate.

A fair number of well-to-do persons have received high returns, in one way or another, dealing in real estate. Our tax system, favoring above all land speculators and slumlords, makes land speculation and slum maintenance extremely profitable. But the working man, with at most a few hundred dollars to invest, can profit in this way, if at all, only at a great risk. He may often do better in buying, a few at a time, corporation shares which, on the average, have increased in value by more than the price of commodities. But the small man has not the resources to make thorough investigation, and can easily go astray. In addition, he pays the top rate of commission when buying or selling shares.

Taxing Fictitious Incomes.

In effect, the Dominion of Canada government has been collecting a good many millions of dollars annually in taxes on non-existent incomes. For a single example, take the case of a man who bought a bond of the Ontario Hydro when it was issued ten years ago. He has been receiving dividend cheques of \$500 per annum and paying income taxes on this as well as his other income. But the \$10,000 which he will receive back when the bond matures is losing in purchasing power year by year. On that account, his real income during the past year has been more like \$220 from that particular bond. Should he find it necessary to sell the bond at the present time, he would receive only \$9300. The loss of \$700 has actually been accumulating over

the years; but this loss, which is in addition to that already mentioned, has not been considered either. (Of course, the governments of Britain and U. S. have been collecting much greater sums in similar taxes.)

Another way in which the government has been levying taxes on non-existent incomes is in assessing income from building rentals. A building, even when kept in good repair, begins to depreciate as soon as it is finished and in time becomes worthless. Part of the rental which the tenant pays is compensation for this depreciation. The owner may claim this depreciation as a deduction from the gross rental he receives. But it frequently happens, as prices in general constantly increase, that a building is sold at a price higher than that paid by the owner, less the depreciation claimed; some buildings, though depreciated, have even been sold at prices higher than those originally paid. In such case, the government "recaptures" the amount of tax which the owner saved by claiming depreciation. The loss is actually there, but no allowance is made.

Strikingly different is the case of the out-and-out speculator, the man who buys land and misuses it so flagrantly that he receives no income from it, merely keeping it away from would-be users until improvements in public services have made it more valuable. Just because he is misusing this land, it is assessed at a much lower proportion of actual value than land which is put to beneficial use. Paying only a fraction of his due proportion of taxes, the holder is in many cases able to sell his holding at a huge advance, so that even allowing for the taxes he has paid, he has a large profit. This particular kind of income, acquired by doing much harm to the public, is not taxed at all. Some men prominent in public life have declared that they did not believe in taxing land which is not producing a revenue. Can one imagine a more glaring case of perverted thinking? Yet this kind of thinking is largely responsible for the fact that vacant land is assessed at hardly a fifth of the assessment on land of equal value under owner-occupied homes.

Causes of General Price Increases.

Traditionally, high prices result from scarcity. But most goods are by no means scarce in Canada. Production has been increasing, not only absolutely but in proportion to population, at a rate which should make it possible to abolish poverty before long.

Yet prices continue to rise at an increasing rate. For this circumstance, painful to many, varying and contradictory explanations have been advanced. Corporation executives say it is due to the unreasonable demands of labor unions; union leaders, with slightly more justification, ascribe it to the inordinate profits of corporations. None of these gentry mention increasing land costs, which have increased much more rapidly than wages or company profits. Occasional mention is made of taxes; but hidden taxes, which do play a part, have not risen greatly in recent years; provincial sales taxes, while adding from two to three per cent to the cost of living in most of the provinces, are shown as a separate charge, not a price increase.

The chief cause, several times as important as all others put together, is the depreciation of the currency, which has taken effect in the United States and in Britain, and other countries as well as in Canada. It has happened in many countries and in many times that governments have spent more money than they have been willing or able to raise by taxation. As individuals who habitually spend beyond their incomes become bankrupt, governments become bankrupt. But governments do not go through the courts; since they control the supply of money, they simply create more money. When money increases faster than goods and services, each unit becomes worth less. Thus governments quite informally repudiate their debts in part by repaying them in money of less value. In this way the German government, some time after the first great war, repudiated all but one-trillionth part of its debt. Of course, all other debts are sealed down in similar proportion, bringing affluence to some and disaster to others.

At a time when all money was currency, consisting of metal coins, governments increased the money supply by debasing the coinage. In this way Henry VIII of England increased the money supply of his realm during his reign so much that prices tripled.

Modern governments achieve the same result in slightly more subtle fashion. In Britain, Canada and the United States, the chief money of each country (that in which over ninety-five per cent - by value - of all transactions are effected) consists of bank credits transferable by cheque. The banks have considerable latitude in creating these credits, but they are limited by the necessity of being ready to supply currency on demand for any part of these credits. Thus any increase in the supply of currency makes possible a proportionate increase in the supply of bank money. In Canada, the only important currency consists of Bank of Canada notes. This supply can be increased at the will of the government - - it costs no more to print a \$100 note than a \$1 note.

The mechanism by which Bank of Canada notes are placed in circulation in quantity increasing faster than the gross national product was explained, with exemplary clearness, by Hon. Senator Arthur Roebuck in a Senate debate on March 10, 1959; his explanation was included in the May 1959 number of The Square Deal.

Tax Complications.

The Royal Commission on Dominion-Provincial Relations reported (1938) that the complexity of corporation taxation was then beyond belief. Taxation was much simpler then than now; it could not be dealt with adequately in one volume of reasonable size. Things are probably worse in Britain than here. The current Land and Liberty mentions a case, reported in the Guardian, of two accountants who committed suicide while in states of depression and exhaustion following intensive study of the British Finance Act of 1965. One could not possibly put so drastic a criticism of that Finance Act into words. But this case is quite under-

standable; it is more than a quarter of a century since the writer has been able to think of land assessments in Ontario without a feeling of nausea.

If only those who levy taxes would base them upon considerations of equity instead of upon calculations of political advantage to be gained by favoring this or that special interest, how much simpler life would be to the average Canadian!

* * * * *