Offsets to the Newly-Created Debt

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By H. M. P. ECKARDT.

With the publication of the January, 1918, statement of the Finance Department, it becomes possible to review the growth of Canada's public debt for three and a half years of war. When the several items of the funded debt and the temporary loans as at January 31st, 1918, are compared with the records for July 31st, 1914, the contrast is sufficiently startling:

Funded Debt.	Jul. 31, 1914.	Jan. 31, 1918.	Increase.
Payable in Canada.	$779,860	$671,211,536	$670,431,676
Payable in London	319,433,224	362,703,312	43,270,088
Payable in New York	. . . . . .	75,873,000	75,873,000
Total	$320,213,084	$1,109,787,848	$789,574,764
Temporary Loans	$8,273,333	501,036,130	492,762,797
	$328,486,417	$1,610,823,978	$1,282,337,561

These figures apparently include about $200,000,000 of the Victory Loan; and as a result of the completion of that mammoth transaction, in May, 1918, the funded debt payable in Canada will presumably stand at something like $870,000,000. Also the grand total of funded debt will then be increased to about $990,000,000. As the proceeds of the Victory Loan are applicable, in part, to repayment of temporary loans, there would perhaps be some reduction of that item in the early months of this year; but after allowing for such liquidation, it appears that the aggregate of funded debt and temporary loans in May will be in the neighborhood of $1,400,000,000, or more than a billion dollars greater than on July 31st, 1914. That truly represents a heavy price for Canada to pay, as her financial contribution towards the redemption of the world from the curse of Prussian militarism; but Canadians are assuming this burden, along with the far heavier one connected with the periodical casualty lists, in the firm conviction that the sacrifices made and to be made are justified by the greatness of the cause.

As regards gross interest outgo, the public debt as comprised on July 31st, 1914, probably called for a little more than $10,000,000 per year. On completion of the Victory Loan instalments, it is likely that the annual requirement in the way of interest will be nearly $75,000,000 the increase therefore being $65,000,000 per annum. Add to this the pensions and other legacies of that description, and the extra outlay resulting from the war will certainly reach $100,000,000 per year, the increase being equal to the whole expenditure of the Dominion on account of consolidated fund in the year immediately before the war.

Whenever the enormous increase of our public debt is discussed, it is necessary to take into the calculations the chances of increased Canadian production. It has been mentioned on various occasions that Canada, like the United States, will be required to produce foodstuffs and raw materials for the countries of Europe; and that, in view of the high prices prevailing for such commodities, the debt burden will not rest so heavily on the two North American democracies. The statistics of the war years show a striking increase in the value of Canada's primary production. Thus the total for 1917 is said to be $1,507,000,000, as against a total of $975,000,000 in 1914. An article in the United States Investor, of Boston, points out that on taking the primary production of the Dominion for the three years, 1915, 1916, and 1917, and combining the totals, the aggregate is $3,850,000,000. Had the production of the three war-years been on the same scale as in 1914, the total for the three-year period would have been $2,825,000,000. Thus, the conclusion is that Canadians derived from the primary industries in extra value during the war something like $925,000,000, which amount is nearly equal to the increase of gross debt. The net debt, as shown by the monthly returns in the Canada Gazette, was $997,000,000 on January 31st, 1918, as against $331,000,000 on July 31st, 1914—the increase being $666,000,000.

Of course, it is to be remembered that the $925,000,000 extra value in primary production, received in the past three years, would not by any means be represented by capital accretions to the same amount; but it is apparent that workmen, farmers, and other producers have added to their capital a considerable amount of the extra revenue received by them; and such capital accumulations will help the country to carry the extra burden of debt. It is quite likely that a large part of the capital accumulations arising from the increased value of Canada's primary production is now actually invested in the funded debt payable at home. So there can be no doubt that the increased value of the national production has been an important factor in increasing Canada's ability to carry the burden of war debt. Even if there is at conclusion of peace a fall in the value of the staples comprising the principal part of our export trade in normal years, the probabilities are that the value of the Canadian production will still be considerably above the pre-war level.

In addition to the increase of funded debt and temporary loans there has occurred in the war period a considerable rise in the Dominion note circulation. The notes outstanding have risen from $116,000,000 on July 31st, 1914, to $275,000,000 on January 31st, 1918—the increase being $159,000,000. On the other hand the gold reserve carried against the notes has increased only $23,000,000, leaving an increase of paper money amounting to $136,000,000 not covered by gold. Something over $90,000,000 of this is covered by approved securities which will be liquidated when the short data obligations of the British Government to our banks are paid off. On liquidation of these securities the Dominion note issues will contract sharply; and after this contraction it will perhaps not be difficult for the Government to negotiate a gold loan of sufficient size to bring up the gold reserve to the legal requirements.

It is necessary to remember, in connection with the increase of gross debt that through the issue of its own bonds and short date notes the Dominion Treasury has been acquiring a considerable amount of valuable assets. While the increase of funded debt and temporary loans in the 3½ years to January 31st, 1918, was $1,282,000,000, the increase of net debt, as mentioned above, was but $666,000,000. This comparison of figures suggests that the assets acquired during the period amounted to something over $600,000,000. That would be on the assumption that everything charged to capital account in the Department's books represented an asset equal in value to the relative debit entry. It would probably not be good accounting to proceed on that assumption. Nevertheless, sound productive assets aggregating a large sum have been acquired and they must necessarily be taken as offsets to the newly created Dominion debt. For instance, there are the British Treasury bills held in the Dominion treasury to represent our Government's direct loans to the British Government. These apparently exceed by a considerable amount the contra account claimed against Canada by the British Government in connection with the pay and maintenance of our expeditionary forces. If there is a net balance of $200,000,000 or $250,000,000 in our favor here, that would mean $10,000,00 or $12,000,000 of interest income to offset the increased interest outlay on our own debt. The annual reports of industrial corporations, in certain instances, give a sidelight on this matter of national assets created by means of the Dominion Government's newly floated loans. The Consolidated Mining and Smelting Co., for example, shows a debt of $760,000 due by it to the Imperial Munitions Board—the money being advanced to enable the company to make extensive additions to its zinc plant. Thus the Dominion Government issues its war bonds, and lends the proceeds to the Munitions Board. The Board in turn lends some of the money to Canadian industrial interests for the purpose of expanding Canada's capacity to manufacture not only munitions of war but also peace products. When the proceeds of the national loans are expended in that way, the expenditure helps to provide the means of carrying the war debt. Apart from assets of this description the new railway assets recently acquired with proceeds of Dominion bond issues. Although the value of the railway assets cannot as yet be fixed with certainty, the general expectation is that they will contribute importantly to Canadian development in the next ten years.

MOVIE STARS AND THE WAR TAX.

According to theatrical journals the U. S. war revenue tax that will be assessed upon Mary Pickford for this first collection is reported around $300,000, although the amount may be reduced to $225,000.

Other picture stars drawing enormous amounts for their screen work are Douglas Fairbanks, William S. Hart and Olga Petrova.

Charles Chaplin, guaranteed $1,000,000 yearly with the First National Exhibitors for his comedy films, has declared himself a British subject.

There are any number of picture stars who receive $3,000 weekly or less, down to $500 weekly. They will be accordingly assessed.

Fairbank's income for 1917 was not far below Miss Pickford's. Mary's amount for 1917 received from Artcraft was lately reported as nearly $1,000,000. Hart will be close up. Mme. Petrova has a guarantee of $10,000 weekly besides a percentage of any profits secured from the films she is starred in.

It was reported from London last week that George Robey, a comedian on the speaking stage, at the Hippodrome there, is England's largest war tax payer among professionals. Mr. Robey receives $2,500 weekly and pays the Government this year about $60,000 taxes. He is the biggest drawing card in London.

There are good grounds to believe the stars of the films over here in their tax payment will turn over to the Government a larger sum than the manufacturers who engage them.

LESSONS FROM CANADA.

With the railroads of the United States under government control as a war emergency measure and the question as to what is to be their status after the war — whether they are to be returned to their old owners in toto, whether some form of joint government and private control will be found feasible, or whether government ownership is to be the new order—is one of lively interest.

In this country the weight of the most experienced and conservative opinion is all against government ownership, and President Wilson and Director-General of Railroads McAdoo are practically on record as not being in favor of it.

Canada has some immediate and important lessons to teach as the result of experiments in public ownership and operation of railways. Canada has permitted the private construction and ownership of one road from coast to coast — the Canadian Pacific. For two more transcontinentals to compete with it and with each other it has disbursed in cash loans and "investments," including the Intercolonial Railway investment, $387,000,000 and has guaranteed the payment of $256,000,000 of debt.

To round out its ownership of these roads, further government investment is to be made. The current deficits of the Canadian Northern and what for convenience will be called the "Transcontinental," as well as the $643,000,000 mentioned, are fixed charges on the good-will and taxable resources of the country.

"Up with the taxes and down with the freight rates," says the shipper. "How much more patriotic for a promiscuous public to share the burden by assuming nearly all of it, for the sake of our bankrupt semi-government systems, than that we should pay taxes in the form of freight rates."

It is estimated that the loss on operation of the Intercolonial for 47 years by the people has been $268,000,000, exclusive of taxes and original investment. This would make the total of loans, "investments" and guarantees $911,000,000.

With all their solidarity of motive and ultimate singleness of view the Canadian people have already invested nearly $1,000,000,000, or more than half their whole railroad capitalization in the privilege of owning and operating the Intercolonial and Prince Edward Island roads and National Transcontinental road and to acquire a species of vendor's lien as chief creditor of the bankrupt Grand Trunk Pacific and Canadian Northern.

To perfect title, and "eliminate duplication" another $100,000,000 must be spent. Could much more be expected anywhere else from government operation of railroad finance, transportation and construction?—Boston News Bureau.

Nice Old Lady (in Cornell Widow)—Do you play on the piano, Harold. Little Harold—Not when maw's around—she'd be afraid I'd fall off.