

For almost three years, Great Britain has borne the heaviest part of the financial burden of the war for herself, for her allies, and for the Dominions. There is a substantial trade balance against her in the United States because of her large war purchases there. She must, at this time, resort to borrowing funds in the countries in which she is making her war purchases.

Changes in Financial Markets

When the war first broke out, Great Britain agreed to advance Canada £2,000,000 monthly for the financing of its share of the war. This continued for nearly a year when the Dominion was able to finance all its war expenditures in Canada. Britain arranged in the fall of 1916 to loan £30,000,000 for war purposes, to be drawn upon as necessary. Since then, the Imperial government has made advances to finance our war expenditures in England and at the front. The Canadian government has established credits from time to time for British war purchases here. Up to October 31st last we had advanced to Great Britain \$403,000,000 and the Imperial government had advanced to us \$378,584,160. Of this we repaid \$107,612,029 in dollar bonds, leaving net advances to us of \$270,972,130. The net amount in our favor, therefore, was \$132,027,869.

Since the war commenced, our financial requirements and markets have undergone rapid changes. The British people had invested in Canada prior to the war nearly \$3,000,000,000, the greater part in our securities. Upon the foundation of British capital, the Dominion of Canada was built. When the war commenced and London was closed to our borrowing for ordinary purposes, we turned to New York. In 1916, of our total bond issues of \$317,000,000 the United States purchased nearly 65 per cent. Previously Britain had purchased from 50 to 80 per cent. of all the bonds we offered each year. In 1915, the United States purchased over 42 per cent. of our total bond issues aggregating nearly \$342,000,000. Last year, the New York market was open to us only until April, when the United States entered the war. By special consent of the United States Treasury, the Dominion government obtained in July from New York bankers a two-year loan of \$100,000,000. During the remainder of the year, we were compelled to curtail ordinary expenditures and to finance at home.

Increasing Investment Power

The experience has demonstrated the increasing investment power of the country. With the subscription of over \$800,000,000 of war loans in two years, the interest payments to Canadians on these issues alone will exceed \$40,000,000 annually. In 1915, for the first time, Canadian investors purchased a substantial proportion of the Dominion's bond issues, namely, 44 per cent. In 1916, the figure was 34 per cent. and last year considerably higher again.

As the war continues, the more will its business and finance occupy our attention. By October last, war loans had the right-of-way in Canada, the United States and Great Britain. Little attention was paid to other borrowing. The United States has loaned out of Liberty Loan funds, to Britain and the Allies over \$3,883,000,000 since it entered the war. No advances were made to the Dominion in that way, although, as previously noted, we were able to borrow \$100,000,000 from New York bankers in July.

A certain amount of borrowing by Canada in the United States is necessary in order that the balance of trade between the two countries may be reduced and exchange in New York made normal. The unfavorable trade balance is indicated by the fact that in the last fiscal year Canada bought from the United States for domestic consumption goods to the value of \$654,000,000 as against \$290,000,000 purchased by the United States from Canada. At the close of the present fiscal year the balance in favor of the United States will be even more marked. The situation can be remedied by loans in the United States. Canada's credit has been maintained throughout the war. Although a borrowing country when the war broke out, such has been the patriotism of the people and the largely increased value of production, that the Dominion has been able to demonstrate its lending power in a remarkable way.

The \$100,000,000 loan in New York in the summer was arranged after a conference with the United States Treasury Secretary McAdoo. Realizing the desirability of Canada establishing credits in the United States to meet adverse balances, he at the same time stated that the United States would "have to keep control over our own situation by determining each foreign offering on its own merits and with reference to the financial conditions prevailing at the time." Mr. McAdoo added it was important "that our commercial and financial relations with Canada shall be conserved in every reasonable way." The \$100,000,000 transaction was intended for that purpose. Canada has not obtained advances from the United States through Liberty Loan funds, but we may take it for granted that should such a request become necessary and be made during the current year or later, the United States government will respond in view of the war financing we have done already and propose to do. At the same time, every effort must be made to conserve resources here, so that we may fully subscribe our own war loans.

Government's Taxation Policy

The use of the phrase "conscription of wealth" last year caused a certain uneasiness among those whose savings constitute a vital factor in the business and industrial life of the Dominion and are so essential to the credit and prosperity upon which our efforts in the continued prosecution of the war must largely depend. Sir Thomas White, finance minister, stated last year on behalf of the government that there need exist no apprehension on the part of the public that any action of a detrimental character will at any time be taken with respect to the savings of the Canadian public. On the contrary, it will be the policy of the government in the future, as in the past, to encourage in every way possible the exercise of the thrift and economy resulting in national savings which have enabled Canada to maintain her credit and improve her economic position during the war.

Any taxation to which it may be necessary for the government to resort from time to time will be in accordance with legitimate and established forms of taxation sanctioned by the tradition and experience of British self-governing communities. Last year saw the introduction of a federal income tax which cannot be described as onerous. The government is bearing in mind that Canada is a country inviting immigration and is not likely to become a country of heavy individual taxation. The Dominion's settled policy is that in providing its war expenditure, resort will not be had to taxation upon the farms,