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THE EFFECTS OF WAR FINANCING.

Right from the outset of the war, there has been spirited debate concerning its financial effects upon the nations engaged. It may be said that broadly speaking, debaters of this question hold two views which are sharply conflicting. One group alleges that Europe after the war will stagger under the burden of the enormous war debt, and that recovery to any reasonable degree of financial solvency will be a matter of years. The other party decrys all this talk of disaster as mere moonshine. An internal war debt, they argue, does not make a country any poorer, because people get back in interest on war loans the amount that they pay in taxes. In other words, they merely take money out of one pocket and put it into another.

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The real facts of the case in regard to this matter were put with admirable simplicity the other day in the New York Evening Post. Both the pessimists and the optimists, the Post points out, are wrong—the pessimists because they count the loss twice; the optimists, because they do not count the loss at all. There is a real loss. A nation cannot blow up its capital in munitions and be none the poorer for it. But the pessimists are wrong in saying that Europe will suffer from depletion of capital by war and also as a result of enormous taxes. Europe will suffer from depletion of capital but not as a result of the enormous taxation which will have to be paid. The taxation will result in a redistribution of wealth, but not *per se*, in the reduction of the country's wealth. The loss through war occurs in another way. For instance, a citizen holding a $100 War Loan bond on which he receives six dollars in annual interest and paying six dollars annually in taxation loses either six dollars or $100 capital. For if the war had not broken out this citizen would still have had his $100. Instead of investing it in a War Loan, he would have put it in some other security, have received his six dollars a year from it and would not have had it taken away from him in taxes.

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This argument, of course, makes no allowances for impoverishment which may be caused by borrowings abroad—to meet the interest upon which taxes have to be collected and instead of being redistributed, are sent out of the country in some form of visible or invisible exports, by new borrowings or in the last, and a very unlikely resort, by exports of gold. The exterior borrowings of the European nations are, however, almost trifles in comparison with their internal borrowings, and impoverishment through this cause would be a minor factor. Here in the Dominion, as a result of our war expenditures, we have added to our external debt and created a new and comparatively large internal debt. So far as the additions to our external debt are concerned, their effect is to add to the burden of the interest obligations we have annually to meet abroad, through our exports or by fresh borrowings. These war borrowings, it will be noted, constitute a dead-weight addition to our foreign obligations, since they do not earn financial returns or pay for themselves as do borrowings for development or for commercial purposes. The whole question of the financial effects of war in these directions is, however, less simple in the case of Canada than in the European countries. Against the loss involved in war expenditures must be set the gain of actual new wealth directly arising from the war as a result of the demand for munitions and our agricultural and other products. How the balance will eventually be struck remains to be seen.

THE DOMINION'S REVENUE.

The Dominion's revenue for the eight months of the fiscal year to November 30th totalled $144,-912,574, almost enough to meet the war expenditure during the same period which was $146,527,531, and over $40 millions more than in the corresponding eight months of the last fiscal year.

To this revenue, customs contributed $86,399,-360 against $60,155,959—which is satisfactory from the point of view of revenue but surely indicative of much buying abroad of goods that cannot be classed as anything else but luxuries.

Expenditure on Consolidated Fund Account for the eight months was $69,567,574, leaving a balance of revenue on this account of over $75 millions, which suggests that at the end of the fiscal year, there should be a very handsome revenue balance to go towards war costs. In connection with expenditures, it should be recollected that the annual interest charges on the public debt are now twice the pre-war standard. Apart from war expenses, expenditures on capital account for the eight months are only about $16 millions.

THE DOMINION'S DEBT.

The net debt of the Dominion at November 30th last stood at $706,128,082, a growth during the month of $10,349,000 and for the year of over $204 millions. Of the funded debt, $362,703,312 is now payable in London; $303,362,482 in Canada, and $75,357,000 in New York. In regard to the amount payable in Canada, this doubtless includes beyond the two domestic War Loans, the amount of the British Government's loans to the Canadian Government, which were funded a few months ago. Temporary loans are $119,067,808.

Following our usual custom, we propose to combine next week's issue of THE CHRONICLE with the final issue for 1916 to be published on December 29th.