NOTE:— * Proportions of Funded Debt and Guaranteed Securities which were issued with both principal and interest payable in gold, N.Y. Funds, Sterling or Canadian Funds, at the option of or to the advantage, if any, in foreign rates of exchange, to the holders, whether resident in Canada, Great Britain, the United States or elsewhere. The combined principal sums only, of outstanding Funded Debt and Guaranteed Securities payable on the above basis, as shown in upper and lower statements, make a grand total of $ 2,335,569,345.33 It is gratifying to record, however, out of $1,608,145,950.00 of Tax Free Bonds originally issued, that on March 31, 1931, there was still outstanding only $826,321,750.00.

**— These 4% Two Year Treasury Notes, issued Dec. 1, 1930, and sold at par to Canadian Chartered Banks, may be regarded as a reciprocal exchange Loan of mutual accommodation and convenience to the Government and Banks alike. The Public Accounts show that during the two fiscal years of 1929-30 and 1930-31 these various Banks had under loan from the Government, through the medium of numerous short date advances, amounts aggregating $1,107,336,000.00. In the same period the Banks paid the Government $2,774,813.18 of interest on advances. The amounts, periods of time and rates of interest involved in the numerous advances are not shown. In these circumstances however, it may be reasonably assumed that the rates of interest charged to the Banks by the Government on cash advances did not exceed those paid to the Banks on the said Treasury Notes, the principal and interest of which is payable in Canadian or New York Funds, at the option of the holders. For these reasons the item of $40,000,000.00 4% Treasury Notes is not considered comparable or to be in the same category as the other 4% items in Canada's "Funded Debt", and in consequence is shown separately herein.

To these interest charges paid under the above rates must be added the overriding cost of loan flotation expenses, such as cost of printing bonds, discount on bonds sold below par, commissions paid to banks and brokers, charges of management, commissions paid to banks as fiscal agents, commissions paid sundry banks for cashing interest coupons, adverse exchange, if any, on principal and interest when paid in foreign funds, redemption charges, auditing fees, etc. The flotation expenses in Col. 5 above, applicable to the principal sums of Funded Debts, as in Col. 2, are taken from Can. Pub. Accts., 1913-14 to 1930-31, shown under "Cost of Loan Flotations" and "Charges of Management", and take into account both gains and losses in commissions and interest payments due to Loan conversions and redemptions. On "Guaranteed Securities" the flotation expenses consist of the discounts at which the Securities were sold, as recorded in the Pub. Accts., plus an estimated average of ¼ of 1% on the principal sums, as in Col. 3, to cover such of the above enumerated items of expense that are not shown in Pub. Accts.

In the aggregate, these combined overriding expenses average approximately four and one-third (4.333%) per cent. (ranging from a minimum of .427% to a maximum of 20.25% on individual loans, and from 1.99% to 8.24% in the above respective groups of Funded Loans and Guaranteed Securities combined), and which on the balance of the four to seven per cent. Loans and Bonds only, of $2,737,461,937.14, as of March 31st, 1931, necessitates a further overriding expenditure in the principal sum of approximately $ 118,941,164.93 as shown in Col. 5, in excess of amounts payable under the stipulated rates of interest on the said 4% to 7% Bonds and Securities, which, for a 20-year period, works out as follows:—Principal sum borrowed (Col. 4) $2,737,461:937.14, plus Flotation Expenses paid thereon (Col. 5) $118,941,164.93, equals $2,856,403,102.07, on which sum interest ranging from 4% to 7% is compounded semi-annually for 20 years. Therefore, Col. 6 shows the actual ultimate cost to the Crown for the use and hire, only, of the original sums borrowed (Col. 4) for the 20-year periods as being.. $ 5,164,150,319.60 and which, when converted into percentages of simple interest (see table below), ranges from 6.7655% to 15.758% per annum on the several amounts originally borrowed (Col. 4) or an average, over all, of 9.4323% per annum simple interest. The above total sum in Col. 6, therefore, includes and absorbs the total principal sums of flotation expenses in Col. 5, plus compound interest thereon for 20 years, but does not include the principal sum of $2,737,461,937.14 originally borrowed, as in Col. 4.

Obviously, none of the foregoing extra expenses are incurred or necessary in the payment of interest on refund claims, which means that the net flat rate of six per centum (6%) per annum simple interest, as requested, would cover the entire cost or expense to the Crown for the use or hire of monies involved in refund claims, and thereby prove to be on an average (as shown in the tables) the cheapest source of borrowed money available to and enjoyed by the Crown, especially during the war and post-war periods.

The actual and relative costs and value to the Crown for monies so used or hired is best illustrated by reducing the amounts involved into Loans of small units, and then tracing each Loan into the actual service of the Crown, and on throughout varying periods of time until finally liquidated by the Crown, in a manner such as employed in tabular form below. For example, the Crown on a given date receives $100.00 through the medium of a Bond, designated herein as a "Funded Loan" or Debt. On the same date the Crown receives $100.00 through the medium of an overpayment of taxes, designated herein as a refunding or "Unfunded Loan" or Debt. The net proceeds of both sums or Loans, once received, immediately pass to the credit of the Receiver General or National Treasury, and thus completely lose their identity in the general and varied services of the Crown, the Crown receiving, without distinction, equal service and equal value from the hire or use of each dollar of each Loan. Logically, this equal, indistinguishable service and value rendered to the Crown should merit and receive equal recognition and compensation in return from the Crown. But what is the true answer?

The comparative figures and differentials in the tables prove at a glance the much lower average cost of refunding or "Unfunded Loans" to the Crown if liquidated on a basis of 6% per annum simple interest, as requested, as against the varying rates of from 4% to 7% payable on "Funded Loans", weighted down at the outset with varying percentages of flotation expenses, plus the equivalent burden in ultimate cost to the Crown of interest compounded semi-annually for varying periods to the final dates of liquidation, ranging from 1 to 20 years, as illustrated in the tabulated statement on page 4 hereof.