Defense of Tax-Exempt Loans

Sir Thomas White replies to discussion on Dominion's war financing

Referring to the discussion which is taking place with regard to tax-free Victory Loan securities, the Minister of Finance makes the following statement: ment:

"Those who contend that our war loan issues in Canada should have been made subject to Dominion taxation, overlook several important conditions bearing vitally upon the question.

"During the first two years of the war, Canada could not have financed her military effort by domestic loans only. We had been a borrowing country, and it was necessary that for a considerable period after the outbreak of war we should continue to borrow externally. The London market, having been closed to outside issues, we turned to New York. In connection with our loans there, it was an imperative condition that the securities should be tax-free, no matter in whose hands they might be held. We have now listed in New York tax-free securities aggregating $140,000,000, from which Canadians have bought and can still buy.

"We have issued $750,000,000 of tax-free securities in Canada. In fixing the price of issue we had to take into consideration market conditions prevailing in Canada and New York. This was especially so during the first three years of the war, when we had to depend for the success of our loans principally upon the investing public. The Anglo-French loan and the several issues of the Imperial Government in New York, all giving a high interest yield, were, during this period, real competitors with our war issues, and large sums went from Canada for their purchase. While it is true that patriotism plays a great part in the succesful flotation of war loans, it should be kept in mind that prices must reasonably conform to market conditions. Especially is this true where financing on a large scale extends, as ours has extended, over a period of years. Prices continually tend to reach true market equilibrium.

TAXABLE.

"If the $750,000,000 of securities which we have issued in Canada had been subject to taxation, we should have had to offer a better interest yield rate than we offered to the public. This is clearly illustrated by the positions of the tax-free and the taxable Liberty Loan issues on the New York market. The 3½ p.c. tax-free issue stands at or about par. The taxable 4¼ per cent issue stands at 95. There is a difference in interest yield rates of nearly a point and a half. If upon the $750,000,000 of war loan securities which we have issued in Canada we had to pay only ½ per cent additional interest rate, our annual interest charge would be increased by $3,750,000, and we should now be facing a 6 per cent rate upon our next loan, instead of floating it at 5½ per cent as we shall.

"On the other hand, suppose the whole $750,000,000 of our domestic issues were subject to taxation, what revenue should we derive under our income tax? The annual interest is, say, $40,000,000. Allowing for the exemptions provided by the Act in the case of all incomes, it is extremely improbable that we should derive more than a million, or at most a million and a half, additional revenue from the taxation of income derived from this body of securities. In other words, our annual balance sheet is decidedly the better by reason of our securities having been issued free of taxation and upon the favorable interest yield basis which we were thus able to obtain.

COMPARISONS.

"The comparison with government issues of Great Britain or the United States is quite fallacious unless all the facts are taken into account. Before the war United States bonds were on a 2 per cent basis. British consols yielded investors about 3 per cent. Both were highly favored premier securities in the respective great financial markets of the two countries. Canada was, before the war, an external borrower, issuing her Dominion debenture stock as a trustee security in London on about a 4¼ per cent basis. The rate in the New York market would have been considerably dearer.

"Considering that we have been four years at war, it is remarkable and most creditable to Canada that our securities stand so firmly on a 5½ per cent basis. With regard to the Liberty Loan rate of interest we must bear in mind that the United States has been in the war a little over a year, after three previous years of unexampled prosperity. There does not appear to me to be any weight in the contention that other securities should be put upon a parity with those of the Dominion as regards taxation. The burden of financing the war and finding capital for the purchase of our products rests upon the Dominion Government and its securities should have priority of market and any special additional advantage which can be given to them. High interest rates for other borrowers will tend to keep down expenditures in many undertakings which can well wait until the end of the war.

"The argument that tax-free securities will mean that capital will not so readily flow into other securities is not borne out by experience. Before the war in the United States, federal, state, municipal and county issues were free of federal taxation. The result was that all those securities sold on a very low interest basis. Enterprise was not restrained or adversely affected. Rates of interest on other securities were normal.

"It is urged that some wealthy people may reduce their taxation by buying tax-free bonds of the forthcoming issue. But they can buy on the open market what they require from our tax-free issues now outstanding in Canada or in the United States. Will the average investor buy and continue to hold taxable bonds when he can obtain tax-free bonds at the same or a slightly increased price on the open market? Would not a taxable issue, patriotically subscribed, gravitate to a discount through subsequent selling by such investors? Making the forthcoming Victory Loan taxable would, having regard to the foregoing, be in my view an experiment at a time when supreme success is vital to the support of our military effort now at its very height and to the general prosperity of Canada as well. There will be room for experiments at a less crucial time. Personally, I took forward to the period of our refunding operations after the war with the hope and expectation that if our Dominion securities are given the special privilege of tax exemption we shall, with the cheaper money conditions, be able to greatly reduce our annual interest charges. This would mean much to our budgets in the period succeeding the war. I do not for a moment believe that enterprising citizens in a country with such possibilities as ours will be deterred from engaging in business or industrial activities because they can invest in tax-free Dominion securities yielding a comparatively low rate of interest. The experience of the United States abundantly proves the contrary.

"As for the new Victory Loan, I feel that no risk should be run by making its terms less favorable than those of our last issue. The difference between a moderate success and the notable success such as I feel Canada will accomplish would be a most serious difference to our agricultural, trade and industrial prosperity upon which depends the financial support of our war effort. I do not believe this is a good time to make any change in our war loan policy."

Food in Storage

Comparisons with 1917

Ottawa, August 14.

The cost of living branch of the Department of Labor makes the following report to the Hon. T. W. Crothers, Minister of Labor, concerning goods in cold storage throughout the Dominion.

"The statement for the total amount of food commodities in storage, August 1, 1918, is made out for a somewhat different classification of commodities than that formerly shown. This statement shows the total stocks physically on hand at the premises of all the storages reporting. This includes certain supplies of food owned by the British Ministry of Food and temporarily stored in Canada awaiting shipment. Unfortunately for the sake of comparison with last year, we do not have a complete record of all the stock on hand in all the storages in the Dominion on the first of August, 1917. We are, however, able to give a comparison between the quantities held in the premises of the largest companies this year and the stocks owned by these same companies last year, which present the fairest possible somparison with conditions a year ago. By the month of December of this year we shall be in a position to give a complete comparison with the corresponding month of the preceding year. The comparison between July 1 and August 1 for this year is for the total stocks physically on hand in all the warehouses reporting and accordingly is a stock comparison.

BUTTER AND CHEESE.

"In the case of butter, we find a decidedly greater quantity on hand at the first of August than on the first of July. Thi sis natural in itself owing to the fact that this is the season of the year in which next winter's supplies are being laid by. But we also find that there are greater stocks on hand this August than August of last year. This surplus stock is already being forcibly driven into the hands of the Allied buyers by action of the Canada Food Board since August 1.

"In the case of cheese, we also find somewhat more on hand at the first of August than the first of July, owing to this being the season of production, but we find that there is very much less on hand this August than there was the preceding August, the figure showing less than one-half this year of the stocks of last year. The shipments have been kept up closer this year than last by the Allied buying owing to the fact that shipment conditions are better.

"In the case of eggs, while the stocks haev increased over last month, as is natural at this season of the year, all the comparative data at hand indicate fifteen per cent less on hand this year than at the same date last year, probably because consumption is greater and possibly because of the slight decrease in production.

"In the case of pork, we are able so far to give a comparison only for all kinds of pork produce taken together. The data here show a slight decrease as compared with last month, and 26.76 per cent less than at the corresponding date last year. As will be noticed over 15,000,000 pounds of the quantity reported are still in the process of cure. The supply of hogs coming into the markets in Canada up to the present time has not been so great this year as was anticipated.

"The stocks of fowl on hand are so small as to be almost negligible.

"The stocks of mutton and lamb show a very decided increase on last year. Since there is no export of mutton and lamb to the Allies, these stocks should be immediately available for domestic consumption.

"In the case of fish, we have slightly less than a month ago, but still large holdings. The comparison with last year includes such a small proportion of our companies' storing that no deductions can be made."

IN STORAGE.

The amount of commodities in storage August 1, 1918, were:

Butter, creamery, 13,536,595 pounds; dairy, 1,714,-691 pounds.

Cheese, 10,965,946 pounds.

Eggs, in cold storage, 11,376,775 dozen; not in cold storage, 467,084 dozen; frozen, 1,250,314 pounds. Oleomargarine, 460,361 pounds. Pork, frozen, 9,-617,285 pounds; not frozen, 2,431,260 pounds; dry salted, 4,633,778 pounds; sweet pickled, 8,950,126 pounds; in process of cure, 15,665,622 pounds.

Beef, frozen, 12,253,303 pounds; not frozen 3,575,-151 pounds; cured, 345,931 pounds; in process of cure 369,279 pounds.

Mutton and lamb frozen, 8,727,018 pounds; not frozen, 95,909 pounds.

Fowl, chicken, 107,839 pounds; poultry, 96,189 pounds.

Fish, all kinds, 16,289,873 pounds; for bait, 1,182,-087 pounds.

Holdings on August 1, 1918, compared with those of August 1, 1917, according to statistics taken from such limited lists of firms as the records for last year allow, are:

	1917.	1918.
Butter	10,977,514	13,435,861
Cheese	16,590,539	7,018,720
Eggs	7,862,293	6,672,975
Pork	45,853,758	33,587,486
Beef	6,274,043	10,875,245
Mutton and lamb	338,045	939,552
Fowl	1,198,930	66,231
Fish	3,787,728	6,605,875