and special expenditure, a substantial part of which we have in the past been able to defray out of current revenue, a balance only having been provided by borrowing. Included in our ordinary expenditure is an amount of $2,500,000 which will be required this year for the relief of distress in the drought-stricken districts of Saskatchewan and Alberta. In addition we are making provision for about seven and a half millions or more to be expended in the purchase of seed grain.

Cost of Dominion Forces.

I have still to deal with the expenditure representing the cost of organizing, training, equipping, transporting and maintaining our forces enlisted for active service in defence of the Empire. In connection with the War Appropriation Bill presented by him at the August Session the Rt. Hon. the Prime Minister presented an estimate of $30,000,000 covering expenditure until March 31st next for the mobilization equipment, transport and maintenance of an overseas contingent of 25,000 men and pay of detachments of troops on active home service. The estimate of expenditure presented in August was inadequate to meet the enlarged programme and the special war expenditure during the present fiscal year will probably reach the total amount of the appropriation, namely: $50,000,000.

National Debt Increase.

Taking all the foregoing into consideration the increase of Canada's national debt for the year would probably aggregate $110,000,000. In this I am including our expenditure for war.

In addition to the expenditure to which I have referred the Dominion has made advances on investment account under statutory authority and has met its sinking fund obligations as usual, the funds required to be found for these purposes aggregating $5,000,000. We also provided for the retirement of £1,700,000 of yearling treasury bills which matured in November last.

Finding Money is Onerous Task.

The house will, from the statements I have made, gather that the task of finding money for our requirements as outlined has been somewhat onerous. For four or more months after the outbreak of war international money markets were closed to new issues. By December, after the successful flotation of the British war loan, an easier tone prevailed and it became possible to obtain short date money in limited amounts at fairly reasonable rates. Capital was still, however, averse to permanent investment, although evidence was not wanting of improvement in that regard.

British Treasury Regulations.

Any prospect of general resumption to this respect in Great Britain was, however, terminated by the British Treasury authorities on January 18th, that owing to the necessity of conserving the financial resources of the country during the war, fresh issues should thereafter be made only with their approval, issues for undertakings outside the British Empire were prohibited. Issues for undertakings within the United Kingdom are to be allowed only if considered advisable in the national interest; those for undertakings in the British Empire overseas only where urgent necessity and special circumstances exist

Financial Measures Taken.

To meet our financial requirements since the August Session the following steps have been taken:—

We arranged with the Imperial Government for advances from September until March 31st of £12,000,000, or say $60,000,000, of which we have received to date £8,000,000.

We issued for Dominion purposes Dominion notes to an amount of ten million dollars in excess of the additional issue of $15,000,000 authorized by Parliament at its last session. For this I am introducing special legislation confirmatory of our action.

We borrowed five million dollars from the Bank of Montreal.

We issued after the successful flotation of the British war loan, £3,000,000 of six months Treasury Bills negotiated at 4½ and 4¾ per cent., and maturing in June next.

We sold at a net price of 94½ £1,300,000 of our 1940-60 stock to meet the private requirements of our investing clientele in London.

Substantial Balances on Hand.

By these means we have arranged our finances until the end of March of the present fiscal year. At present we have substantial balances to our credit, both here and in London.

So far as floating indebtedness is concerned we shall therefore enter upon the new fiscal year with £3,000,000 of Treasury Bills maturing in June, and a bank indebtedness of $5,000,000. Apart from these we have no maturing loans to meet until the year 1919, a most satisfactory situation which I am disposed to attribute to the policy hitherto followed by the Dominion of financing by selling its permanent stock at such prices as could from time to time be obtained, rather than by issuing short date loans in the hope of more favorable conditions developing later.

As regards our borrowings from the Imperial Treasury upon its war loans, from the proceeds of which advances are to be made to us. At such time or times in the future as may be agreed upon by the British Chancellor of the Exchequer and the Canadian Minister of Finance, a Canadian war loan will be issued and the borrowings from the Imperial Government repaid. It seems to me that no fairer terms could be named than those so generously accorded us by the Imperial authorities.

Finances of Coming Year.

In approaching the question of our finances for the coming fiscal year beginning April 1st next, it will be advisable to give preliminary consideration to prevailing trade conditions because upon such conditions will depend the amount of revenue which will be derived from all sources and particularly from customs which is our principal mainstay in the matter of income. Since the outbreak of war there has of course been a most serious interruption of our international trade. Commercial dealings with enemy nations have been automatically shut off. The increased risk of ocean traffic and higher freights have had their influence. The demoralization of the rates of exchange, which are now happily becoming normal, was for several months a serious detriment to international transactions.

Import and Export Trade.

In addition our import and export trade was for a considerable time and is still in some degree adversely affected by the interruption of our merchant marine service through the chartering of so many steamships for the transport of our troops and the engagement of a part of our shipping by the Imperial authorities. The falling off of immigration, the departure from Canada of reservists and of our own contingent have also had their effect. But by far the most important factor has been the curtailment of our borrowings abroad. This has been the outstanding feature of the economic effect of the war upon Canada. Canada has been borrowing at the rate of from two to three hundred million dollars annually for some years past. For the six months preceding the war our loans abroad and principally in Great Britain aggregated two hundred million dollars, or over a million dollars a day.

Our Heavy Borrowings.

These borrowings represented the sale of securities by the Federal and Provincial Governments, by municipalities and by railway, public utility, industrial and financial corporations. For the most part the purpose of loans so effected was to provide funds for the construction of public undertakings, works and services, railways and industrial and other plants and establishments. The war at once cut off this stream of borrowed money and only recently have there been evidences of its resumption upon a greatly reduced scale. Until the war is over and for a considerable period afterwards it is not probable that monetary conditions will permit of the issue of securities even of the highest character other than for war purposes, in any such volume as that to which we have been accustomed in the past.

This interruption of the influx of capital has necessarily meant marked curtailment, of expenditure upon undertakings, works and buildings in all parts of Canada with consequent reaction upon the industries, trades and businesses furnishing material and supplies therefor. The result has been a material slackening of general constructional activity, considerable unemployment and attendant diminished buying power on the part of the community. Commercial houses are exercising prudence in commitments, and the public generally are practising economy, that is to say, they are buying less, both of domestic and imported produce.

Rapid Decline in Trade.

The result of all this has been a rapid change in the volume of our imports and exports. For the nine months ended December 31st of the present fiscal year our total exports (merchandise only) amounted to $353,000,000 as compared with $380,000,000 for the corresponding period of the previous year, a decrease of $27,000,000. For the same nine months of the present year our imports (merchandise only) have been $391,000,000, a decline of $112,000,000 over those for the corresponding period of the previous year. Thus the ratio of decrease in our exports has been much less than in the case of our imports.

The total trade for the first nine months of the present and last fiscal years was $745,000,000 and $885,000,000, respectively. In 1912 the so-called adverse balance of trade against Canada was $225,000,000; in 1913, $300,000,000; in 1914, $180,000,000. From present indication it would appear that we shall to a large degree overtake this balance. In view of the decrease in our borrowings, which have accounted in large measure for our excess of imports, this condition is what we should naturally expect. Our imports will, it is to be hoped, so increase as to enable us, with such borrowings as my be obtained outside of Canada, to pay out any trade balance against us together with our interest maturing abroad without resort to gold exports.

Diminishing Imports and Revenue.

From what I have stated, it is apparent, that with the war still continuing, we may expect for the year 1915-16 diminishing imports and consequently reduced revenue as compared with the present year in which there have been four ante-bellum months. Upon the present basis of duties of customs and excise we estimate that our revenue from all sources for the coming year would not exceed $12,000,000. So far as expenditures are concerned, the policy we enunciated in August we shall continue. Our estimates contain no new items and as to items which they include we shall proceed with works not already under contract only as we feel justified, having regard to the financial situation.

Dealing with what we may call uncontrollable expenditure, that is to say, expenditure necessary for the conduct of civil government and required to meet interest and other obligations of the Dominion, we cannot look forward to any reduction over the past year. The Dominion has large undertakings under contract for construction. Chief among these may be mentioned terminal and harbor works and improvements in our larger port cities, the completion of the National Transcontinental Railway and the Quebec Bridge, the Hudson Bay Railway and the Welland Canal.

Consolidated Fund Expenditure.

We must calculate upon consolidated fund expenditure of $140,000,000 and of capital and special expenditure of $40,000,000. For investments authorized by statute we shall have to provide $4,000,000 additional. It will be necessary also to raise funds to meet the outstanding Treasury Bills to which I have referred. Our special war expenditure may reach $100,000,000 for which a special appropriation bill will be passed at this session. Our interest charges will, of course, greatly increase from this forward. Our outlay for this year on this account will exceed sixteen millions. In next year's estimates they appear at 21½ millions. We must also look forward to a large and increasing pension-list expenditure.

Have to Raise $180,000,000.

It is apparent in these conditions that we must obtain additional revenue to a very substantial amount. Assuming that our total cash requirements for all purposes whatsoever, including our war expenditure, will amount during the coming year to over $300,000,000, while our revenue on the present basis would yield only $120,000,000, we are faced with the problem of raising by additional taxation and borrowing a sum in excess of $180,000,000. My proposals for meeting the situation are as follows:—

No Excuses Offered.

So far as concerns our special war expenditure which may reach one hundred million dollars, I should be disposed, if we had not such heavy and uncontrollable capital expenditure to meet, to recommend that we should pay at least a part of it from current revenue. But it is obvious upon a consideration of the figures which I have submitted that we shall not by any reasonable supplemental taxation measures be able to close the gap between revenue and expenditure much less to pay a portion of the principal of our special war outlay. In the circumstances I have no hesitation in proposing to the House that we shall borrow the full amount required under this heading. Canadian governments have always justified public borrowing for capital account on the principle that expenditure upon enterprises, permanent in their nature, inures to the benefit and advantage of future generations who may therefore fairly be asked to pay interest upon the debt contracted in respect of them.