NATIONAL DEBT WILL BE REFUNDED

Time For Repayment Must Extend Far Beyond Maturities of Bonds—Receipts and Expenditures Now on Greater Scale

(Special to *The Monetary Times.*)

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FROM a financial standpoint the year 1920 has been a critical year for the Dominion government, although it is beginning to turn the corner. For the first time since 1914 it had to renounce national borrowing as the means of meeting extraordinary expenditures. It had to get somehow enough revenue to meet current expenditures of administration, interest charges and works undertaken on capital account. For that purpose new taxes were levied, the so-called luxury taxes which have now been abandoned, and the sales tax collected from manufacturers, wholesalers and importers. This was breaking new ground for Canada, and the government could not tell just how much money these taxes would bring in. It was estimated that they would add about $85,000,000 to the national revenue, but it is believed that the budget address of Sir Henry Drayton at the session of parliament, which is expected to commence during the week of February 14-18 next, will show an increase of well over $100,000,000 in revenue received. This is in spite of the abandonment of the luxury taxes, the increased exemption of profits from the Excess Profits Tax, and the decreased receipts from sales, customs and other taxes as a result of the declining prices for many articles.

However, against this increase he will also be obliged to set increased expenditures on account of larger interest charges than had to be paid last year, and a heavier drain for pensions, soldiers' civil re-establishment and in general expenses. Soldiers' Land Settlement expenditures, however, will be about a million dollars less a month than they were last year. Ordinary expenditures will probably be thirty million dollars more than last year.

War Expenses Over

The great difference in the situation, of course, is that the Dominion no longer has to pay hundreds of millions of dollars each year on account of the war. Aside from the indirect expenditures resulting from the war, there will be less than ten million dollars directly spent on the war in 1920. Anxious eyes, however, view the railway situation, as one that may possibly open up other avenues of increasing the public debt. It is commonly expected here that the Canadian National Railway deficit this year will not be far from sixty million dollars. This will have to be made up by the Dominion government either in the form of a loan, as it has done in recent years, or by simply making up the deficit. The last few months have shown better results than earlier in the year as a result of the increased freight rates, but it was taken from the company before they began to earn it in order to pay the increased wages retroactive to May 1 last, allowed the men under the agreement by which they would be given increases similar to those accorded under the McAdoo award. The huge debt piled up on account of the railways is not included in the three billion dollar gross debt of the Dominion of Canada, as these are treated as debts of the railways. Yet the Dominion government will now have to foot the bill for all deficits and meet all principal and interest payments which the companies cannot meet out of receipts. There will be a demand at the coming session of parliament for a statement as to the exact situation with regard to all railways owned by the Dominion government, including the Grand Trunk Railway, the whole cost of which will not be known until the arbitration board makes its award. Unless there is a quick betterment in the situation, the Dominion will have to stop making annual loans to its railways unless it provides the money out of taxation in addition to a sinking fund to write off the national debt.

Debt Will be Refunded

It is thoroughly understood here that the payment of the national debt is a refunding proposition. Finance department officials have estimated that the national debt can be extinguished in seventy-five years by the setting aside of seven and a-half million dollars a year into a sinking fund each year, and left to increase at compound interest, until such times as payments become advisable. The present interest payments are $141,000,000 a year. While the department has not decided on the seven and a-half million dollars a year as a hard and fast policy, that amount is regarded as a minimum. Next year two amounts fall due, the Dominion having to pay in New York, or renew, a 5½ per cent. loan for $15,000,000, falling due on August 1, 1921, and a 5 per cent. loan of $25,000,000 falling due on October 1. The experience of this year shows that these can be met if exchange conditions make payment advisable, or if gold supplies are sufficient to permit a shipment. Otherwise these also can be refunded.

The situation, however, is such that the Canadian people can advance into 1921, knowing that though the load is heavy, it is well within their strength, and that increasing population from decade to decade will make it progressively lighter and lighter in its individual incidence.

NATIONAL CITY COMPANY'S CANADIAN BOARD

The National City Co. announces the appointment of a purely Canadian advisory board. The personnel of this advisory board, drawn in part from among five of the leading banking institutions in Canada, is as follows: Rt. Hon. Lord Shaughnessy, K.C.V.O., Montreal, chairman of the board of the Canadian Pacific Railway, and a director of the Bank of Montreal, who will act as chairman of the advisory board; Sir Lomer Gouin, K.C.M.G., former premier of Quebec province, director of the Bank of Montreal and the Laurentide Co., and president of the University of Montreal; Martial Chevalier, the general manager of the Credit Foncier and Chevalier de la Legion d'Honneur; Lt.-Col. Herbert Molson, C.M.G., M.C., Montreal, director of the Bank of Montreal and the Royal Trust Co.; Sir John Aird, Toronto, vice-president and general manager of the Canadian Bank of Commerce; Edson L. Pease, managing director of the Royal Bank of Canada; W. N. Tilley, K.C., counsel for the Dominion government in the Grand Trunk arbitration proceedings; Sir Augustus Nanton, Winnipeg, senior member of the firm of Osler, Hammond and Nanton, and president of the Winnipeg Electric Railway Co.

As a Canadian organization the history of the National City Co. began in December, 1918, when Norman L. C. Mather joined the company in the capacity of manager for Canada. The Montreal office was opened in January, 1919, and the following month a branch office was opened in Toronto.

While the original purpose of the entry of the company into the Canadian field included the distribution in Canada of some of the more active securities of United States origin, the embargo and exchange have combined to limit the activities of the company to the purchase and distribution of Canadian securities. It is to this field that the National City Co. will devote its energies, and endeavor to open the way for the investment of United States capital in this country and otherwise to promote the distribution of Canadian securities through its other widespread connections.

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