The Chronicle

Banking, Insurance and Finance

Established 1881. **Published Every Friday**
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OFFICE:
406-408 Lake of the Woods Building,
10 St. John Street, Montreal.
Annual Subscription $3.00 Single Copy, 10 cents.

MONTREAL, FRIDAY, FEBRUARY 20th, 1920

THE GENERAL FINANCIAL SITUATION

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be the case most probably in the early stages, the effects of it in Canada are not likely to be wholly unfavourable to business. With a decline in prices, a point would be reached where, for instance, new construction would be undertaken. One of the gratifying features of the present situation is the w y in which the building industry has been resuming its activity during the last six months, and with a decline in the cost of construction, this movement would certainly be stimulated. Moreover, speaking broadly, the leading industrial corporations are now in such shape, financially, that they can regard with comparative equanimity a period of declining prices, followed as it would necessarily be by one of declining wages. Those who have in fact most to fear from a period of declining prices, and wages, are those who in these present days of prosperity, have foolishly squandered their gains, without looking ahead. Under normal conditions we believe that any decline in prices will be so gradual as to be easily handled without serious loss or panic by those in positions of responsibility in finance and industry.

Meantime, we are incline to think that whatever developments of this nature of the future may hold, at their present levels, Canadian securities of the better type offer investment opportunities of a very satisfactory character. There is no doubt that the present stringency in liquid funds has been caused, to a very fair extent, to a greater extent possibly than appears on the surface, by the steady stream of liquidation here of Canadian securities formerly held in Great Britain. This liquidation in the last few weeks has certainly reached very large proportions, not only in Stock Exchange securities, but also in Municipal and other bonds. While this liquidation continues, it will undoubtedly have a substantial effect in keeping down prices. The fact is, however, that particularly in the case of the public utility and industrial stocks, which are now the subject of liquidation, while prices are being kept down, earnings are going on at an extremely satisfactory rate, and the real values behind the securities are being steadily increased,—a point which under present circumstances is apt to be overlooked.

Exception may be taken to criticism which has appeared in the last few day regarding the statement of Government finances to the end of January. The particular point to which attention has been directed is the fact that for the ten months of the current fiscal year, the ordinary expenditure is $271,000,000 against $162,000,000 for the ten months of the year ended 31st March, 1919. But no mention is made of the further fact, that this increase in ordinary expenditure is very largely due to the interest on War Loans, additional to that of the preceding period, and to pensions, which also naturally show a very large increase. The probabilities are that these two items account for fully two-thirds of the ten months increase in the country's expenditure on revenue account. The suppression of the fact that these unavoidable increases are included in this enlarged expenditure, and the consequent implication that the whole $109,000,000 was due to increased expenditure in other and controllable directions, is surely unfair criticism, which serves no purpose except to mislead. What the ten months figures do in fact show is that the utmost necessity for economy in Government revenue expenditures exists, and that to expect or anticipate a decrease in taxation as a result of the proposals of the Minister of Finance in his forthcoming Budget, is merely idle. With a ten months revenue of $288,000,000, expenditures on revenue account, as stated above, are $271,000,000, and in addition there are expenditures on work and railways of over $35,000,000, and war expenditures of $299,000,000. The latter may be expected to decline almost to vanishing point in the next fiscal year, unless indeed Paliament takes it into its head to increase gratuities. But with further permanent charges for interest, as a result of the flotation of the last Victory Loan, expenditures on revenue account are not likely to show any substantial decrease, and in view of the absolute necessity, in the country's best interests, of keeping down Dominion Government borrowing, we believe that revenue should also be sufficient, for the next year or two at least, to take care of a substantial proportion of necessary expenditures of a capital nature. In the light of these facts, those who are very busy advocating the abolition of the Business Profits War Tax, may well be asked to make suggestions for taxation which would compensate for the loss of revenue from that source, in the event of the Business Profits War Tax not being renewed