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THE GENERAL FINANCIAL SITUATION

The salient fact of the Dominion Government's estimate for the forthcoming Fiscal Year, tabled in the House of Commons this week, is that revenue even with taxation increased from its present level, will possibly not be sufficient to meet expenditures. The years estimates call for an expenditure of $537,000,000 a figure which while nearly four hundred millions less than the estimates for the Fiscal Year now concluding, is not particularly satisfying when contrasted with the estimated revenue for the present year of $365,000,000. It is stated that every effort will be made by the Government to avoid a new loan during the present year, and that there is yet no evidence that such a loan will be necessary, since there are large balances still unexpended of the last loan which will be available to supplement revenue in the new fiscal year. It is certainly much to be desired that new Government borrowing should be avoided, even if avoidance means higher taxation for the time being as well as rigid economy. The Minister of Finance will doubtless give an indication of his intention in this connection when announcing his Budget proposals which should make their appearance within a few weeks. The new estimates certainly do not give any encouragement to ideas of a reduction in taxation. Capital expenditures included in the above total of $537,000,000 do not run to $150,000,000 so that apparently the revenue expenditure of the country which must be met out of taxation if any sound basis of national finance is to be maintained, will for several years not fall below $400,000,000 and possibly will rise to $450,000,000. Interest charges alone run to nearly $150,000,000 annually, and these will certainly not be reduced appreciably for a number of years to come. Railway deficits for the forthcoming year are placed at $50,000,000 a figure which may be reduced through an increase of rates. Newspaper commentors on the estimates refer to the absence of provisions for post offices, wharves and harbour dredgings which in years gone by were frequently included in the annual estimates. We imagine that it will be several years before old familiar friends again make their appearance, if the national finances are to be kept within bounds.

In some conservative financial quarters locally, it is believed that the present stringency in loanable funds, which show few signs of easing, may be taken as an advance indication of a change in circumstances from the present condition of inflated prices. No early downward movement in this connection is looked for, the known facts indeed suggest the contrary—but there is an inclination to caution, and to place a limit on the present tendency of prices of, at the outside, from one or two years more. To what extent this view is justified can only be shown by the development of events. The position of those who hold it, at all events, entitles the opinion to consideration. In this connection, it is interesting to note that London financial opinion, as crystallised by one observer, who is usually exceedingly well informed is that while increased production will affect the prices of commodities in time, the movement must be accelerated by dearer money. With cheap money it is pointed out, there is a constant inducement to borrow and acquire goods for appreciation in price. What is said by this observer suggests that the British Bankers are considering ways and means of making borrowings for this purpose less profitable, a circumstance which could, of course, be brought about by raising the Bank of England's rate. While prices in many lines, notably Textiles, continue to show sharp advances, it is believed that bankers here are beginning to warn their customers of the danger of carrying large stores purchased at prices which may prove to be the top, or a higher level than that ruling before the raw materials purchased are disposed of in the shape of manufactured goods. The revision upward of the prices of Victory Bonds is a satisfactory sign of improvement in the matter of the floating supply of these bonds compared with its position prevailing a few weeks ago. It may be noted, however, that the price of the 1934 bonds of the last issue has not been marked up, but remains at 97—a fact which suggests that liquidation by subscribers to the last loan who had no intention of holding the bonds, owing to the liability of the interest to taxation, has not yet run its course.

Important new financing has been completed by the Province of Quebec during the week, $7,000,-