

bill to provide a part of the financial requirements of the country in a year in which the estimated deficit of expenditures over income is a record in the history of this dominion, having been calculated by the Minister of Finance himself at something of the order of \$650 million.

That causes some of us, particularly on this side of the house, some rather painful reflections when we compare the financial position of the country today with its financial position less than two years ago. Two years ago, honourable senators, this country was paying its way. We were collecting in taxes not only sufficient to pay out all the annual obligations of the public service but in addition to that the country was making substantial repayments on the national debt. Moreover, with all that, we were slowly increasing the legislative provisions of a social character for the benefit of the people of this country to the extent that the then Government thought it was possible to do so.

Compare that position of less than two years ago with the position in which we find ourselves today when we are faced, as I say, with a deficit in the current year of \$650 million. This estimate, as I have remarked, was made by the Minister of Finance, but a number of reliable authorities seem to consider it to be very much on the low side. I have heard estimates to the effect that the real deficit for the current year will be of the order of \$1,000 million. That of course will involve an increase in the national debt; it will also involve the danger of inflation. I do not need to remind honourable members of this house of the sort of thing which inflation will bring about, if it is not checked.

But, honourable senators, this is not the end of the story. We are faced apparently with more capital expenditures which do not appear in these estimates and which, I must say, I think are to some extent at least very questionable.

We are expected to find I don't know how many millions for the South Saskatchewan River dam. No one has yet succeeded in convincing me that that is an economic proposition. But quite apart from that, we are faced with another substantial increase in the annual expenditures of this country resulting from the announcement made recently by the Minister of Finance with respect to the conversion of outstanding Victory bonds. He proposes to convert approximately \$6½ billion of Victory bonds maturing within the next few years. It is true that he was faced with the necessity of paying off Victory bonds to an amount which, added to the further amounts that he has to raise this year, brought up the total of capital financing to something over \$3 billion. But he has elected to

adopt a scheme under which the Victory bonds which do not mature for several years to come are now to be redeemed. And under what conditions? He is offering the holders of the present series of Victory bonds maturing over the next few years and at present bearing an interest rate of 3 per cent the right to convert into a series of bonds of different maturity dates, of which the latest is 25 years and which bear interest at the rate of 4½ per cent per annum. That means that the present holders of Victory bonds bearing interest at 3 per cent per annum, who elect to convert them into the new long-term bonds, will have their income from that source increased by 50 per cent without a stroke of the pen on their part.

Looking at it from the point of view of the budget, it is of course difficult to say just what effect that will have upon the balance of ways and means, but I think we can make some calculations. This offer has been made to the holders of \$6½ billion worth of Victory bonds. I should think that the great majority of them will take advantage of conversion into new long-term 4½ per cent bonds. Let us say that the holders of \$4 billion worth of the present Victory bonds elect so to convert into long-term bonds. That means that from now on this country will have to pay an extra 1½ per cent on \$4 billion, or an additional annual interest charge to the Treasury of \$60 million. Who benefits by this conversion? Of course there is a large number of individual holders of the present Victory bonds; but I venture to suggest that the larger part of the bonds is held by banks, trust companies, insurance companies and investment companies, and I see no reason why they should receive this completely unexpected benefit at the hands of the Dominion of Canada.

More than that: not only is this 4½ per cent, in my opinion, too high a rate for the Dominion of Canada to pay on its own bonds, but to my mind the most deplorable feature of this offer is that these new bonds are by their terms non-callable. That means that the Government will not be able to redeem them during the whole period for which they are to be issued, so that for 25 years the dominion Government will be forced to pay 4½ per cent on whatever enormous amount of these bonds is issued in place of the Victory bonds from which they are converted.

I have had some small experience—as I am sure other honourable senators have—of corporate finance, and my opinion is that it is an extremely dangerous thing for any corporation to issue long-term securities which it cannot redeem, because that means that for the whole period until the bonds mature it is "stuck" with the interest it has undertaken to pay. That precisely is what the Minister of