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THE SITUATION.

Japan, in consenting to relinquish the territorial rights which the treaty of peace with China gave her in Manchuria, in return for an indemnity stated to be about \$10,000,000, puts an end to all danger of an unpleasant after-clap. The truth seems to be that an understanding has been come to between Russia and China for the right to extend the trans-Siberian Railway south of Vladivostok to a port open all the year round, though it may not amount to a cession of the territory through which the extension will pass. It will be remembered that the British Premier, soon after the outbreak of the war, spoke favorably of the great Russian railway; and it would not be surprising if it should turn out that, to remove the tension, England suggested the compromise which has been agreed to. Of this railroad, which begins at St. Petersburg, only one-fourth the distance has been constructed.

Finding itself called upon to meet a deficit for the current year of \$4,500,000, the Government of Canada proposes to reduce the expenditure \$2,500,000, and to revive the sugar duty to one-third its previous amount, or say half-a-cent a pound, and to increase the duty on spirits from \$2.12½ to \$2.25 a gallon. It needs no argument to show that it is the duty of the Government to restore the equilibrium between the revenue and the expenditure, and as this cannot be done wholly by a reduction of expenditure, an increase of revenue becomes necessary. The expenditure for next year is estimated at \$36,700,000 and the revenue as equal to this amount, or if times improve, a little more. It is fortunate that so fertile a source of revenue as sugar duties have proved themselves to be is available for the purpose. They are capable of being utilized to a much greater extent than is now proposed. The increased duty on spirits takes us to, if not beyond, the limit to which an impost can be carried without affecting consumption. There are few things which will stand a high duty without reducing consumption so well as spirits; but as mortal purse is not limitless, there is a maximum beyond which the duty interferes with the consumption. That maximum will probably be found to have been slightly overstepped by the imposition of \$2.25 a gallon. This increase will have some bearing on considerations growing out of the Franco-Canadian treaty. Relatively to

pure spirit, the spirit in French wine will be less taxed than it was at the time the treaty was made. Substantially, the quantity of spirit in wine is the element which nearly all countries base their scale of duties upon; and any increase in the duty on Canadian spirits, in presence of the treaty, has a discriminating effect. The restoration of the equilibrium relates only to the future. The actual gap will scarcely be filled by the late loan. A radical error was made in the estimates of last year, in which no glimpse of the actual deficit was obtained. The Minister of Finance failed to read the tendencies of the times, and to provide for the full demands of the public service under the altered conditions.

An average increase in the public debt of Canada of \$5,000,000 a year since Confederation, the Minister of Finance regards as moderate. He put future liabilities, likely to accrue on account of railways and canals in the next few years, anywhere from three to five, at \$9,700,000. There are subsidies to railways under contract to the amount of \$2,257,000, and others not under contract to the amount of \$2,587,259. Does this include \$2,500,000 to the Hudson Bay Railway? That, we are told, is a loan, but it is a sort of loan which the borrowers will use every endeavor to convert into a gift, sooner or later. We are told that \$1,200,000, usually voted in mileage grants to railways, is not to be repeated this year; but the information given about the Hudson Bay Railway is dubious and uncertain. And \$6,000,000 is required to complete the enlargement of the canals to eighteen feet of water. Besides these great items, there is the annual subsidy to the China, Japan and Australian steamship service. The Minister of Finance hopes to meet those obligations out of revenue. But if the worst comes to the worst, the sugar duties can be drawn upon to a much larger extent than at present proposed. The increase of revenue now to be provided for should have been enough certainly to fill, with the aid of the late loan, the gap of the deficit. Will the duties proposed be sufficient for this purpose?

In criticising the budget, Sir Richard Cartwright was at his best. His fault is, ordinarily, that he fails to put himself under the discipline of restraint in drawing on a reserved vocabulary, for which the statesmanship of our day has no serious use. The present sign of amendment ought to be welcomed alike by friend and foe. He did not object, no disinterested person does object, to the increase of the duty on spirits, though he was not sure that it might not prove a temptation to the illicit distiller, and present an opportunity to the smuggler. On jams and jellies, additionally taxed for the sugar they contain, he estimated the new duty at 50 per cent., while on molasses, he thinks, there will be a protection of 70 or 80 per cent. On this point he said: "So far as the tariff is protective the measure of the taxation is the total consumption of imported goods, *plus* the goods manufactured under the tariff in the country." Reducing this principle to a practical rule, his conclusion was: given the quantity of such goods made in the country at double the amount imported, the tax will impose a burthen of \$3 for every \$1 that goes into the treasury; and the proportion that goes elsewhere than to the treasury will increase the nearer the point of prohibition is reached. Though the figures may represent a general truth, there can be no certainty about them, in individual cases, under all circumstances, for domestic competition does sometimes play a considerable part. Such competition has been the mother of nearly all the great combines. The late tariff reductions Sir Richard puts at only one-fortieth of one per cent., and undertakes