

London, John

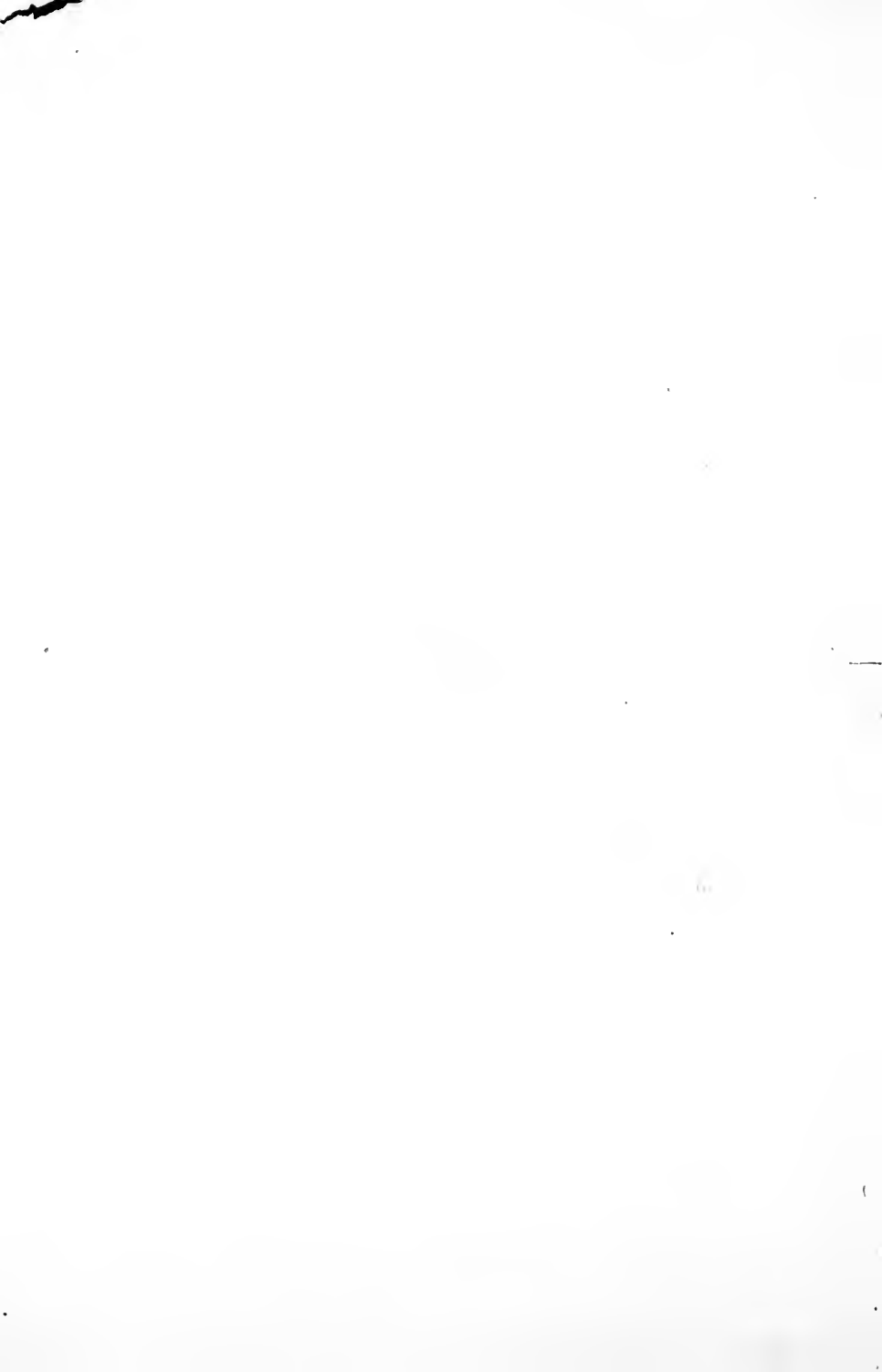
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MEMORANDUM

ON THE

Financial Operations of the Three Years since Confederation.

In the Committee on Public Accounts last Session, there was some discussion as to the propriety of so remodeling our statement of Receipts and Expenditure, so as to distinguish the ordinary from the extraordinary. I then expressed an opinion, which I have seen no reason to alter, that any such distinction cannot properly be made a matter of account. There is a broad difference between Receipts and Expenditure, which are authorized by Parliament to belong to Capital, and those which appertain to Consolidated Fund, or in other words are applicable to, or chargeable against Income. But no rule can be laid down to distinguish between ordinary and extraordinary Receipts and Expenditure. In almost every year some extraordinary items will occur, and it depends altogether upon their magnitude whether it is worth while to take any notice of them at all. No one, for instance, would think of keeping a separate account of the gain or loss we may make in Premium Discount and Exchange in the minor movements which are every year taking place in Loans, Redemptions and Investments; but if we happen to contract a large loan these items may assume important dimensions; and who is to determine the limit before and after which they are to be dealt with differently. So also if a small debtor, like the Northern Railway, falls behind for a year or two in its interest, and then pays up its arrears, the case is distinguishable only in its magnitude from the similar occurrence with the Great Western. Or we may have an extraordinary expenditure of 30 to \$40,000 for Emigration and Quarantine, if a sickly season should occur; or one of ten times the amount in consequence of a Fenian raid, or the decennial occurrence of the Census. None of these things can properly be said to belong to Capital, but which of them are of sufficient importance to be specially classed as extraordinary is a matter of discretion, on which hardly any two men would agree, and nothing ought to be left to discretion in book-keeping. Such items may very properly be made a matter of comment in the report of the Board of Audit, and no prudent Minister of Finance would leave them out of account, if of any magnitude, in basing his financial arrangements for one year on the experience of another. He might even be compelled to contract a temporary loan to cover a casual deficiency in the Revenues of Consolidated Fund to meet the charges against it, as he is authorized to do by 31 Vic. Cap. 4 Sec. 4; and such casual loans might very properly be kept distinct from the ordinary debt, and the redemption of them be made a charge against Consolidated Fund in more favorable years; but until Parliament has pronounced upon the subject, I do not see how any change can be made in the method of entering such transactions in the books. Everything, which has not been specially authorized to be considered Capital, must be credited or charged to Consolidated Fund, and the change in the balance of that Fund from year to year, will shew whether the income has been in excess, or has fallen short of, the charges against it. For these reasons I propose, unless I receive your instructions to the contrary, to bring out the statement of Receipts and Expenditure in the same form as in the last year's Public Accounts, shewing those of Consolidated Fund separate from those applicable to open accounts, but not taking upon myself to make any other distinction between ordinary and extraordinary items.



This difficulty is in a great measure removed, if we take several years together, as the extraordinary items in different years tend to counterbalance each other. I have, therefore, given three statements from which the financial progress of the country, since Confederation may be judged of, with a comparison between their results.

I. A statement shewing the excess of receipts of Consolidated Fund over the expenditure in each year. In this statement I have given the amounts as they stand in the Public Accounts, without taking into consideration whether some \$40,000 charged against Public Works Capital in the first two years should not, perhaps, in accordance with the distinction drawn in the estimates of last year, have been more properly charged to Consolidated Fund; and I have made no change in the manner of dealing with the Premiums on the Intercolonial Loan, and the arrears of the Great Western interest, to which exception was taken last year. These were certainly extraordinary receipts, but if, upon that ground, some portions of them were deducted from the receipts of the year, the whole amount certainly should not be so deducted. If 1868 and 1869 have not credit given to them for all the arrears of the Great Western interest, they must at least have it for the amounts falling due in them, which even on our present reduced settlement would have been \$221,458.72; and similarly they would be entitled to credit for the profit on a 35 years' loan accruing in the three years under consideration, which would be \$31,284.87, leaving only \$1,050,311 of these extraordinary receipts, respecting which there can be any doubt. Again it is to be set against the extraordinary expenditure like that resulting from the Fenian raid last year, and the decennial Census now in progress. If the statement had embraced four years instead of three, the extraordinary items would probably have balanced each other.

It must, however, be borne in mind that the Consolidated Fund Expenditure embraces one item which is a reduction of the debt. We are pledged to expend a certain sum annually towards paying off the debt through the Sinking Fund, and that expenditure is, therefore, properly charged against Consolidated Fund. But it is really so much debt redeemed, and it must be added to the excess of Consolidated Fund Receipts in order to shew the amount of Income which, over and above the annual expenditure, has been available for purposes of Capital.

II. A detailed statement of all the items of which our debt consists, and of the available assets we have to meet it with, shewing the movement of each during each year. The difference between the increase of debt thus shewn, and the amount which we have expended during the period on Public Works, and other accounts which are authorized as capital expenditure, but which are not included in the statement as available assets, will indicate in another way the amount of expenditure authorized on account of capital, which has in fact been met out of current income.

There is another point in this statement which is worthy of remark—that whilst the net debt has been increased during the period in question by \$2,431,930.32, the average rate of interest which it bears, which is the true test of its pressure upon our finances, has so much decreased, that the interest payable has barely been affected.

It is to be observed that the net debt and net interest payable on it, as given by me, are the debt as it actually stood on July 1st, and the net interest which would be payable annually on that amount. This interest will not exactly correspond with the interest actually paid either during the financial year preceding or succeeding July 1st, because some portions of the debt and investments have only been at that amount during a portion of each financial year. But in order to shew the actual operation, I append a statement shewing the actual expenditure and receipts for interest on debt and investments in the year 1868-9 as compared with the net interest as it stood July 1st, 1869.

III. The change in the balance of Consolidated Fund indicates the same expenditure for Capital purposes out of income.

It will be seen that the results of the three statements are not identical, and the second and third are perhaps the best test of the financial position of the country. In ordinary years there would be no noticeable difference between the three, though some trifling rectifications of accounts in previous years will from time to time occur, which will affect the correspondence between the statements based upon the change in the debt and that founded on the cash transactions of the year. But in the three years under consideration, in consequence of the settlement with the Provinces, the differences are more important. The items which have affected the accounts forming the net debt, which have not passed through cash are the following:

Debt increased 1867-8 by credit to Indian Fund (P. A. '67 p.8).....	\$	10,577	18	
Arrears to Seigneurs do 		2,330	42	—\$ 12,907 60
Debt increased 1868-9 by credit Province of Canada (P.A. '67 p.12)	\$	310,866	85	
Indian Fund do 		3,622	83	
Great Western do 		42,265	36	—\$356,754 98
Debt increased 1869-70 by credit to New Brunswick.....	\$	10,580	17	
Quebec.....		474	75	
Banking Accounts.....		73	34	—\$ 11,128 26
				<u>\$380,790 84</u>
Debt reduced 1867-8 by debiting Nova Scotia (P.A. '69 p.9)	\$	973	33	
Township Indemnity.....		547	03	
				<u>1,520 36</u>
Debt reduced 1868-9 by debiting Township Indemnity\$	\$	623	45	
Banking Accounts.....		73	00	—\$ 696 45
Debt reduced 1869-70 by debiting New Brunswick.....	\$	191	07	
Banking Accounts.....		4,556	17	—\$5,947 24—\$ 7,564 05
Balance.....				<u>\$373,226 79</u>

So also in 1867-8 Consolidated Fund was credited with \$52,681.81, an amount of expenditure on Public Works Capital charged to the Province, and which, therefore, did not affect Cash of the Dominion or any other debt account.

The comparison of the three methods of judging of the financial progress of the country will then stand thus:

I.	
Excess of Consolidated Fund Receipts.....	\$1,771,542 57
Sinking Fund.....	908,606 65
	<u>\$2,680,149 22</u>
Not through Cash, as above.....	973,226 79
	<u>\$2,306,922 43</u>
II.	
Public Works, &c.....	\$4,798,852 74
Increase of Debt.....	2,431,930 32
	<u>\$2,306,922 42</u>
III.	
Consolidated Fund, 1867.....	\$6,550,803 04
1870	4,197,198 80
Decrease	<u>\$2,353,604 24</u>
Public Works, as above.....	52,681 81
	<u>\$2,306,922 43</u>

JOHN LANGTON,

Auditor.

STATEMENT of the Receipts and Expenditure of Consolidated Fund in 1867-8, 1868-9
and 1869-70.

Receipts, 1867-8	\$	13,737,470	72	
Expenditure.....		13,535,635	19	
Excess of Receipts.....				\$ 201,835 53
Receipts, 1868-9.....	\$	14,485,139	57	
Expenditure.....		14,144,049	05	
Excess of Receipts.....				\$ 341,090 52
Receipts 1869-70.....	\$	15,533,797	73	
Expenditure.....		14,305,181	21	
Excess of Receipts.....				\$1,228,616 52
Total Excess of Receipts..				\$1,771,542 57
Sinking Fund, 1867-8	\$	355,266	66	
1868-9.....		426,803	66	
1869-70.....		126,532	33	\$ 908,606 65
Total surplus Income of Consolidated Fund ex- clusive of that applied in reduction of the debt.....				\$ 2,680,149 22

II. COMPARATIVE STATEMENT

Of the Debt of the Dominion, 1867, 1868, 1869 and 1870.

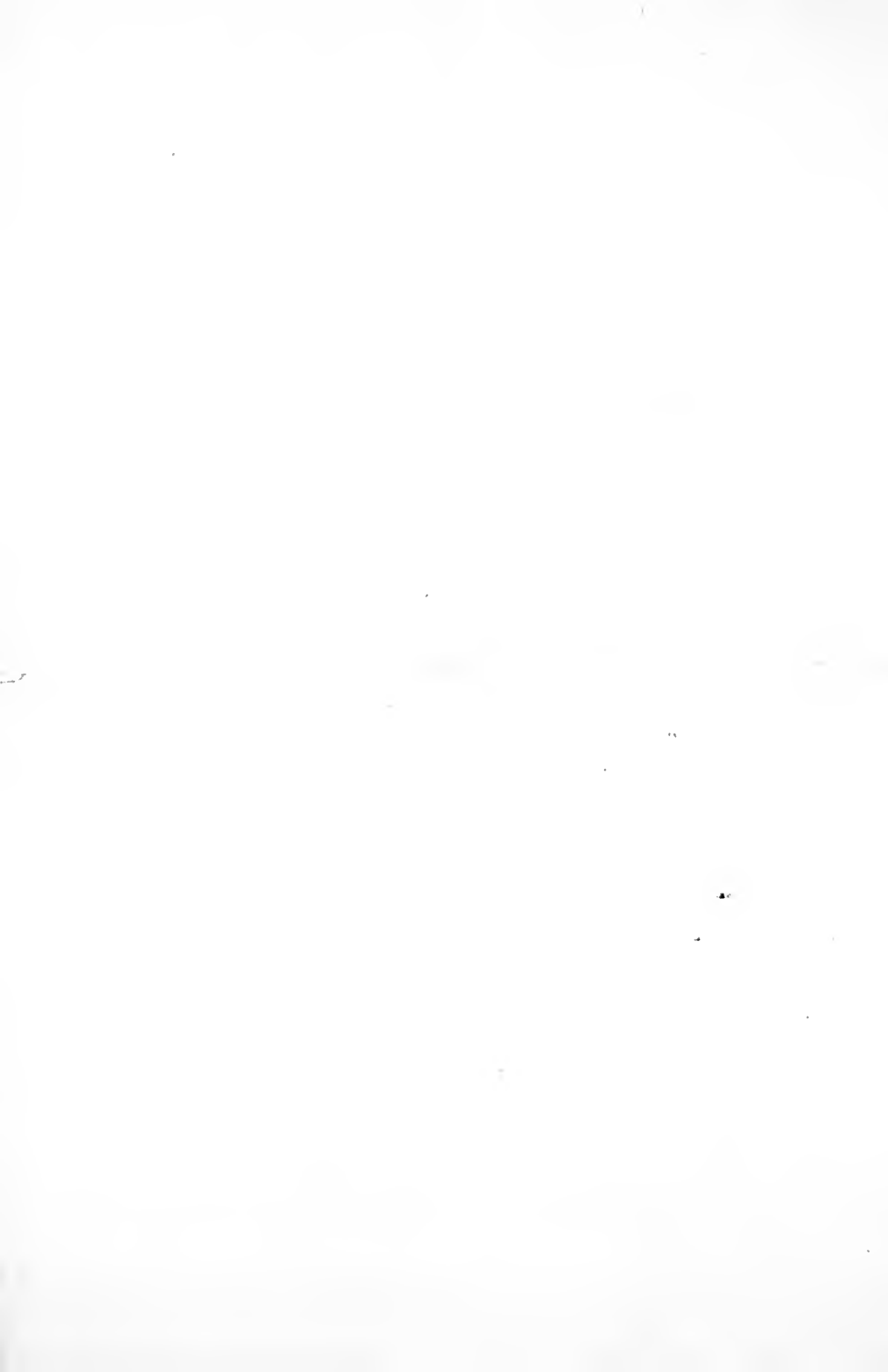
LIABILITIES.

	July 1st, 1867.	July 1st, 1868.	July 1st, 1869.	July 1st, 1870.	
<i>Payable in London.</i>					
	\$	cts.	\$	cts.	
Imperial Guaranteed Loan (old)..... 4 p. c.	681,333	34	681,333	34	
Do Intercolonial..... 4 p. c.			7,300,000	00	
Intercolonial Loan..... 5 p. c.			2,433,333	34	
Consolidated Canadian Loan Bonds... 5 p. c.	27,784,461	92	27,082,201	92	
Do Stock... 5 p. c.	3,770,153	93	4,657,488	79	
Canada Bonds (old)..... 5 p. c.	267,666	70	267,666	70	
Do do..... 6 p. c.	24,917,506	71	24,942,640	05	
Nova Scotia Bonds..... 6 p. c.	4,580,506	66	4,460,300	00	
New Brunswick Bonds..... 6 p. c.	5,037,486	66	4,886,620	00	
<i>Payable in Canada.</i>					
Canada Bonds (old)..... 5 p. c.	192,925	01	192,925	01	
Do do..... 6 p. c.	1,254,250	02	1,243,610	02	
Do do..... 7 p. c.	873,200	00	873,300	00	
Nova Scotia..... 6 p. c.	1,481,900	00	1,481,900	00	
New Brunswick..... 6 p. c.	196,900	00	196,900	00	
Exchequer Bills.....			6,575,410	05	
Bonds convertible into Stock..... 6 p. c.			578,000	00	
Dominion Stock..... 6 p. c.			1,427,538	66	
Savings Banks, Canada..... 4 p. c.	130,688	89	503,614	26	
Do do..... 5 p. c.			73,900	00	
Do Nova Scotia..... 4 p. c.	644,687	02	670,287	18	
Do New Brunswick..... 5 p. c.	599,359	85	633,250	24	
Do <i>Sacramento Bank</i> do..... 6 p. c.	178,000	00	178,000	00	
Nova Scotia Suspense Account.....			64,468	70	
Indemnity to Seigneurs and Townships 6 p. c.	3,869,810	02	3,869,810	02	
Notes, Canada.....	3,113,700	00	4,830,000	00	
Do Nova Scotia.....	605,859	12	467,743	12	
Total Funded Debt..... \$	80,079,706	96	82,714,945	08	
Trust Funds..... 6 p. c.	1,178,410	58	1,178,410	58	
Do..... 5 p. c.	5,230,369	35	5,299,207	87	
Miscellaneous.....	458,092	38	252,783	21	
Provinces—Ontario and Quebec.....	358,822	01	97,948	05	
Nova Scotia..... 5 p. c.	1,260,527	30	4,010,802	64	
New Brunswick.....	953,943	61	653,708	18	
Total Miscellaneous..... \$	9,440,165	23	10,207,260	90	
<i>Banking Accounts.</i>					
London Agents..... various	1,226,548	53	1,372,873	87	
Bank of Montreal..... do.....	2,249,416	67	2,500,000	00	
Miscellaneous.....	50,214	34	101,586	35	
Total Banking Accounts..... \$	3,526,179	54	3,974,460	22	
Total Liabilities..... \$	93,046,051	73	96,896,666	20	
			112,361,998	39	
				116,032,464	22



ASSETS.

	July 1st, 1867.	July 1st, 1868.	July 1st, 1869.	July 1st, 1870.
<i>Investments.</i>				
	\$	\$	\$	\$
	cts.	cts.	cts.	cts.
Consolidated Can. Loan Fund..... 5 p. c.	1,207,222 26	1,562,488 92	1,952,795 58	2,001,462 24
Intercolonial do ^A 5 p. c.			36,500 00	114,366 67
New Brunswick Bonds..... 6 p. c.	83,706 66	83,706 66	83,706 66	83,706 66
Sterling Debentures..... 6 p. c.			14,600 00	14,600 00
Northern Railway Bonds..... 6 p. c.	243,333 33	243,333 33	243,333 33	243,333 33
Cobourg Bonds..... 6 p. c.	21,210 47	21,210 47	21,210 47	21,210 47
Toronto Bonds..... 6 p. c.	18,883 00	17,183 00	12,803 00	7,263 00
Montreal Turnpike..... 6 p. c.	67,200 00	67,200 00	67,200 00	67,200 00
Can. Can. Loan Bonds..... 5 p. c.	53,533 33	53,533 33	53,533 33	53,533 33
Montreal Harbour Bonds..... 5 p. c.	211,266 68	211,266 68	211,266 68	211,266 68
Port Hope Bonds..... 5 p. c.	23,587 77	23,587 77	23,587 77	23,587 77
Hamilton Coupons..... 5 p. c.	22,248 89	19,345 85	16,781 35	16,781 35
India Bonds..... 5 p. c.	681,333 34	681,333 34	681,333 34	681,333 34
Bonds for Savings Bank..... 5 p. c.				9,000 00
Do Intercolonial..... 5 p. c.			234,000 00	157,106 66
Grand Trunk Postal Bonds variable.....	121,666 66	121,666 66	121,666 66	121,666 66
Do Preference Stock.....	121,739 66	121,739 66	121,739 66	121,739 66
Miscellaneous Can. Fund Investments.....	98,350 25	98,350 25	98,350 25	98,350 25
Great Western Bonds (variable to '69). 4 p. c.	2,810,500 00	2,810,500 00	2,768,234 70	2,076,176 03
Intercolonial Construction acct. 3 1/2 p. c.			2,000,000 00	4,883,089 49
Exchequer Bills.....			6,575,410 05	2,224,353 70
Total Investments..... \$	5,785,782 30	6,136,445 92	15,338,052 83	13,231,127 29
<i>Miscellaneous.</i>				
Province of Canada Debt..... 5 p. c.	10,045,533 63	10,182,633 07	10,489,769 30	10,504,914 47
New Brunswick Debt..... 5 p. c.			319,822 77	569,541 89
Provincial Accounts.....		940,699 44	3,842,165 67	5,959,662 32
Nova Scotia Suspense Account.....			125,054 61	125,054 61
Miscellaneous.....				21,258 29
Total Miscellaneous.....	10,045,533 63	11,723,359 51	14,776,812 35	17,180,431 58
<i>Banking Accounts.</i>				
Cash.....	589,085 23	1,425,786 00	2,966,930 73	2,252,602 38
Issue Account and Specie reserve.....	757,140 00	938,440 00	1,899,000 00	2,883,436 67
Financial Agents.....	22,403 59	10,569 18	1,118,259 68	12,204 42
Bank of Montreal Silver Debentures.....		572,443 47	72,443 47	
Silver Deposit Account.....				1,277,818 49
Silver Charges Account.....				58,724 05
Silver Coinage Account.....				657,826 25
Miscellaneous Banking Accounts.....	117,465 61	332,487 38	331,180 13	317,721 40
Total Banking Accounts..... \$	1,486,094 43	3,279,726 03	6,887,814 01	7,460,333 66
Total Assets..... \$	17,317,410 36	21,139,531 46	36,502,679 19	37,871,892 53



COMPARATIVE STATEMENT

Of the Debt of the Dominion from July 1, 1867, to July 1, 1870, according to the rate of interest it bears.

LIABILITIES.	1867.	1868.	1869.	1870.
	\$ cts.	\$ cts.	\$ cts.	\$ cts.
Without interest.....	5,340,631 46	7,357,516 08	16,126,758 75	16,065,901 58
At varying rates.....	1,475,965 20	1,372,873 87	49,080 91	215,570 75
At 4 per cent interest.....	1,326,920 36	1,482,309 41	8,462,349 19	10,988,455 77
“ 5 “ “	39,105,464 06	38,842,694 18	41,450,757 78	41,680,908 37
“ 6 “ “	42,724,770 65	44,468,162 66	46,273,951 76	47,081,627 75
“ 7 “ “	2,878,200 00	3,373,200 00		
Total debt.....	93,046,951 73	96,896,666 20	112,361,998 39	116,032,464 22
Total interest.....	4,851,710 70	4,974,279 93	5,188,641 90	5,153,852 98
Average rate of interest.....	5.21	5.13	4.62	4.44
ASSETS.				
Without interest.....	1,463,690 83	4,209,856 29	15,812,184 66	15,998,548 07
At varying rates.....	3,174,060 16	3,162,825 75	1,460,016 25	133,871 08
At 3 and 3½ per cent interest.....			2,000,000 00	4,883,089 49
At 4 per cent interest.....			2,768,234 79	2,076,176 03
“ 5 “ “	12,244,725 90	13,334,215 96	14,019,390 12	14,342,894 40
“ 6 “ “	494,333 47	492,633 46	442,853 46	437,313 46
Total assets.....	17,317,410 36	21,139,531 46	36,502,679 19	37,871,892 53
Total interest.....	699,890 77	753,490 00	929,268 20	1,000,685 41
Average rate of interest.....	4.04	3.57	2.53	2.64

	1867.	1868.	1869.	1870.
	\$ cts.	\$ cts.	\$ cts.	\$ cts.
Total debt.....	93,046,951 73	96,896,666 20	112,361,998 39	116,032,464 22
Total assets.....	17,317,410 36	21,139,531 46	36,502,679 19	37,871,892 53
Net debt.....	75,728,641 37	75,757,134 74	75,859,319 20	78,160,571 69
Total interest on debt.....	4,851,710 70	4,974,279 93	5,188,641 90	5,153,852 98
Total interest on assets.....	699,890 77	753,490 00	929,268 20	1,000,685 41
Net interest.....	4,151,819 93	4,220,789 93	4,259,373 70	4,153,167 57
Average rate.....	5.48	5.57	5.63	5.31



CAPITAL EXPENDITURE.

	1867-8.	1868-9	1869-70	TOTAL.
Public Works.....	537,701 68	385,407 70	269,935 06	1,193,044 44
Less Sales and Stores..	13,575 00	41,166 71	3,000 00	63,741 71
	524,126 68	344,240 99	266,935 06	1,129,302 73
Intercolonial Railway....	50,081 64	169,782 12	1,567,586 40	1,787,450 16
Acquisition and opening of North West.....			1,822,099 85	1,822,099 85
	574,208 32	514,023 11	3,659,621 31	4,738,852 74
Increase of debt.....	28,493 37	102,184 46	2,301,252 49	2,431,930 32
Capital Expenditure from Income.....	545,714 95	411,838 65	1,349,368 82	2,306,922 42

III.

STATEMENT of the change in the balance of Consolidated Fund from July 1, 1867 to
July 1, 1870.

Consolidated Fund Dr. to sundry liabilities as- sumed from the several Provinces July 1, 1867 (<i>vide</i> P.A. 1869 p. 8).....		\$79,229,732 70
do Cr. by sundry assets assumed.....*	73,784,962 03	
Less Great Western Interest account reversed...	1,022,032 37	\$72,672,029 66
		<hr/>
Balance as July 1, 1867.....		\$ 6,556,803 04
Balance July 1, 1870.....		4,197,198 80
		<hr/>
		\$ 2,359,604 24

COMPARISON OF INTERESTS

COMPUTED AND INTEREST PAID, 1864-5.

	Computed.	Paid.		Computed.	Credited.	
			\$ cts.	\$ cts.	\$ cts.	
Imperial Guaranteed 6 m.....			13,626 67	Canada debt.....	524,488 46	524,887 04
Do Intercolonial 9 m.....	292,000 00	219,000 00		N. B. debt.....	15,991 13	
Intercolonial 9 m.....	121,666 66	91,250 00		Sinking Funds.....	99,464 77	81,287 76
Consolidated Canadian Loan.....	1,344,956 35	1,347,446 20		N. B. Bonds.....	5,022 36	4,905 60
Do Stock.....	292,874 43	230,262 24		Northern R. R.....	14,600 00	14,600 00
Canada 5 per cent.....	13,383 33	13,383 33		Cobourg Bonds.....	1,272 66	1,908 88
Do 6 per cent.....	1,496,55 40	1,496,704 40		Toronto Bonds.....	768 18	1,358 24
Nova Scotia.....	267,618 00	267,910 00		Montreal Turnpike Bonds.....	4,032 00	6,048 00
New Brunswick.....	293,197 20	294,803 20		Montreal Harbor do.....	10,563 33	15,845 00
				Port Hope do.....	1,179 38	1,769 03
Total London.....	4,062,254 37	3,974,386 04		Hamilton Coupons.....	839 06	
Canada 5 p. c.....	9,646 25	9,636 24		G. T. R. Postal Bonds.....	3,041 66	9,842 50
do 6 p. c.....	73,656 60	73,688 86		G. W. Bonds.....	110,729 36	55,364 69
do 7 p. c.....		30,562 00		India Bonds.....	34,066 66	34,066 67
Nova Scotia.....	88,914 00	88,914 00		Bank of Montreal.....	60,000 00	43,063 58
New Brunswick.....	11,814 00	11,814 00		Canada 5 p. c.....	14,376 66	
Convertible to Stock.....	34,680 00	25,020 22		do 6 p. c.....	876 00	7,840 01
Stock.....	196,371 66	148,464 50		London Agents.....	27,956 49	36,121 24
Savings Bank, Canada.....	37,804 56	21,094 72				
Savings Bank, Nova Scotia.....	26,349 36	26,303 82		Total.....	929,268 10	838,908 24
Savings Bank, New Brunswick.....	45,385 00	43,219 38				
Seigneurs and Townships.....	232,188 60	232,188 60		Interest on Debt computed.....	\$5,188,641 82	
Indians and Widows.....	143,509 03	145,771 71		Do paid.....	5,157,804 09	\$30,837 73
Other Trust Funds.....	192,155 95	195,267 25		Interest on Assets computed.....	929,268 10	
Province of Nova Scotia.....	32,685 40	55,523 12		Do credited.....	838,908 24	90,359 86
London Agents.....	1,227 04	5,374 28				
Bank of Montreal.....		70,575 35		Difference on Net Debt.....		59,522 13
Total.....	5,188,641 82	5,157,804 09				
Total on Investments.....	929,268 10	838,908 24				
	4,259,373 72	4,318,895 85				

The amounts paid and received are thus charged :

Interest on Public Debt.....	4,907,013 71
Ontario and Quebec Subsidy Accounts.....	195,267 25
Province of Nova Scotia Debt.....	55,523 12
	<u>5,157,804 08</u>

Interest on Investments.....	\$314,021 20
O. & Q. Subsidy Account.....	624,887 04
	<u>\$838,908 24</u>