

(March 20, 1933)

## Debt

BY MR. GEORGE C. McDONALD.

PRESIDENT CHALMERS:—Gentlemen, the very distinguished guest of this club to-day has found that there are only four real causes for the present economic crisis. These four causes he classifies as follows:—D,E,B,T.

Recently, Mr. George C. McDonald delivered an address to the McGill Graduates Society on the subject of "Debts." He dealt with various phases of debt, private debts, war debts, international and government debts. I was so impressed by the remarks he made on that occasion that I asked him if he would come to Toronto and deliver a similar address to the Canadian Club. I asked him particularly to discuss the dilemma of governmental debts in Canada. Mr. McDonald is a scholar in business. He is a man who has had a great deal of experience in the business world in his capacity as senior partner of one of the chartered accountant firms in Montreal but, unlike most of the accountants and auditors who are very able men, he has not confined himself to the regime of private business and has endeavored to make a study of public problems. He has filled many posts of public importance such as Chairman of the National Executive of the Canadian Chamber of Commerce; President of the Canadian Club of Montreal; President of their Board of Trade and of the McGill Graduates Society and is, at the present time, a governor of McGill University.

I cite these facts to indicate that Mr. McDonald has stepped out from the office of chartered accountant into public life and has given service to his country in a public as well as a private way and he has particularly studied this

question of the significance of governmental debts. I have the greatest pleasure in calling upon him to address you.

MR. McDONALD:—I appreciate very much the very nice remarks of the Chairman. I want to say in discussing my career he left out one thing. In the course of my association with the Chamber of Commerce I had the privilege of making the acquaintance of your chairman.

I have been associated with Canadian Clubs for about twenty-five years. I have never previously been allowed more than two minutes. That reminds me of an occasion in the Association of Canadian Clubs when I was at a banquet. I was sitting beside an old friend, a Major-General and a Senator, representing some Eskimo Club of the far Northwest. He said to me, "You know, George, it would be terrible if we had to sit through this barrage if we never got a chance to get a little of our own back." I am still waiting, so far as he is concerned.

When discussing the subject of my address I suggested to your chairman that perhaps it would be wise to say, "as viewed by an accountant." I remember a previous occasion when I had made some remarks and I happened to be passing through Toronto and I was talking to one of your prominent business men who immediately challenged me with the question. "Where did you get your railway experience?" I said, I did not pretend to have any but that I had got my facts and figures out of Mr. Bennett's recent budget speech. If I had been smart I would have said I had large railway experience, as we are all having, in the way of paying taxes. I think that entitles anybody to say things and almost entitles anything to be said.

My interest in increasing governmental debts was aroused in 1932 when the late Mr. H. B. MacKenzie, then President of the Montreal Board of Trade, conducted an enquiry into the increasing amounts of the various debts: Federal, Provincial and Municipal; and in connection with which statistics were circulated showing amongst other things the per capita figures for the Dominion of Canada debt and guarantees. These figures in 1913 were \$98 per capita; in 1918 \$272; in 1923 \$387 and in 1930 they had risen to \$430.

In dealing with my subject, I propose to divide it into three aspects:—(1) What is the situation? (2) How did it come about? and (3) What are we going to do about it?

What is the situation? We have got ourselves terribly in debt governmentally. Like our private habits of expenditure our governmental expenditure became very extravagant, but, while our private spending has been drastically curtailed, it seems to take us longer to curb our governmental spending.

As an accountant, in order to see where we stand, I naturally look for a balance sheet. As far as the Dominion of Canada is concerned, this can be found in the Canada Year Book, and by reference to it you see that the Dominion at 31st December 1931 had direct liabilities of \$2,600,000,000 without considering for the moment indirect liabilities in the way of guarantees. Among the assets we find active assets of \$348,000,000 and then an amount to balance called "balance of liabilities over active assets," the net debt being \$2,261,000,000. This balance is detailed with the heading, "Non-active Assets" and is composed of sundry items of public works which no doubt have some considerable permanent value—\$900,000,000—the debt against which can justifiably be spread over a period of years, but the rest of the \$1,360,000,000 is represented by almost nothing at all, the piling up of our mistakes and our extravagances, those things which we have not paid for and which are being left for posterity to pay.

If you will analyze the Provincial and Municipal Balance Sheets you will find similar situations. For example, during the last twenty years the Provinces have been spending very large sums on roads. The money is being borrowed to be repaid in some instances over considerable periods of time. Are we any more satisfied with the roads we have now and the use we want to make of them than were the people in our places twenty years ago with their situation? Is it reasonable for us to think that twenty years hence the people in our places wouldn't be wanting to spend money just as freely as we have and will they be pleased if there are any of our debts still outstanding?

You have, no doubt, all seen the figures that are being circulated by the Canadian Chamber of Commerce. The most up-to-date figures as to our debt situation have recently been submitted by the Dominion Statistician, Mr. R. H. Coats, to the Banking Committee of the House of Commons. The total public debt of Canada with guarantees, including Dominion, Provincial and Municipal obligations is \$6,500,000,000. This is divided as follows:—Roughly one-half is applicable to the Federal Government, one-quarter to Provincial Governments and one-quarter to Municipalities. In addition, there is another \$300,000,000 being the unguaranteed debt of the Canadian National Railways. You will realize that this gives us a per capita debt of \$650, without the Canadian National Railways unguaranteed debt. Do you know that they are sending a commission to Newfoundland to help them out of their financial troubles, where their debt is, I believe, \$320 per head? On the other hand, it may comfort you to know that in Britain in 1930 the figure was £500, as against a pre-war figure of £18.

Our figures of six and a half billion compare with 1913 as follows:—Dominion, \$483,000,000; Provincial, \$178,000,000; Municipal, \$416,000,000—a total of \$1,077,000,000.

That gives an idea of the way the debts have piled up during the last twenty years. The rate of increased spending by these various governments has been as follows:—Ordinary Expenditure—(all governments in Canada)—1904, \$120,000,000; 1913, \$275,000,000; 1931, \$920,000,000. Now comparing these with taxes, the total taxes were, 1904-5, \$93,000,000; 1913-14, \$238,000,000; 1930-31, \$699,000,000.

I notice that the Ontario Economy Committee finds that since 1904 Ontario's taxation has increased 2,800 per cent. May I remind you that when the War Profits Tax, to be later succeeded by the Income Tax, was imposed, it was intended to meet the increased debt due to the War, and it was expected that in time it would extinguish that debt.

Another feature of the present situation that naturally

goes with the increasing debt is the proportion of the so-called uncontrollable expenditure of Government. In 1912 and 1913 out of the expenditure of the Dominion Government, 11½% was charges for interest. By 1930 and 1931, the proportion of interest to total expenditure was 31%.

The direct liabilities of Provincial Governments in 1896 were \$51,000,000. In 1930 they were \$1,140,000,000. From a compilation of the Montreal Junior Board of Trade, it appears that in 1931 the per capita net debt of the Province of Ontario, after deducting the investment in the Ontario Hydro-Electric project, was \$71 as compared to \$20 for the Province of Quebec.

When, however, you take into account the receipts and expenditures by Provinces, you will find that Quebec is not far behind Ontario. In 1900 Provincial receipts and expenditures in both Ontario and Quebec were somewhat over \$4,000,000. From then on Ontario started to outstrip Quebec, but despite that fact Quebec had risen to the \$40,000,000 scale in 1930, while Ontario had achieved \$57,000,000.

Like the Provinces and Dominion, the increase in Municipal debt has been very considerably greater than the increase in population, but it has not accelerated at all on the same scale as the Provinces and Dominion, probably due to the fact that the Municipal credit is more limited.

Another feature of the present situation is the extent to which the Dominion Government is being called upon to support some of the Provincial Governments, and these in turn some of the Municipalities. For its support the Dominion Government will have to turn to our banks, oft maligned, but in these days, sometimes praised.

I would just like to indicate to what extent the assets of the banks are being increasingly involved in Government financing. Among the assets of the banks are found the following:—Dominion Government and Provincial Government securities; Canadian Municipal securities and British, Foreign and Colonial public securities other than Canadian.—(The non-governmental items included in this list are not large and can have very little bearing on the rate of

increase.)—Loans to Provincial Governments; Loans to cities, towns, etc., and school districts. These are all governmental assets in the bank balance sheet.

On the 31st December, 1931, these items had reached the total of \$803,000,000, or 27.30% of the total assets of the Banks. On the 31st December, 1932, these items had risen to \$869,000,000 or 30.93% of the total assets of all the banks.

I may say that of this total of \$869,000,000, \$562,000,000 were Dominion Government and Provincial Government securities. These items are considered as being of a very high category in the liquid assets of the bank, ranking higher than current loans. The increase in the government securities between 1931 and 1932 is largely compensated by a decrease in current loans. That means that the money of the depositors is being used to that extent so much more for government purposes and so much less for the ordinary commercial purposes of the country. Under normal circumstances, that charge is considered an improvement in the position of the banks. On the other hand, to the extent that these government loans represent deficits in revenue, and expenditure on non-productive assets, and this increase continues, there will presently come a time when that position will not be considered to be sound.

The Federal Budget situation. When the estimates were brought down a year ago, a balanced budget was aimed at as far as so-called Ordinary Revenue and Expenditure was concerned. It was not considered possible to provide for special items such as Unemployment Relief and the Railway Deficit. I hope that some day these items will justify the classification of "Non-recurring" which is sometimes hopefully applied to them.

The year has gone by, business activity diminished and so did the governmental revenue. It appears that we will have a deficit on ordinary account of about \$50,000,000. Railway deficits, Unemployment Relief and possibly other special items (non-recurring, I hope) will probably bring this up to over \$200,000,000.

During the coming year Dominion Government obliga-

tions, direct and guaranteed, mature to the following extent:—Canadian Funds, \$171,000,000. U.S. Funds, \$60,000,000—a total of \$231,000,000. That with the deficit makes a total of \$431,000,000 that will have to be taken care of in a twelve month period. It might be conceivable that to-morrow the Finance Minister will show us something that would apply in the way of reduction, but I doubt if he will be able to do that even with all the help he has been getting in the way of free advice. And he has not got mine yet. That is a little later on.

How did this situation come about? As to the growing debt you will realize that it has arisen from three sources. (1) Borrowings for new capital expenditures. (2) Borrowings to make up revenue deficits. (3) Borrowings for special purposes, not usually included in either of the two above.

Looking at the expenditure side of the picture for a moment the explanation is:—(1) The extent to which governments have gone into business. (2) The extent to which governments have increased their expenditures on social and educational work.

The twentieth century was to be Canada's century. Looking back over thirty-three years, we realize that there has been considerable justification for that saying. First of all, there was the period of railway expansion, then the war, following that an era of further railway expansion, tremendous increase in business and a great pride on the part of Canadians in the increasing importance of Canada in world trade. I want to say here that for the remaining two-thirds of the century I believe that Canada will continue to play an outstanding part.

As far as the Dominion Government is concerned, obviously the increased debt was principally due to the Canadian National Railways. The Canadian National Railways and subsidiaries are to-day responsible for about one-half of our Federal debt and more than that when you take into account the guarantees.

Confederation and geography brought it about that a transcontinental railway should be a Federal affair. In the first instance, there was the obligation to build the Inter-

colonial Railway and, secondly, the Canadian Pacific Railway. I think that so far as any obligation to build transcontinental lines was concerned, the duty of the country as a whole to those sections which were promised the accommodation, has been completely fulfilled, in fact, I think everybody will agree that it has been overdone. We have now three transcontinental lines and I think that we can make up our minds that from the Federal point of view there is no further obligation on that score. During the process, however, we seem to have become railway-minded, and from here and there in different parts of the country there is public clamor for more railways.

I am going to refer to one or two instances. Starting in the East I will refer to the Guysboro Line. I am informed that for years a local member pressed the claims of his constituency and, finally, four or five years ago the Government weakened, and I understand that already there has been spent on this enterprise more money than would have been sufficient to endow a bus and truck line that would have been able to take care of the traffic for all time. There is no track laid yet.

To my mind, the Hudson Bay Railway should have been a local enterprise for Manitoba and Saskatchewan. Not satisfied with the magnificent outlay on the three transcontinental railroads and with both parties at Ottawa accustomed to granting railroad facilities, public clamor resulted in bringing about that expenditure of \$50,000,000 to \$60,000,000. I notice that the estimates for the year 1934, item No. 14, include a further expenditure of \$967,000. I will say that at least that amount is a decrease from the amount spent last year. In my view, the Hudson Bay Railway was an enterprise solely for the benefit of one section of the country, and one, that if successful, would have resulted in taking away benefits from other parts of the country and in making less profitable, enterprises which had been paid for out of Federal money. I can talk about the local point of view on this particular subject because in 1931 I travelled over the Hudson Bay Railway to Churchill and back to Regina, and during that trip I

found that Winnipeg people were not satisfied with what had been done. They thought that the Hudson Bay Railway benefitted only Saskatchewan and Manitoba wanted its own railroad to the Bay.

When I returned to Montreal, I seriously thought of starting an agitation in Quebec to ask the Federal Government to give us also our railroad to the Bay. Unfortunately, however, I felt my style was cramped by the fact that our neighbor, Ontario, had managed to get its own Bay railroad built and paid for by itself, and, I understand, operating on a profitable basis.

Moving further west, there is the continual outcry for an outlet from the Peace River Country to the Pacific Coast. I hope that we have learned our lesson, and that the enterprise will only be undertaken when either the Provincial Government or one of the railroads is willing to do it as a justifiable business venture.

The railroads explain the greatest part of our increased debt, but not all of it. Other undertakings have played a part in adding seriously to the debt situation at the present moment. As an illustration of the kind of expenditure that has helped to increase the burden, may I allude to one or two enterprises that have been backed by Federal money which, in my view, should have been left to Provincial, Municipal or, perhaps, even private enterprise. I propose to take my first example right at home in Montreal.

I refer to what is now known as the Montreal Harbour Bridge. When this enterprise was proposed, the cost was to be \$9,000,000, and it was suggested that it should be borne: one-third by the City, one-third by the Province and one-third by the Federal Government. In agreeing to this bargain, the City and the Province each restricted their share to be not more than the interest at 5% on one-third of the \$9,000,000. Each year there has been a considerable excess of cost of operation over receipts and we now find in the Federal estimates for the year 1933-34 the sum of \$511,000 as the Dominion's share, which compares with a sum of \$528,500 in the previous year.

That represents the Dominion Government's contribu-

tion to what was supposed to have been one-third of the support of an enterprise which, in my view, should have been a purely local enterprise. Even if it might have been considered to be entitled to provincial support, I can see no justification whatever for Federal support. I would like to explain that this venture was carried out despite the protests from the Montreal Board of Trade, from whose communication, dated March 12th, 1925, to the Prime Minister at Ottawa, I quote the following:—

"The members of the Council of this Board have, in common with many serious-minded citizens of the country, been concerned as to the state of the national finances, and have lent their aid and support to every movement tending to assist your government in such curtailment of national expenditure as would eventually make possible the reduction of the heavy burden of taxation now resting upon the Canadian taxpayer. In this connection the Council of the Board has strongly deprecated any expenditure of public monies on works not likely to justify their execution by becoming remunerative in the immediate future. The Council, while fully aware of the absolute and immediate necessity for some improvement of the transportation facilities has, nevertheless, come to the conclusion that such improvement can be provided to a degree sufficient to meet our requirements for many years to come, at very much less cost than that involved in the construction of the proposed bridge and it, therefore, suggests that, instead of proceeding with its construction at this time, the possibility of improving the Victoria-Jubilee Bridge, and, if necessary, the C.P.R. Bridge at Lachine, be considered by your Government."

Had the recommendation of the Board of Trade been followed we would now have had adequate facilities for vehicular traffic and in a more suitable location. We would have had them several years earlier than we got the Harbor Bridge and the traffic would, I believe, have been sufficient to pay the cost of upkeep plus interest. Annually now in the budget figures at Ottawa this item appears as one of the expenses which I assume is now in the category of the

"Uncontrollable." The Harbor Bridge also appears among the securities guaranteed by the Dominion-Harbor Commissioners of Montreal South Shore Bridge 5% Bonds due 1969, held by the public \$19,000,000. You will, of course, realize that the City of Montreal and the Province of Quebec are paying interest on the \$6,000,000.

I have used that as an instance of expenditure of Federal money, done as far as I can see to curry favor with the voter, perhaps to keep the citizens of Montreal quiet while the Government was throwing some similar sop in another direction. It may even have been to allay growing agitation in Montreal on account of the fact that the utilities in the Province of Quebec which are privately-owned are subject to a Federal Income Tax which some other citizens are escaping.

As a matter of fact, the people of Montreal, having got the Harbor Bridge so easily, are now going ahead with another bridge, called the Lachine-Cauchonawaga Bridge. They are not taking the Board of Trade's advice and extending the present C.P.R. Bridge, but are building a separate highway bridge. The first estimate of cost was \$1,700,000; now \$3,000,000, and you can guess the rest. You will be relieved to know that, so far as I can see, there is, as yet, no Federal guarantee in this matter.

Referring further to this type of expenditure, may I quote from the report of Sir Alexander Gibb:—

"It is unfortunately the fact that some of the port developments on which very large sums have been spent in recent years have been undertaken without sufficient consideration either as to the probable return on the capital or the effect on already existing, and quite adequate facilities. I do not propose to re-open these contentious matters, nor to discuss the heavy construction program at Chicoutimi, Three Rivers, Sorel, New Westminster, Prince Rupert and Port Churchill. I will only say that, in my opinion, these have not been strictly and definitely related to any national port policy. In the future, such developments should be undertaken only as a part of a coherent policy, and should not be decided by any other consideration."

The rapid rise in the debt of the Provinces is due largely to the development of public ownership of utilities, the expansion of highways and good roads systems in all the provinces, cultural training advances and the requirements for the promotion of industrial activities and public and social welfare.

In 1913-14 expenditure on education was \$44,000,000 or \$5.80 per head of population; in 1930-31 the figure was \$166,000,000 or \$16 per head of population.

I am quoting these figures from Mr. Sanford Evans' compilations for the Canadian Chamber of Commerce and I presume that they include not only the ordinary primary and secondary school expenditures, but also the expenditures on higher education in provincially-owned universities, but I doubt if they include any figures for the amortization of the debts incurred in connection with building some of those universities. In that connection, I would like to draw attention to the fact that higher education in either one of the private or government universities costs a very great deal more than the fees that are paid for it. I happen to know from my investigation, that in one university the fees paid only represent about one-third of the actual cost of that education to the university, without taking into account any charge for rental of buildings. I may also add that the fees at this private university are higher than those charged in the government universities.

The increase in Municipal debt, so out of proportion to increase in population, is, no doubt, due, in some measure, to increased operation of utilities but I am afraid that a large portion is due to the capitalization or funding of revenue deficits. Coming to the third section of my remarks—What are we going to do about it?

First of all, what can we learn from other countries? This increase of governmental expenditure and debt is not confined to Canada alone. The same holds true in the United States, in Great Britain and in other of the British Dominions. The same process seems to have been going on since 1900. These various countries may very well study what has happened in Britain. In some respects, govern-

mental expenditure for social purposes has exceeded that of any of the other countries, but the same tendency existed in all. It is probable that the reason for Britain being in this position as regards expenditure on social undertakings, such as unemployment insurance, old-age pensions, housing schemes and so on, is that the problems were more acute and the need was greater. Whatever the reason, the increasing debt and with it the correspondingly increasing burden of taxation, reached a climax in 1931.

The May Economy Report shocked Britain; it shook the credit of Britain; people said that it should not have been given such publicity; money began to flow out of Britain. Before actual panic started, however, the political leaders took the situation in hand. They dealt with it firmly and courageously, with the result that there was no actual panic. There is no doubt that the situation was extremely delicate and it was only the good leadership of her statesmen and the good sense of her people that brought Britain through as well as she has come.

The Government balanced the Budget by making economies, by increasing the already extremely high taxation and finally by getting the support of the people in converting maturing loans to a lower rate of interest. In thus dealing with the situation the people of Britain showed that they had confidence in themselves and in their Government. This soon resulted in restoring the confidence of the rest of the world and to-day financially Britain appears, in some respects, to be in the soundest position of any nation.

As a result of the action of the people of Britain in contriving to live within their means, and the subsequent confidence engendered, the deposits in the banks of Britain during 1932 increased by an amount of £232,892,000. The time has now come when the people of Britain are ready and anxious to use this money rather than to let it lie in the banks. Now that confidence is returning, they are anxious to put the money into circulation and there is a growing agitation in favor of spending. Unfortunately, the lack of confidence as to the financial situation in other countries is causing hesitation on the part of those with money to invest

to venture their capital until they are sure that conditions in those countries warrant the risk.

I want to make one further remark about the situation in Britain and I am doing so for its bearing on our banking situation and its future. There was another very important report on the financial situation in Britain—the MacMillan Report—from which I quote the following observation:—

“An important thing to bear in mind is that financial policy can only be carried into effect by those whose business it is. We have in this country a great financial and banking organization with great experience and great traditions. It is through and with that organization that we have to work, for they alone are the repositories of the skill and knowledge and they alone possess the equipment necessary for the management of our financial affairs. Their views and opinions, however they may fail to commend themselves to enthusiastic reformers, are factors to be reckoned with just as much as the views and opinions of trade unions have to be reckoned with on questions of wages and working conditions.”

In the United States there was a similar situation—rapidly growing governmental expenditures and debts and large budget deficits. They seemed to be just drifting along like the rest, and the climax came, not with the disclosure of a May Economy Report, but with a banking panic. This provided the necessary stimulus to Congress to give the President sufficient power to take the necessary corrective measures. He is dealing with the banking situation, and at one fell swoop he is lopping \$500,000,000 off the budget. Confidence is returning as if a miracle had happened. Bank deposits are increasing and presently we will see a like situation to that in England with piles of money seeking employment.

There are two examples which surely can give us a lead. We seem to be drifting along as the others did, expecting something to happen and then perhaps we shall decide what to do about it. It does not seem likely that we shall have either a May Economy Report or a banking

panic. What I do think probable is that, until we set our house in order, and by that I mean, get a plan to ensure a balanced budget, perhaps not within a year but within a space that will give us confidence that the situation is being really faced, until such time, I say, that the Government will find it increasingly difficult to borrow that \$430,000,000 needed during the next twelve months. I suppose that if it were necessary we could either follow the example of Britain and put in a Coalition Government, or follow the United States and give Mr. Bennett dictatorial powers. I suggest a possible alternative with your permission.

It can't be done by economy alone. It will have to be a combination of economy, increased taxation and refunding of maturing loans at lower interest rates. It is my belief that once the corner is turned there will be lots of cheap money for some time for good investments.

Let us first look at the estimates for 1933 and 1934. You will find that they total \$358,000,000. That is, of course, taking into account the deficit of the C.N.R., money spent for unemployment relief and such like items of a special nature. Of the \$358,000,000, the largest single item is interest on the Federal debt—\$142,000,000—an increase of \$5,000,000 from last year. The next largest item is pensions—\$47,000,000. Then there are all the various government services, including an amount of \$30,000,000 for Post Office, which will be recovered from receipts. When you actually look at these different items you realize that the government really has not a very great deal of control over the situation. Nothing can be done about the interest on the debt, except by compromise with the owners of the securities, or refunding at maturity into issues with a lower interest rate, if such can be arranged at the time.

As to pensions, the figure is growing and there is some indication that the cost of administration is pretty high. Then there is an item called "miscellaneous items," about \$8,000,000. When you examine this you will find some explanation as to the causes of some of our troubles. Under the heading "new ventures" appear, such as \$1,000,000 on the Radio Commission. I might be disposed to suggest

that such an expenditure might be postponed under present circumstances, but I understand that there has been a reasonable explanation made in connection with this item. Another item in the miscellaneous expenditure is "subsidy on coal": last year, \$1,750,000; this year, \$2,000,000. I do not propose to say much on this subject. The subsidy is given to help out one part of the country and I must say that I rather approve of the method of giving subsidy and bounty as against a tariff. With a subsidy or a bounty, you at least know how much it is costing the country to give the protection. But down a little further, we come to the item of the Federal share of the cost of the Montreal Harbor Bridge—\$511,000. That sticks out like a sore thumb and lower down the Hudson Bay Railway recurs, but most of the bad breaks have disappeared to form part of the \$142,000,000—interest on the Federal debt.

As regards these estimates, it seems to me, that something might still be learned from Lord Chesterfield in his advice to his son: "Without care and method the largest fortune will not, and with them almost the smallest will, supply all necessary expenses."

When it comes to taxation, remembering what happened to the Income Tax, which was swallowed up by the voracious current expenditures, may I suggest that any increased taxes be rigidly applied to the purpose for which they are intended, and as time goes on and conditions improve, they should be continued for the purpose of reducing our debt to what should be its proper proportion.

Before I plunge into the serious matter of Federal Taxation, may I indulge myself in giving a little gratuitous advice for your Provincial situation. Last month I heard your Premier suggest that if the people would only use the roads more the gasoline taxes would soon straighten matters out. It struck me that you might take a lesson from the way they do things in Britain. There, they tax in a fine large manner and everybody, even the humblest, can have the satisfaction of knowing that he is doing his bit. There, all utilities are taxed on a rental basis, whether they are publicly or privately-owned. Here you might

do it on the same basis, say, of half of one per cent on the service. I am sure it would make Mr. Henry very happy.

I suppose I should warn you that there is a danger that Mr. Rhodes might notice and extend the privilege.

To get back to the serious matter of Federal Taxation. In discussing the problem recently, I made the suggestion that we should change the basis of our taxation, and found it fundamentally on earnings. The capacity of a country to bear taxation is proportionate to the capacity of that country to produce wealth. To the natural resources that we have, we apply our energy, our industry and our intelligence, and we get a certain reward. This reward is the benefit that we get from the privileges of citizenship in the country and out of that reward we should be prepared to pay proportionately for our advantages. I, therefore, propose that a certain proportion of everybody's earnings should be taken to meet the cost of government. Under the present system, the principal desire seems to be to hide from the greatest possible number of people the fact that they are paying taxes. The result is you have people voting to support those members who will levy taxes on somebody else. There was a song in the war days:

"Call up my mother, my sister and my brother,  
But for God's sake don't call me."

To the voter that tax is made to appear popular which somebody else pays. The wage-earner and the small salary earner is lulled into supporting political parties who say they don't tax any earnings under \$1,200. Might I point out that with our system of taxation, tariffs, sales and excise tax, the head of a family is paying taxes on practically everything that he buys for each member of that family, whereas, if his taxes were based on his earnings, it would be only on the earnings of one member. Commodity taxes are very hard on poor people. I advocate this system of taxation also in order to bring home to the people more directly the fact that they are paying taxes, and thus get every citizen taking a more intelligent interest in what is done with governmental money. I have even suggested that the Income Tax Receipt should be the passport to the ballot box.

The Federal Government now has a very well equipped Income Tax Department and the tax I suggest, could very readily be dealt with by this Department. My idea is that a very small percentage of everybody's pay should go to the Federal Government, this percentage being withheld by the employer and paid direct to the Government. At the same time, the Income Tax as at present established, could be carried on so as to tax the people with the greater incomes at a higher rate, according as the income was greater. This system of income would only tax the resources of the country according to the amount produced, but the rates could be adjusted from time to time to produce the amount that the Government required. I believe that with a tax of this nature the Government could now lay down a policy that would lead to a balanced budget, if not at once within two or three years.

May I say a few words in regard to restriction of Federal expenditures. It seems to me that the tendency has been more and more for the Federal Government to take over expenditures which should properly have been provided by the Provincial or Municipal Governments and, in many instances, by private corporations. The time has come for us to redefine the functions of our Federal Government. In referring to Britain I discussed the extent to which the governmental expenditures had been increased for social and educational work. Our Federal Government has not gone nearly so far on this side as was done in Britain or in Australia but the pressure to have the Federal Government go into these lines is very strong.

As you all know, the Government of Britain has been spending enormous sums on old-age pensions and the so-called dole which, I understand, is more properly defined as the "contributory unemployment insurance scheme." It seems to me that the function of Government should be to see that provision is made for old-age pensions and unemployment insurance by the various corporations, industries, institutions (whatever all-embracing term is appropriate). I mean that the Government should see that such schemes are provided for, should regulate them but should not itself

provide the funds. Rather it should see that those funds are provided by industry and taken out of the profit and loss account before the surplus profits go to the owners.

May I take a concrete case. At present, some of our large corporations have pension funds, but this is not general. Others have unemployment insurance schemes but these are even rarer than the pension fund schemes. Take our banks; they all have contributory pension fund schemes whereby a certain proportion of each person's salary is set aside and a certain proportion taken out of the profits of the bank. In addition to that, from time to time, amounts are donated to the fund by the bank. The effect of setting these funds aside is that when the bank is figuring what it must charge its customers for its services, there is included a charge to provide for the old-age of employees who give a certain number of years service to the institution. That is, when a man joins the bank at the age of 20, under this scheme, it undertakes to pay him a living wage, or perhaps even better than a living wage for the rest of his life, and that wage is a charge against the earnings of the institution.

It is my belief that all branches of finance, commerce and industry should be made to provide for their own employees in this way and it should be the function of the Government to see that such provision is made, and perhaps, in some instances provide for the handling of the funds, but it should not be the part of any Government to levy taxes to supply funds to meet such pensions. This is one instance where, I think, we want to examine carefully into the trend of our governmental functions.

I think I have said enough to indicate that no matter what happens to the Canadian National Railway as such, it is my opinion, that the Federal Government should retire entirely from the field of railway promotion and development. In the consideration of this problem, the issue is being clouded by argument between the supporters of public ownership and those of private ownership, and I am afraid that the advocates of public ownership, on the defensive, are trying to defend the principle of Government ownership, rather than dealing with the situation on its merits.

We have examples of public ownership which prove that business can be conducted under that regime as well as is done under private ownership which show that privately-owned enterprises can be just as badly run as publicly-owned enterprises.

The real situation, as I see it, does not lie between public and private ownership; the greater part of our trouble is due to the exploitation of public ownership by politicians in reply to the popular demand for the promotion of local or special interests. In other words, I believe that we have nothing to fear from public ownership provided it can be taken out of politics and kept completely out of politics. May I, however, point out this distinction? If a private company is unable to continue to pay its debts, the ordinary procedure would be to place the company in bankruptcy, realize upon the assets and divide the proceeds among the creditors and shareholders according to their interests. The matter would then be closed. There is no doubt that a certain loss would be taken by the shareholders and possibly by the creditors of the company. When, however, the enterprise is a publicly-owned one it is unthinkable that the debts of the government should be defaulted; that means, therefore, that the combined debt of the C.N.R., is a permanent obligation on the country.

Two years ago, I figured that in the eight years from 1923-1930, the amount available from earnings in the Canadian National Railways to pay interest was \$228,900,000, or an average of \$28,612,500 per year. This represents 5% on a capitalization of \$572,250,000. When you realize that, between what is due to the public and what is due to the Dominion Government, the debt of the Canadian National Railways is somewhere between two and three billion dollars and, assuming that the foregoing is at least some basis of placing a valuation, you will appreciate what a drastic loss would have to be taken in the case of ordinary liquidation.

Between 1917 and 1931 the aid granted to the Railways by the Government was \$1,898,000,000. If the basis of valuation which I have suggested has any merit then the

cold, hard fact is that the taxpayers of Canada are saddled with a burden which represents the loss of practically every dollar that has been put into the enterprise since 1917. I am using the date 1917 in order not to be one-sided in this matter, because I feel that the responsibility for the situation lies equally upon those who elected the Governments in power between 1917 and 1923, and between 1923 and 1930.

I have some more suggestions to make about economies. We are terribly over-governmented. Why should we not revamp the picture of Canada into five provinces, cut down the number of members of the different parliaments by two-thirds, and, at the same time, multiply the individual remuneration by three, then impress upon those members that they are the trustees of the people and their job is to regulate the affairs of the country and not to do the business of the country, and their principal aim should be to save money and not to spend it.

I think that in the annual statements that are prepared for the governments, more attention should be given to the Balance Sheet position that I have described, to the end that all governments would aim at maintaining a real balance sheet that would have assets on one side to balance the liabilities on the other side and not as at present—a huge gap in the assets.

You will notice that I have refrained from making any suggestions along certain lines. During the boom days there were many who used their wits in trying to acquire wealth without going through the labor of producing it, and in the process they incurred liabilities which have not yet been discharged. We now find the same type of person trying to get rid of his liabilities by some means other than the sweat of his brow.

Then, as to our noble selves, where the root of all the trouble lies, I think we should start early in the schools to teach the children the duties of citizenship, so that when they take their place as voters they will take an active interest in Municipal, Provincial and Federal affairs. While I do not want to deprecate the interest taken in public affairs

by anybody in the past, I do want to say a word about the governmental lobbyist. I think there has been far too much parading to the Government by special groups, classes and sections. I think that individually we should take the very greatest interest in public matters but that we should bring our influence to bear through our own individual representatives.

The other day I asked an American friend of mine if he would approve of the abolition of all lobbyists and he said he would most decidedly, but he was afraid he would add greatly to the army of unemployed.

In speaking to some Montreal doctors the other day, apropos of taking an interest in public affairs, I suggested that each one of them should periodically call the local representative, municipal, provincial and federal, and ask them how affairs were going in their particular domain. If, as citizens, we did more of this we would not find members of Parliament saying in reply to one question—"Oh, I haven't had time to read the Duff Report."

Can we not aim to achieve that distinction which Thucydides gives the Greeks in the History of the Peloponnesian War: "We are the only people who think him that does not take part in public affairs to be not merely lazy but good for nothing?"