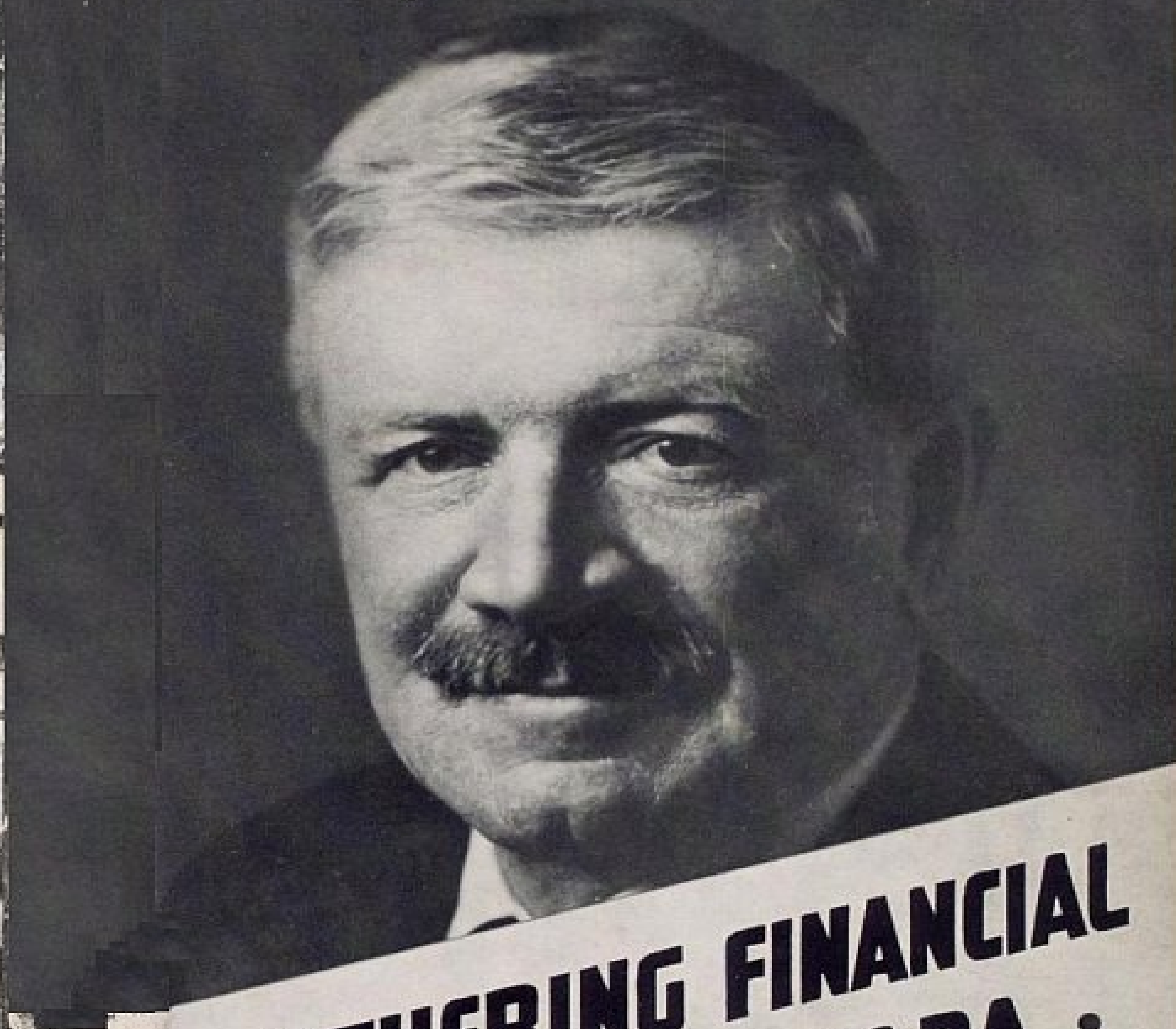
Stephen Leacock



The GATHERING FINANCIAL CRISIS IN CANADA

Title: The Gathering Financial Crisis in Canada

Date of first publication: 1936

Author: Stephen Leacock 1869-1944

Date first posted: March 6 2013

Date last updated: March 6 2013

Faded Page eBook #20130312

This eBook was produced by: Marcia Brooks & the online Distributed Proofreaders Canada team at http://www.pgdpcanada.net

The GATHERING FINANCIAL CRISIS IN CANADA

NOTE

The survey of the present situation in Canada here presented appeared as a series of articles in the London *Morning Post* of July, 1936. I wish to express my sense of obligation to the *Morning Post* both for the original publication of the articles, and for the permission to republish them in the present form.

Stephen Leacock.

THE GATHERING

FINANCIAL CRISIS

IN

CANADA

A Survey of the Present Critical Situation

By

STEPHEN LEACOCK
Ph.D., Litt.D., LL.D., D.C.L.

Sometime Head of the Department of Economics and Political Science and now Professor Emeritus, of McGill University, Montreal.

TORONTO: THE MACMILLAN COMPANY OF CANADA LIMITED, AT ST. MARTIN'S HOUSE
1936

Printed in Canada

PREFACE

(An extract from the editorial columns of the London *Morning Post* of July 6, 1936.)

Mr. Stephen Leacock is familiar to a very large reading public in this country as a humorous writer of unusual brilliance and versatility. He is less familiar as the Head of the Department of Economics at McGill University in Montreal, less familiar, indeed, than he ought to be, since he is not only a first-rate economist, but also a living witness to the truth that economics is a "dull" science only when the scientists make it so. Moreover, on all that pertains to the economic life of his own country he is an acknowledged authority. We would therefore draw special attention to the article which appears in an adjoining column, the first of a series in which Mr. Leacock subjects the financial shortcomings of Canada to a searching analysis. It is a painful story he has to tell of permeating extravagance in public administration, of a body politic staggering under a load of debt which it has piled up in light-hearted over-estimation of its own strength. Mr. Leacock presses home his indictment with a formidable array of facts and figures, and he lends conviction to his case no less by the weight of the evidence he adduces than by his manifest freedom from all suspicion of political partisanship.

It is, of course, fair to remind ourselves that Canada is not unique in spending beyond her means; few countries since the War have been guiltless in this respect, and our own country, with 1931 fresh in the memory, certainly cannot point an accusing finger against anybody. Nor should we forget that the recent slump bore on Canada with exceptional severity, owing to the catastrophic fall in the price of one commodity, wheat, on which her agriculture is so largely dependent. At the same time, Mr. Leacock diagnoses a situation whose inherent disorders were only brought to the surface, not caused, by the slump. He says many things which will make unpalatable reading for Canadians; but he writes as a patriotic Canadian citizen who feels that the best interests of his country will be served by accurate publicity as to the plight in which she finds herself. It is because the "Morning Post," too, is animated by the same belief that we invited Mr. Leacock to write the series of articles for our columns. Moreover, we would point out that although in the earlier articles Mr. Leacock is mainly critical, the later ones contain valuable constructive suggestions for the future. That Canada will surmount her present difficulties and profit by the lesson of past errors there is not the slightest reason to doubt.

THE GATHERING FINANCIAL CRISIS IN CANADA

I

THE DOMINION

It has always been understood that the last straw breaks a camel's back; and when the burden is added, not straw by straw, but a whole bale at a time, then even so stout a young camel as the Dominion of Canada must go under.

Till the last few years the increasing burden did not matter much, or at least created no immediate problem. The camel grew as fast as the straw. National growth permitted national extravagance. It seemed possible even to discount the future to any extent. Extravagance could easily outrun national growth by making a draft on the still further growth expected. The Canadian Government, and those of the provinces and the municipalities, were led into huge borrowings, accompanied by open-handed and often crooked-handed expenditure, which has piled up a debt greater than can be paid.

Greatest of all has been the vast and increasing drain of national resources represented by the Canadian National Railway system, a flow still moving beneath and behind the concealing growth of pretence and make-believe that obscures its origin and nature. If the Canadian camel does indeed break down, it will be on the flood of railway debt that its carcass will be carried away.

It is difficult to over-estimate the gravity of the situation in Canada. Readers of balanced intelligence are apt to be repelled by superlatives and scare-heads. But the situation is one in which a few more false steps may reach the edge of the abyss of bankruptcy, and in which the path of salvation is arduous in the extreme.

It must be remembered that it is no longer possible to separate the financial outlook and the financial stability of the Dominion from those of its provinces and their municipalities. The scale of public expenditure in both the latter is now so vast, and includes so much, such as public relief, that is of national import, that their collapse would drag down the credit of the Dominion with them. Each is compelled to be its brother's keeper and the prospect is that certain of the provinces, and at least one of the greatest municipalities, need "keepers" in the plain old sense.

The broad features of the Canadian situation at the time when Mr. Dunning's first Budget was presented this spring to Parliament, may be easily summarised. The Dominion of Canada had, as at March 31, 1936, a gross debt of $3,432,000,000. From this is deducted in the public accounts a number of items called "Active Assets," a total of $424,000,000. Some of them are active enough, as, for instance, the $24,000,000 of cash, working capital, advances, &c. But others, such as the money lent to Greece in 1919, and the money advanced to the Soldier Settlement Board and the money advanced to the Provinces, seem a little paralysed in their activity. The assets in reality could be scaled down by 75 per cent. To this main debt, is to be added the funded debt of the National Railway amounting in all to some

$1,155,000,000 and as much a part of the debt and the public obligation of Canada as any other of its borrowings. The Government prefers to write it down on a page by itself—just as old John Willet, of *Barnaby Rudge*, grown witless, wrote up "scores" on a slate against his cronies of the Maypole Inn. The true debt of Canada, at the present time, can be set at approximately $4,163,000,000.

To this Dominion debt are to be added the provincial debts of the nine Provinces, representing a total of $1,415,000,000. We must add to this again the debts of the municipalities which have now become one of the chief perplexities and chief dangers of Canadian public finance. The total of municipal bonded debt may be put at $1,386,000,000.

For the proper interpretation of the significance of this enormous total of public debt it is necessary to see what proportion the annual charge thus created bears to public revenue and other public expenditure. From the latest statistics available it appears that the total revenue of Canada (1935-36) was $372,000,000; that of all the provinces, from the latest financial year available for each, was $161,000,000; that of the municipalities $285,000,000, a grand total of $818,000,000.

Of this revenue the Dominion spent 46 per cent. in paying interest on debt, the provinces 37 per cent., and the municipalities 24 per cent., or putting all debt-charges and revenue into a single gross total, the country at large raised a revenue of $818,000,000 and spent 37 per cent. of it in paying interest. It is, however, a peculiar feature of Canadian finance that the Dominion pays annual "subsidies" to each of the Provinces and hence, in the calculation above, the amount of these subsidies ($16,578,000 in 1934-35) has been counted twice over as revenue. Correcting this error would raise the percentage of Canadian revenue spent on debt charges by about .8.

A similar calculation should be made for the advances made by the Dominion to the Provinces, and spent by them as revenue, and to the municipalities. Exact computation is not possible in the limits of this survey; but at least it would appear that the plain calculation made at first is an understatement of the public burden involved.

The vast increase of debt, of expenditure and of taxation in Canada is a thing which Canada shares with all other modern Governments. It has arisen in part from the expansion of the functions of government in a world of industrial and social advance, in part from the burden of war expenditure and from the pensions arising from the War, a debt of honour which no one should wish to repudiate or to curtail. But in the case of Canada the contrast is especially great when we compare the financial situation at the making of the Confederation in 1867, or at the opening of the present century, or even at the opening of the Great War, with that of to-day.

In the first year of the Confederation the gross debt was only $93,000,000, and the interest only $4,500,000; or $1.28 per head. In 1900 a gross public debt of $346,000,000 called for interest at the rate of $2.02 per head; and in 1913-14 the gross debt stood at $544,000,000. The expansion of population, however, had cut the *per capita* burden to $1.87 and the even greater expansion of wealth and industry rendered it easier than ever to carry. At the present time the *per capita* charge to pay interest on the so-called gross debt of $3,432,000,000 is $11.44 and, with the addition of the charge on railway debt, provincial debt and municipal debt, the cost per head in Canada averages out at $27.73.

The growth of public expenditure is equally striking. The Dominion in its first year spent only $13,000,000; in 1900 this had increased to $52,000,000, and to $163,000,000 before the War. Mr. Dunning's Budget of this spring showed Dominion public expenditure for 1936-37 as estimated at over half a billion dollars. Nor is this to be accounted for by the rise of prices. According to the tables of the Dominion Bureau of Statistics, a body second to none in economic activity and accuracy, wholesale prices at Confederation were higher than they are now. With the year 1913 as the 100 basis, Confederation prices stood at 133, and "war-peak" of 1920 at 243, and those of 1934 at 111.

It is to be further noted that in the case of Canada a greater part of the public debt of the country at large and a great part of its swollen current expenditure does not originate from the expanded functions of government or the cost of war. It represents nothing but waste, extravagance, and worse, together with the terrible burden imposed by the dead weight of the Canadian National Railways. Almost every city in Canada over-expanded itself; over-built itself; over-burdened itself; every Province over-pledged itself; and, at the keystone of the arch, the Dominion Government has led the way in sowing broadcast the wild oats of over-expenditure and over-borrowing.

The peculiar methods of government book-keeping in Canada have long helped to conceal the increasing difficulty of the situation. There has never been a rigid and accurate distinction between what is capital expenditure and what is current; or of what is a receipt on capital account and what is true revenue. Many items are carried by the Government as assets against which there is no longer any property represented. The seventy odd vessels of the Canadian Government Merchant Marine fleet—built just after the War, but now all sold—are still carried at their original cost of $54,000,000.

The same difficulty of distinguishing between current expense and capital expense—the one calling for taxation, the other inviting new borrowing—runs through all the history of public works and railways in Canada. In the case of railways, no one but an engineering expert can distinguish between maintenance properly payable out of annual revenue and construction payable out of borrowed capital. Hence, the process of concealing an annual deficit may be carried on successfully until the point is reached when further borrowing becomes difficult and then impossible and the interest charge can no longer be met. This is the point reached by at least two of the Provinces and by the City of Montreal and marks the edge of the abyss towards which the Dominion is in danger of being drawn.

The same failure to distinguish capital from revenue accounts appears in the method recently adopted in the Dominion's Budget in setting aside huge items marked as "Special" and paid, presumably, by borrowing. Thus in the current Budget which shows a total year's expenditure of $534,000,000, no less than $103,000,000 is marked as "Special", being spent on unemployment relief, on Special public works, and on wheat bonuses. The Finance Minister, as it were, washes his hands of it.

It may be said that this is merely a finance of despair, resulting from the overwhelming force of the industrial depression, the spread of unemployment and the cessation of immigration and the consequent collapse of transportation and land settlement. This is no doubt true, but it is of no service to pretend that such things as the relief of current unemployment are any different, as a matter of dollars and cents, from any other annual charge. The Canadian ostrich would do better to lift its head up from the sand.

II

THE PROVINCES AND MUNICIPALITIES

The Piling Up of Colossal Debts

In the case of each of the Provinces of Canada the situation is analogous, in a greater or less degree, to that of the Dominion. In all of them high expenditure, an over-readiness to borrow in good times, followed by the fall in revenue brought about by the industrial depression, have created an acute financial situation.

As stated above, the provincial debt of the nine Provinces represented a total of $1,415,000,000. This is distributed as follows: Ontario, $615,000,000; Quebec, $146,000,000; Nova Scotia, $67,000,000; New Brunswick, $56,000,000; Manitoba, $114,000,000; British Columbia, $134,000,000; Prince Edward Island, $3,600,000; Alberta, $136,000,000; Saskatchewan, $143,000,000.

It has been a feature of Canadian Finance that the Provinces obtain a part of their revenue as subsidies from the Dominion. This originated at Confederation, when the transfer of all Customs and Excise duties to the new Dominion Government left the Provinces without adequate sources of income. At that time the subsidies ($2,228,000 in 1868 and about $3,750,000 after Manitoba, British Columbia, and Prince Edward Island were included) amounted to about 50 per cent. of the provincial revenue.

The subsequent development of corporation taxes, inheritance taxes, and taxes on motors and gasoline, have rendered the subsidies a less important part of general provincial revenue, at present about 7 per cent. of a total revenue of $200,000,000. But the arrangement still has the unfortunate result of making the Provincial Governments look to the Dominion for money, perpetually clamour for further grants, and lose that proper sense of responsibility which alone can control public extravagance. Moreover, the present perplexities of the Provinces have driven them to "borrow" special grants of money from the Dominion—about $139,000,000 having thus been advanced in the last five years. Hence the present situation.

One Province, Alberta, has already gone under, as far as public faith and credit is concerned. The forced conversion of its $160,000,000 of funded debt from rates between 4 and 6 per cent. interest to a rate of 2½, is, in plain terms, repudiation. British Columbia is at the same time being carried to the brink of the fall, over and beyond which must lie a confused maelstrom of troubled waters.

The municipalities of Canada are in a critical condition. Their total bonded indebtedness is over a thousand million dollars. For Montreal it is $272,000,000, for Toronto somewhat less than $200,000,000, and for Winnipeg, between $60,000,000 and $70,000,000. The implications of this situation are shown strikingly in a special report presented in the current year by a university economist for the Dominion Conference of Mayors.

The table below shows this debt as divided by provinces, by chief cities, and in relation to population.

These debts bear a high rate of interest, the borrowings having been made in the boom times of reckless, extravagant and crooked city finance. The securities are, for the most part, long-time obligations and there is no escape from paying the interest except to repudiate all or part of the debt. This is what will possibly happen in many Canadian cities in the near future. The reason is that the source of revenue is drying up. In Canada this main source of town and city revenue is, and always has been, a tax levied as a percentage of the capital assessed value of real estate. It differs from the British local rate in being levied on the supposed fair selling value of the property, not on its annual return. Hence, unoccupied property that brings no current return is taxed just the same as if bearing revenue.

TABLE OF MUNICIPAL DEBTS IN CANADA

Province	Population (1931)	Total Municipal Debt $ 1933	Cities	Population (1931)	Debt $
Ontario	3,432,000	494,000,000	Toronto	631,000	180,700,000
			Hamilton	156,000	28,600,000
			Ottawa	127,000	23,800,000
Quebec	2,874,000	480,000,000	Montreal	819,000	266,200,000
			Quebec	131,000	37,900,000
Nova Scotia	513,000	34,000,000	Halifax	59,000	15,100,000
New Brunswick	408,000	25,000,000	St. John	48,000	9,100,000
Manitoba	700,000	96,000,000	Winnipeg	219,000	64,900,000
British Columbia	694,000	128,000,000	Victoria	39,000	16,400,000
			Vancouver	247,000	67,000,000
Prince Edward Island	88,000	2,000,000	Charlottetown	12,000	2,000,000
Alberta	732,000	70,000,000	Edmonton	79,000	32,800,000
			Calgary	84,000	21,500,000
Saskatchewan	922,000	57,000,000	Regina	53,000	16,900,000
			Saskatoon	43,000	16,400,000
TOTAL	10,363,000	1,386,000,000		2,747,000	799,300,000

Even property that is virtually unsaleable because nobody wants it to rent, and of which the current return is nil, still carries its assessment and its tax. The report in question shows that the tax rate per $1,000 in Canadian municipal taxes runs from 18 to 55; in Montreal it is 27.7, and in Winnipeg 34.5 mills. Such a charge is evidently up to the carrying limit of ordinary house and business property. It must, of course, be understood that this rate, in and of itself, tells nothing unless one knows at the same time to what extent the assessed value corresponds to the true commercial value.

Very often in the past, both in Canada and still more in the United States, assessed values were so low that the rate was impossibly high, in *appearance*, but in reality quite easy to bear. That situation no longer exists. The great fall in values during the depression has not been accompanied to any great extent by a fall in assessment.

Hence in many cities, as in Montreal, the assessed value is greater than the price that could be got even at a sale under fair conditions of notice and delay. The report quoted above shows that in the City of Montreal the taxable assessment on real estate was $1,277,000,000 in 1931, and $1,250,000,000 in 1936. The true market value has, of course, fallen much more than this.

The municipalities, especially in recent years, have opened up other sources of revenue in the form of licences, amusement taxes, sales taxes, and even, as a last straw, municipal income taxes. The City of Montreal now levies an income tax on all resident salaried and business men at a rate of 10 per cent. of their Federal income tax. These supplemental taxes are also at the breaking point. Business, where it can, is moving out of the city into the untaxed country.

The financial situation of Montreal is reflected in a petition presented to the Government of the Province of Quebec by a committee of leading Montreal citizens last May. It says, in part: "The total debt has increased in fifteen years from $119,000,000 to $272,000,000. During the last ten years Montreal has accumulated a debt equal to that contracted during the 284 preceding years.... Almost 50 per cent. of the available revenue is absorbed by interest and sinking fund."

During the same month the retiring president of the Montreal Branch of the Manufacturers' Association was reported as saying that city bankruptcy was certain unless the system of administration was changed. "The subject at issue," he said, "is a grave one to all, namely: Is Montreal to maintain her financial integrity and reputation, or is the question of repudiation coming to the forefront, with all that it entails in the flight of capital and industry from the city?"

III

THE RAILWAY SYSTEM

The worst feature of Canadian public finance, worst because it never need have been created—is that of the railways. As most people know, there are practically only two railway systems in Canada, the Canadian Pacific Railway Company and the Canadian National Railways. The former is a private corporation, originally incorporated in 1881, generously subsidised with prairie land, and originally, to some extent, with money. By means of it the North West was opened up, the Atlantic joined to the Pacific, and Confederation rendered geographically possible.

The company, after a hard initial struggle, grew and flourished. From the time of its inception the company paid dividends in varying amounts until 1911, when the maximum rate of 10 per cent., which was to be maintained until 1932 without a break, was reached. Its subsidiary enterprises—mines, steamers, hotels—were an added source of revenue. Its shares—nominally $100 par value—sold as low as $33 in 1895, and sold before the War almost up to $300. It had the Western field all to itself; the East it shared with feeble competitors.

One of these was the Inter-Colonial Railway—from Montreal to Halifax—built as a military necessity with the aid of Imperial finance. Initially it was not expected to make money, and it lived up to the expectation. The poor mostly rode free, and the rich travelled on passes. The conductor sat and smoked with the passengers like a ship's captain at his exalted table.

Freight rolled along—when there was any—on its own terms. The thing was too good not to pass it around. So when Prince Edward Island was to be coaxed into the Dominion (1873) its bankrupt railway and its ferry service became a part of the Inter-Colonial. A rich and rising country carried the burden easily enough, just as a strong man can carry a sore finger. But the gangrene was there just the same. It is now working through the whole system.

The other original competitor of the C.P.R. in Eastern Canada was the Grand Trunk Railway, intended to link the Great Lakes to the Atlantic: a company of great opportunities, which it never realized. It had absorbed a group of minor roads in Ontario and Quebec, but it never paid a dividend on its Common stock, being managed, or mismanaged, from London. The C.P.R., organized and conducted by a group of men of exceptional talent and enterprise, was soon able to compete successfully with the Grand Trunk on its own ground.

It was this situation which Sir Wilfrid Laurier, whose true function was benevolence and not business, proposed to turn to political account by organizing a second transcontinental system, based on the co-operation of the Government and the Grand Trunk. The Government and the Grand Trunk were to build a railway from tide water in New Brunswick (Moncton) to a northern (ready-made) port of the Pacific, presently called Prince Rupert.

From Moncton to Winnipeg the Government was to build and own the line, as a National Transcontinental spanning the St. Lawrence by a bridge just above Quebec. This was the last word in American railway construction. In England and in Europe railways were built to connect existing cities; in America, to connect cities not yet existing—the railway at the start going from nowhere to nowhere. The railway came first and the towns came after.

This new departure went further. It went from nowhere to nowhere, passing nowhere. It was constructed far north of existing settlement. Its construction reaped a rich harvest for contractors; scandals grew like wild oats along its right-of-way. The western part of the line, from Winnipeg to Prince Rupert, was built by a new company, the Grand Trunk Pacific, its bonds guaranteed to 75 per cent. of its cost. The new company was to rent the National section for fifty years at 3 per cent. of the cost, an agreement by which everybody, except the taxpayer, wanted the cost as high as possible. But the taxpayer, as yet, didn't count. The bridge at Quebec was in the class of the Colossus of Rhodes, equally scenic and about as valuable. The system, operated in conjunction with the Grand Trunk, was a failure from the start, a mill-stone round the neck of Canada.

To make the weight heavier another stone was added. This was the third Transcontinental, the Canadian Northern, built as a private enterprise, out of old charters and odd bits, picking up Government and municipal bonuses as a bird picks up crumbs. The Canadian public had lost its head with the boom. The War smashed the whole railway system. But it would have broken anyway of its own weight. By 1916 there were 40,000 miles of railroad in Canada; the frame was too big for the picture. It fell out.

To save financial disaster the Government took over the Canadian Northern (9,500 miles) in 1917. The Grand Trunk Pacific failed to make its payments. The Dominion took it over. The Grand Trunk collapsed and was taken over in 1920, its shareholders to be paid what their stock was worth. This, in the case of the Common shareholders, turned out to be nothing. Their sobs are not yet hushed. Their fate now stands as a *hodie mihi, cras tibi* for a new set of Common shareholders.

Out of these elements of historical survival, junk optimism and extravagance was pretentiously created by Act of Parliament (1923) the Canadian National Railway Company, not a company at all, having neither shares, nor shareholders nor dividends. Its status is that of a little boy given an account book to let him "pretend."

Since that date the Canadian National System has dragged the country further and further into the slough of despond. Supposedly the system pays its operating expenses out of revenue and pays also the interest due on its inherited obligations and on the new money borrowed to maintain and expand it. Whether the operating revenue pays the operating cost is a matter that can be known only to an expert having access to the books. Railway expenditure is hard to check and easy to disguise. Maintenance cost can masquerade as capital cost. Thus the system could show a profit on its operation in reality offset by charges carried to capital. During the last ten years the railway receipts have been reported to cover the cost of operation, save in three depression years, at its highest the net income available for interest was $44,000,000 (1928), and the greatest deficit (1931) was $5,000,000. But the essence of the situation lies elsewhere. The net income available for interest does not suffice to meet the annual interest charge on the securities held by the public and assumed or guaranteed by the Dominion when it took over the railways, let alone the interest on money borrowed directly from the Government. In addition to this, continued expenditure, called "capital" expenditure, is made by borrowing more money on which again an interest charge must be created. Hence the cumulative deficit, added up as $264,000,000 when the "Company,"—save the mark!—was consolidated in 1923, added up in 1935 to $1,078,000,000.

This is not the *debt*. This is just the added new deficit by which the original debt is increased. When the constituent lines of the National System were taken over by the Government they owed to the Dominion in return for appropriations, loans, and advances and interest $527,000,000. This by the end of 1935 had increased to $1,655,000,000. In addition to that the National Railways owed to the public at the time of their acquisition the sum of $810,000,000. This had increased by the end of last year to $1,155,000,000—making a grand total long term debt of $2,810,000,000. This is not counting the $247,000,000 rolled up since the Government decided that "cash" deficits and Eastern lines deficits should not be met by fresh railway borrowings, but by appropriations granted under Act of Parliament.

The "cash deficit" from the operation of the Canadian National Railways in 1935, that is, the difference between its revenue and its cost of operation and fixed charges payable to the public, was $47,000,000. The estimate of the cash deficit for 1936-37 is put at $39,900,000, but, if there is anything in history, the Railway will easily beat that and make what the stockbrokers call a "new high."

In addition to the cash deficit, there was the interest on Government loans, that is, interest on money borrowed by the Government to lend to the railway. This item, some $36,000,000, is included in the Dominion "interest on funded debt" and met directly by the taxpayer, as is the interest on the further item of $247,000,000 mentioned above.

A "company" run on this plan becomes a dangerous prodigal. It has everything to gain and nothing to lose. It has no dividends to pay, nothing to fear, and a fond parent to pay its debts. It can spend what it likes on equipment, on luxury, on "service," and its *alma mater*, the Dominion of Canada, will pay for it. It can build competing lines, run them at a loss, carry goods below cost—it doesn't matter. Its finance is that of a spoiled spendthrift—just ducks and drakes.

But why, it is asked, does the country stand for it? Why permit the National System—it has dropped the word "company" as too small, too mean for it—to be a national spoiled darling? The reason lies in its history. It came into the world—its original skeleton of 1903—just about the time of the clamour for "People's" railways, of opposition to trusts and monopolies. Someone had called a railway an octopus. The western farmers didn't want octopi around. They had pests enough. And perhaps, too, at the height of its prestige, the existing railway had treated the West a little bit *de haut en bas*, wouldn't build branch lines everywhere the farmers wanted them. At any rate, western agrarian opinion clamoured for a "People's" railroad, and still want it. For the deficit they don't care. Let the "East" pay it. They've trouble enough without worrying over the railway problem. So the whole transportation structure of Canada drifts like a mass of wreckage, nearer and nearer to the fall. The Canadian National policy is driving the C.P.R. towards the edge. Its dividends have stopped; its shares have fallen. The farmers don't care—don't realize the danger that, if the crash comes, it comes to them also.

So here stands Canada, still upright, still with great elements of strength, but in a situation that may, if uncorrected, collapse in national disaster.

IV

SUMMING UP

The Dominion's Salvation lies in its Vitality and its Resources

There are in Canada, for its salvation, certain obvious and powerful factors of recovery. No doubt the consciousness, at the back of the public mind, that these factors exist, helps to promote public indifference. In the first place, no one in Canada believes that the hard times are here to stay. Everyone expects that we are certain, sooner or later, to "round the corner" and re-enter a period of expanding business, bumper crops, tidal immigration, and the whole setting of our lost elysium. We in Canada move on waves, not, as in England, on a broad slow flood. Now one doesn't make a wave. One waits for it. Hence the typical Canadian attitude of waiting to be lifted up and washed forward. Such a rising tide of big business and upward prices could easily wash out half our debt in a decade.

More than that—our greatest curse—the strain of the railway system—is one that could be alleviated at once if treated on the ordinary principles of bankruptcy. All that is needed is ruthless honesty and the facing of facts. Close up the railway where it doesn't pay; turn in the cows on it; forget it. Add up the accumulated debt and call it part of the debt of Canada; drop the silly pretence that the debt of the railway system is its own concern. Stop the crazy competition with the C.P.R., a competition of mere spite and public extravagance. Put over the Canadian National Railways a board of trustees whose job and salary depend on whether they operate at a loss or a profit—and the thing is done.

Give them the right to arrange things with the C.P.R. so as to prevent duplication of service. There is no danger of cheating the public; the Government still controls rates. An understanding of this sort would make it possible to amalgamate the C.P.R. with the Government system, painlessly and instantaneously, by buying out its shareholders, or else by buying out the Canadian National Railways system and making it part of the C.P.R. But unless something organic and definite is done, there will be written into Canadian financial history a blacker chapter than the dirtiest page of the past.

The basis of the decision (Mr. Taft dissenting) which in 1922 turned over the Grand Trunk Railway to the Government was that if a railway earns no money its shares (common shares) are worth nothing. Hence, if taken over by the Government the common shareholder is bought out at nothing on the dollar.

But think of the iniquity if we first kill a railway by dummy competition fed by public money, by duplicating all its services at the price of a huge public debt, then bring down the hammer, declare it "bust," and sweep all the chips off the table. No financier of the "Roaring Forties," no Major Pawkins or Mr. Scadder selling water lots in Cairo to Martin Chuzzlewit, ever did a slicker trick than that.

And yet it is exactly towards such a trick we are drifting. In vain the determined and courageous president of the Canadian Pacific has tried to call the people of Canada back to common sense—*vox clamantis in eremis*, a voice crying in Saskatchewan.

What is needed in Canada is a new inspiration—a rushing and mighty wind of public honesty and public indignation to set right our ills. And it is hard to get. When it comes, and if it comes, it will come from the uprising of younger men, of the new generation, not a generation soggy and debilitated with fifty years of cheap cynicism over politics, but a generation with little to lose, everything to hope and with their faces set towards the roseate colours of a coming morning. The same inspiration, in other words, which, if misdirected, makes straight for Communistic revolution. There we have it—the handwriting on the wall—get straight or go under. It is as plain as that; and all the heritage of our British birthright, of our generations of pioneer struggle, all the power that transplanted England to North America is staked on it.

But with us Canadians the flame of righteous indignation is hard to fan. We are all—I say it in a whisper—just a little crooked. In our private lives we are straight as a string. We wouldn't cheat a bar-tender out of a nickel. We can sit down to a game of poker and never use more than four aces. We wouldn't give a lead quarter to a taxi-man. But let us deal with the Government, and this is different. We have somehow grown up with the idea that the Government is there to be cheated, that, of course, it must pay too much, get too little, expropriate high and sell low. Any woman who has ever dealt with Customs duties knows just where we stand.

As a result we fail to feel indignant when the big crooks (see under "Captain of Industry") cheat out of huge sums the Government that we defraud of small; or when the Senate of Canada lays its hand on its heart (see Hansard, Senate Debates, sub-heading Beauharnois) and swears that the matter is so grave that it must forget all Party ties and vote on honour and conscience—and then solemnly divides up and votes straight "Liberal" and "Conservative."

This explains the apparent Canadian indifference to repudiation of debt, otherwise a mystery in England. In the last two years we have witnessed two first-class repudiations and there are more coming. Alberta has virtually repudiated its public debt. The Government of Ontario repudiated, in 1934, its contracts with various Quebec power companies. The City of Montreal has asked the Quebec Government to be good enough to repudiate for it a part of the city debt. Alberta I leave aside: it has only repudiated its debt in the sense in which in earlier life I often had to repudiate my tailor's bill.

"Repudiation" only means that the Province can't pay—or, at any rate, not just now. It has nothing to do with Social Credit, with the Kingdom of Heaven on earth, which it appears is not to originate in Edmonton after all. In Ontario the "man in the street," the incognito under which we speak of ourselves, is not worried over the provincial repudiation of the Hydro deal. He has an idea that the deal can be set aside by honest men. That is part of the law of the jungle. In England that doesn't go; there an honest man must live up to a bad bargain. Not so in America. If a thing is crooked, we're prepared to be crookeder still. We are not out for the morality prize.

So, too, with Montreal. The city owes over $270,000,000. It can't pay the interest. It has taxed property till it's like kicking a dead mule. Nothing can be sold. The more you own the more you owe. Business is dying; traffic is failing; night is falling; hell is rising. What are we to do—those of us who sit, like myself, in an "unsaleable house" with taxes higher than rent, and more coming? The "man in the street" has an idea that the city debt originated because one pack of crooks (all dead, no one talking of the living, libel law doesn't apply) lent huge sums of money to another pack of crooks; one crowd got high interest, the other crowd (they're dead too) got huge plunder. We, the taxpayers, are crushed between the millstones. Why didn't we prevent it?

How could we? Who can follow, year by year, the vast complicated technicality of municipal expropriations, franchises, &c., of a city of a million people? It is nothing but the silly abstraction of out-worn Democracy that can imagine that. No one has time, except the man who takes time off and sees that he gets paid for it (see under "Alderman, dead"). So if we repudiate part of the debt, if we loosen the noose that is throttling us—well, what about it?

If things don't change there will be lots more of it. But change they will. A smart rise in prices would give us as easy and quick a relief from the noose as repudiation itself. And if business looks up the smart rise in prices is bound to come—fragrant and sweet as the soft wet wind that means that rain is coming to the stricken fields.

And business must and will look up. For we have in Canada one huge national asset, which as yet we have not spoiled, not compromised, not stolen—the new, vast, incalculable mineral wealth of the land of gold, the "Eldorado" that was once a wilderness, trackless, frozen, worthless, stretching from the Great Lakes to the shores of the James and Hudson Bay. There, where all was silent, lies the new hope. There floats the aeroplane hovering in the sky to look for gold; the frozen lake welcomes its landing feet—a new bird of fortune, carrying the destiny of the human race.

It seems strange that this "God's-awful" country should carry in it the hope of Canada, the salvation and rescue of the fertile fields and farms that once shuddered at its existence. But there is no doubt of the fact. We are living, and are to live, in an age of metals, and here in this wilderness is a wealth of them—gold, silver, platinum, copper, nickel, cobalt; and others—cadmium, calladium, rhodium—with names as novel as their existence.

The mineral production of Canada has reached an annual value of over $300,000,000, five times what it was when the century began. Canada is second only to South Africa in the output of gold, which runs to about 3,000,000 fine ounces in a world production of 24,000,000.

As prices rise and paper money depreciates, the dollar value of an ounce of gold goes up, and as this process proceeds well ahead of the rise in wages and costs, the mining industry enjoys a continuous stimulation. In the last year the value of Canadian gold was put at $116,000,000; for 1936 it is estimated at about $130,000,000. Over 90 per cent. of this comes from the Eldorado Wilderness that is the hinterland of Ontario and Quebec.

Thence comes also the annual $35,000,000 of nickel, the world's greatest source of supply; thence the whole of the cobalt and the larger half of the copper, two other vast potential assets. The Kootenay district of British Columbia is second only to New Ontario and Northern Quebec in its promise of mineral wealth. Statistics of present production can be had in any guide book or almanac. But what is not generally understood is that this new mineral field, in extent, in potential wealth, in economic significance, entirely eclipses the fading glories of California, the Rand and Ballarat. In it lies, if properly fostered, the salvation of Canada.

There is a danger that it may not be properly fostered. The Dominion and the provincial Governments, stretching out their eager hands for revenue from taxation, each determined not to let the other get ahead of it, may kill the goose that lays the golden eggs. It is possible—to use a more fitting metaphor—that this young Hercules may be strangled in his cradle; not strangled to death—that he could never be—but strangled back into that age-long oblivion from which this silent wilderness has emerged.

It is one of the ironies of history that when Jacques Cartier ascended the mountain at Montreal and looked north-westward toward the vast panorama of the Lake of the Two Mountains and the Laurentian slopes, his Indian guides tried to tell him by signs that up the Ottawa was silver.

The French mistook the meaning of the savages, they thought the Indians referred to the silver waters of the Ottawa, brighter than the great river it joins. The mines had to wait till 1901, when the building of the Temiskaming railway showed it ballasted with silver ore. If Cartier had found it, the world's history would, without exaggeration, have turned to another channel. As it is, the history, the development of the new country from wilderness to a world centre, is still to come.

Transcriber's Notes:

Obvious printer's errors including punctuation, if any, have been silently corrected.

Changes made to the text:

Page 19—When is comes... corrected to When it comes...

Page 23—Left as in the original even though '... New Ontario....' does not make sense.

[The end of *The Gathering Financial Crisis in Canada* by Stephen Leacock]