

# SPEAKING OF MONEY AND WAR

Richard Holt 205 Oak Winnipeg 9  
BOOK 24



*Extracts from a series of addresses by*

HON. J. L. ILSLEY,

*Minister of Finance,*

*September 3 - 18, 1941.*



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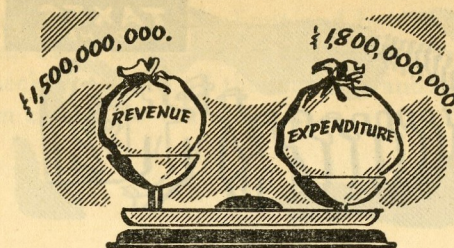
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## FOREWORD

*Here on the home front in Canada we face a year of strenuous war production. This year we must deliver the goods. We have most of our production equipment now — or will have it shortly. We have the labour — men and women — though we may have to take some of it away from civilian use. We have or can get the materials — and to get many of them we shall have to restrict their use for other purposes. We must make this third year a year of achievement on the economic front. But it will not be easy. We shall have difficulties, worries, and economic casualties. We shall have many problems which can be solved only by vigorous, courageous action.*

*(From an address given at the Seignior Club, P. Q., on September 18, 1941).*

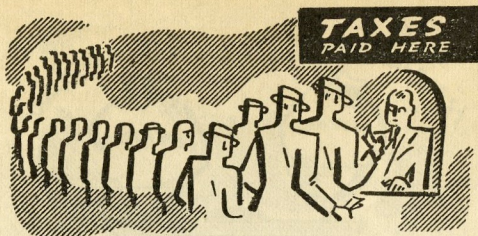


## PAYING FOR THE WAR

Immediately following our declaration of war, the first war budget was brought down and, in that budget, we committed ourselves to the policy of financing this war on a pay-as-you-go basis as far as practicable. It has been a matter of great gratification to me personally that that principle has received almost universal acceptance by all sections of the Canadian public. Since the war began, we have, as you have good reason to know, stepped up our taxation steeply on several occasions, until now our revenues are running on a level three times as high as before the war. In the budget of last April, I estimated that our total revenues for the present fiscal year would approximate \$1,400 millions. Judged by our receipts in the last two or three months, I am now inclined to raise that estimate to \$1,500 million. If my new estimate of revenues is correct, these revenues will exceed the total amount of our direct war expenditures this year, and they will equal 78 per cent of our own estimated total war and non-war expenditure for the year. I cite these figures to illustrate that we are taking seriously the pay-as-you-go principle.

*(From an address given at the Seignior Club, P. Q., on September 18, 1941).*





## WHY SHOULD WE PAY AS WE GO?

In the first place, we do not want to delude ourselves by thinking that we can escape the real costs now by borrowing. We cannot — unless we borrow from other countries — shift our burdens to them. It is now, during the war, that we must work harder, deny ourselves luxuries, reduce our average national standard of living, to meet the needs of war. It is best to recognize these facts and to reflect them in our finance by paying as much as we can of the bill once and for all.

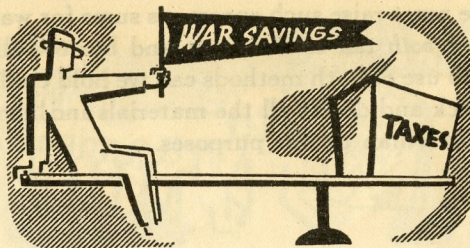
Secondly, we want to avoid creating any more debt than necessary because the taxation needed to carry that debt after the war must to some degree discourage enterprise and initiative upon which our economic progress and prosperity will depend.

Thirdly, taxation is the fairest means of distributing the cost. By using it we can be sure that everyone is bearing at least his minimum share of the material sacrifices required during the war. It is also fairer to future generations, since the creation of more debt than necessary would mean that our children, or perhaps even their children, would have to bear an additional tax burden, in order to pay many of their own generation for something their fathers or perhaps grandfathers did during the war.

Finally we must raise such enormous sums for war purposes that we must *both* tax to the limit and borrow all we can. Only by a full use of both methods can we hold civilian expenditure in check and divert all the materials and labour that we require from civilian to war purposes.

(From an address given at Edmonton, Alberta, on September 3, 1941).





## WHY DO WE NOT RAISE ALL THE MONEY BY TAXATION?

The amount we can raise by taxation is limited, even in wartime, and we have to spend far more than that amount if we are to achieve a maximum war effort. The limit to taxation is set by three principal considerations. In the first place, if taxation is too heavy it will discourage hard work, initiative and enterprise. Even in wartime we must rely to some degree upon economic incentives. Secondly, if taxation is too heavy it encourages carelessness and extravagance in business, whereas economy and efficiency in the use of materials and labour is vitally necessary in wartime. Finally, we cannot adjust taxation so closely to ability to pay that we can take from every man all he can spare without doing grave injustice to many. Even an income tax, for example, cannot distinguish between two men who have the same income but one of whom has a heavy mortgage on his house and illness in the family. Borrowing enables us to obtain what any man is able to save over and above his taxes.



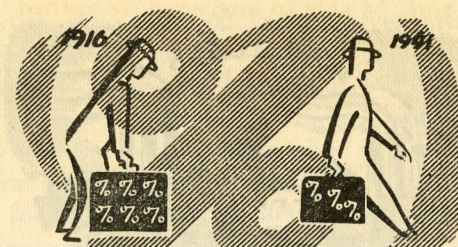
## WHY NOT PRINT MORE MONEY?

This is the modern stream-lined version of the age old question. Why not just print the money? Nothing would be easier for me, as Minister of Finance, than to be able to pick up the telephone the first morning of each month, call up Mr. Graham Towers at the Bank and just ask him to credit the Government with what we will need for the month. Unfortunately we can't do that without getting into a great deal of trouble. We should either bring about inflation or else, to prevent inflation we would be forced to take drastic and unpleasant action.

For us to borrow from the Bank of Canada to finance our expenditures, the Bank must expand the supply of money. This new money goes out into circulation and into bank reserves, where it gives rise to even more monetary expansion. While a relatively small amount of such expansion, both by the Bank of Canada and the other banks, may at times be required in order to provide the larger working balances needed when employment and production increase, the amount is strictly limited by economic conditions. The Bank of Canada, sees to it that the supply of money is properly adjusted in this way to economic requirements. If we, through the Bank of Canada, create and spend more new money than this limited amount, then the spending of these new funds is added to the existing level of expenditures, and competes with it for the available supplies, thereby forcing up prices at a time like this when supplies of very many things cannot be expanded. We



would, it is true, be able to buy what we needed for war purposes, but we would get it at the cost of those who had to do without because of higher prices. If we tried to prevent prices rising when we were creating new money to pay for all or most of our war expenditures in this way, we should have to stop people spending their own money by universal rationing or other drastic regimentation. It is far fairer and better to restrict civilian expenditure to the necessary extent by taxation or by getting the public to save and lend their savings to us.



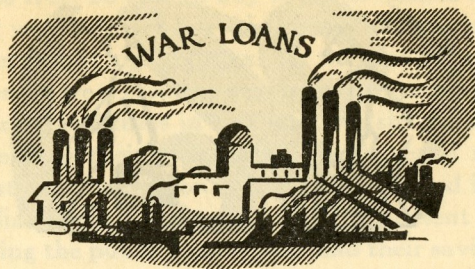
## WHY PAY INTEREST ON THE MONEY BORROWED?

We offer a fair rate of interest in order to induce people to save and to lend their savings to us. We buy or hire their savings, in effect, just as we buy or hire the services of the munitions worker or the civil servant. We pay the market price for it, just as we do for other goods or services, and that price is fair and reasonable. Indeed it is surprisingly low in relation to the enormous demand we have for savings now in comparison to pre-war conditions, and, of course, our whole conception of the scale of interest rates has changed since the days of the last war. The average rate we are paying on our borrowings in this war is only about half the effective rate paid during the last war. The average rate of interest on all our Dominion funded debt and Treasury bills has for some months now been only about 2.99% — the first time, I believe, that it has ever fallen below 3%. We could not, I believe, get anything like the amount of saving we require if we did not offer a reasonable return on it. We would get some, of course; we have received seven million dollars in non-interest bearing loans as it is, from public spirited citizens, but after all we need far more than a hundred times this amount.

(From an address given at Edmonton, Alberta, on September 3, 1941).

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## SHALL WE BE ABLE TO CARRY OUR DEBT AT THE END OF THE WAR?

First I point out that we are not borrowing from some other country, to which we must make payment, but from Canadians only. In fact we are paying off our debts to Britain rapidly — paying them off before maturity in order to provide her with money to buy war supplies in this country. Our total debt is for this reason increasing far less than by the amount we are borrowing. Secondly, I call attention to the very large numbers of those who are lending to us in wartime. There were about 950,000 subscriptions to the Victory Loan, and during each of the months of May, June and July, the last three months for which I have the figures, more than a million subscriptions a month for War Savings Certificates. We shall owe the debt to ourselves — to millions of Canadians in one form or another.

Of course we shall be paying interest on the debt and we shall need to tax for that purpose, but we shall be very well able to bear those taxes. We have a rich country, with a vigorous, intelligent population. While we are now putting our full effort into the war, we are, as part of the process, building up new industries and developing new skills. Our base metal producing industry, for example, is being greatly increased, and more sources of cheap power developed. Our men and women are getting new training and experience in

industrial work. Our national health, I venture to say, is improving in war. Even more important, however, is that fact that this nation, under the spur of war, is recapturing some of its old fire, its dynamic spirit, which had been dampened by years of economic depression and international uncertainty. I am confident that this reawakened spirit will stay awake now for a long time and that we will not again allow economic depression to stifle it. Given these fundamental conditions we shall be able to achieve a far larger national income after the war than we have had before it. Then by keeping interest rates low, and I believe that this will be quite possible, we can carry our debt and at the same time achieve a higher standard of living for the vast majority of the people of Canada.

(From an address given at Edmonton, Alberta, on September 3, 1941).

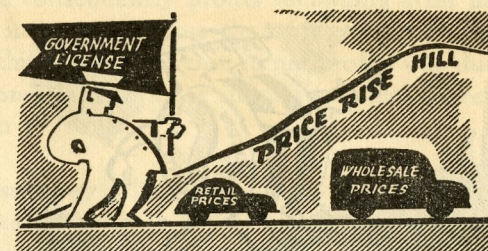




## THE RISE IN PRICES

In the summer of 1939 prices were low, abnormally low. The outbreak of war, followed by the depreciation in Canadian exchange, the disruption in established trade channels, the rise in ocean freight and insurance charges and speculative buying of commodities in the United States, brought a rapid rise in wholesale prices. There followed a levelling off process and for a year or more a period of comparative stability, at least in the general level. Five or six months ago, however, the upward movement was resumed, extending over a wide field and affecting both wholesale and retail prices. Since August 1939 the rise in the index of wholesale prices has been 26.2 per cent and the cost of living index has risen by 12.8 per cent. These may seem to be very moderate increases in all the circumstances. Certainly it is true that some increase from depressed pre-war levels was desirable. Moreover, 53 per cent of the increase in the cost of living has been due to increases in the prices of foodstuffs, and the marked increase in recent months in the prices of such farm products as livestock, meats and dairy products has resulted in a considerable alleviation of the former disparity between the price of farm products and other commodities.

*(From an address given at the Seignior Club, P. Q., on September 18, 1941).*



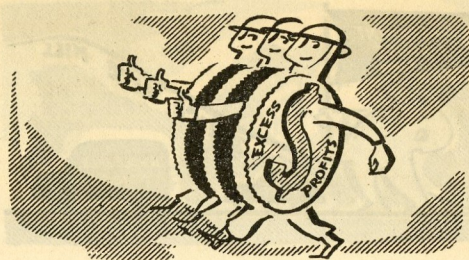
## THE GOVERNMENT AND PRICE CONTROL

We are determined to check the upward movement in prices that has been taking place. To do so we have prepared to extend and intensify our direct control over prices. Last month the powers and responsibilities of the Wartime Prices and Trade Board were greatly increased in order to make this possible. Furthermore, a direct connection was established between this Board and the Wartime Industries Control Board, made up of the Controllers, in order to ensure mutual understanding and common policies, as well as to avoid either overlapping or gaps. A few days ago the Wartime Prices and Trade Board announced a far-reaching step in the early licensing of all manufacturers and distributors of food and clothing, which is needed to carry out price control and, if necessary, rationing of these consumers goods.

I can assure you that things will not be allowed to drift. We have the basis laid now on which a successful system of price control can be built. Our financial policies have been sensible and vigorous. While they cannot do the job alone, they will do their share in holding the front against inflation. We have a fair and reasonable wage policy, a more definite policy, I think, than either Britain or the United States has formulated. This wage policy can provide a firm and equitable basis for price stabilization. We have the agencies established and empowered to achieve price stability.

*(From an address given at the Seignior Club, P. Q., on September 18, 1941).*





## THE EXCESS PROFITS TAX

Taxes on profits have, of course, been increased very substantially. All corporate profits are now subject to a tax of at least forty per cent, including income tax and excess profits tax. Increases in corporate profits over the standard pre-war period are subject to a tax of  $79\frac{1}{2}\%$  — when we take account of both income and excess profits taxes. This very heavy rate of tax in increases in profits — about the same rate as that in England, which has recently been reduced to 80% from the previous figure of 100% — ensures that if any company does increase its profits because of war conditions, the Treasury will derive nearly all the benefit.

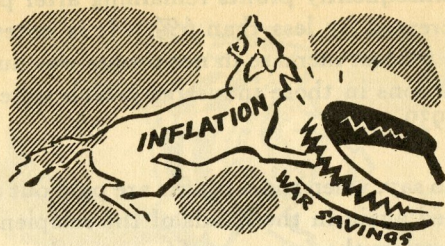
The figures indicate very graphically the extent to which this tax has frozen profits at their level at the outbreak of the war. I noticed the other day some figures published by the Financial Post on this question. These figures indicated that after payment of taxes the profits of 280 Canadian companies had increased on an average only 2.2% in 1940 over 1939. Another recent survey made in Ottawa of the 321 corporations on which adequate information could be obtained, in the fields of manufacturing, mining, trade, power and communications, shows that with the higher volume of business in 1940, profits before the payment of taxes were increased by some 32% over their 1939 level, but the provision by these companies for income and excess profits tax payments was up by no less than

133% and consequently profits remaining after providing for tax were increased by less than 6%. It is noteworthy that much of this modest increase in net profits was due to the improved conditions in those industries which were unduly depressed in 1939.

Needless to say, when these profits are paid out as dividends they are taxed again in the hands of the recipients. Taking into consideration the excess profits tax and corporation income tax, together with the steeply progressive personal income tax, — the rates of which run up as high as 96% on income in the highest bracket — I think you will agree that this war is being financed in such a way that no great fortunes can be accumulated out of wartime profits.

(From an address given at Edmonton, Alberta, on September 3, 1941).





## **BUSINESS AND THE GOVERNMENT**

I want to appeal to business leaders for co-operation in this effort we are making and shall be making to control prices. There are several ways in which you can help.

First of all, I would ask you to shun a defeatist attitude towards rising prices. Inflation is not inevitable. It can and will be prevented. It will be prevented much more easily if we all join in the effort and reject the view that resistance is useless.

Secondly, we need your active support in our savings campaigns. A rising volume of savings will not only provide the Government with the funds needed for war purposes but it will relieve the persistent upward pressure of expenditure on prices. This is its important economic purpose. In normal times — in peacetime — we do not try to discourage expenditure, we encourage it to obtain employment and if possible prosperity. But these are anything but normal times. Now we must limit expenditure. The more we can limit it by encouraging voluntary saving, the better it will be for all concerned.

Thirdly, we shall need your co-operation, your active co-operation in keeping your costs of production down. Price stability can only be achieved if costs can be held in check. In the last analysis they must be held in check by those who

are running the businesses concerned. Waste of labour or materials must be eliminated — the nation cannot afford it in wartime. Luxury, extravagance or just plain carelessness in business expenditures cannot be tolerated.

Finally, I would like to emphasize that the business boom now in progress is not prosperity. The high level of employment and production, the large volume of expenditures, rising prices and wages, have many superficial similarities to good times. In fact, however, we are going through bad times, very dark days indeed. Due to the inevitable delays in getting war production up to its full level many Canadians have been able until recently to increase their standard of living. For most, that is just a lucky by-product of the early stage of the war. Before we are through this struggle we shall have to cut down and down until nearly all of us will realize very vividly the extent of the economic cost of war. We must work hard and long, but have little for ourselves to show for it. We must be content to take part of our wages and our profits in victory. We cannot afford either living as usual or business as usual until the war is over and victory achieved.

*(From an address given at the Seigniory Club, P. Q., on September 18, 1941).*



## ADVICE FOR THE FUTURE

I have often been asked by provincial ministers and municipal officials to give them some constructive guidance as to what their policy should be in wartime. I have told these questioners privately, and I now give this message publicly to all those engaged in the business of government: Spend less and save more, judge each object on which you may wish to make an expenditure not by whether it is good, but rather by whether it is indispensable; support the war program to your utmost and be sure that by your expenditures you do not compete with it for scarce materials and labour; curtail expenditures now in order that you may be able to maintain a sound financial position and to give support to employment and economic activity in the days that will follow the war. That, after all, is simply the message which I have come West to give to my voluntary workers on the War Savings Committees and through them to every Canadian. **SPEND LESS AND SAVE MORE.**

*(From an address given at Calgary, Alberta, on September 9, 1941).*

**SAVE**



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UNDER AUTHORITY OF  
*Hon. J. T. THORSON,*  
MINISTER OF NATIONAL WAR SERVICES





