

## Bank Holdings of Government Securities

By H. M. P. ECKARDT.

In view of the very large increase of the security holdings of Canadian banks during January and February, 1917—the aggregate having risen in those two months from \$262,000,000 to \$345,000,000—it is worth while to review the movement of this item of the bank returns since the beginning of the war. On July 31st, 1914, the total of securities held by the banks was \$100,726,968, or 6½ per cent of the total assets; and on February 28th, 1917, the amount had risen to \$345,518,737, or over 17 per cent. The current loans and discounts to Canadian business measured at \$840,198,625 or 53½ per cent of total assets, when the war began; and now the item appears as \$813,202,717, or barely 41 per cent. It is well known that this exceptionally rapid rise of the investments in securities was in response to the call of duty. The loans have been made for the most part to the Dominion Government or the British Government—the purpose being to facilitate the war financing. Fortunately it has been possible for our bankers to act on their patriotic impulses in this matter without impairing their strength or their ability to finance the needs of the mercantile and other customers after the war. The Dominion and British Government bonds or bills which passed into the possession of the Canadian banks have retained their high credit notwithstanding the enormous new issues—nobody doubts that they will be honorably provided for at maturity—and furthermore the securities held by our banks are short date, the danger of an indefinite tie-up of funds being thus obviated. The following table has been compiled to show the extent of each bank's investment in securities during the war period. As the Quebec Bank has been meantime absorbed by the Royal, the figures of the Quebec as at July 31st, 1914, have been added to those of the Royal for the same date. And for the same reason the security holdings of the Metropolitan as at July 31st, 1914, have been added to those of the Bank of Nova Scotia.

### SECURITIES HELD.

Bank.	July 31, '14.	Feb. 28, '17.	Increase.
Montreal . . . . .	\$12,836,000	\$59,968,000	\$47,132,000
Nova Scotia . . . . .	7,663,000	21,845,000	14,182,000
British . . . . .	1,672,000	13,012,000	11,340,000
Toronto . . . . .	1,003,000	11,535,000	10,532,000
Molsons . . . . .	2,853,000	10,667,000	7,814,000
Nationale . . . . .	2,060,000	3,960,000	1,900,000
Merchants' . . . . .	5,181,000	17,772,000	12,591,000
Provinciale . . . . .	2,910,000	3,747,000	837,000
Union . . . . .	3,175,000	21,397,000	18,222,000
Commerce . . . . .	20,248,000	45,768,000	25,520,000
Royal . . . . .	18,493,000	45,005,000	26,512,000
Dominion . . . . .	5,769,000	17,353,000	11,584,000
Hamilton . . . . .	3,508,000	10,365,000	6,857,000
Standard . . . . .	2,437,000	8,224,000	5,787,000
Hochelaga . . . . .	2,638,000	6,688,000	4,050,000
Ottawa . . . . .	3,872,000	18,363,000	14,491,000
Imperial . . . . .	2,446,000	16,105,000	13,659,000
Home . . . . .	326,000	2,339,000	2,013,000
Northern Crown . . . . .	767,000	7,178,000	6,411,000
Sterling . . . . .	765,000	3,668,000	2,903,000
Weyburn . . . . .	47,000	555,000	508,000
Totals . . . . .	\$100,726,968	\$345,518,737	\$244,792,000

(\*)—Includes Metropolitan.

(†)—Includes Quebec Bank.

Possibly a few of the banks may have had under pledge to the Minister of Finance on February 28th, 1917, a portion of their holdings of British Treasury bills. In the four months ending January 31st, 1917, there was an expansion of approximately \$10,000,000 in the uncovered note issues of the Dominion Government, and it has been supposed that this represented loans to certain of the banks in the form of Dominion notes, as against deposits of British Treasury bills as security. The banks receiving such loans might conceivably deduct the pledged treasury bills from their holdings during the currency of the loan; or they might leave the balance of treasury bills unchanged and report the loan as a special balance due to the Dominion Government.

Now let us see what items of securities compose the balance of \$244,000,000 acquired during the period of the war. There were the first and second munitions loans, on British Treasury bills, for roundly \$100,000,000, made in 1916; then the loan of \$50,000,000 to the Dominion Government on four months' notes, advanced in December, 1916, and February, 1917; also there was the third munitions loan of \$50,000,000 on British Treasury bills, payment of the proceeds of which was to be spread over January, February and March, 1917. As regards the last mentioned item it would probably be safe to estimate that two-thirds of it—say \$33,000,000—were advanced by the end of February. This list accounts for \$183,000,000 of newly

acquired securities, all of which would be current on February 28th, 1917, the date of the last bank return. In addition there was the first war loan (due 1925). The banks took \$22,000,000 of those bonds, but subsequently some were sold. If we assume that they still have \$17,000,000 of the 1925 war loan, that would bring the total up to \$190,000,000. And there is the matter of the \$20,000,000 grain loan to the Imperial Government. This was put through last November, but no information has been published as to the term of the loan. Perhaps that was a demand loan, similar in character to the demand loans granted to the grain trade. The Imperial grain loan—providing that it is still current and providing that it is reported under the heading used for government securities—would make a grand total of \$210,000,000 of new securities representing war finance, on which either the Dominion or the British Government is primary obligant. That would leave roughly \$35,000,000 to represent the acquisition of other securities during the two years and seven months under review. As the bank holdings of railway and other bonds have decreased \$3,704,000 during the period, one would infer that the other bonds taken on represented Canadian provincial bonds and municipal debentures in large degree. The provinces and the large cities have been obliged to finance ex-

tensively, and while the greater part of their newly issued securities went to the United States, there would be a proportion taken by the banks here.

In considering the bank position it is well to bear in mind that the large new advances to Government in January and February, 1917, were doubtless undertaken because the banks were then on the eve of receiving heavy repayments of existing Government loans. Thus on March 31st roundly \$75,000,000 of British Treasury one-year bills fell due, and if that repayment went through the books of the banks on March 31st, the bank statement for that month will show a large reduction of the security holdings with perhaps a marked increase of the balances in London and New York. This, of course, is on the assumption that the bills are paid and not renewed. Britain's huge war loan apparently provided the Imperial Government with funds to retire the greater part of the floating debt as represented by treasury bills. As against this prospective reduction of \$75,000,000 in British Treasury bills in March, there would be the increase of say \$17,000,000 representing the March installment of the third Munitions loan—leaving a net reduction of say \$58,000,000. Then, in the latter part of April, a portion of the four months' loan of \$50,000,000 to the Dominion Government falls due. If this amounts to half of the loan, there will be a reduction of \$25,000,000 in securities in the April bank return, followed by a further reduction of \$25,000,000 when the remainder of the four months' Dominion loan matures in June.

## Is the World Facing Economic Exhaustion?

(From the Financial Chronicle, New York.)

"On the eve of the conflict, though our financial condition is unexcelled and unsurpassed, on the other hand, from an economic standpoint we could hardly enter the fray at a more unfortunate period. Wheat is selling here at \$2.47 a bushel, while even at Chicago the May option for wheat has passed the \$2 mark, an absolutely unprecedented figure, and on Thursday touched \$2.07. Cash corn in this market commands \$1.41 a bushel and the May option in Chicago has risen to \$1.27½. It is the same in other departments of activity. Look at the situation in the iron and steel trades. Steel billets are quoted at \$70 a ton, as against only \$19 a ton in January, 1915. The appreciation in value has been fourfold. Other things have risen in proportion or in even greater degree.

"The truth is, the whole world, belligerents as well as neutrals, is on the verge of economic exhaustion. The financial strength of the belligerents may not yet be entirely gone, but that also is fast ebbing away. Let no one deceive himself on that point. We are now throwing our resources into the balance and they are prodigious, but after all they are a mere tithe, as compared with the havoc that has been wrought, repairing of which is a task at which even the angels must hesitate.

"We say the whole world is on the verge of economic exhaustion, and this is distinct from financial exhaustion. Here the entrance of the United States into the world conflict bodes no good, though which group of belligerents is to be benefited thereby no one is wise enough to know. Evidences of economic exhaustion first began to become prominent last autumn and have latterly been becoming daily more alarming. This week cable dispatches from London have told us that Lord Devonport, the British Food Controller, has ordered that beginning April 15 in hotels, restaurants, boarding houses and clubs there shall be one meatless day weekly. He also has ordered that no potatoes, or food containing potatoes, should be allowed except on meatless days and on Fridays. In other words, the people of Great Britain can have potatoes on only two days a week. This Food Controller has also ordered restrictions in the use of food in other directions, and particularly in the case of sugar.

"The Germans may flatter themselves that this is the work of their submarine warfare and no doubt this warfare has served to aggravate the situation in that respect. But the cause lies much deeper. Indications of economic exhaustion are in evidence everywhere; fast rising prices and scarcity of supplies are a token of it. The whole world is facing starvation. If we ask why, the explanation is simple; for nearly three years millions upon millions of men have been withdrawn from productive enterprise. Because of this, fields have gone untilled and the harvests that should have been gathered have never been raised. An inevitable dearth of food-stuffs has followed. The women folks at home have been used in the vacant places of the men, but in the main they have been engaged, not in producing food,

but in making ammunition and supplies for death-dealing machines.

"Nature too, has been unkindly in not a few countries, as if in displeasure at the sickly spectacle which her children have been presenting to a horror-stricken world. The Argentine Republic, whose surplus grain supplies each year the consuming world has long come to rely upon, has just placed an embargo on the exportation of wheat and flour. The situation of that country is like that of the United States; in order to meet the insatiable demands of Europe, with its soil steeped in blood and producing nothing, she has stripped herself—at good prices, of course—of all her accumulated stocks and now, with the growing crop being devoured by locusts, she is confronted with the possibility of not having enough wheat to supply home needs.

"Now comes the United States to battle for the ideals of democracy, but by recourse to Prussian methods. More men are to be withdrawn from reproductive enterprise in a labor field already ill supplied with men. A couple of million of the flower of mankind are to be withdrawn for the creation of a trained army. Then several millions more will be needed to equip these and keep them supplied, or in making guns and shells and munitions, and what not. If, with the blessing of Providence, we should be showered with bounteous harvests, we would find it difficult to provide the farm labor to garner them, for we have set the wage earners at other tasks. At these other tasks we are seducing them with such lucrative wages that they scorn the agricultural field. But Providence is not bestowing its blessing on a benighted world bent only on destroying human life and all the sacred things in life.

"Accounts regarding the winter wheat crop in this country at the moment are extremely discouraging—indeed, are alarming. The reports are doubtless exaggerated, as such reports usually are, but at best we cannot count on raising more than an average crop, while the need, in view of the shortage of food is for a very large crop. Having entered the war, we find it necessary at the outset to make provision for the raising of several billions of money. The possible shortage of food supplies is lost sight of for the moment. Yet if measures are not speedily taken to conserve our agricultural productions, it is quite possible that twelve months hence we may find ourselves obliged to issue bread cards like the unfortunate countries of Europe.

"We repeat that the world faces economic exhaustion and famine. The Russian revolution is more a protest against starvation than against Czarism and autocracy. A starving man cares nothing for forms of government and is no respecter of them. With the whole world confronted by economic exhaustion, it seems incredible that the war can last much longer. In that sense the entrance of the United States into the arena, by intensifying the conditions that are responsible for the fast developing economic exhaustion, will certainly tend to shorten the conflict, but whether it will benefit the side we are seeking to aid, or will the sooner throttle it—that remains for the future to tell."