Canada's War Financing

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By H. M. P. ECKARDT.

Counting the Victory Loan allotment at about $400,000,000, the bond sales by Canada in 1917 are placed by the Dominion Securities Corporation at $772,000,000. The amount placed in the United Kingdom was a negligible quantity, over 99 per cent of the whole being taken in the United States and in Canada. Our American neighbors took $187,000,00, while the home investment market took $581,000,000. The percentage finding a market at home therefore was 75.26. Judging from the remarks of the Finance Minister and the addresses at bank annual meetings, the expectation is that scarcely any Canadian bonds will find a market in the neighboring country during the present year. The American Government is lending half-a-billion dollars per month to the European Allies; and this heavy requirement, along with the still heavier requirements in connection with the United States' own military preparations, will necessitate the placing of something like $10,000,000,000 in United States bonds with the American investment public. To market this vast amount of war bonds is a sufficiently difficult problem, even with the American bond market practically reserved for the benefit of the Government issues; and it thus seems necessary for Canada to prepare her financial plans on the assumption that no loans whatever can be placed outside.

MILITARY OUTLAY.

It is variously estimated that Canada will need to find from $500,000,000 to $700,000,000 per year, while the war lasts, to cover her own military outlay and the loans to the British Government. This does not necessarily mean that the total of bond issues made in the home market during 1918 will reach the record-breaking figures of 1917. Financing of the Victory Loan mostly in 1918—most of the proceeds become available in 1918, and they will provide for the national needs for a period of six or eight months at least. In this connection it should be remembered, however, that repayment of bank loans will make a hole in the loan proceeds, but after allowing for that, there will be ample funds to finance the war activities for a considerable part of 1918. Some of the leading bankers have stated that the loan proceeds, along with surplus revenue, will carry the Government until near the end of the year.

According to the Canada Gazette the revenue on account of consolidated fund for the eight months of the fiscal year to November 30th, was $170,000,000, as against ordinary or running expenditure of $79,000,000. Therefore, the so-called surplus of revenue over expenditure for the eight months was roundly $91,000,000. Capital expenditure on public works, railway subsidies, etc., amounted to $13,400,000; thus there remained available for applying on the war outlay, $77,000,000. These figures indicate that something like $100,000,000 of surplus revenue will be applied for war purposes during the current fiscal year. Next year, if the customs revenue is maintained, the new income tax may conceivably cause an increase of the surplus. The income tax is payable in June and the receipts under this head will, no doubt, be of considerable assistance in enabling the Minister of Finance to meet the outlays of the summer and fall. We should not lose sight of the fact that the income tax will have a tendency to cut down the receipts from the business profits tax.

Another point is that a not inconsiderable part of the Dominion's war expenditure is represented by the payments to the Bank of Montreal, London, by the British Government for pay and maintenance of Canadian forces overseas. In the statement published in the annual review number of the Monetary Times, the total amount thus deposited in the Bank of Montreal by the Imperial Government up to October 31st, 1917, was $378,000,000. As this covered a period of a little over three years, the yearly average of loans by Britain for this purpose would be $116,000,000. The probability is that the loans at present are running at an amount considerably above the three year average. It would not be surprising if the loans to us by Britain in this form in the course of a year now amounted to $200,000,000. Some time ago, while the United Kingdom was borrowing in the American market, our Government gave the Imperial authorities $107,000,000 of long term dollar bonds which were pledged as collateral to one of the loans made to Britain by New York bankers. This left the debt to England, as at October 31st last, at about $271,000,000.

Now this part of our war outlay is apparently being financed by the Mother Country; and it does not directly necessitate borrowing or financing by the Dominion Government in the home market. Indirectly, however, it does cause a considerable amount of financing in this country. We have undertaken to lend Britain a large proportion of the funds needed to purchase munitions and foodstuffs in the Dominions; and as the loans to England for this purpose are greater than the British loans to us on account of the overseas forces, we are in this way providing fully for our whole outlay. It is not known as yet by what method the contra accounts will be adjusted on termination of the war. If our debt to Britain is extinguished by cancellation of a similar amount of British debt held here, then in making our loans to the Imperial Munitions Board and to the British purchasing agents, we are actually paying our own war expenses.

COMPLICATIONS.

With Great Britain thus financing perhaps $200,000,000 of our own war expense, it is likely that the $100,000,000 surplus of revenue would take care of most of the remainder. So that the financing by the Dominion Government in the Canadian market will be almost exclusively for the purpose of extending credits to Britain. Although very large amounts will be required for the purpose, this would not be very difficult were it not for the fact that we have to buy such large quantities of raw materials, etc., in the United States. Settlement for these imports are necessarily to be made in cash or at short date; and the one-sided trade balance is a most perplexing problem for the bankers.

As Sir Edmund Walker suggested at the Commerce annual meeting, it is unlikely that Canada can continue importing from the United States to the extent recently in evidence unless the American Government lends to Britain in connection with purchases in Canada — that is providing no Canadian loans are placed in the United States. For the United States to lend to Canada for the purpose of enabling Canada to lend to Britain would be to complicate matters needlessly. The better way would be for Canada to carry all the British paper that she can carry with safety, and for the United States to supplement Canada's efforts through lending a moderate amount to Britain on Canada's account.

It will be seen from the foregoing that the Dominion Government is not likely to make another big loan flotation in the home market until towards the end of 1918. As the issues of the provinces, cities, towns, etc., are to be regulated, it is to be expected that they will be somewhat less in volume than in 1917 or 1916. While it is too soon to speculate on the probable size of the next domestic war loan, we must remember that the Victory Loan of 1917 was a prodigious effort; and it is extremely doubtful if so grand an aggregate of subscriptions could be rolled up on another occasion. Bankers say that the loan subscriptions on this occasion cleaned out or greatly reduced hundreds of large deposit accounts of long standing at branches in the towns and country districts. Those deposit accounts will not be speedily rebuilt, and those funds will not be available for another war loan. However, we are at liberty to hope that by the time another big flotation is to be made in the home market, the war outlook will be decidedly more favorable from the Allies' point of view; and if the power of the Hun then appears to be crumbling, the circumstance will be of considerable value in promoting the success of the flotation.

STEEL INDUSTRY BADLY CRIPPLED.

(The Iron Age, New York.)

"Heavy snow and intense cold have made the breakdown of railroad service more complete in the past few days, and in the shutting down of operations the week has been probably the worst the steel industry has known. It is difficult to measure loss of output. In the Chicago district the total pig iron production for the past few days has been 30 to 35 per cent of normal, with steel production somewhat more. Pittsburg, Youngstown and Cleveland have probably had a 60 to 70 per cent operation in steel. Eastern blast funraces and steel plants have suffered severely from the blockades in other sections, which cut off coal and coke.

"The complete shutdowns of some plants have been a matter of but two or three days, and this phase may pass quickly, but the piling up of freight will hamper mills for weeks, and, since mines cannot ship coal until cars come back as empties, the fuel shortage will cripple the industry indefinitely.

"A grave situation opens before certain merchant furnaces in the threatened diversion of their coke supply to steel company furnaces. Eastern pig-iron producers hastened to Washington this week to protest against an order that will take 100,000 tons of coke a month from them, giving it to two eastern steel companies whose output of plates and ordnance is of the highest importance to the Government. The order was not made effective January 16, as planned, but the postponement is probably temporary. It is a case of putting one Government need before another, as much of the merchant pig iron that would be cut off has been going into Government contract work.

"The American Iron and Steel Institute's steel committee has just appointed a sub-committee to cooperate with the Director-General of Railways in improving traffic conditions as they affect iron and steel works. This committee's immediate problem will be to move the huge accumulations of finished material that have brought many rolling mills to a standstill. Hundreds of thousands of tons of export steel are involved and the ships, to carry much of it, wait on bunker coal.

"The sharp cutting down of steel output points to a tighter drawing of the lines against less essential industries in the distribution of mill products. More labor would thus be turned upon imperative Government work.

"What is most serious in any proposal affecting iron production, such as the order taking coke from merchant furnaces, is the loss of organization where the shutdown is complete. The alternative of repeated bankings of furnaces, while wasteful of coke, would obviate the scattering of working forces.

"The uncertainties of Government prices are a brake upon market activity in every form of finished steel. Some lower prices have been quoted for export—3.75c, for example, on steel bars and shapes, and the domestic price of 3.50c., Pittsburg, for bar iron.

"Some large-lot inquiries for shell steel for the British Government have come out, as well as one for plates. An eastern mill will furnish 8,300 tons of plate to the British commission.

"On steel rails some mills are four months behind their contract deliveries, and the leading maker is sold on both standard section and light rails from Pittsburg district plants for the entire year. Rail prices have been carried well beyond the basis of $38 for Bessemer and $40 for open hearth, at which contracts for 1918 were closed after the $33 and $35 prices for such delivery were withdrawn. More recent sales have been made at $55 for Bessemer and $57 for open hearth, but in other cases mills have obtained $65 for Bessemer and $68 to $70 for open hearth.

"While Government priority for rail, car and locomotive steel is fully expected, no definite programme for such buying is anonunced, though il requirements for 1918 have been put as high as 4,000,000 tons. The diversion to Italy of many cars included in th Russian contract is a probability."

CANADA LEADS THE WORLD IN WHEAT PRODUCTION.

"Canada leads the world in production of wheat, per capita," said Dr. C. A. Zavitz at the opening session of the Western Ontario Farmers' convention last week. "Our production is seventy and a half bushels per head of population. Argentina, which ranks next in this respect, produces fifty-six and a third bushels per capita, and the United States forty-five and a third. Canada's exportable surplus of wheat is six times that of the United States."

Never before has wheat been better than it promises to be this year. Marquis is the variety to grow, Dr. Zavitz said.