

## The \$3,000,000 Increase of Funded and Floating Debt

(Written for the Journal of Commerce by H. M. P. ECKARDT).

The statement of the Finance Department under date Nov. 30, 1915, reflects the preliminary stages of the financing in connection with the domestic war loan by means of an increase of roundly \$8,000,000 in the funded debt payable in Canada. This would represent the aggregate of initial payments which had passed through the books at Ottawa at the month-end. There will necessarily be successive increases under this heading until the final instalment is completed at the beginning of May next year. It will be interesting to examine the situation as regards debt increase since July 31, 1914. The situation can be shown most clearly in the form of a small table. Following are some of the items of the liabilities which show important changes.

The increase in the above items of funded and

	Increase of Gross Debt.		
	July, 1914.	Nov., 1915.	Increase
Funded Debt Payable in Canada . . . . .	\$ 779,860	\$ 8,725,450	\$ 7,945,590
Funded Debt Payable in London . . . . .	319,433,224	362,703,312	43,270,088
Temporary Loans . . . . .	8,273,333	165,007,017	156,733,684
Dominion Notes . . . . .	115,932,476	169,230,286	53,297,810
	\$444,418,893	\$705,666,065	\$261,247,172

floating debt amounts to roundly \$261,000,000 during the period of sixteen months here reviewed. As however, there has been a considerable increase in the assets, notably in the "Miscellaneous and Banking Accounts," which rose from \$124,000,000 to \$205,000,000, the increase of net debt has been somewhat less than the figure just mentioned. The net debt rose from \$331,873,814 to \$501,668,167—a matter of \$170,000,000. This represents an average increase of a little less than \$11,000,000 per month. The war expenditure for November was \$13,155,797, but the increase of net debt shown for that month is only \$9,139,675—the revenue having sufficed to meet the expenditure on account of Consolidated Fund. The balance over amounting to roundly \$9,000,000, applicable for war and capital expenditure averages say \$12,000,000 a month, and that there is a small average monthly balance to the good—say \$4,000,000—during the four months yet remaining of the current fiscal year, there might be a monthly deficit, or rather increase of net debt amounting to \$10,000,000 after allowing for say \$2,000,000 or \$3,000,000 per month for expenditures on public works, etc. This would make the increase of net debt from the beginning of the war up to March 31, 1916, about \$210,000,000.

While it is impossible to speak with confidence on the subject, it is perhaps not likely that there will be any sensational increases in the items of the funded and floating debt as shown in the table, between now and the end of the fiscal year, excepting in the case of the funded debt payable in Canada. One may easily calculate what the increase in case of this item will amount to. Taking the amount of the domestic loan as \$100,000,000, there will be payable something like \$49,000,000, counting in the balance of the first instalment and the amounts due respectively on January 3rd, February 1st, and March 1st. This prospective increase, added to the increase shown in the table makes a total increase of roundly \$57,000,000. The interest rate being 5 per cent, there is here shown an increase of \$2,800,000 in the annual interest charge. Since the avowed purpose

of the Government is to avoid fresh borrowing in London, a further increase in the funded debt payable in London is not to be looked for within the period considered. As for the temporary loans amounting on November 30th to \$165,000,000, these apparently constituted: the \$45,000,000 loan in New York; \$5,000,000 loaned by the Bank of Montreal, and \$115,000,000 payable in London. One might presume that as the funds for the domestic loan are paid in there will be some reduction of the temporary loans, but probably the reductions will not be very important since the Government intend to use the war loan proceeds for financing its military outlays.

With reference to the Dominion notes there might be a reduction shown between November and

attained on November 30th, and in the six months' March. Last year the high level of the issues was following there was a reduction of \$14,000,000. However history may not repeat itself in this respect. Although the small Dominion notes, issued during the fall to make small change for crop moving, will be coming back, the banks on turning them in to the Receiver General, will be obliged to take large Dominion notes in exchange. They cannot convert the small legals into gold as in normal times. In view of this return of Dominion notes from general circulation among the public, it is obvious that any further increase in the amount of legals outstanding would necessarily be represented by a like increase in the bank holdings of these notes. In other words it would simply be a forced loan from the banks without interest, and would have a tendency to curtail the power of the banks to make loans and advances to their regular customers.

Ultimately the surplus or excess issues of Dominion notes will probably have to be converted into interest bearing bonds, so in calculating the increase of our annual interest it will be well to take this contingency into account. The four items of funded and floating debt mentioned in the table will perhaps show at the end of the fiscal year an increase of roundly \$300,000,000. Speaking broadly this represents an increase of \$15,000,000 per year in interest. If the customs and other revenue continues to show up as buoyantly as in the past three or four months, the problem of financing for the additional interest charge will be considerably easier; but every one, more or less, is keeping in mind the possibility or contingency of a Dominion income tax. If such a tax is to be imposed there is much to be said in favor of putting it on the statute books now, while the patriotic sentiment of the people runs strongly on account of the uncertainties of the war. There never was a time in which the tax payers as a whole would pay an income tax so willingly. At conclusion of the war the sentiment might not be so favorable.

toward the mercantile marines of other Powers to be completely remodeled.

(3) No ship wholly or partly owned by subjects of a late enemy Power shall be allowed to embark or disembark passengers at a British port or at any of the ports of the Entente powers.

(This clause is aimed specially at the German trans-Atlantic lines.)

(4) A duty of ten shillings per ton gross tonnage to be placed on every ship wholly or partly owned by subjects of a late enemy power entering a part in the British Empire or a port in Dominions of the Entente Powers entering to escape perils of the sea expected.

(5) The establishment on territory of the Entente Powers of branches or agencies or ship-owning firms whose headquarters or ownership are German or Austrian to be prohibited.

## Not to Trade with Huns

At the forthcoming meeting of the British Chamber of Commerce a proposal will be made to form a trade agreement among the Allies by which they will refuse to allow German ships to do a coasting trade at their ports or carry goods from one allied nation to another.

Here are some of the suggestions which Mr. Samuel has put before the Chamber of Commerce for consideration at the conference:

(1) Britain and the British overseas Dominions to join and invite commercial representatives of the Entente Powers to meet in conference for the purpose of discussing the position of their trade after the war.

(2) Shipping laws governing the British attitude

## The Money Market After the War

(From "The World's Work.")

### AN AMERICAN VIEW.

The embarrassments of the European money markets has temporarily given New York a new and enlarged position in international finance, which has led to much speculation upon Wall Street's ability to maintain its leadership after the war. A money market, like any other market, becomes great chiefly on account of the amount of commodities for sale there. Lombard Street was the greatest money market in the world because there was more money available there for sale, so to speak, than anywhere else in the world. The reason for that was that Great Britain being protected from invasion for hundreds of years, has had time to build up many fortunes without interruption. It has been a national habit to keep these accumulations of money together from one generation to another. For a hundred years or more this accumulated capital has been more than British industry could use, so that it has flowed into Lombard Street for some foreign enterprise to bid for it. British capital in great volume has financial development all over the world, so that now from every continent and almost every country a continual stream of interest payments flows toward Lombard Street. And much of this money is turned free for investment. This is the basis of Great Britain's supremacy in international finance.

In the United States, on the other hand, there has been no surplus capital. We have consistently used all the money we had and borrowed from abroad. For a year or two before the war, however, new enterprises were not started in the usual volume, and money accumulated. Moreover, we changed our banking system and made our credit and currency much more elastic. These two circumstances placed our money market in an unusually happy condition to meet the demands made upon it by the war. Then the immense purchases which the Entente Allies have made in this country have transferred to us in credit and cash a large amount from Lombard Street's usual surplus. For the time being, then, New York is one of the world's best money markets.

But when the extraordinary foreign purchases diminish after the war, it is not clear that we will have any great surplus over the needs of our own industry, especially if the boom in business, now beginning, continues. Nor will we receive a large annual fund of interest charges from all over the world, for even with the money we have loaned during the war our foreign investments will be small compared with Great Britain's.

When the war is over we shall be a better international market than before, for we shall have more money than before, a better financial system, and we shall have some experience with the possibilities and technique of international finance. But Wall Street will not be able to serve the world as Lombard Street used to.

Lombard Street will, in all likelihood, resume its primary position, but its relative position to Wall Street will not be as it was before the war. Not only will Wall Street have gained in strength but Lombard Street will have lost. The usual current surplus has been used up in the war and the great funds of British surplus money has been touched. The revival of British industry will need more than the usual capital. The high taxes left by the war will further deplete the money for international use. But, on the other hand, the great reservoirs of British wealth at home and British foreign investments will in the main be intact. British industry will have suffered, but not fundamentally. The experience and technique of international finance will still prevail in Lombard Street, and the habit of the world to go to England for its money will still be strong.

When the war is over the premium on the dollar will not be what it is now. We shall not be in a position to challenge Great Britain's supremacy in this chosen field. The war has given us a start in international finance, a golden opportunity to establish ourselves securely, but beyond that we shall have to work against keen and experienced competitors for an increasing share of the money business of the world.