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THE GENERAL FINANCIAL SITUATION.

The problem of the national finances has engaged a large share of public attention throughout the Dominion during the past week. Forecasts of the budget speech had intimated that further direct taxation was in prospect, and the business community has been more or less prepared for that development. Everybody recognizes that the rapidly rising war debt calls for increased taxation, and all classes of Canadians will respond promptly and cheerfully when called upon to contribute under new measures adopted after careful consideration which distribute the tax burden fairly or equitably. Parties in receipt of large incomes have expected that they would be subjected to heavier imposts; and it is to be noted that the wealthy classes here, in the United States and in England and France have not complained of the special taxes laid upon them. At the same time it is worth remembering that when the rate of taxation of large incomes passes a certain level the tendency is for the tax to produce less revenue and at the same time the production of goods and services by the over-taxed parties tends to decrease.

The financial community is also intensely interested in the revival of the discussion regarding Canadian credits in the United States. It is obviously an impossibility for Canada to provide $800,000,000 of credits for Great Britain in connection with British purchases here, while at the same time paying $300,000,000 or $400,000,000 cash each year to the United States in settlement of the excess of Canadian purchases in that country. Yet it is necessary that the Allies continue to receive these large supplies from Canada; and Canada must have raw materials, fuel, machinery, etc., from the States in order to work up the British contracts. So it seems inevitable that a suitable financial arrangement, to which the United Kingdom, the United States and Canada will be parties, will sooner or later be concluded. Not improbably the conference this week in Washington, at which Finance Minister White has presented further points in Canada's case, will lead to some definite results tending to put Canada's exchange markets in a better position. An American loan, if of substantial amount, or an arrangement providing for the diversion to Canadian use of a portion of the proceeds of credits granted by United States to Great Britain, might also have a considerable effect upon our bond market. If Britain by such means were enabled to pay cash, in the form of New York funds, for the grain and other foodstuffs bought in Canada, our situation would be radically changed for the better, and we probably would experience no difficulty in financing a considerable part of the munition business on the basis of long-term credits. Such an arrangement would give us ample funds in New York and would also perhaps cause a relaxation of the great strain under which the bond market here has been laboring.

Meantime the action of the exchange market in Toronto and Montreal during the week suggests that the bankers are not fully confident that the proposed credits in New York will be placed at Canada's disposal in the immediate future. A very large credit in New York, operative in the near future, would undoubtedly cause a sharp reversal in the exchange market, especially if the announcement thereof was coupled with an intimation to the effect that exports of Canadian foodstuffs, etc., to Great Britain and France would be available in New York for exchange purposes. However the quotations for American funds in our markets still rule around 1 7-8 and 2 per cent. Money market conditions here are unchanged—inactivity in the securities markets makes it unnecessary for the brokers to apply for large loans in this connection. The banks apparently expect that some of the large subscribers to the Victory Loan will require extensive credits to enable them to meet the final payment of 20 per cent. due next Wednesday. Certain of these parties who turned in considerable amounts of old bonds, met the earlier instalment with the proceeds of the converted bonds; and, these funds being now exhausted, they are obliged to pay in much of their new money on 1st May. The payments will be duly provided for and it is not expected that there will be any noticeable or marked disturbance or stringency in the money markets as a result of the final payment on the loan.

Call money in New York is not at present in very active demand, but it is thought that if the events on the European battlefield were to turn in favor of the Allies, the Wall Street market may break into activity which would not be without its effect on the call loan situation. However, the continued absorption of floating funds by the United States Treasury is keeping money rates firm—call loans ranging from 4 1-2 to 6 per cent. during the week. Time money is in steady demand; sixty days, 5 1-2 to 5 3-4; ninety days, 5 3-4 to 6; four to six months, 6 per cent. Industrial paper rules at 5 3-4 to 6 per cent.; and commercial paper is 6 per cent. Clearing house banks in New York on Saturday showed a loss of $24,300,000 in excess reserve—the legal reserve standing at $540,900,000, or $41,600,000 in excess of requirements. This was caused largely by a decrease of $55,000,000 in Government deposits. The banks purchased from the Federal Reserve Bank of New York a further amount of $72,000,000 Treasury certificates of indebtedness, financing the same largely through rediscounting commercial paper at the reserve bank. The $200,000,000 call money pool loaned considerable amounts at 6 per cent. during the week.

The Liberty Loan flotation, which is nearing the end of its third week, is being vigorously

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