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THE BANKS AND WAR FINANCING.

War financing constitutes the main point of interest in the bank statement for July. The banks' financing of the Dominion Government and of the Imperial Munitions Board is reflected in an increase of no less than \$38,580,842 in their holdings of Dominion and provincial securities, which expanded during the month from \$95,504,814 to \$134,085,656, and in a growth of \$14,691,851 in holdings of British, etc., securities, which increased from \$167,769,412 to \$182,461,263. It was stated at the time that the Government asked the banks to anticipate the monthly instalments of the temporary loan of \$75,000,000 arranged in June and the very large increase in July corroborates this suggestion. Additionally, during the month of July, the Dominion Government secured a loan of \$3,849,316 from the Bank of Montreal. So that, altogether, the banks were called upon during July to provide additional credits for war purposes to the extent of over \$55,000,000.

INFLATION PURE AND SIMPLE.

Here is inflation pure and simple, in process. The increases in assets and corresponding increases in the liabilities resulting from these transactions were effected merely by book entries. The banks debited the Minister of Finance or the Imperial Munitions Board with so much in their loan accounts and credited him with an equal amount in their current account ledgers, the proceeds being subsequently transferred in other directions. This transfer, for undoubtedly it was a very speedy one at that time, is most probably the main reason for the very substantial increase of \$28,931,788 in the banks' notice deposits, which expanded during July from \$900,510,552 to \$929,442,340. Some commentators on this bank return have referred to this increase in deposits as providing the means for these war credits. That is to put the cart before the horse, to mistake effect for cause. The banks created the credit through mere book entries—a deliberate act of inflation, forced by the necessities of the Government for immediate credit. In order to keep their position as liquid as possible, the banks, while extending these Government credits, drew in other credits, while others were running off in the natural course of events. Call loans in Canada were reduced during July by a further \$4,708,432 to \$71,376,788; current loans and discounts in Canada by \$9,795,082 to \$829,560,700;

foreign current loans and discounts by \$2,896,201 to \$90,253,882. The transfer of the credits to other hands in payment for munitions, etc., created the additional deposits. The inflation will be corrected in due course at the maturity of the temporary loans, which, it is understood, have a currency of three months, provided that the banks are not compelled to take up large amounts of any domestic War Loan, which may be issued partly for the purpose of meeting these obligations. If they are so compelled, then the inflation will continue. Hence the urgent importance of a steady continuance of thrift in order that future war loans may be subscribed with real money and not by bankers' credits.

FURTHER INCREASE IN BANKS' FIGURES PROBABLE.

The August bank return, when it becomes available, will probably show an immense increase in the banks' figures, as a result of the final instalment of the \$75,000,000 temporary financing being credited to the Dominion Government and of the receipt of the proceeds of the recent \$100,000,000 loan in New York. The effect of the New York loan is to strengthen the banks' position, since through it the banks acquire command over a large additional amount of real money. Credit balances are established in New York banks, which balances can be either transformed into gold or used to settle Canadian debts in the United States. What effect the falling off in the manufacture of munitions will have eventually upon the banks remains, of course, yet to be seen. But any marked decrease in industrial activity will, of course, be quickly reflected in the bank returns.

Circulation at the end of July was slightly below the end of June level at \$154,692,268, but at that figure was \$31,161,817 higher than at the corresponding date of 1916. Municipal loans show another increase, being up to \$43,989,207, a growth for the month of \$1,231,534. The substantial July increase in New York bank balances of \$15,826,557 to \$60,031,786 is doubtless a result of the activity in the export trade during the month.

The banks' reserve position is practically the same as in June. Against circulation and deposits of all kinds, immediately available reserves of specie and Dominion note holdings, deposits in the Central Gold Reserve and to secure the note issues, bank balances abroad and foreign call loans were in a proportion at the end of July of 27.1 per cent. The end of June proportion was 27.2 per cent.

War Savings Certificates of a denomination of \$10 are now being issued in addition to the higher certificates through the issue of which \$10,000,000 has up to date been made available for the purposes of the war. The \$10 certificate sells at \$8.60, \$10 being returned to the purchaser at the end of three years.

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The British Government, it is calculated, will have to raise anything between £1,000,000,000 and £1,200,000,000 in the home money market during the next few months.

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The Wisconsin State Fire Insurance Fund, which went bankrupt, has now re-insured the greater part of its liability on State institutions in stock companies.