How the War Loan Payments Were Made

By H. M. P. ECKARDT

On May 1st the final installment of 20 per cent on Canada's domestic war loan was paid and the operation is therefore completed. It will be remembered that the installments were set as follows: 10 per cent on application; 7½ per cent on January 3rd, 1916; 20 per cent on February 1st; 20 per cent on March 1st; 20 per cent on April 1st, and 20 per cent on May 1st. Subscribers also had the option of discounting at 4 per cent on January 3rd their remaining payments; and this privilege was largely availed of, notably by the banks. The actual payments as shown by the statements of the Finance Department, up to the end of March were: In November and December, $10,368,000; in January, $64,256,000; in February, $9,319,000; in March, $5,928,000. This would leave approximately $10,130,000 to be paid in April and May. So apparently subscribers to the amount of say $25,000,000 had recourse to the installments all the way through.

In case of parties having funds lying idle, it was profitable to take the discount and pay in full on January 3rd. For example the individual subscriber with the requisite cash (for taking up the bonds) lying in his savings account at the bank would only get 3 per cent on his balance pending its withdrawal on the successive installment dates; whereas by discounting, he gets 4 per cent for the same term — a clear gain of 1 per cent. In case of the banks there were some special inducements to discount the payments in January. They had been carrying abnormally large reserves of cash. The stock market situation in Canada was not such as to create a healthy demand for large additional supplies of bank funds; and there were other reasons why it seemed best to refrain from lending too extensively at call in Montreal and Toronto. So far as the New York call loan market was concerned, while any money loaned there could be instantly recalled in large blocks at any time without causing disturbance, the rates of interest obtainable have ranged in the neighborhood of 2 per cent for many months past; and on numerous occasions the additional disadvantage of a high premium on New York funds has been present. The last mentioned circumstance meant that while the American exchanges were decidedly against us, a bank with surplus funds here which it was desirous of lending at call in Wall Street, would be compelled to pay a stiff premium in order to transfer its money to New York. So, by discounting their own payments the banks were getting 4 per cent interest on a "sure thing."

In case of the subscribers other than banks, who discounted the payments, probably in numerous instances the amounts they placed at the disposal of the Finance Minister would represent accumulated savings. Usually when a large flotation of securities is made in any market, there is considerable borrowing in evidence. The brokers and dealers borrow, and the individual subscribers get loans to enable them to meet the installments. Although there must have been important loans made by the banks in connection with the domestic war loan, the bank returns give surprisingly little evidence of such transactions. Loans to subscribers other than brokers, etc., would probably figure under the heading "other current loans and discounts in Canada"; but this item between October 30th, 1915, and January 31st, 1916, decreased month by month — the total decrease during the three months being $22,000,000. Again, advances might be made to brokers, bond-dealers, insurance companies, etc., in the form of call and short loans covered by the interim certificates as collateral. In the month of November, 1915, there was a jump of $8,600,000 in the Canadian call loans of the banks, and conceivably a goodly portion of this could represent loans for purposes of making the initial payment with subscription; but apart from an increase of $220,000 in December, the Canadian call loans subsequently showed a downward tendency to the end of March.

These considerations point strongly to the conclusion that taking the War Loan as a whole, a comparatively small proportion of the payments was financ edon borrowed money. In other words it was real savings or accumulations that went into the investment. In this respect our transaction is in sharp contrast with the recent loan operations carried through by the German Government. It is no secret that a vast number of the subscribers to the last German war loan had no ready cash available for meeting the payments. They were enabled to take up the new bonds only by means of borrowing close up to actual value of the bonds. With reference to our loan it is especially to be presumed that the subscribers who did not take the discount on January 3rd, met the successive installments out of new savings or accumulations. Of course there would bec ases wherein these subscribers sold or realized on other investments as the War Loan payments fell due, but the reasonable presumption is that the great majority of them met the payments with real profits or new savings. When it is remembered that these subscriptions amounted to at least $25,000,000, it will be seen that this is a most encouraging feature. The loan of last November was an entirely new experience for this generation of Canadian investors. When the next domestic loan comes along, the ground will be better prepared.

In connection with the banks' subscriptions to the 1915 loan there are some interesting points. The Monetary Times on March 24th published the official list of the bank subscriptions, as revised after the amount of the Loan was raised to $100,000,000. The total is $21,741,600; and as the paid up capital of the banks was roundly $114,000,000 the subscriptions represented about 18.2 per cent of paid up capital. The amount originally subscribed was $25,000,000, which represented 21.9 per cent of paid up capital. The bankers appear to have regulated their subscriptions on the basis of paid up capital — that is to say the original subscriptions were distributed among the different banks at so much per cent of paid capital. When the loan was found to be twice oversubscribed and the amount was raised to $100,000,000, the large subscribers, including the banks were given the option of reducing their subscriptions. As a result the basis of subscription by the banks appears to have been reduced to approximately 19.6 per cent of paid up capital. At any rate the amounts allotted to 12 of the larger banks, as shown in the Monetary Times' list above referred to, come out between 19.3 and 19.8 per cent of capital, and in case of 8 of these banks the percentage is almost exactly 19.6. Four others were within two points of this percentage. Another bank — the Standard — apparently took the bonds up to 28.5 per cent of its paid up capital. This is the largest percentage in the bank list. Five others of the smaller banks took advantage more extensively of the permission to reduce their subscriptions. One shows a percentage of 8.7 (the lowest); the other four ranged from 10.5 to 15 per cent.

At least three of the banks holding annual meetings subsequent to the issue of the domestic war loan, announced the amounts subscribed by their customers. Thus at the Royal's annual meeting it was stated that the applications of the customers together with the bank's own application, amounted to $11,500,000. As the Royal's allotment is given as $2,273,100; there would be something like $9,200,000 subscribed by its clients. The Standard Bank executive gave the total applications of itself and customers as $8,358,300. The bank itself was allotted $857,800; so the customers probably applied for about $7,400,000. The Bank of Toronto and customers applied for $7,000,000, of which the bank's allotment was $979,700 — leaving in this case approximately $6,000,000 for the customers. It is to be noted that the branches and business of the three banks mentioned incline heavily to the East, where Canada's main supplies of liquid capital are found. The Eastern subscriptions would necessarily overbalance the Western subscriptions; and especially those banks which are well established in Ontario would show a large proportion of subscriptions by customers.

Our London Letter

CONSCRIPTION—TRADE PROBLEMS—EMIGRATION.

By W. E. DOWDING,

London, Thursday, April 20th, 1916.

The compulsory service crisis has partially eclipsed the Protectionist agitation which was blown red-hot by the speeches made by the Commonwealth Premier just after his arrival in England. But we shall hear a great deal more about it immediately, and it is commonly understood that the experience of history will be repeated in this case inasmuch as the war will make it necessary to revise our fiscal practice. The scope of the revision will be the subject of the discussion we may expect to hear going on from now till some time after the war is over. The extent of the alterations which the Government of this country may feel it necessary to make will depend, however, upon the peace terms with which hostilities are concluded, and that is the first important point to remember in connection with all these discussions. It is idle to say that our economic policy must remain the same whatever happens, although a good many influential people are saying it. It has become appallingly clear that the trade policy of Germany before the war was a part of her military policy. The commercial representatives with whom Germany permeated the British Empire were — to sum the matter up in two words — military spies. All that she undertook in trade expansion can now be seen to have been directed toward the collection of information and the setting up of interests which would some day be of use when the German Emperor gave the sign to put everything to the test of war. I have stated this opinion forcibly because it is indeed most forcibly held even by men who were our most impassioned defenders of free trade before the war and who still hold positions of great power and responsibility in the country. For these reasons they say modifications in our fiscal policy must come; we must take such steps as will prevent Germany setting up the same system after the peace as she set up with such pains and such dreadful intent before 1914. But even these men confess that they must wait upon the conditions of peace. There is no feeling in their minds that the conditions will make it impossible to carry out their purpose, there is no slackening in the resolution to fight to a victorious end; but being prudent and far-seeing men, and withal British, they consider it impracticable at this time to commit the country to great changes in her fiscal policy that may have to be altered again and adapted to overriding conditions of peace.

Thus it is not believed that the economic conference of the Allies in Paris will be able to deal effectually with anything beyond the war period. The presence of Mr. Hughes who alone among the representatives of the Oversea Dominions has found it possible to attend does not mean very much. I suspect, judging from the speeches he delivered with such haste a short time ago, that Mr. Hughes will find himself able to bring very little influence to bear upon the deliberations of the Conference. As I said in a previous letter, the chief result of those speeches has been to produce in labor circles here an intense determination to secure for the working classes all the offsetting advantages with which Labor in Australia has counteracted the effect of protection there. And we are still wondering how we shall deal with the problems that will come up for settlement between employers and employed when the war ceases. The wages of labor have risen by the emergencies of war to a height that could not have been reached by a generation of social agitation. Will they remain as high when peace returns? If not will there be dissatisfaction amounting almost to revolution? If yes, by what means will the figure be maintained? What will be the attitude of male labor to the vast amount of female labor now occupying its place? What effect will the fighting men have upon those who have remained at home? Will it be possible to demobolize slowly or must it be done swiftly? Will the situation be eased by emigration? Shall we be in the position that the United States was in when (for different reasons) the employers declared that they could only pay high wages if their industries were protected from outside competition? These are only a few of the hundred puzzling questions that will assail us. There is no answer to them yet, although many acute minds are investigating them. The experience of other countries, in other times, is no sure guide to us. We can only be certain that there will be some change and that once a move is made away from the old economic position the full strength of those who desire changes for their own advantage will be put forth.

GROWTH OF MANUFACTURES.

The aggregate value of articles manufactured in this country during 1914 was about $24,000,000,000, as compared with less than $11,900,000,000 fifteen years ago.