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THE EXCHANGE PROBLEM.

Under present circumstances, national financial problems cannot be profitably discussed, or the best possible solution arrived at regarding them, if they are received, merely from a financial standpoint. While sound principles must necessarily be adhered to, financial decisions in the field of practical action, are at the present time necessarily dependent upon conclusions of policy looking to the good of the British commonwealth and its Allies, and the necessity of subordinating all minor considerations to the one purpose of war. A writer the other day on the much discussed situation of New York exchange in Canada, surely overlooked these elementary facts, when he argued that means of redress of the exchange situation is always in the hands of Canada, which at any time could decide to change the proportion of goods sold to Great Britain, and the proportion of goods sold to the United States, in such a way as to increase the volume of our cash exports and decrease the volume of our exports for credit. This might be done, if nothing else more important than the righting of New York exchange were involved in the problem. But the numbers, which form so substantial a proportion of our present exports are wanted in Europe, not in the United States; and it is Europeans, not Americans, who are on rations, and need every ounce of Canadian foodstuffs that can be got over to them. If the problem of exchange were merely a matter for a financial viewpoint, then it might be the part of wisdom to export less foodstuffs and more paper. But nobody is likely seriously to propose that sort of diversion of energy at the present time.

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The existing adverse New York exchange in Canada is, in fact, one of the financial penalties incident to the war, and, compared with the penalties imposed in other places through the disturbance of exchange arising from the war, is not a heavy one. As against the depreciation of about 1 9-16 per cent. in the Canadian dollar at New York, the pound sterling, taking the market rate for demand exchange, is selling at a discount of about 2½ per cent., and has been held there only through artificial measures of support. Sweden's exchange is selling in New York at a premium of about 34 per cent.; Japan's exchange on New York is at a premium of about 15 per cent., and Holland's at a premium of about 16 per cent., the penalty in these cases fatting on American business. So that the present penalty upon Canadian purchasers of New York funds, annoying as it may be, is not comparatively a severe one. For reasons of their own, the Ottawa authorities are perhaps not averse to a continuance of a moderately adverse exchange. They themselves feel the effect of it, when interest on Government loans has to be met in New York. But on the other hand, adverse exchange has a useful effect in tending to discourage the output of Canadian funds for the purchase of Anglo-French and other bonds in the New York market, and by accentuating the prices of luxuries has some tendency to arrest, though probably not very effectively, Canadian purchases of luxuries in the United States.

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Ottawa is reported as having under serious consideration the question of imposing import regulations, barring certain classes of luxuries, and allowing other articles to be imported only under license. It is not to be expected that such a step would have any appreciable effect upon exchange in the immediate future. But it would be useful in restricting proportionately imports from the United States, in freeing a certain amount of transportation for other purposes, and in keeping Canadian funds at home. The last is probably the most important benefit which would be reserved from regulations of this kind. The utmost conservation of resources is certainly imperative in view of the enormous demands for credit which will be made by the Government during the current fiscal year. The estimates tabled the other day in the House of Commons indicate a normal expenditure during the coming fiscal year of $258,793,000, including pensions, interest which will have $78,000,000, and capital expenditures, apart from the war of $28,460,000, only a little over 50 per cent. of those of last year. Additionally, expenses will call for $450,000,000, presumably if the war lasts the full fiscal year—a not unlikely eventuality, and some hundreds of millions will need to be provided to give credits for our exports of food, munitions, etc. Sir Robert Borden stated in the House of Commons last week, that our exports of these supplies to Great Britain and the Allies this year, in excess of all importations from them, will be in the neighbourhood of $800,000,000. How much of that it will be necessary or possible to finance through Canadian credits remains to be seen. But obviously, there is the greatest possible need for the conservation of all possible resources to be placed at the disposal of the State. But, on the other hand, steps which would interfere to any extent, with the ordinary merchandise business of the country, need to be approached with extreme care.

(Continued on page 325).