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PROBLEMS OF WAR FINANCE.

In some ways, the general problem of war financing with which Sir Thomas White has to deal is an extraordinarily difficult one. The difficulties arise in consequence of Canada's normal position as a borrowing country, still at a very early stage of its development and requiring immense amounts of capital from abroad to continue that process. Broadly speaking, the rate of Canada's development after the war depends upon ability to attract capital and settlers. Therefore, to follow a policy of war taxation which would tend to discourage a subsequent influx of capital would merely be to try again the old process of cutting off one's nose to spite one's face. This vitally important fact needs to be kept prominently in mind in any discussion of ways and means of war taxation. The Minister of Finance has undoubtedly been governed largely by this consideration in his following hitherto of a policy of moderation in regard to such taxation, which policy of moderation, however, will by the end of the current fiscal year, have raised nearly \$200,000,000 without any special strain upon the country. But in view of prospective commitments and the probable length of the war, the present scale of taxation is not sufficient. Sir Thomas White is committed by his own utterances to further necessary measures of taxation. "We will take whatever measures are necessary," he said recently in the House, "whether by income tax, succession duty tax, a tax upon real estate or otherwise, in order that we may win this war." A federal income tax, which will very likely come into force at the beginning of the next fiscal year, will tap a certain amount of new revenue unprocurable in any other way. But this scheme will need to be worked out with extreme care, if the income tax is not to bear hardly upon those of moderate means.

Additional taxation, however, is not enough. New loans have to be subscribed. Some time ago, it was intimated that the early fall would probably see the advent of a fourth War Loan. A semi-official announcement that bonds of the second and third loans will be convertible into any issue which may be made with a maturity of 20 years or more, suggests that the subject of this loan is now enjoying active attention at Ottawa. Nothing in the present situation suggests that this fourth loan will be the last. Advances to the Imperial Munitions Board, which now requires about \$40,000,000 a month, have to be continued. The necessity for large advances by the banks on this account—to date these advances are \$250,000,000—and the practical certainty that these advances will have to be

continued for a long and indefinite period, together with the looming up on the horizon of the task of financing this year's crop movement, explain the recent refusal of the banks generally to lend money at call. It is probable also that, faced with the necessity of providing large funds in the two essential directions named, the banks will not be inclined to allow the use of any considerable amount of their funds for the purposes of industrial development, and corporations will find it necessary to rely increasingly upon their own funds for this purpose. At the present time, Canada is unable to borrow any funds abroad, and there is considerable uncertainty as to when it will be possible to renew borrowings in the United States. We are not even receiving exchange in proportion to our exports, owing to the arrangement by which the banks are financing the production of munitions. We are faced, in fact, with the necessity of relying entirely upon our own resources to provide for our needs, pending arrangements for borrowings by the Canadian Government in the States, or the re-opening of that market to our other borrowers. Were the facts of the case really known and appreciated by the bulk of our people, the essential duty of directing every dollar possible into War Savings Certificates and War Loans, would be responded to ten-fold as widely as at the present time. The response thus far has been magnificent. But much more needs to be done and can be done with comparative ease.

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It will be well also if we make up our minds at this time that things after the war are not going to be as they were before the war, even in the matter of financing development. The longer the war lasts, the greater the probability that at its end, in Great Britain there will be continued at least for a time, some form of Government control of new capital issues, so that British capital will only be available for approved purposes. That London financial circles are prepared for the most radical measures in this connection after the war is seen in the suggestion which comes from there that in order to avoid catastrophe on the way to the restoration of more normal conditions, financial and economic, there should be established a common council of financial and economic experts fully representative of all the civilized countries, a council which shall have for its prime consideration the production of the necessaries of life and their manner of distribution, and the establishment of such an international system of credit for some years to come as shall bridge over the abnormal conditions which must prevail before the European belligerents

(Continued on page 699.)