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BANKS AND WAR LOANS.

It will not have escaped notice that the enormous total of over £1,000,000,000 new money contributed to the recent British war loan, was subscribed with only the indirect help of the British banks, who were not asked to join in the loan by direct subscriptions. There is a lesson of sound finance and good policy in this fact for the Canadian public in regard to the new Dominion War Loan. The object to be aimed at in connection with that loan is not merely its subscription to the full amount required by the Minister of Finance, but its full subscription without calling upon the banks to subscribe directly, by as many investors of small and comparatively small amounts as is possible.

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Why should not the banks subscribe freely and largely to the war loans? The reasons why were very clearly set out by Mr. F. C. Goodenough, the chairman of Barclays Bank, at the recent annual meeting of that institution, and his statement applies fairly to the Canadian banks as well as to those in Great Britain. "It is not good that the banks should subscribe, except for temporary purposes," says Mr. Goodenough, "or in the way of lending to private individuals who do subscribe, because when banks subscribe there is a duplication of credit which in course of time is injurious to the community at large, causing a rise in prices all round and a demand for increased currency, both of which are adverse to the stability of the foreign exchanges. If an individual subscribes to the War Loan, he reduces his credit with the Bank and transfers it to the Government, and the Government in turn pay over the amount to those to whom they are indebted, and through them the original item of credit returns to the banks. There is no duplication of credit, but merely a change of hands. On the other hand, if the banks subscribe, a fresh item of credit is created in favour of those to whom the Government is indebted, without a corresponding reduction of credit on the part of any of the bank's customers."

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Apart from this duplication of credit involved in banks' subscriptions, with its consequent injurious results to the body economic, there is a further reason, not mentioned by Mr. Goodenough, why the banks should not subscribe large amounts to War Loans—the necessity of their maintenance of an extremely liquid position. Now long-

term war loans, however admirable investment securities, are not in the front rank of liquid assets for bankers. When the first Canadian War Loan came out in 1915, the banks were allotted about \$25,000,000. Students of the monthly bank statements noted that the banks immediately proceeded to reduce these holdings. The Bank of Montreal, for instance, apparently got rid of the whole of its allotment in a very short time—for the simple purpose of maintaining unimpaired its liquid position. In the case of the second loan, the banks' subscriptions were not required, owing to the ready response of the public. It is to be hoped that there will be an equally ready response to the new loan. Probably, the Canadian market has yet scarcely advanced to the stage when an issue of the size of these war flotations could be put out, without an arrangement by which the banks act (without remuneration) as underwriters. Nevertheless, the object to be aimed at in the interest of sound finance is the relief of the banks from their underwriting obligations and the subscription of the loan by institutions controlling investment capital as distinct from bankers' funds, and by private investors. In Great Britain special arrangements were made by which banks would lend on the new War Stock to those taking up the issue, the amount of the loans being governed by ability to repay by instalments within a comparatively short time. These loans, it is estimated, approximated £200,000,000. Here the banks loan large amounts of funds to the bond-dealers and large investors who desire to anticipate income. In this way, the banks are "doing their bit" in regard to domestic war loans on much sounder lines than if they are required to take up by direct subscription a large amount of the loan themselves.

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The banks' credits for the financing of the Imperial Munitions Board, while not impairing the banks' liquidity, since the British Treasury bills are short-dated, operate to some extent in the duplication of credit in the manner Mr. Goodenough indicates. This can be minimised by the subscription on the part of the general public of such amounts to our own War Loans as will suffice not only for Canada's own war expenditures but also provide substantial amounts of funds for loaning by the Dominion Government to the British Government. Our own subscriptions can—and must to some extent of course—be supplemented by United States investment capital secured mainly through flotations in New York.