Lessons from the Liberty Loan Campaign

It is recognised by American bankers that it is advisable in connection with such loans to endeavor to bring about early settlements

By H. M. P. ECKARDT.

The New York Journal of Commerce the other day had an interesting article explaining how the American banks participated in the flotation of the first, second and third Liberty Loans, and how they are expected to help the fourth loan which is now just completed. Our own war loan being in prospect for next month, we are naturally interested in the methods followed by our neighbors. It will be seen that with a few important exceptions the part played by the banks in the United States is similar to the general plan of action adopted by our own banks.

The three essential particulars in which banking aid to the war loan is given are as follows:

"1.—In distributing the loan by obtaining subscriptions and reducing prospective subscribers to participate.

2.—In financing the individual subscriptions and securing the means to accommodate deserving borrowers'

3. In ensuring legitimate methods of subscription and payment and in bringing about the early settlement of indebtedness."

The article proceeds to explain that in connection with the previous war loans, each individual determined how much he could subscribe for and then proceeded to finance his subscription. In some cases the individual merely had to draw upon his bank balance to pay for the bonds; in other instances some securities already possessed were sold to provide the necessary funds; others again paid for the bonds in instalments, borrowing from their bankers on pledges of the bonds whatever was required. These demands upon the banks were numerous, and they will likely be even more numerous in case of the fourth Liberty Loan. An American bank making these loans, in order to enable itself at the same time to go on extending credit to its ordinary customers for legitimate productive purposes could, if a member of the federal reserve system, rediscount the paper represented by war loan subscriptions, with the federal reserve bank to whose district it belonged; if the bank did not belong to the reserve system, it could nevertheless avail itself of the rediscounting facilities through passing the paper on to a member bank (probably its correspondent bank in New York, Chicago, or another centre).

This feature of the American plan of war loan financing is probably not extensively resorted to by the Canadian banks. They can, if they wish, secure advances or loans from the Dominion Treasury on depositing approved securities as collateral. There is no doubt that the note of a subscriber backed by his war bond, would be strong enough to count as "approved securities," and if the Canadian banks proceeded to rediscount in this way the loans granted by them to war loan subscribers, they would have some additional funds available for their mercantile, industrial and agricultural clients; but there are certain objections and difficulties in the way, and it is not likely that they have rediscounted much, if any, of this paper. In the first place, every such rediscount would involve further inflation of the Dominion note circulation. When our banks rediscount approved securities at the Dominion Treasury, they receive the proceeds in Dominion notes, which at present are not convertible on demand into gold. Thus the Dominion issues not based on gold are expanded, and the evils incidental to currency inflation are further accentuated. The bankers are thus reluctant to avail themselves of the Treasury's facilities; in fact they do not do so unless it cannot be avoided. On the other hand, when an American bank rediscount paper at the federal reserve bank, probably the proceeds will be made available in the form of a credit or deposit in the books of the reserve bank. Inflation of credit takes place, but some authorities think this form of inflation does not act so immediately on prices as does currency inflation.

Another point is that our bankers would not care to pledge the hundreds of notes discounted by them for loan subscribers at numerous branches. If these notes were pledged it perhaps would frequently happen that when a customer came to the bank to pay off his loan, the bank, after accepting his money, would have to tell him that it had rediscounted his note, but would send for it and give it to him when it was returned." When their customers pay notes or bills the banks desire to be in position to give up the paper at once.

Apart form this the methods of advancing funds to loan subscribers apparently do not differ greatly in the two countries. It is recognized, alike, by American and Canadian bankers, that it is advisable in connection with such loans to endeavor to bring about early settlements. It is true that the federal reserve system in the United States offers facilities for renewals. Thus when the individual bank is called upon to renew the note of its customer, the bank can apply to its federal reserve bank for a renewal of its own paper—the reserve bank apparently continuing to support the transaction until the customer finally pays off the debt, by means of savings or accumulations of profits, or through liquidating other investments. Notwithstanding these facilities for carrying the loans, it is seen to be desirable for the bank to have the transaction cleared off in a reasonable time. Quoting from the Journal of Commerce article, with reference to borrowing for war loan subscription purposes, "Just as it is the duty of the bank to induce the individual not to borrow unless he has to, and not to borrow more or for a longer period than he must, so it is the duty of the federal reserve banks to induce the member banks not to borrow more through rediscounting or for longer periods than they must." In the first place long-winded loans, even when based on sound and safe collateral, are contrary to the best banking principles. Another point is that if the banking credits granted in connection with one war loan are not cleared up within a reasonable time, the war loans subsequently put out will suffer. The succeeding war loans have the best chance of success when the credit machinery of the country is not clogged up with old loans pertaining to previous issues.

This explains why the bankers endeavor to get the loans of subscribers cleared away before another national issue is made. So far as Canada is concerned, it is understood that the credits granted in connection with subscriptions to the first Victory Loan are now pretty well paid off. Most of the small or sundry loans then granted were on a payment basis of about 9 or 10 months. That is to say, if a subscriber borrowed $90 to take up a $100 Victory bond on January 1, 1918, the arrangement with him would be for payments of $10 per month, which if faithfully carried out would clear off the debt by November 1. As for the loans granted to large subscribers, they would likely be cleaned up in shorter time. For example, a life insurance company, subscribing heavily to the loan might require a bank advance in order to take up the bonds. Such advance would doubtless be covered by receipt of premiums and interest on the company's investments, within two or three months. Loans to bond dealers would be liquidated as the dealers disposed of their bonds. Owing to the conditions now prevailing on the Victory bond market, it is perhaps not to be expected that the bond dealers will borrow heavily for the purpose of taking up large amounts of the second Victory loan. With the marketing of the bonds under strict regulation and all transactions passing through the hands of a committee, there is no occasion for the dealers to privately purchase large amounts for subsequent distribution.

Apparently the action of the banks and other parties in granting credit to subscribers repayable in monthly instalments has had considerable effect in inducing people to save. When a wage or salary earner has a fixed payment to meet every month —for a war bond, etc.—the circumstance very likely will get him in the habit of saving and may enable him to accumulate capital. So lending for this purpose, judiciously done, will have a beneficial effect upon the economic position of the people.

New Paper Prices Stand

Ottawa, October 10.

Pending the decision of the newsprint appeal tribunal in the matter of the appeals of the publishers, and also of the manufacturers from the recent order of Commissioner Pringle fixing new prices for newsprint, the order issued by the commissioner will not be varied. This is the feature of a judgment given by Commissioner Pringle this afternoon following a motion made by representatives of the publishers to have the increase in price stand in abeyance until the appeal tribunal has rendered a decision. In regard to the retroactive feature of the order providing that the increased prices shall date from July 1, the commissioner in his judgment to-day made a recommendation to the manufacturers that they should give publishers desiring such a privilege the right to make their payments during a period extending over three months.

In the proceedings before the commissioner, the publishers were represented by Mr. P. D. Ross, of Ottawa, and Mr. J. E. Atkinson, of Toronto. Mr. Ross, in requesting the commissioner to vary his order increasing the price of newsprint from $2.85 to $3.45 per hundred pounds, stated that it was the intention of the publishers to appeal and to push their appeal with all possible speed. He said that this suggestion would be in accordance with ordinary judicial procedure. Apart from this, however, many publishers were finding it difficult to meet the situation. These difficulties would be lightened if they were given a longer period in which to take the necessary steps to increase their own revenues.

Mr. George Montgomery, K.C., on behalf of the manufacturers, opposed the request of the publishers. The manufacturers, he said, were making newsprint at a price which yields them no profit. Some were selling at less than the cost of manufacture. He declared that the commissioner could not vary his order because the order-in-council constituting the appeal tribunal provides that the commissioner's orders remain effective until appeals are disposed of.

Mr. J. F. Orde, K.C., on behalf of the E. B. Eddy Company, said that, as the manufacturers as well as the publishers were entering appeals, it would be advisable to let matters take their course.

When Mr. George Henderson, K.C., counsel for the Booth Company, expressed regret that the hearings before Commissioner Pringle had not been attended by representative publishers such as Mr. Ross and Mr. Atkinson, and that, as a consequence, the publishers did not really understand the situation, Mr. Ross expressed the opinion that Mr. Henderson should confine his remarks to the application.

Discussion ensued in which the suggestion was thrown out by the commissioner that the representatives of the manufacturers and publishers present might come to an amicable agreement, as to the terms and conditions for the payment of the sum due to the former owing to the retroactive features of the order.

Mr. Atkinson said it was not the desire of the publishers to deal with the matter in this way or to recede from their request that the increase in price should remain in abeyance pending the decision of the appeal tribunal.

In giving judgment Commissioner Pringle said that no good purpose could be served in discussing the merits of the question, because the order was an interim order, subject to appeal within 30 days. He agreed that the terms of the order-in-council provided that the orders should remain effective until appeals were disposed of. The commissioner stated that during a period of 16 months the mills had been supplying newsprint at an average cost of $52 per ton, which did not give them much profit. He referred to the judgment given by the appeal tribunal across the border stating that evidence had been adduced to show that the increase in the cost of newsprint production had been anywhere from $6 to $10 per ton since April 1. In closing, he made the suggestion as to payments arising out of the retroactive feature of his order already referred to.