The
Journal of Commerce

Vol. XLII., No. 14 MONTREAL, TUESDAY, OCTOBER 3, 1916 Price Ten Cents

The
Journal of Commerce

Devoted to
CANADIAN INDUSTRY, COMMERCE AND FINANCE.

Published every Tuesday Morning by
The Journal of Commerce Publishing Company, Limited.
35-45 St. Alexander Street, Montreal.
Telephone: Main 2662.
HON. W. S. FIELDING,
President and Editor-in-Chief.

Subscription price, $3.00 a year.
Single copies, 10 cents.
Advertising rates on application.

MONTREAL, TUESDAY, OCTOBER 3, 1916.

Special Articles

Breakfast Foods Analysed.
By Prof. R. HARCOURT.

What Canada's Vital Assets Are Worth.
By J. W. MACMILLAN, D.D.

How Retail Profits Are Reduced.
By Wm. J. BRYANS.

Conditions in the West.
By E. CORA HIND.

Labour's Outlook in Great Britain.
By W. E. DOWDING.

Production and Distribution.
(Special Correspondence.)

PRINCIPAL CONTENTS.

	Page.
Editorials:	
Financing our War Burdens	1
A Desirable Postal Reform	2
The Submarine Activity	2
Paying the Penalty	2
Germany's Latest Atrocity	2
Breakfast Foods Analysed	3
What Canada's Vital Assets Are Worth	4
How Retail Profits are Reduced	4
Production and Distribution.	5
Fallacies in German War Finance	5
Mentioned in Dispatches	6
Public Opinion	7
Among the Companies	8-9
Bank of England Statement	10
Canadian Bank Clearings	10
Montreal Stock Exchange	10
August Bank Statement	11
The Royal Road to Titles	11
Correspondence:—	
Savings Bank Deposits and War Loans	12
A Famous Victory	12
Labour's Outlook in Great Britain	13
The Exporter's Field	14
Credit Insurance	15
"A Little Nonsense Now and Then"	15
Insurance for Children	16
Book Review	16
The Ocean Freight Situation	19
World's Increase in Use of Flour	19
Conditions in the West	20
Commodity Markets	21-22
Grain at the Head of Lakes	23
The Dry Goods Situation	23
Shipping Railway Notes	24

Financing Our War Burden

WITH reference to our correspondent's queries, appearing in another column under the caption "Savings Bank Deposits and War Loans," it is quite correct to say that a number of provincial and municipal loans have been brought out recently at lower net yields to investors than in the case of either of the domestic loans of the Dominion Government. Both the Province of Ontario and the City of Toronto have floated loans at prices yielding the investor from 4.85 to 4.90 per cent, and various other municipalities and provinces have borrowed in the home market at 5 per cent. or a very small fraction above 5 per cent. The war loan just issued by the Dominion Government yields subscribers about 5.29 per cent.; and last year's loan yielded a trifle more. It is generally understood that one principal reason for the relatively higher rate paid by the Dominion loans is that the federal government asked for a very much larger amount than did the other parties referred to. For example, the Finance Minister on the present occasion has asked for $100,000,000, whereas the Ontario loan was but $4,000,000 and the Toronto loan, $3,669,000. It is safe enough to say that had Ontario asked for anything like $100,000,000 the province would not have secured the money at the exceptionally low rate. Perhaps, with circumstances as at present prevailing, it would not have been able to get the money at all. For the comparatively small provincial and municipal issues referred to by our correspondent the market was already existent (it might be mentioned that the greater part was sold in the United States); but in case of the Dominion issues the market practically had to be created.

As regards the suggestions that the Federal Government issue ten-year, two per cent. bonds in $100 denominations, make them "legal tender" by Act of Parliament, and pay them out in settlement of war supplies, it is clearly impracticable and inadvisable. Our correspondent says that such bonds could pass from holder to holder as ordinary bank notes do; but in fact they would not pass on an equality with the bank notes. It would be an absurdity to make a ten-year bond legal tender. Such a bond is merely an evidence of debt, whereas the term legal tender applies particularly to "money", a measure of value. At present it may be taken that the market price of credit in this country is 5 per cent. or higher. Considering the proposed issue of two per cent. as a forced loan it might be said that they paid only two-fifths of the real value of money. With a bond yielding only two-fifths of the market rate, the loss suffered by the holder increases with the lengthening of the term of the bond; and in one way or another the deficiency of 3 per cent. in the interest rate, multiplied by the number of years which the bonds had to run, would make itself felt in the market price of the bonds.

It is all very well to say that these depreciated bonds could be forced on the parties selling munitions and other supplies to the Government; but these parties, if obliged to take the bonds in settlement at par, would inevitably raise their prices in connection with contracts, etc., undertaken for the Government, to reimburse themselves for losses suffered in disposing of the bonds. Let us consider what means such a party would have of disposing of them. Suppose for the sake of argument that his creditors are compelled to take them at par by Act of Parliament. He could then use them in case of any debts already in existence; and to his creditors would be shifted the problem of disposing of the bonds. We may be sure that before concluding any fresh transactions with him these creditors would ascertain definitely whether he proposed to settle again with bonds; and if so their prices would go up correspondingly with the depreciation of the bonds. Or the creditors would make their bargain with him on the express stipulation that he make settlement in gold, bank notes or some other undepreciated currency. It would certainly happen that many large holders of the bonds would be unable to dispose of them in settlement of debts, because the creditor class would guard against that in contracts and agreements. It would be necessary to sell them through to brokers and others to parties who would bid only the market value. There would be a big market in New York and we should probably see the quotations there begin at around 80—about a 5 per cent basis—and gradually drop as the volume of bonds increased. This would lead to depreciation of our international credit and would interfere with the placing of other loans in the United States at satisfactory rates.

The same line of reasoning would apply if the government issued its demand notes ad infinitum, making them legal tender and forcing them on its creditors. There would be big depreciations as the volume of the notes got beyond the country's need for currency; and two sets of prices would soon be in evidence. It is a much sounder policy to make definite arrangements for such sums as the Government requires to borrow, pay the market price for money, and spread the cost or burden by means of taxation as evenly as is practicable over the whole country. Then there is no derangement of the currency and the credit of the country is better maintained at home and abroad. Also there is no hint of confiscation, as might be the case if the Government forced parties to deliver goods to it and receive payment in depreciated bonds or currency.