

Banks, Bankers and Banking

Analysis of British Finances

Great Britain not paralysed forever financially—One third of the vast War expenditures were raised by taxation during and since the War—How the trade balance will eventually be adjusted

F. R. Shortis, who was recently appointed a Vice-President of the Guaranty Trust Company of New York, has returned from England. Mr. Shortis for many years was in charge of the foreign business of Kleinwort, Son & Company, merchant bankers of London, and subsequently became manager of the firm. He resigned that position last year to become Financial Advisor to the Inter-Allied Rhineland High Commission, from which post he recently obtained a release.

In discussing the financial condition of Great Britain with New York correspondents, Mr. Shortis said:

"I think there is an impression in less well informed quarters of the United States that it is unnecessary to discriminate in regard to the respective economic positions of the Allies. It is probably felt in some directions that the war has left them all in such a state of financial paralysis, from which it will take them long years to recover, that the question of degree is immaterial. While this feeling may accurately represent the situation in regard to certain countries, it is certainly not correct in regard to Great Britain. It is true that she has spent in connection with the war from the first of August, 1914, to the first of May, 1920, the vast sum of £11,000,000,000, or at par of exchange, \$53,460,000,000, but it should be remembered as a point of extreme importance, that of this stupendous amount, more than £4,000,000,000 (\$19,440,000,000), that is to say, more than one-third of the total, has been raised during the war by revenue, leaving a balance outstanding of approximately £7,000,000,000, (\$34,020,000,000). The latter figure includes advances to the Allies, as well as to the British Dominions, of approximately £1,850,000,000 (\$8,991,000,000). It is difficult to state what amount of the latter sum will eventually be recovered, but by assessing it for the purpose at £1,000,000,000 (\$4,860,000,000), there would remain an amount outstanding in connection with the war of £6,000,000,000 (29,160,000,000), or only one and a half the amount that has already been raised in revenue during the last four years.

"It is possible that the revenue raised during the last four years may exceed the amount which is possible by means of equivalent taxation in the future, but at the same time, there should be

a very drastic reduction in Government expenditure to compensate for any loss of revenue raised thereby. There is at present a vast army of Government clerks and officials which will in due course be dispensed with, although Government action will as usual be very slow.

"Considering the extent of her expenditure on the war, the financial position of Great Britain is decidedly favorable. It is gratifying to know that she is not only balancing her budget in a satisfactory manner, but has moreover, a considerable surplus in hand which should provide a sinking fund sufficient to redeem the entire outstanding debt within a reasonable time.

"Considerable pressure is being put on the Government to exercise drastic control over the spending departments, so that the dual result of economy and taxation will place the country upon a sound economic basis.

"Trade throughout Great Britain has, until quite recently been excellent, and statistics demonstrate the healthy condition of her export trade. It is true that during the last few weeks there has been a falling off in the amount of orders received from abroad. It is difficult to say, however, whether this is to a temporary or permanent development.

"The big joint stock banks with a view to bringing about some deflation in credit have been exercising discrimination regarding loans, and have declined all applications based upon stock exchange securities, or commodities of a non-essential description. They are, unfortunately, compelled to carry a large amount of the floating debt of the Government in the form of Treasury Bills, on account of a disinclination of the investing public to purchase the Treasury Bonds which the Government hoped to sell for the funding of this debt. The banks, therefore, are unfortunately not in a position to give the assistance to trade that they would otherwise have been willing to do, and moreover, dear money has had the effect of depreciating the very securities which the Government desires to sell for the purpose of relieving the situation.

"The last nine months have witnessed an enormous number of industrial flotations in the London market. They have been quickly absorbed by people who have acquired new wealth during

the war. By reason of the large amount recently left on the hands of underwriters in recent issues, it would appear that the public appetite has, for the time being, been satisfied. It is possible that this apathy may pass away, but doubtless it is partly due to uncertainty concerning the Government's action in regard to the war-wealth tax, which is still the chief concern of the business world. At one time it was thought that this tax had been abandoned, but that does not appear to be the case, although public opinion against it is continuously growing.

"Taking the situation in general, the position of Great Britain cannot be regarded as unfavorable, although the fact that sterling expressed in United States currency shows a depreciation of more than 20 per cent, may be taken as an indication that the credit of Great Britain is severely impaired. But people who are well acquainted with the actual economic position, and the reasons for the present level of exchange, are, of course, aware of the cause. It is not that Great Britain is not prepared to pay its debt to the United States, for it possesses plenty of assets, but it does not, unfortunately, possess any tangible assets which can be removed from Great Britain to the United States. It is, therefore, necessary to wait until such time as she can export or render services in sufficient quantities to produce a trade balance in her favor.

"It should not be overlooked that the balance of trade between Europe and certain other countries, notably the United States and Argentina, is decidedly unbalanced in favor of the latter countries. It is not in the interest of these countries that it should remain so permanently, or even for a protracted period, because the purchasing power of Europe in those countries is going to be curtailed by such a condition of affairs.

"The war has made the United States so great a creditor country to Europe that she must now give her debtors an opportunity to pay her by the only means possible to them. This can be achieved only by exporting goods and rendering services. For this purpose, it is not necessary for Europe to export to the United States alone, but she must export to all other countries, and in particular, countries that the United States purchases from. For instance, by means of European countries exporting to the East in excess of her imports from the East, and at the same time by an excess of American imports from the East over her exports in the same direction, the balance of indebtedness by Europe to the United States could eventually be liquidated.

"For the purpose of adjusting the trade balance, it does not matter whether Great Britain, Germany, France, and Italy export in larger quantities one than the other, as the balance of trade of the latter countries all favor Great Britain, and these exports will relatively at the same time, not only adjust the trade balance between Great Britain and the United States, but they will bring about an adjustment between those countries and Great Britain."

New Fuels on Railways

Important trials with pulverised coal and "colloidal fuels," have been carried out recently on the Great Central Railway, England. Colloidal fuel is powdered fuel suspended in thick oil, and pulverised coal is dry coal reduced to a fine dust. The trials, which were made in comparison with could easily maintain a full head steam with a high degree of superheat, even on heavy gradients and sharp curves. Locomotives adapted for burning pulverised coal or colloidal fuel show an economical freedom from ashpan cleaning, smokebox cleaning and repairs, fire cleaning, and so on. Further when the locomotive is delayed in a siding there is much less waste of fuel than in the case of ordinary engines.

THE STANDARD BANK OF CANADA

Quarterly Dividend Notice No. 119.

A Dividend at the rate of Three and One Half Per Cent (3½%) for the three months ending 31st July, 1920, has been declared payable on the 2nd of August, 1920, to Shareholders of record as at the 17th July, 1920.

By Order of the Board,
C. H. Easson,
General Manager.

Toronto, June 16th, 1920.