How the War Loan Will Affect the Banks

The New War Loan Has Already Begun to Affect the 1917 Returns of the Banks. Advance Effects of it are Traceable in the January Statement

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As the new war loan is considerably larger in amount than any preceding loan issued by the Dominion Government, Canadian merchants, manufacturers, and others who conduct their operations by means of borrowed money, are interesting themselves in the question of its effects on the bank position. Considering that the whole of the $150,000,000 asked for on the present occasion by the Finance Minister is to be delivered to him by the banks —they in many cases lending funds to the loan subscribers, and in others transferring the money from their savings accounts to the account of the Government — it seems clear that the flotation, collection of the installments, and subsequent disbursement by the Finance Department, must have an important effect on the monthly bank statements immediately ahead of us.

In the first place it should be noted that the new war loan has already begun to affect the 1917 returns of the banks—advance effects of it being traceable in the January statement which was published a couple of weeks ago. January, be it remembered, is always a month of heavy contraction of bank liabilities in Canada — especially the current account deposits and the note circulation. In this month a large proportion of the extraordinary book credits and note issues called into being for crop moving purposes are cleared away; and in view of the great expansion last fall, a correspondingly heavy contraction in January, 1917, was looked for. Taking the demand deposits and the note circulation the contraction in January was $48,000,000. The general contraction thus effected was, however, in part offset by the government loan of $25,000,000 made by the banks in January. This had the effect of swelling their holding of securities to that extent, and as they placed the proceeds to credit of the Finance Minister in current account, both sides of the balance sheet have been infalted for the time being. As compared with December 31st, the balance at credit of the Dominion Government shows an increase of only $8,400,000—indicating that nearly $17,000,000 of the proceeds of the loan had been disbursed by the Government during the course of the month, much of it probably being transferred to the current accounts of merchants and manufacturers and to the saving's accounts of workmen and others.

Causes Dominion Securities to Rise.

So it is plain that but for the special government loan the contraction of the bank figures in January would have been greater than indicated by the return. The same process would be in evidence in February, in which month the banks made a second loan of $25,000,000 to government. This transaction also would cause the holdings of Dominion securities to rise, with a corresponding increase in the Government's balances — the balances later subsiding as the funds were distributed among the creditors of the Treasury. Now the tendency of these two transactions, put through in January and February, is to minimize the effect of the war loan proper. The temporary loans were made in anticipation of the marketing of the bonds. Presumably the Minister's notes were drawn at three months or four months; and that being the case they will be wiped out by the first two installments of the loan. It is understood that the banks are ensuring the success of the issue through putting in a combined subscription for a substantial proportion of the whole loan. Perhaps history will repeat itself in that the applications from the public in general, exclusive of the banks, will fully cover, or more than cover the issue. In that event the bankers would probably be excused from taking up their subscriptions, as it is not in the public interest to load the commercial banks too heavily with government obligations. Canada's trade and industry would be handicapped if our banks did not have enough free money to finance their day-to-day needs. The recent policy of the British Government, too, has been to avoid the financial complications that would ensue if the British banks were overloaded with war bonds. It is desired to keep the bank position strong and liquid. However, it may chance that the bank subscriptions will be required in part. Suppose they take up $50,000,000—one-third of the issue. Then they could meet the situation by merely cancelling the short-date notes of the government and replacing them with the war bonds. If this were done it would virtually be the case that the loans to the Finance Minister in January and February represented the banks' subscriptions to the war loan.

After the first and second war loans were successfully floated, the quotations for the bonds for a considerable period ruled well above the issue since. Providing there is a heavy over-subscription, that may also be the experience of the third loan. Even if the rise is no more than a point, it is to be expected that the banks would take advantage of it to sell a part of such securities as they may have received as the result of their co-operative subscription —in this way re-liquifying their position. In so far as the subscriptions of the general public in Canada are concerned, the months over which the payments are spread would, of course, see some remarkable changes in certain of the items of the bank statement. The payments made by Canadian subscribers would be derived, as mentioned above, partly from the savings balances already accumulated in the banks and partly from loans granted by the banks to subscribing customers. Transfer of the savings balances would not immediately affect the bank totals, but the loans to subscribers would tend to increase them. Such loans would be divided into two classes. Some, for large amounts, would be made to stock brokers and bond dealers, to enable them to take up their own allotments and finance certain of their customers. These perhaps would be at call or for fixed periods less than thirty days, and would be reported under the heading, call loans on bonds and stocks in Canada. Others, to sundry customers, would appear as current loans and discounts. The general impression is that the borrowing by subscribers in connection with the two preceding war loans was not extensive — at any rate the contemporaneous bank statements did not show traces of extensive borrowing. Some observers think there may be a difference in this respect on the present occasion, as many wealthy subscribers wishing to take up the new bonds have used their available funds to absorb the previous issues.

There would necessarily be some healthy subscriptions entered for account of parties carrying deposits in the various financial institutions other than the chartered banks: Montreal City and District Savings Bank, La Caisse d'Economie at Québec, the trust companies, loan and savings companies, etc. Such subscribers would pay into the chartered banks cheques on their respective institutions; but in the last analysis these funds, too, will be largely provided by the chartered banks, for the outside institutions so drawn upon would probably settle their indebtedness by drawing on the balances carried by them in sundry of the chartered banks. The experience of the last two domestic loans does not warrant the belief that the present flotation will emasculate the notice or savings deposits of the banks. Workmen and others are rapidly paying in their savings or accumulations, and those parties who draw heavily on their savings balances to take up the war bonds apparently succeed in many instances in quickly restoring the accounts to the previous levels.

Taking the interval subscriptions on the whole, it therefore does not appear that they will pad or expand the banking figures to any dangerous extent. In view of the size of the loan a considerable expansion would appear to be inevitable, especially if the banks themselves take up a part of the issue. The subscriptions from the United States if extensive will have an immediate effect in enlarging the bank totals. Our banks acquire funds in New York which increase their assets, and the contra-entries are credits to the Finance Minister's account. To the extent that we get subscription money from the United States the effect on our bank position is virtually the same as if we had placed bonds in the New York market. These external loans, and the loans made at home by the banks to the British Government, have been factors more potent in swelling our bank totals than the domestic war loans of our own Government.

VALUE OF CANADA'S FARM LANDS.

Farm Lands Little Changed in Value—Wages Higher Than in 1915.

A bulletin issued by the Census and Statistics Office, at Ottawa, last week, reports on the values of farm land, of farm help and of farm livestock in 1916, as returned by crop correspondents at the end of January.

Average values of farm land—For the whole of Canada the average value of farm lands held for agricultural purposes whether improved or unimproved, and including the value of dwelling houses, stables and other farm buildings, is approximately $41 per acre, as compared with $40 last year. The average values by Provinces are as follows: Prince Edward Island, $39; Nova Scotia, $33.6; New Brunswick, $29.4; Quebec, $52; Ontario, $52.5; Manitoba, $32; Saskatchewan, $23; Alberta, $22; British Columbia $118.5. In the last-named Province the higher average is due to orcharding and fruit growing.

Average wages of farm help—The average wages paid for farm help during 1916 have reached a higher level than in any previous year for which returns have been collected. For the whole of the Dominion the wages per month during the summer, including board, averaged $43.23 for male and $22.46 for female help, as compared with $37.10 and $20.20 in 1915. For the year 1916, including board, the wages averaged $397 for males and $228 for females, as compared with $341 and $200 in 1915. The average value of board per month is returned as $17 for males and $13 for females, the corresponding figures of 1915 being $14.57 and $11.45. By Provinces the average wages per month for males and females respectively in the summer season, including board, are as follows:

Prince Edward Island, $31.35 and $17.81; Nova Scotia, $38.77 and $19.11; New Brunswick, $35.74 and $16.66; Quebec, $40.79 and $19.70; Ontario, $39.41 and $20.58; Manitoba, $48.37 and $26.97; Saskatchewan, $48.55 and $25.66; Alberta, $52.28 and $39.12; British Columbia, $49.86 and $28.66.

Animals Increased.

Average values of farm livestock and of wool— The average value of horses in Canada is about the same as a year ago, but milch cows, other cattle, sheep and swine show a substantial increase, and return values that are higher than in any year since these records began to be collected in 1909. Horses three years old and over average for Canada $159, as against $160 in 1915; milch cows are $70, compared with $62; cattle between one year old and three years average $43, against $38; sheep average $10.48, against $7.96; and swine, $11.98 per 100 pounds liveweight, as against $8.58. The average value of wool attains a record of 37 cents per pound for unwashed and 50 cents per pound for washed wool. Using the numbers of livestock as estimated last June, and the average values now returned, the total value of the farm animals of Canada may be estimated at $798,544,000, as compared with $746,246,000 in 1915, the values of each description being as follows: horses, $374,831,000, as against $370,378,000 in 1915; milch cows, $181,813,000, as against $164,224,000; other horned cattle, $170,254,000, as against $151,477,000; sheep, $20,588,000, as against $16,225,000, and swine, $51,058,000, as against $43,942,000.

FIXED RETAIL PRICES.

The United States Courts do not favour the fixing of retail prices by manufacturers of specialties according to a decision of the U. S. Court of Appeals handed down last week in Frey and Sons vs. The Welsh Grape Juice Company. The action was taken under the Federal anti-trust laws, the plaintiffs alleging that they had been discriminated against and refused supplies because they did not wish to sell to retailers at the price fixed by the defendant company. "The issues made by the pleadings," said Justice Woods, "were whether there was an unlawful combination to control the price of grape juice or unlawful discrimination against the plaintiff in charging him a greater price than other jobbers. If there was such a combination to require all dealers to sell at the price fixed by the manufacturer upon the penalty of not being allowed to sell on an equality with other traders, and the plaintiff was the victim of it, it was no defense to show that the plaintiff was required to charge only an average profit, or that it was the custom of trade for manufacturers to violate the law. Nor would it avail the defendant against the charges made by the plaintiff to show that it had not violated the law by making a combination with manufacturers of other brands of grape juice."