

that the burden of the war presses relatively heavier on the European belligerents than on the Dominion. There is the further consideration that immediate financial and economic succour extended by Britain and the United States to the new government in Russia may be the deciding factor in enabling it to establish itself firmly and in ensuring that the whole strength of that mighty empire shall continue to be exerted against the Teutonic enemies of mankind.

In view of these important considerations, Canadians possibly will not give way to regretful disappointment if it devolves that Canada is not to participate in Uncle Sam's loans. We should not wish to participate if by so doing we deprived Britain, France, etc., of credits of which they have the greater need. The outcome of the third domestic war loan demonstrated that after the lapse of eight or nine months another domestic loan of substantial amount can probably be placed in this country, providing the business situation does not meantime undergo a change for the worse. It would appear that if the Western provinces are fortunate in their wheat harvest of 1917 and prices of that cereal remain at a high level, conditions would be reasonably favorable to a fourth domestic loan of \$100,000,000 or thereabouts towards the end of the calendar year. According to the February bank return the Dominion Government at the end of that month had \$49,000,000 at its credit in current accounts with the banks. The payments on the third war loan would be passed to credit of the Finance Minister in March, April, May and June. As the loan was issued at 96, the proceeds passing into the Government's bank accounts would be roundly \$144,000,000. This, added to the balance standing there on February 28th, would make an aggregate of \$193,000,000. From it should be deducted the \$50,000,000 of temporary loans granted by the banks in December and February. After charging off these notes there remains a balance of \$143,000,000 to cover the war and other outlays of the months following February, 1917.

A SURPLUS.

The national revenue for the fiscal year ending March, 1917, is known to have been sufficient to provide for all ordinary or working expenses, all capital outlay, and for a surplus of something like \$50,000,000 to apply on the war expenditure. According to the monthly statements of the Finance Department, the war costs during the fiscal year just closed amounted to \$269,000,000—an average of about \$22,500,000 per month. If we venture to assume that during the remainder of 1917 the war outlay will be \$24,000,000 per month and that the national revenue will continue to yield a surplus of \$50,000,000 per year, or say \$4,000,000 per month, it would follow that the Government would require to exhaust its bank balances, etc., at the rate of something like \$20,000,000 per month. And on that theory the proceeds of the war loan and the deposits in banks would be exhausted by August or September. Of course, it may be the case that the funds would be gone before that date—if there are special outlays to provide for, such as loans to the Munitions Board. At any rate it looks as if the banks would be required to come forward at mid-summer, or soon afterwards, with another temporary loan of \$50,000,000 or more—this transaction being followed about November, if Canada does not participate in the United States' loans to the Allies, by the fourth domestic war loan.

In case it should fit in harmoniously with the Allies' financial plans to have the United States allocate to the Dominion during the summer a small proportion of the new loan fund, probably there would be no need for a fourth domestic war loan until early in 1918. Apparently a loan of \$100,000,000 would tide us over the end of the calendar year. There is a Dominion loan of \$20,000,000 maturing in New York on August 1st, 1917. Possibly that could be taken care of by an issue of \$25,000,000 or \$30,000,000 long term bonds, giving us \$5,000,000 or \$10,000,000 of new funds. It is worth remarking that the United States has an interest in the maintenance of Canada's finances on a strong basis. Canadian purchases of American goods have enormously increased since the first year of war; and if Canada over strains herself financially through undertaking too much in the way of internal war loans, etc., there might be seen a diminution of our purchasing power which would react disadvantageously on certain important American industries. Perhaps consideration of these points will have some effect in inducing our American Allies to take the initiative in the matter of extending credit to us.

Britain Still a Great Creditor Nation

Quite early in the war a certain class of extreme and, one might almost say, pernicious optimists endeavored to obtain comfort by exaggerating Germany's shortage of food and munitions of war. The country at large was informed at regular intervals that Germany's last reserves in men had already appeared in the field, and that as her people were in a state of semi-starvation she could not possibly hope to hold out much longer. Now that the state of war has existed for over two and a half years it becomes very evident that Germany is self-contained to a far greater extent than the optimistic writers realized or appreciated. Her position appears, to some small extent, to approximate to that of a primitive people, dwelling in a fertile country, who could dispatch warriors to attack a neighboring tribe, and, by tilling the soil, raise sufficient food for themselves and for the needs of their raiding party. It is not intended to suggest that Germany is precisely in this eminently favorable position, or that she is self-contained to an extent to enable her permanently to dispense with outside help, but merely to emphasize the great difference which exists between her position and ours in this country.

This difference creates for us financial problems infinitely more difficult of solution than those of our enemies. Germany floats loan after loan internally, and thus provides for the payment of her internal indebtedness. Her external debts are, thanks to our navy, a negligible matter. It is true that serious inflation has resulted, and that the currency position to be faced after the war is a very serious one, but the problems of the moment are not as intricate as those of this country, because of the lack of foreign trade. In so far as our internal indebtedness is concerned, our Government could also inflate credit to practically an unlimited extent; but, as we are not, in any sense of the word, a self-contained nation, it is not practicable for us to conduct our war finance on quite these simple lines.

To Germany the foreign exchanges are, for the moment, a question of little or no importance; to us they are almost a matter of life and death. It will therefore be seen that the problems of war finance which have been solved and those which will, in the future, demand solution must be divided under two headings—internal finance and external finance.

The problem remaining for discussion here is, therefore, that of effecting payment by increasing the volume of exports and reducing that of imports. It is, of course, obvious that a reduction in the consumption of commodities will leave a great volume available for export. On the other hand, the fewer unnecessary articles imported the smaller will be our total of indebtedness to neutral nations. This necessity for economy in consumption is the fundamental idea underlying the provision by the banks in connection with the War Loan of facilities for anticipating future savings. It is the root of all the various thrift campaigns and of the great effort to press the sale of War Savings Certificates, etc. It is the primary reason for the establishment of a "Food Controller" and for a voluntary dietary scale. It accounts for the anxiety in some quarters for prohibitive taxes on luxuries, and has, for its logical conclusion, the total prohibition of all unnecessary imports. Realizing to the full the importance of this question, in its wide application to the foreign exchange and national finance, bankers have become the most ardent apostles of thrift. Despite depleted staffs, they have placed their organizations at the disposal of the Governments for the sale of War Savings Certificates; they have, in an unprecedented manner, pressed customers to accept advances for investment in War Loan, and have preached economy on every possible occasion. From their position bankers see so clearly that thrift must play an important part in the solution of the greatest financial problem of the war—the maintenance of the foreign exchanges—and that, unless satisfactory results can be obtained by voluntary means, then compulsion of a drastic nature will become unavoidable.

The exchange problem as between this country and neutral nations has resolved itself into an effort to stabilize and maintain exchange at a level reasonably favorable to this country. To this end gold has been shipped, securities repatriated, credits arranged and certain imports restricted. In these efforts the Allies have worked in unison and their efforts have been marked with considerable success, the exchange fluctuations in the past year having been noticeably less violent than in 1915. The American exchange is, of course, the most important, and it is therefore satisfactory to find that it has been successfully maintained at approximately the new gold point. The Allies' efforts here were greatly assisted by the tremendous

total of American securities held abroad and available for repatriation, and also by the willingness of American bankers to arrange credits, etc.

It would, however, be a grave blunder to attach too much importance to the success hitherto attained, for neither our gold supply nor the stock of British-owned American securities is unlimited. Further, although it would be a mistake to exaggerate the importance of the action of the Federal Reserve Board in cautioning American bankers against locking up too great a proportion of their assets in the obligations of foreign governments, yet it would be criminal to ignore the possibility of some restriction in this direction. In 1913 our adverse balance with the United States amounted to £82,000,000, against which America was largely indebted to us for interest and other services. Last year the total of our indebtedness to the States had risen to the enormous total of over £227,000,000, and this ignoring imports of Government stores, the value of these not being included in the return. A careful consideration of these figures (representing our adverse balance with one country alone) should help to the realization that the maintenance of the sterling exchange is by far the most important of our financial problems. Indeed, since the outbreak of hostilities it has dominated the monetary position and almost entirely guided the policy of the Bank of England. The measures adopted have, so far, proved successful, but the only safe and permanent solution is to be found in the drastic reduction of imports, in an endeavor to become less dependent on outside sources for essential supplies.

SCANDINAVIAN EXCHANGES.

The exchange with the Scandinavian countries, though relatively unimportant, present greater difficulties, owing to the comparatively small total of their securities held abroad. Apart from the question of the (in the circumstances) inevitably unfavorable balance of trade against this country, large sums are continually accruing in favor of Scandinavian ship-owners, who are carrying for us enormous freights at heavy rates. In order to adjust these exchanges, heavy gold shipments have been made—so heavy, indeed, that there is an actual surfeit of the precious metal throughout Scandinavia. Despite these measures, however, the krona still stands at a substantial premium, and it would almost seem that this position must continue until peace conditions bring about a readjustment of the balance of trade.

We append a table showing:

- (1) The exchange rates in various countries on January 1 and December 31.
- (2) The highest and lowest rates for the year.
- (3) The gold parity.

In considering the question of gold points, it must be remembered that increased allowance now has to be made for the additional cost of freight and insurance. In studying the table it becomes evident that, whereas the exchange problem between this country and neutral nations has resolved itself into an effort to stabilize and maintain exchange at a level reasonably favorable to this country, the reverse position operates as between ourselves and our Allies. That is to say, the endeavor becomes one to prevent a rate of exchange too favorable to this country. At one time it almost appeared that these efforts were likely to meet with little success; but the Allied exchanges have certainly been less liable to violent fluctuations during 1916 than was the case in 1915, and on December 31 last were well below the highest point touched since the war. The steps taken to adjust the Allied exchanges are identical with those adopted in dealing with the neutral exchange—i. e., gold is released, securities repatriated and credits and loans arranged.

BRITAIN STILL THE GREATEST CREDITOR NATION.

The only difference is that in the one we rank as a debtor, and for this reason release gold, repatriate securities and accept credits, while in the other we stand in the position of a creditor, and therefore gold is released to our order and loans and credits are granted by us. There is thus a double operation in progress, but the net result would appear to be in this country's favor, and it is to be anticipated that, in view of the immense volume of loans, etc., granted to our Allies for exchange adjustment purposes, Great Britain will still, when peace is declared, be the greatest creditor nation in the world. The comforting probability should not, however, be allowed to obscure the fact, that in existing circumstances the indebtedness of our Allies to us cannot be used as a set off to our indebtedness to neutral countries, and that a breakdown in the sterling exchange would be a greater victory for Germany than any she has won in the field. (Financial News, London).