Monetary Times

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of Canada

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BORROWING IN UNITED STATES

It was natural there should be disappointment that Canada was unable to obtain funds in the United States through the medium of the Liberty Loan. At the same time, we must remember that our war loans have been subscribed on a basis consistent with prevailing financial conditions. The three Canadian loans aggregating $350,000,000, were sold on a basis of approximately 5½ per cent. The Liberty Loan of $2,000,000,000 was subscribed on a 3½ per cent. basis. The American investor might, therefore, have some ground for complaint, were Canadian investors to get the highest market yield on their war bonds while American investors got only 3½ per cent., and were some of their funds loaned to Canada at that rate.

To the end of July, the United States had made loans to its allies of $1,523,000,000. This sum was apportioned as follows: $770,000,000 to England, $370,000,000 to France, $175,000,000 to Russia, $160,000,000 to Italy, $45,000,000 to Belgium, and $3,000,000 to Servia. The total known to have been paid over is $1,305,000,000.

Since the signing of the United States War Loan act, payments actually made to the allies have been at the rate of $435,000,000 a month, or $5,220,000,000 a year, while credits have been granted at the rate of more than $6,000,000,000 a year. The War Loan act provided for credits to the Allies of only $3,000,000,000.

In his speech in the British House of Commons, Mr. Bonar Law, Chancellor of the Exchequer, remarked that "the House was astonished to learn that Great Britain's advances to the Allies and Dominions had already reached the huge total of over £1,000,000,000." This total, accumulating for three years, has been at the annual rate of only $1,667,000,000, or less than a third of the American rate up to the present. It is probable, however, that, with the progress of the war and the increasing difficulties of the weaker financial nations, the advances of Great Britain to her Allies have been on an increasing scale. The present rate of Great Britain's advances is, therefore, undoubtedly higher than that indicated.

It is probable that Canada will be able to obtain substantial short-term credits in the United States from time to time during the progress of the war. These loans, however, would have to be obtained from private sources in the American money market and not through Liberty Loan funds. Secretary of the United States Treasury McAdoo has made it plain that his government will control the situation there by determining each foreign offering on its merits, and with reference to the financial condition prevailing at the time. His recent statement, however, that "it is important that our commercial and financial relations with Canada should be conserved in every reasonable way," is a good omen in regard to future credits, should they be needed.

CONSERVING FINANCIAL RESOURCES

Merchants and manufacturers may materially help to strengthen the financial situation if they will limit their demands for loans. This action will have a double effect and is largely of a patriotic character. It will help to prevent a prolonged monetary stringency and it will better enable the banks to extend the necessary financial support to the government. In these days of war, many important transactions are necessary and an unavoidable strain is put upon bank resources. The funds of the country should be conserved in order to prevent adverse effects as a result of this situation. The Canadian Bankers Journal recently pointed out that this could be done by postponing extensions to plants and machinery which could be profitably operated, but which can wait—this does not refer to war industries; buying only such goods as are needed to carry on business, and not stocking up beyond present needs in the hope of gain through a further increase in price; avoiding special operations which promise to be profitable, but might just as well be left alone.

The two principal reasons why merchants and manufacturers should not overstock are cited as follows:—First, the outlook for trade in Canada, after the war, is obscure to a greater degree than ever before, and manufacturers and merchants must guard against finding themselves with goods on hand produced under fictitious conditions as regards cost of labor and material, for which there may be little demand, even at heavy loss. The second reason Mr. E. F. Hebden gave in his timely hint as to how the commercial demand for discounts might be diminished to a certain extent without appreciably cutting down our productive capacity, in his address to the Merchants' Bank shareholders on June 6th, when he referred to "the unreasonable buying and storing of raw material far ahead, and excessive contracting in advance on borrowed money practised by some clients of the banks."

As our banking contemporary says:—"Britain has maintained her financial position and consequent ability to maintain her increasing armies in the field by exports increased in annual volume since the war began. Canada and the Canadian banks cannot ignore at this juncture this object lesson of British financial management. The creation of wealth is the correlative of its conservation if Canada and the banks are to 'carry on' financially until the end of the struggle." Every citizen can help to maintain and improve this desirable condition by the practice of thrift and the investment in the national war securities.