The Next Internal Loan

By H. M. P. ECKARDT

Although there are yet to be made three payments of 20 per cent each, on account of our Domestic War Loan, the discussion as to the rate of interest and terms of the next internal loan has already commenced. Several developments are mentioned as having a favorable bearing on the question of another domestic loan. In the first place the dealers are selling over the counter the war loan bonds at a price slightly higher than the net cost to subscribers. Next the banks as at December 31st showed themselves to be very strong in cash, the balances and call loans at New York and London being at high record levels. Again it is understood that a number of the larger subscribers to the $100,000,000 loan have taken the discount and paid up their subscriptions in full. Another point is that the money markets at Toronto and Montreal are easy.

An Unfortunate Factor.

On tho other hand the recurrence of the abnormal premium on New York funds represents an unfavorable factor. In view of the circumstance that a large domestic loan of this nature acts adversely on our foreign exchanges, it would seem desirable that at the time our next internal loan is floated New York funds in Montreal should be at par or a discount. It is quite likely that the premium now in evidence is a temporary phenomenon, and that when interior navigation re-opens three months hence the outward movement of our grain and other produce will serve to put the exchanges with the United States on a better basis.

There are two good reasons why we may expect that the American exchange will not move against us so heavily and persistently as was the case through the spring and summer of 1915. One is the above mentioned abnormally large balances now at credit of our banks in New York City — the balances and call loans abroad on December 31st, 1915, were nearly $100,000,000 greater than on January 31st, 1915. The other reason is found in the relatively larger amount of produce we shall have to export in the spring. So, considering also the larger export of munitions we are perhaps justified in expecting that the state of the exchange with the neighboring country will be no obstacle to the flotation of another domestic loan.

Money Markets May Harden.

Then there is the possibility that with the absorption of our surplus cash in the remaining installments of the last loan, the money markets here may harden with the effect of driving down the prices of government and municipal bonds. It has often happened in past years that the tightening up process became marked in the spring and early summer —this with business in normal condition. With the money market as at present it would seem that the Government could ensure the successful flotation of a new loan by offering it on practically the same terms as in last year's loan. Only in the event of the money market taking a decidedly unfavorable turn would it be necessary to consider the question of granting further or additional concessions to investors. If a tight money market is thought to be a probability for the latter part of the year, the Government might be moved to submit its proposition for a new credit at a comparatively early date.

Increase Interest Rate of Post Office Banks.

There are various propositions for utilising the Post Office Savings Banks as a means of aiding the Government in its financing. It should be remembered that the issues of Dominion Government bonds at high rates of interest have a certain tendency to cause withdrawals from the Post Office Savings Banks. Thus the decrease in the balances during December was considerably larger than in recent months. Of course, the gain to the national finances would not be very apparent in case of the transfer of large amounts from the Post Office to the bonded debt. This, from the Government's view-point, would merely represent taking the money out of one pocket and putting it in another.

One proposition is to increase substantially the rate of interest paid to depositors in the Government bank. This plan is one that demands most careful consideration. The interest of the Dominion would not be served if there ensued a large shifting of fixed or permanent deposits from the chartered banks to the Government. The experts are well aware that the savings or notice deposits of the banks constitute the basis on which the current loans and discounts to merchants, manufacturers and farmers are made. These deposits are stable and can be advantageously employed in discounting commercial paper, etc., for firms and others who require accommodation throughout the year. The current accounts on the other hand fluctuate extensively; and only a comparatively small percentage may safely be put into loans and discounts. So it will be seen that any extensive transfer of the savings deposits from the banks to the Government would have a decided tendency to cut down or impair the ability of the banks to lend to their mercantile, industrial and agricultural clients — in other words it would check Canada's development and production.

Unfavorable Influence on Other Banks.

There is also to be considered the contingency that the banks, to hold their deposits might be forced to raise their rates to an equality with the new rate established by the Government. Some of the suggestions regarding the Post Office Savings Banks were that the rate be increased to 4 per cent. Assuming that the chartered banks also established a 4 per cent rate and assuming that this action merely enabled them to hold their deposits as at present standing, the rise of 1 per cent in interest rate on notice deposits would represent about $7,200,000 additional per year in interest. This is not far from half the net profits of the banks as earned in 1915 (total net profits of all Canadian banks in 1915 were $16,000,000). Thus drastic increase in rates of discount, etc., would be necessitated if the banks were to avoid insolvency or breakdown of credit; and such increase of discount rates also would react unfavorably upon Canada's business life. If, however, a scheme could be worked out which would result in the Government getting the use of a large amount of entirely new money, saved or accumulated by the general adoption of thrifty habits, the whole country would benefit.

The Future of Prosperity

(Boston News Bureau.)

There seems to be a wide-spread feeling that prevailing prosperity will last through the first half of 1916; but when one looks for predictions as to the latter half of the year, one finds few confident opinions.

One who is interested in the condition of business from midsummer to Christmas of 1916 may fear that meanwhile we may become embroiled abroad; or that we may have to intervene in Mexico; or that we shall have a strike of 400,000 railway employes, as well as strikes in the coal mines; to say nothing what Congress and the executive department may do next. Some, or several, of these things may make a pessimist of the man who looks no further. But let him glance about, and he cannot fail to see a host of constructive probabilities.

In the first place, he will find a unanimity of opinion that present prosperity will probably last up to, or very close to, the declaration of peace. Then the question naturally arises: When will the war end?

Prof. Laughlin, the political economist, who has reduced the lasting capacity of the central powers by a process of elimination, predicts that the war will end by August, 1917.

Lieut. Gen. Sir Edward Hutton, retired, of England, says that he and most of his fellow generals, accustomed to study strategic questions, thought three years an under-estimate of the time needed for defeat of the German system.

If these authorities, and many others, are but half right, peace will not be declared during 1916. But there are good reasons to believe that restoration of peace will not mark the culmination of our prosperity. Prices received for products of copper, spelter and other mines, as well as the tremendous earnings of a great number of industries; extraordinary dividend disbursements; advances in wages; capacity employment, overtime work, and bonuses; record-breaking railroad earnings; high prices and easy money; enormous bank deposits; retention of interest and dividends in this country on securities bought from foreign holders; and the record trade balance —these features have furnished, and will continue to furnish for months, a great momentum for future prosperity.

Some of our boom periods in the past have not depended upon abnormal foreign demand.

Monthly reports from the 12 federal reserve districts indicate a general prosperity sweep over the country. Governor Hamlin of the reserve board thinks that the United States may look with confidence to a continuance of present prosperity.

Sale of $25,000,000 New York state fours on approximately a 2.85 per cent basis gives a hint of the abundance of money and confidence of investors.

The steel industry is universally recognized as an important barometer. The Steel Corporation is refusing orders every day, and such orders as it does accept are from regular customers, with understanding that it will probably be six months, probably longer, before they can be filled.

Standard Oil Co., which will probably use 300,000 tons of steel this year, would not be paying present high prices for delivery six months hence if it did not, with its unexampled ability in diagnosing the future, forsee splendid business beyond the fall.

Pennsylvania Railroad would not be ordering large numbers of steel cars for delivery next September unless its sagacious management were expecting big business the latter half of this year.

Should the war end before close of the year, there is good reason to believe that a demand for rails, general equipment and construction material for the railroads will take the place of war business.

If the preparedness programme and shipping purchase bill pass Congress, there will be many months' employment of capital and labor to carry out the provisions.

The representative of the French and Italian syndicates, authorized to purchase $250,000,000 worth of goods from a wide range of industries here, for delivery after the war, may be considered but a pioneer buyer of what will be required by the warring nations when the conflict ceases. To say that such orders will amount to a billion dollars seems conservative.

M. P. Piexotto, president of the American Chamber of Commerce in Paris, says that one of France's prime needs — a need which will continue for some years —is importation not only of raw materials, but also of machinery and manufactured goods. "The allies of France cannot supply her needs; the United States alone can do so."

Conditions now are decidedly different from the boom of nine years ago. Then dealers were well stocked in anticipation of still bigger business; now there are no surplus supplies in dealers' hands, shelves are almost bare, and culmination of present prosperity will not be felt until present requirements of dealers have been satisfied, and some surplus supplies accumulated.

All these signs now strongly point, under existing relations, to excellent business until the close, at least, of 1916.

RUBBER SUBSTITUTES.

The shortage of rubber in Germany is being met in different ways, according to information to hand. A recent report says, "For many purposes it was possible to use celluloid instead of rubber, but for auto tires, etc., that substitute was impracticable. For a long time, however, experiments had been going on to find a substitute for the cost imported material. From the very beginning of the war, German industry had recourse to so-called regenerated rubber, a product remanufactured from old rubber goods. Another way of saving the scarce material was to mix wood or paper pulp with rubber that served for tires of motor trucks or other heavy vehicles. Lately, however, an improved method of making artificial rubber was successfully put into operation and tires of "synthetic" rubber are now actually being made."

PERSONALS.

Mr. Mark Workman, president of the Dominion Steel Corporation is in New York on business connected with the company.

Mr. H. V. Meredith, president of the Bank of Montreal, is now attending to his business affairs, having entirely recovered from his recent illness.

Mr. F. W. Molson has been elected a director of the Bell Telephone Company of Canada, filling the vacancy on the board caused by the death of the late Mr. Robert Archer.