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THE GENERAL FINANCIAL SITUATION.

The intimation comes from Ottawa that the forthcoming Dominion Loan, to be issued in the Fall, will be taxable. The recent heavy regrading of the Income Tax gave some reason for the belief that in the case of this Loan, precedent would again be followed, and the interest of the bonds be free of Income Tax. However, those most actively concerned in the forthcoming flotation are evidently of the opinion that the necessary amount of the new Loan, some \$250,000,000 or \$300,000,000, can be successfully raised without this added attraction. Doubtless, the prospect is being borne in mind that, with a continuance of the premium on New York funds, a considerable volume of subscriptions to the Loan may be expected from the United States. With New York funds at a premium in Canada of, say, 3½ or 4 per cent., the new Loan will be undoubtedly most attractive to American investors in the highest grade of bonds. As regards the matter of floating the Canadian portion of the Loan, if this term is permissible, we are inclined to share the opinion that this will be a considerably more difficult undertaking than in 1917 and 1918. That the necessary resources are available is shown by the heavy increases of recent months in the banks' deposits, but the new Loan will lack the obvious quality of patriotism, which was so powerful a factor in the success of its predecessors. In point of fact, subscriptions to the new Loan will be just as much a matter of patriotic duty as subscriptions to the previous Loans, but now that the war is over, the point is not so apparent, and as with many other things, appearances count for a good deal in the success of a loan flotation, particularly one of this size. There can be no doubt that a great number of subscriptions to the preceding loans, amounting in the aggregate to very large amounts, were the result of patriotic feeling, without any intention of permanent investment, and it remains to be seen whether it will be possible to trust this patriotic feeling again in the coming fall. In any case, there can be no doubt, in the present circumstances of the national finances, of

the vital necessity of making this Loan a great success.

While the present condition of sterling exchange in the New York market and of Canadian exchange in the same centre is, perhaps, galling to British and Canadian pride, as well as a great practical drawback to business, it is possible to paint the picture in too gloomy colours. That, we are inclined to think, has been done by the prominent Montreal insurance official, who expresses his alarm that "in twenty years the Empire will be American-owned." Mr. Macaulay, we believe, is alarming himself unduly. It was pointed out in this column only last week that so far as sterling exchange is concerned, New York is the only centre where sterling is at a discount. In the other centres, both neutral and belligerent, sterling is either around par or at an actual premium. In other words, the demand for British goods and exchange in those markets is equal to, or in excess of the demands by Great Britain upon those markets. Why in the case of the United States, and to a lesser extent, Canada, does the British demand for goods exceed the corresponding supply. Mr. Macaulay is seriously concerned regarding the realization of American and Canadian securities formerly held by British investors, and the changing of the habitat of these securities to the United States. But he apparently overlooks the fact that the realization of these investments have been very nearly equalled by loans to other countries as a result of the war. Mr. Edgar Crammond, an English economist, whose opinion is entitled to respect, estimates that at the beginning of the war, British investments abroad amounted to three thousand million pounds sterling. Of these, about one thousand million pounds were sold during the war, and sums borrowed abroad aggregating fourteen hundred millions sterling, leaving a credit of sixteen hundred millions sterling. Adding only fifty per cent., or, say, 780 million pounds sterling of Great Britain's loans to allies during the war, plus the loans to the Dominions and India's obligation, of 260 millions, brings the present total of Great Britain's

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