

# Treasury Financing in the Second Half of the Fiscal Year

A Careful Analysis of Canada's Financial Position as Reflected by the September Statement of the Finance Department. Additional War Financing in Prospect

By H. M. P. ECKARDT.

While the gross liabilities of the Dominion Government, as shown by the September statement of the Finance Department, are about the same as at August 31st, there are some striking changes in the individual items. These changes are illustrated in the following table:

| Payable in | Aug. 31, 1916. | Debt. Sept. 30, 1916 | Decrease—<br>Increase x |
|------------|----------------|----------------------|-------------------------|
|            | Funded         |                      |                         |
| New York   | \$ 75,000,000  | \$ 75,357,000        | x\$ 357,000             |
| Payable in |                |                      |                         |
| Canada     | 100,352,960    | 118,645,070          | x 18,292,110            |
| Payable in |                |                      |                         |
| London     | 362,703,312    | 470,315,341          | x 107,612,029           |
| Total      | \$538,056,272  | \$664,317,411        | x\$126,261,139          |
| Temporary  |                |                      |                         |
| Loans      | 242,252,379    | 116,553,474          | — 125,698,905           |
|            | \$780,308,651  | \$780,870,885        | x\$ 562,234             |

The increase of \$107,612,029 in funded debt payable in London, is a result of the recent transaction whereby a large proportion of the floating debt to the Bank of England was converted into long term bonds. From the fact that the new bonds were drawn payable in London, it would appear that the intention is to place them permanently in the British market after the special war financing is concluded. When it was announced that these Dominion bonds formed a considerable part of the Canadian securities pledged in New York as collateral against the British loan of \$250,000,000, some observers here considered that the collateral bonds might eventually be permanently placed in the United States—the sale thereof to Americans retiring a corresponding amount of the British loan. But as American investors would prefer bonds payable in New York, these would not be so suitable for distribution in the United States; and perhaps the intention is to take them back to England and dispose of them to investors there after the loan from New York is cleared off.

The decrease in temporary loans as shown by the table, comprises this transaction along with others. It is not exactly clear, from the statement, what supplementary transactions occurred. The temporary loans of the Dominion Government have consisted of three different items, viz.: the advances by the Bank of England; advances by the Canadian banks; and the one and two-year notes amounting to \$45,000,000 placed in New York in the summer of 1915. It is known that of the last-mentioned notes, \$25,000,000 matured and were paid off on August 1st; also that the Canadian banks advanced to the Dominion Government approximately \$21,000,000 in August, and \$9,000,000 in September, on notes maturing November 1st, and December 1st, 1916. Furthermore, the Canadian Bank of Commerce October commercial letter gives the amount of floating debt recently funded in London as approximately \$112,000,000. According to the monthly statements issued at Ottawa, the balance of the temporary loans during the last three months has run as follows: July, \$226,340,350; August, \$242,252,379; September, \$116,553,474. This record does not appear to reflect in August the \$25,000,000 payment of one-year notes effected in New York during that month; but if it be assumed that the entries for that liquidation were not put through the books of the Department until September, the fluctuations of the balance correspond with the several transactions above referred to. Thus in August, repayment of the Bank of Montreal's \$5,000,000 loan and the crediting of the fresh loans of \$21,000,000 by Canadian banks would bring the total up to \$242,000,000. And, in September, the repayment of \$25,000,000 in New York and of \$112,000,000 to Bank of England, would bring the total down to \$105,000,000. When the fresh loan of \$9,000,000 by Canadian banks is added to this, the result is \$114,000,000—approximately equal to the balance shown by the Department.

On looking into the August bank statement for corroboration of the loan of \$21,000,000 to Government, it is seen that some of the banks appear to

have entered their advance under the heading "Loans to the Dominion Government," while others apparently put it under the heading Dominion and Provincial government securities. At any rate the Loans to Dominion Government show an increase of \$3,000,000 for August, while Dominion securities rose \$15,000,000.

As regards the increase, during September of \$18,292,110 in the funded debt payable in Canada, that, of course, reflects the 10 per cent paid on application for the \$100,000,000 war loan. This would represent a capital application of over \$180,000,000. The total perhaps did not include the full 10 per cent on the banks' subscription of \$50,000,000, which is understood to have been "if necessary." Since September 31st the Finance Department has received the second instalment of 30 per cent on the war loan. It is said that a considerable number of the large subscribers paid up in full on October 16th, discounting the unmatured instalments at 4 per cent. The effect of such prepayments would be to increase the Treasury's receipts beyond the \$30,000,000 figure representing the round 30 per cent loan. On the other hand a considerable amount of the 10 per cent payments made in September, on application, by the large subscribers whose allotments were drastically cut down, would be treated as constituting a part of the second payment of 30 per cent—thus reducing the amounts paid in by these parties on October 16th.

It is but natural to expect that the Dominion Government's balances in Canadian banks would show substantial gains in October. In November and December repayments to the banks of \$21,000,000 and \$9,000,000 respectively, would have a tendency to offset the war loan instalments of 30 per cent and 27½ per cent due respectively in those months. The Bank of Commerce letter, above referred to, intimates that the Dominion Government will probably lend \$25,000,000 in November and \$25,000,000 in December to the Imperial Munitions' Board

for purchases in Canada. If that \$50,000,000 comes out of the proceeds of the present war loan, it would certainly seem to be inevitable that the Treasury balances will then be at a low ebb. So the further advance of \$50,000,000 by the Canadian chartered banks is arranged for the beginning of 1917—\$25,000,000 to be provided in January, and \$25,000,000 in February. These prospective bank loans for 1917 are to be based on four months' notes, falling due respectively in May and June.

The transactions thus point rather strongly to another Dominion loan of \$75,000,000 or \$100,000,000 in March or April. Possibly nothing definite has as yet been arranged in connection with this prospective issue. Should conditions in the New York market be propitious, very likely it will be offered there. By that time the \$75,000,000 New York loan of April, 1916, will have been pretty thoroughly absorbed. Indeed, it is believed to be digested at the present time, as evidenced by the active American enquiry for our new domestic loan.

In connection with the Treasury's income and outgo during the remainder of the year, it is to be remembered that the payments due under the excess profits taxation fall due in November; and in addition to the ordinary revenue and the war loan payments, the Finance Minister will receive a sum, variously estimated at from \$15,000,000 to \$25,000,000, from the corporations and private business firms. There have been some large amounts set aside by sundry corporations to meet this tax. Thus the Canadian Ford Co. is said to have appropriated over \$700,000; Ogilvie Milling Co., and Canadian Pacific, both set aside large unnamed amounts; Dominion Textile, Lake of the Woods Milling, and several others, \$100,000 each; and various others have appropriated extensive amounts. These appropriations make it clear that the Treasury will receive a considerable amount next month on this account. Also it is gratifying to observe that the ordinary revenue—from customs and other collections—continues to pour in at an unprecedented rate. Since May there had been a steady downward tendency in customs collections. Thus the figures were: May, \$12,258,722; June, \$10,957,448; July, \$9,806,742; August, \$9,660,286. The September figures, however, show a further upward movement. The amount collected—\$11,084,903—is the high record apart from May, 1916. As importations are heavy, the customs revenue should be satisfactory to the end of 1916 anyway. The total, all classes of revenue, for the six months to September 30th, is \$103,589,680. This, with the prospective collections of excess profits, encourages the hope that the grand aggregate for the fiscal year will reach the \$200,000,000 mark.

## British Trade Activity

Important Steps Undertaken for the Development of British Industry After the War

BY W. E. DOWDING.

LONDON, October 10th.

Two or three recent events give further indication of the preparations that are being made to deal with "after-the-war problems." One is the proposal to establish a new trade bank; a second is the formation of a great manufacturers' association; a third is the report of the committee that has been enquiring into food prices. I have on previous occasions indicated that in small things as well as in large commercial circles in the United Kingdom are fully alive. One of the smaller indications that has just come under my notice concerns the drying of vegetables, an industry that before the war was carried on almost entirely on the Continent and was represented in this country by only one factory. There are now five and others are in contemplation.

British Trade Bank.

The new trade bank is proposed to deal particularly with the development of British business overseas. It follows at a safe distance the example of Germany, and will doubtless work in connection with the important Committee that is now sitting to decide on the preservation and development of industries that are essential to us as an Empire in war-time as well as in peace-time. If we are to take up all essential industries and be entirely independent of present enemy sources, there is bound to arise a class of what may be called "infant industries." They will need financing, and they will need fostering. I have no doubt that a protective tariff will be devised to help foster these industries, but in their initial stages they will need developing from

such financial sources as are here indicated. The suggestion has been criticised in powerful circles, and it is by no means certain that it will be adopted, at any rate without strong modifications.

British Manufacturers' Association.

The second event seems to be the outcome of a scheme that was first heard of some two years before the war, when it was announced that an association of manufacturers representing a capital of some eighty million pounds sterling had been formed to maintain the rights of capital against the claims of the trades unions. The publication of the scheme at that time was considered ill-advised. I may be wrong in connecting the two events, and the new proposal certainly contains no suggestion of animosity or antipathy. In these days we are all for harmony, but it is beyond doubt that when the pressure of war-production ceases we shall have to face a period of intense negotiation between capital and labour. The trades unions during the past two years have been adding enormously to their funds and the employers have good reason to think that they would themselves stand in a better position if they agreed upon some unified policy in advance. This is not the whole purpose of the association, but it is probably the one that will cause both sides the greatest anxiety and require the greatest patience to bring about a settlement.

Food Prices Control.

The report of the Food Prices Committee has attracted very little attention. Many people hoped (Continued on page 20).