

## A New Phase of Munition Financing

### The Canadian Pacific Railway Co. has Loaned the Imperial Munitions Board \$10,000,000

By H. M. P. ECKARDT.

The official announcement, a few days ago, to the effect that the Canadian Pacific Railway Co., has loaned the Imperial Munitions Board \$10,000,000 to assist in meeting financial requirements for the purchase of munitions in Canada, suggests that more might be done along this line to ease the heavy burden of the banks. Presumably what the C.P.R. has done is to take into its treasury \$10,000,000 of the British treasury bills by means of which the Munitions Board finances its payments through the banks—at the same time transferring from its bank balances here and abroad an equivalent sum to the credit of the Board. The investment would represent surplus earnings—funds which under other circumstances would have gone partly into capital expenditures and partly perhaps into increased dividends to stockholders. It is eminently safe and yields a satisfactory return; and in other respects also the investment is suitable for the reserve or surplus accounts of corporations.

#### TO EASE BANKS.

Some people may think the banks do not experience appreciable relief when as in the above-mentioned case a big company like the C.P.R. draws upon its deposit balance to invest in the one-year British treasury bills; but nevertheless such transactions do ease the banking position quite materially, as may be quickly demonstrated. Let us suppose that the Canadian Pacific withdraws \$10,000,000 from its deposit balances in the Bank of Montreal to take up the \$10,000,000 of treasury bills, and compare the effect of the bank's position with that which would have been produced had the Bank of Montreal itself taken the treasury bills and retained for the time being the \$10,000,000 C.P.R. deposit. It is to be noted, firstly, that if the bank took the treasury bills there would be an instantaneous increase of \$10,000,000 in its deposits. On receipt of the bills the proceeds would be credited at once in the bank's books to the account of the Munitions Board. The assets and liabilities of the bank are both swollen to the extent of \$10,000,000; but, while the newly-acquired asset is not due until one year after the date of the bills, the new liability assumed by the bank is payable forthwith—on demand. Furthermore the bank officials know that the Munitions Board will proceed to cheque out the money to the manufacturers and others engaged on war contracts. Some of these payees carry their accounts at other banks and in case of payments to them the Bank of Montreal will perhaps be obliged to part with "legals," through the clearing house. Again, the manufacturers who receive the payments from the Munitions Board will proceed, in turn, to distribute the funds among their creditors, etc. So, when the bank places the \$10,000,000 item at credit of the Board it is compelled at once to create the cash reserves necessary for protecting the deposit balance. These reserves may be anywhere from \$2,000,000 to \$5,000,000, according to the information, possessed as to how the funds are to be chequed out.

On the other hand when the Canadian Pacific took the treasury bills, paying for them in our hypothetical case by using its deposit balance in the Bank of Montreal, there is no inflation or increase of deposits—what occurs is merely a transfer of \$10,000,000 from the accounts of the C.P.R. to the account of the Munitions Board. Assuming that the C.P.R. balances were not regarded as more or less fixed or permanent, the bank would perhaps carry just as much in the form of cash reserves against the railway company's balance as against the Munition Board's balance. Thus even when the railway company takes up the treasury bills through withdrawing the funds from its deposits in the bank, the transaction is much easier for the bank than if it were obliged to itself take and hold the treasury bills. And if the railway, to take up the treasury bills, uses in part funds that had been in some outside depository the bank position is further benefited to that extent.

#### MUNITION CREDITS.

With reference to the munition credits of the banks it should be remembered that they are quite different from the other ordinary or special transactions which they have undertaken since the outbreak of war. Since the first domestic war loan was issued in 1915, the Dominion Government wisely refrained from requiring the banks to take and hold large amounts of Dominion war bonds. The credit transactions under-

taken directly for the Finance Minister have been in the form of short loans of not more than four months. The banks lend the Minister \$50,000,000 or so, and within a few months they have their money back again—out of the proceeds of war loans. In contradistinction, the munition credits are steady or dead loans. In case of their ordinary export trade the exporting customers of the banks put in bills of exchange which are usually converted in the course of two or three months into New York or London funds which can be brought back to Canada and used over and over again in similar transactions. But in case of the exports of munitions, etc., for a considerable part the banks virtually take from their customers British treasury bills at one year's date. The security is undoubted, but the term of the advance is much longer than usually obtains in ordinary banking transactions. In view of the great financial pressure occasioned by the war, the treasury bills in some instances may be extended or renewed pending the flotation of a big refunding loan by Great Britain. Under the circumstances the amount of the holdings of treasury bills tends to rise steadily. As at the end of April the banks apparently held \$150,000,000 and as they will not commence to run off until January, 1918, the safety or advisability of loading them up further becomes a matter for discussion.

Of course they can, if they wish, turn in their British bills to the Dominion Treasury and get loans in the form of Dominion notes, but if they do that on any large scale the effect is to inflate the legal tender currency of the country, which inflation might create a bad impression abroad.

#### IN THE INTEREST OF ALL.

And yet, on the other side, it is clear that in the interest of the Allies and in our own interest, we must

go ahead at full pressure with the making of munitions, also we must continue to take the British treasury bills in part payment for munitions shipped. The situation would be relieved to a certain extent if other large corporations co-operated with the banks, as the C.P.R. has done, in carrying the bills. As suggested above, surplus or reserve funds may be advantageously invested in the bills, and they can be utilized as collateral to bank loans in case a temporary credit is required. At conclusion of the war Canada will have, in the British treasury bills held by the Dominion treasury, the banks and other corporations, an asset that will be of great value in ensuring stability of the foreign exchanges. After allowing for the offset represented by our current indebtedness to Britain for maintenance of the Canadian expeditionary forces in Europe, there should be a large balance of the short date bills in our favor; and probably arrangements could be made to utilize them for meeting interest and other external obligations of ours in such years after the war as witnessed heavy contraction of our merchandise exports.

In its standing offer to rediscount the British bills for our banks, and in its application of part of purchase of the treasury bills, the Dominion Government has assumed a large share of the financial burden incidental to the activity of Canada's munition industry. It is not clear how the Government can increase its participation substantially unless further domestic war loans of large amounts can be placed. If it is possible to negotiate a war loan with the United States Government to cover the Dominion's own military outlay in America, then the proceeds of our domestic war issues could be more largely used for the purpose of financing the Imperial Munitions Board. It is advisable to have the broadest possible basis for the new loans put out in this country. Strong appeals to the patriotic sentiment of the potential investing classes, a rate of interest conforming fully to current market conditions, with skillful and persistent advertising, may result in getting for the next issue a list of subscribers longer even than in the case of the third loan.

## A British Columbia Salvage Feat

Another chapter in the remarkable history of the steel freighter *Sesostris*, formerly one of the largest units of the German mercantile fleet, for ten years stranded in the sands of the Guatemalan coast, and now rescued and about to be put back into service by the British Columbia Salvage Company, has begun with the temporary American registration of the vessel under the new name of the "Francis L. Skinner." She is now on her way north to the home of her new owners in Victoria, B.C., and is soon to add one to the list of the new freighters needed in the service of the Allies.

Crawling slowly under her own motive power the *Sesostris* steamed into San Diego Harbor, a few days ago on her northward trip. There she was welcomed back from her long sleep in the Guatemalan sands by the salutes of all craft in the harbor. It required nine months of continuous labor and the expenditure of nine human lives to enable Captain F. C. Stafford, of the British Columbia Salvage Company, to accomplish one of the greatest feats ever attempted in maritime engineering by floating the vessel.

In the Summer of 1907 the *Sesostris* of the Kosmos Line, commanded by Captain H. Tenne, left her home port, Hamburg, Germany, bound for the ports of Central and South America. Bad luck followed the ship almost from the day of her departure. She encountered many storms, and had a difficult passage round Cape Horn, but her solid steel frame and sound construction kept her in good condition. However, while the crew was unloading coffee off the coast of Guatemala, near the small town of Ocos, a slight equinoctial storm broke the anchor chains, and drove the freighter sidewise on the beach. At first Captain Tenne thought the accident could easily be remedied at high tide. But when high water came the treacherous sands had shifted, and the Captain found the vessel firmly imbedded in the beach. The sands continued to shift, throwing the freighter higher and higher on the beach, and increasing the distance to the free water at the rate of a foot an hour. When the rescue tugs arrived they found the *Sesostris* stranded in an inland lake 150 feet from the high water mark.

Leaving an assistant engineer in charge, Captain Tenne and his crew returned to Germany. In October, 1907, he reported the loss of the vessel to the officials of the Kosmos Line in Hamburg. Then, as the story is told, he committed suicide.

The assistant engineer left in charge of the stranded vessel, rigged up an electric dynamo to the engines of the freighter, and became sole owner of the Ocos Electric Light and Power Corporation. There followed three unsuccessful attempts to float and salvage the great freighter. A wealthy Guatemalan was the first to lose a fortune in the attempt. Finally, he sold his rights to an American, who also failed to put the vessel into commission. The third attempt was made by a large salvage company, but the *Sesostris* could not be moved. At last, in the Spring of 1915, the British Columbia Salvage Company purchased the \$1,000,000 freighter for \$55,000.

Led by Captain Stafford, a squad of fifteen men left Victoria on the 4th of July, 1916, on board the tug *Pilot*, and since that time they have been working on the stranded vessel. The most untoward adventure which happened to this party was an equinoctial storm last February off the Guatemalan coast, in which the *Pilot* foundered and nine men were drowned, among them the First Officer J. Birss, and Engineer W. C. Patterson of the salvage expedition.

Because the engines of the *Sesostris* had been kept in excellent condition, Captain Stafford was able to rig up winches run by power derived from them. A number of centrifugal pumps sucked more than 100,000 cubic feet of sand from about the partially buried ship. Then a small canal was dug from the inland lake in which the *Sesostris* rested to the high water line. Through this the ship was finally brought to deep water. The original cargo had been removed years ago by means of an especially built railroad spur connecting with the Guatemalan Railroad lines, so that when the *Sesostris* finally glided into deep water she floated high and easily. It was even necessary to use some of the sand that had held her captive as ballast.

The northward journey was begun with the British tug *Nitinat* helping to tow the vessel. But owing to the scarcity of fuel it became necessary for the tug to cut loose when they had gone only a few hundred miles, and the *Sesostris* continued her journey slowly alone. As soon as the Francis L. Skinner reaches Victoria it is planned to use her to carry supplies to the nations now fighting against Germany. The salvage company which has put the vessel again into commission, has expended about \$250,000 in the work.

—New York Times.