

Conversion of Savings Deposits into Victory War Bonds

The disbursement of proceeds of the Victory Bonds adds to the difficulty of maintaining the Exchanges

By H. M. P. ECKARDT.

In the January bank statement the expected heavy reduction of notice deposits is shown. The decrease for the month, \$95,600,000, constitutes a record-breaking change — this item of the return has never gone up or down to this extent in any preceding month of our banking history. As everyone knows, the development was chiefly due to the large subscriptions to the Victory Loan by savings customers of the banks; at many of the branch offices a considerable number of long-standing deposits were displaced. The bankers saw with much regret the withdrawal of these funds, and it may conceivably turn out that the absorption of the funds into the public debt will, at a later stage, have a certain tendency to reduce the power of the banks to grant discounts and credits to their commercial and industrial clients. As yet the full effect has not been felt, because the banks' losses of permanent funds of this description have been more than counter-balanced by the multitude of transient and special balances arising from the war activities; but these will vanish in the course of time, and when they do our financial system will be subjected to a testing process, which in all probability will be applied at the same time to the financial systems of the United States and the other belligerent countries.

It is not likely that the Victory Loan payments will cause further heavy decreases in the savings balances, during the early months of 1918. Farmers and others having respectably large amounts lying in bank, on January 2nd, had the opportunity of utilizing the money on a 5½ per cent basis to take up their unmatured war loan instalments — in other words their balances if then applied to this purpose would bring in an additional 2½ per cent — and it is likely that even in the country districts the advantages of preparing subscriptions would be clearly perceived. In April and May, however, there may be further liquidation of notice deposits by parties converting a considerable amount of old bonds, who are not obliged to pay cash on account of their new subscriptions until the last two instalment dates. With reference to the sharp drop of the notice deposits in January, it is to be observed that the total remaining at the end of the month, \$900,000,000, is some \$36,000,000 greater than the aggregate shown on January 31st, 1917; and there is some consolation from the reflection that all of the 1917 increase was not swept away — a part of it is still in evidence. The mercantile and manufacturing customers of the banks, as suggested above, have a most direct interest in the steady development of the notice deposits. If the bank returns for the years immediately before the war are studied it will be seen that the total of current loans and discounts in Canada (in other words the credit granted to merchants, manufacturers, farmers, etc.) generally or roughly equals the notice deposits plus the proprietors' own funds, the capital and rest. A wholesale customer of the bank or a manufacturer will perhaps require to use his fixed amount of bank credit, as represented by trade paper and loans under discount, steadily throughout the year; or if his liability account runs up and down to correspond with seasonal changes, the bank will have other customers waiting to use the funds repaid by the first customer when his active season ends.

Thus the money used in the regular loan and discount business, must have an element of permanence or steadiness. The funds contributed by bank stockholders in the form of paid capital and premiums on new stock issues, together with the amounts accumulated through reservation of surplus earnings, are, of course, ideal for this purpose. They are not subject to withdrawal and can be used to the full amount. Next to these funds are the notice deposits. Obviously, ten savings or time deposits of \$4,000 each which remained unchanged from year to year, would be ideal for carrying the account of a wholesaler who required to have about \$40,000 of trade bills under discount continuously. The bank would perhaps require to carry say \$4,000 of cash reserve against the savings accounts to guard against the contingency of one of them being withdrawn; but notwithstanding this circumstance, the asset and the

liability fit together perfectly.

The other items of the liabilities are not qualified in the same degree for employment in current loans and discounts. They fluctuate too much. A large current account balance may be there to-day and gone to-morrow. Current accounts quite largely represent the proceeds of loans and trade paper discounted. Owing to their transient nature the funds represented by them must necessarily be carried in liquid form—specie, legals, international bank balances, call loans—and only a small proportion is available for use in commercial discounting. The same applies more or less to the note circulation of the banks — it provides for a relatively insignificant amount of commercial discounts. For example, on December 31st, 1917, the bank notes in circulation amounted to about \$193,000,000; but against those outstanding notes the banks had on deposit in the Central Gold Reserves, \$97,000,000 in gold and Dominion notes, and about \$6,000,000 in the Circulation Redemption Fund. That left but \$90,000,000 uncovered, and when allowances are made for the cash reserves required, there would be no more than \$60,000,000 available for long-term use. In their early days Canadian banks relied mainly upon their capital and note circulation for the means of carrying their customers. Now the circulation cuts a much smaller figure.

As regards the balances carried on deposit with the banks by the Dominion Government, the provincial governments and by foreign banks, they fluctuate, extensively, particularly the Dominion Government deposits. On January 31st, as a result of the heavy payments on the Victory Loan, the Finance Minister had \$106,000,000 at his credit in the books of the Canadian banks. This is the largest amount shown at credit of the Government at the end of any month during the war period. To show how the balance runs up and down it may be mentioned that on April 29th, 1917, the Dominion's balance was \$93,700,000; next month it was down to \$58,000,000; and in two months it was down to \$29,000,000. The heavy balance shown on January 31st will doubtless be quickly disbursed. During the instalment period, from January to May, the decline may not be rapid, as there will be fresh payments coming in from the loan subscribers, but subsequent to May the banks may be required to repay the Government balances and also advance further sums to the Minister on his short date notes.

Disbursement of the Government balances in the first instance would likely consist largely of transfers to Canadian business men in connection with contracts undertaken by them for the Imperial Munitions Board or for the Dominion Government itself. Such transfers in many cases would effect the cancellation of loans and advances which the banks had already made to these parties, and to that extent they would not be difficult to finance. On the other hand the contractors or manufacturers perhaps have bills to pay, amounting to considerable sums, for raw materials and other merchandise imported from the United States. In settling these bills the banks are forced to draw upon their balance in New York, and this has been one of the factors contributing to the high premium on New York funds. In this indirect way the disbursement of proceeds of the Victory Loan, adds to the difficulty of maintaining the exchanges. Such difficulty of course is inseparable from our enforced policy of borrowing almost exclusively at home for war purposes. It would disappear with the negotiation of large Canadian credits in the United States.

The temporary or transient character of the classes of bank deposits other than notice deposits, makes it a matter of considerable importance to the commercial community that the banks shall be in position to steadily develop their savings departments. While the exigencies of the war make it necessary to dislocate these balances to a certain extent, it is to be hoped that the depletion will not be carried too far—as our merchants and manufacturers, in the days following the war, will doubtless be able to put to good use all the funds which the banks then have available for them.

OUTPUT OF DUTCH SHIPYARDS

The Dutch shipbuilding industry during last year is reviewed in a recent number of "In en Uitvoer." The figures relating to the country's output of tonnage show, the writer says, that all the yards have had plenty of work, although most of them have found themselves compelled entirely to change their character and adapt themselves to existing circumstances.

Practically all the Dutch shipbuilding yards have turned their attention to the construction of merchant vessels, and what was once their chief characteristic, namely, the production of Rhine craft, or special material such as elevators, dredgers and so forth is now almost entirely neglected. It is to be presumed that cargo steamers will continue to be the main feature for some time to come now that fuel for motors is becoming scarcer every day and bunker coal is unobtainable, except in limited quantities.

The Dutch mercantile fleet was not increased during the year by many large units. Taking the minimum for a big ship at 3,500 tons, it would seem, according to the available figures, that 57,157 tons were turned out, distributed over eleven vessels. That number of large ships has, at least, been launched, though not all of them have been completed. The rest of the tonnage produced during the year consisted of schooners, barges and other craft of a smaller type. The number of motor schooners turned out was 25, with a total of 7,899 tons, making an average of 316 tons. The number of new cargo steamers was 72, with a total of 102,099 tons, or an average of 1,418 tons. This figure, the writer says, would not be unsatisfactory if the ships of over 2,000 tons, 23 in number, had not to be deducted, leaving 49 ships with a total of 43,091 tons, or an average of 879 tons per vessel.

All these ships, however, were not constructed for Dutch account. They include thirteen of 18,803 tons for Norway, two of 5,017 tons for Sweden, and two of 3,217 tons for Denmark. This leaves only 55 ships of 75,062 tons for the Netherlands, distributed as follows: 40 ships of 58,381 tons for Rotterdam, 9 of 12,836 tons for Amsterdam, 4 of 1,695 tons for Groningen, and 2 of 2,010 tons for Dordrecht. The ships built for foreign account were probably ordered before there was any question of a prohibition of the export of tonnage, and most of them have had an opportunity of reaching their destination. It is not certain, the writer states, that all the vessels built on Dutch orders were really intended for the Netherlands.

As to ships still under construction, the extraordinary thing is the number being built for the account of the yards themselves. The number of large ships under construction for Dutch account is comparatively small. They include the Prins Maurits (4,300 tons), Prins Willem III. (4,100 tons), and Prins Willem II. (4,000 tons) for the Royal West India Mail; the Djambi (7,010 tons), Tosari (7,000 tons), and Palembang (7,000 tons) for the Rotterdam Lloyd; Johan de Wit (9,700 tons) for the Nederland Co., which has also a cargo steamer of 6,500 tons under construction. The Java-China-Japan Line has given an order for a large steamer which has not yet been started.

In addition to the above the tonnage under construction at Dutch yards at the beginning of this year includes twelve motor schooners with a total of 4,208 tons, besides two motor boats of 4,000 tons (ordered from Norway), and 108 cargo steamers (many of them over 2,000 tons) with a total of 170,715 tons. Of the ships under construction many will eventually go abroad. Norway has ordered 18 ships of 32,470 tons, Denmark one of 1,017 tons, and Sweden two of 1,487 tons. This would leave Holland 87 ships, aggregating 135,758 tons. There is a feeling that an effort should be made to retain all the tonnage under construction for the benefit of the Dutch mercantile marine, in order to compensate for the losses sustained in the course of the war.

A Buffalo man stopped a newsboy in New York, saying: "See here, son, I want to find the Blank National Bank. I'll give you half a dollar if you direct me to it."

With a grin, the boy replied: "All right, come along," and he led the man to a building a half block away.

The man paid the promised fee, remarking, however, "that was a half dollar easily earned."

"Sure!" responded the lad. "But you mustn't forget that bank directors is paid high in New York."—Pittsburgh Chronicle-Telegraph.