The Dominion Treasury as a Bank of Rediscount

The Outstanding Note Issues of the Dominion Government Rose from $174,302,958 to $187,047,531 between September 30th and December 31st in 1916—Consequently the Deficit or Shortage of Reserve as Compared with the Legal Requirement Shows an Increase

By H. M. P. ECKHARDT.

In the article on the Munition Credits and Increase of Bank Deposits, published in the "Journal of Commerce" on January 23rd, there was a brief reference to the re-discount facilities offered by the Dominion Treasury in connection with the munition credits extended by the banks to the British Government. Attention is further directed to this matter by the course of the Dominion note circulation during the last quarter of 1916. It will be remembered that according to statements recently made, the method by which the public treasury undertakes to assist the banks to carry their holdings of British treasury bills is through making loans to them in the form of Dominion notes, against pledges of the treasury bills as collateral. Thus a bank having a block of the British bills may in case of need take a part or all of its holdings to the Finance Minister and procure a loan, presumably up to the par value of the collateral, for such term as the assistance is required.

Between September 30th, 1916, and December 31st, 1916, the outstanding note issues of the Dominion Government rose from $174,302,958 to $181,047,531—the increase being roundly $6,700,000. At the same time the gold reserve held against the notes remained practically stationary. On September 30th the reserve was $113,690,728; and on December 31st, $114,131,731—an increase of only $440,000. Consequently the deficit or shortage of reserve as compared with the legal requirement shows an increase. This was $23,112,230 in September and $29,415,800 in December. The following table shows how the deficit has been running since the outbreak of war: (000's omitted).

Dominion Note Circulation.

Date.	Outstanding.	Reserve Required.	Reserve Carried.	Deficit.
1914—Sept. . . .	$136,505	$ 99,005	$ 89,250	$ 9,755
" —Dec. . . .	162,395	124,895	89,317	35,578
1915—Mar. . . .	157,056	119,556	89,401	30,155
" —June. . . .	152,120	114,620	89,573	25,047
" —Sept. . . .	153,039	115,539	90,803	24,735
" —Dec. . . .	178,780	141,280	115,118	26,161
1916—March. . .	177,943	140,443	115,743	24,700
" —June. . . .	175,497	137,997	114,071	23,926
" —Sept. . . .	174,302	136,802	113,690	23,112
" —Dec. . . .	181,047	143,547	114,131	29,415

Most of the expansion in Dominion note circulation during the last quarter of 1916 occurred in November and December—the increase for those two months being $6,400,000. On referring to the Finance Department's statement of assets and liabilities, it is seen that in the same two months there was an increase of $7,400,000 in the investments other than sinking funds. Under the circumstances it is but natural to infer that the "other investments" referred to perhaps consisted of loans to certain of the banks against pledges of British treasury bills, and that the proceeds were paid to the banks in the form of Dominion notes. Such a transaction if carried through, would affect the Government's statements exactly as the figures show, providing that the loans to the banks were debited by the Department to the investment accounts. Some critics would consider, however, if a special issue of Dominion notes were made against securities as above-described, that the Dominion's position might be shown to better advantage through reporting the acquired securities as part of the reserve held against Dominion notes. They would virtually represent reserves against the outstanding notes, and if shown as such in the Government returns the effect would be to cut down the deficit. Also the position would be clarified further if the collateral securities figuring as reserve were specified. For example, if $6,000,000 of British treasury bills were held, the statement could declare the fact. Although a reserve so constituted would not be exactly equivalent to so much gold, it would nevertheless leave nothing to be desired as regards safety and realization. It would mean that the holder of a Dominion note so secured would be protected first by his recourse against the Dominion Government and again by recourse against the British Government and the Canadian bank pledging the collateral.

Notwithstanding the strength of the collateral it is not advisable that the Dominion note issues be expanded unduly on this basis. Fortunately there is no indication as yet that the banks intend to avail themselves immoderately of the rediscounting facilities offered by the Treasury. If as a result of the new credits accorded by them in 1917 they were loaded too heavily with the British bills, we should probably witness quite an important rise in the Dominion note circulation based on securities; and if that occurred, discerning critics here and abroad would take it as an indication of danger. If Canada is required to take British securities largely in excess of what the banks now hold, the soundest plan would be to offer them to the investment public at an interest yield approximating that of the new $250,000,000 British loan in New York, and it is to be hoped that that plan will be followed.

At the end of 1916 the banks held roundly $100,000,000 in British treasury bills. The article published on January 23rd showed approximately the amount held by each banking institution. As the bonds were distributed according to paid up capital and as the aggregate holdings were only $12,000,000 or $13,000,000 less than the aggregate paid-up capital of the banks, each bank has apparently been required to invest an amount equal to 90 per cent of its paid up capital in this form. It is easy to understand that with so large an amount placed in the one special investment, some of the banks would be short of funds when a period of extraordinary demand for credits was encountered. The last quarter of the calendar year is such a period—most of the banks are then required to make extensive loans directly or indirectly based on the grain movement—and to tide them over the season of abnormal pressure, certain institutions may have taken advantage of the rediscount facilities. From the banks' point of view this would be quite legitimate and should not, under the circumstances, be construed as in any way indicating weakness.

Of course, temporary loans made to the banks for crop moving purposes would be cleared off, in the ordinary course, during the first quarter of 1917. Repayments would be made in the form of Dominion notes; and on receipt thereof the Department would cancel the notes and surrender the security. Thus the excess issues of Dominion notes would be reduced; and if the above-mentioned surmise as to methods of bookkeeping is correct a corresponding decrease would occur in the balance of other investments, on various occasions in the past, banks have procured loans from the Dominion Treasury on securities, but the monthly bank returns scarcely ever show the traces of such transactions. It has been something of a mystery to outsiders. There is no column on the "liabilities" side of the bank statement for "loans from the Dominion Government". Such loans might perhaps go under the heading "Balances due to Dominion Government, after deducting advances for credits, pay lists, etc"; but this item is generally taken as covering merely the Dominion's deposit balances in the banks.

Loans made to Banks.

With reference to the loans made to banks by the Finance Minister against pledge of the munition securities, it would seem desirable to fix the interest rate at a level slightly above the rate yielded by the securities pledged. This would have a tendency to expedite the liquidation of the loans. When the loans from Government draw a comparatively high rate, the banks would be more disposed to defer or postpone their rediscounting operations; and they would lose no time in taking up the paper, as soon as they are in funds again. Whereas if the Government's lending rate were slightly below the rate of return derived on the collateral, there would be a profit secured by the banks through borrowing and allowing the loans to run indefinitely.

Gain in Britain's Trade

The London (England) Board of Trade reports for the year of 1916 increases in imports of £97,259,000 and increases in exports of £121,677,000. The chief import increases were in food and raw material, including £129,000,000 in cotton. The principal export increases were in manufactured articles, including a gain of £32,000,000 in cotton textiles.

For December there was an increase of £5,079,000 in imports and an increase of £5,098,000 in exports. The principal increase in imports was £4,000,000 in cotton from America. The chief gain in exports was £4,000,000 in cotton textiles.

Cotton goods exported during the year totaled 5,255,504,000 yards, against 4,748,453,000 yards in 1915. Cotton goods exports in December aggregated 499,361,000 yards, against $374,209,000 yards in the same month in 1915. The exports to the leading foreign countries during December compare as follows (in yards):

	1916.	1915.
India	247,315,000	171,998,000
China	27,831,000	34,674,000
France	4,754,000	10,157,000
Egypt	28,411,000	20,282,000
Central and So. America ...	35,519,000	27,304,000
Dutch East Indies	46,638,000	12,573,000
United States..	6,253,000	3,609,000
All other countries	102,641,600	93,512,000
Total	499,361,000	374,209,000

The following table gives the trade of Great Britain for the year to date, by months, compared with the corresponding months of last year and the previous year:

Imports.

	1914.	1915.	1916.
January	£6[illegible],065,009	£67,246,591	£74,948,241
February	62,653,651	65,200,472	67,348,243
March	66,947,315	75,462,049	86,092,894
April	61,626,830	73,638,582	75,685,362
May	59,099,290	71,008,588	83,814,530
June	58,281,653	76,008,588	87,036,349
July	59,376,484	75,723,767	76,772,871
August..	42,342,207	69,400,919	76,116,834
September. ..	45,006,607	70,286,237	77,488,368
October	51,379,435	67,816,406	80,816,406
November. ..	55,518,130	71,622,274	98,116,406
December . .	67,316,898	70,326,915	75,405,915
Total for y'r.	£696,635,113	£851,893,350	£949,152,305

Exports.

	1914.	1915.	1916.
January	£47,806,165	£28,247,592	£36,757,167
February	41,261,797	26,176,937	36,335,782
March.	44,518,661	30,176,066	37,598,119
April..	39,946,822	32,169,733	36,817,639
May..	59,099,290	71,600,894	47,024,411
June	58,281,653	76,008,588	47,274,563
July	44,405,380	34,721,511	46,323,057
August	24,211,271	32,438,855	47,720,323
September . .	26,674,101	32,308,432	43,477,677
October	28,601,815	31,968,965	44,714,965
November . .	24,601,619	35,639,166	51,563,965
December . .	26,278,928	33,947,519	39,045,519
Total for y'r.	£430,721,357	£384,868,448	£506,545,448

The suggestion is made by a correspondent of the Insurance Record that, while the Prime Minister is creating new offices, he might consider the desirability of having a Minister for Insurance. This proposed reform is, however, condemned by some as unnecessary and conducive to an abandonment of the "freedom and publicity" which have made insurance business what it is. And, if a Minister for Insurance, they ask, why not one for banking, railway interests, etc.? A good many think, nevertheless, that it is very absurd that the President of the Board of Trade, who never knows anything whatever about insurance, should be the Minister responsible for that vast business, and that in the interests of the companies, and the public, reform of some sort is called for.

NEW LYALL DIRECTOR.

Hugh MacKay, K.C., who a few days ago, was elected a director of the Wayagamack Pulp and Paper Company, has been elected a director of the P. Lyall Construction Company where he will fill the vacancy caused by the death of his father.