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THE FEBRUARY BANK STATEMENT.

The statement of the Canadian banks for February affords an example apparently of the duplication of credit in process, a matter which has been lately referred to in connection with the recent War Loan. During the month, the banks very largely increased their holdings of securities. Dominion and provincial securities were expanded by no less than \$36,321,262, from \$63,697,347 to \$100,018,609, and holdings which come under the general heading of Canadian municipal, British, colonial and foreign public securities were increased by \$19,508,735 from \$163,299,724 to \$182,808,459, the total expansion under these two headings being thus nearly \$56,000,000. Coincidentally, as is seen from the revenue returns, the temporary loans of the Dominion Government increased from \$177,965,808 at January 31st to \$219,890,808 at February 28th, a growth for the month of approximately \$42,000,000. These figures reflect the financing of the Imperial Munitions Board by the banks. As is well known, the banks some time ago agreed to make regular advances during 1917 for the account of the Imperial Munitions Board, these advances being made, it is understood, to the Dominion Government direct on a short-dated security. Possibly also, the very large increase of over \$36,000,000 in Dominion and provincial securities held, indicates some temporary financing by the Dominion Government on its own account, pending the flotation of the recent loan. The increase under the second heading of British, etc., securities presumably indicates operations involving the taking up of British treasury bills. The ship-building schemes which have been inaugurated under the supervision of the Imperial Munitions Board will doubtless, to some extent at least, require financing here and it may be that this development is already being reflected in the banks' operations.

EFFECTS ON DEPOSITS ACCOUNTS.

Whatever the details may be, the effect of these operations is seen in the banks' deposits accounts. The Dominion Government's balances are increased by \$16,051,960 from \$33,090,492 at January 31st to \$49,142,452 at February 28th—representing the unexpended portion of the credit given to them. That portion of the credit which has been expended has gone partly to swell demand deposits, which

after heavy decreases during recent months are up in February by \$3,023,275 to \$43,331,861, and also notice deposits, which to some extent represent the deposits of the wage-earner and salaried man. These expanded a further \$16,290,293 during the month to \$880,456,637. The credit operations are reflected also in the expansion in note circulation of \$4,899,108 to \$138,257,295. Part of the credits in question would be used abroad in the purchase of necessary raw materials.

CREATION OF NEW CREDIT.

The point to be observed in regard to these operations is that the credits by the banks for account of the Imperial Munitions Board or to the Dominion Government for war financing purposes, were not a transfer of the credit of their depositors. The transactions involved the creation of new credit by the banks—in other words duplication of credit—resulting in an expansion of deposits and circulation. The eventual effect of duplication of credit is to increase prices and, if carried to an extreme, to produce inflation. What happens in the present instance, of course, is that steps are taken in due time to neutralise the duplication of credit involved in these necessary operations. Assuming that part of the credit here discussed was granted to the Dominion Government on its own account, the amount of the credit would probably be repaid out of the proceeds of the recent loan. But that would involve the transfer of credit first from bank depositors to the Government and secondly from the Government to the banks. There would not be a creation of new credit but the transfer of existing credit and by this means, duplication is done away with. In due course also, but possibly not immediately, the banks' credits to the British Government will be treated in a similar way, neutralising the duplication of credit. The facts of this matter illustrate the argument for the necessity of relieving the banks of the duty of subscription to the recent War Loan—a result which was happily achieved. Unnecessary and undesirable duplication of credit was thus avoided. To some extent, in these times, the duplication of credit on a large scale is impossible to avoid and the art of conservative financing consists in keeping it within reasonable and safe bounds as is being done in both Canada and Great Britain.

OTHER FEATURES.

While foreign balances were reduced during February, in London, by \$11,043,120 and in New York by \$5,090,985, foreign call loans were increased by nearly \$7,000,000 to \$162,344,556. Canadian current loans and discounts, following a decrease of nearly \$14,000,000 in January, were enlarged by \$6,823,570 during February to \$813,302,717, at which figure they are \$52,429,536 higher than twelve months ago.

The credit operations referred to have had a noticeable effect upon the banks' reserve position. Against circulation and deposits of all kinds, immediately available reserves of specie and Dominion note holdings, deposits in the Central Gold Reserve and to secure the note issues, bank balances abroad and foreign call loans were in a proportion at the end of February of 28.3 per cent. The end of January proportion was 29.8 per cent. It may be noted that the total assets reported, \$1,986,497,317, constitute a new high record for the banks.