Monetary Times

Trade Review and Insurance Chronicle of Canada

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PRINCIPAL CONTENTS OF THIS ISSUE

DOMINION FINANCES

Bankers and investment houses have awaited with interest the announcement of the finance minister regarding the allotments of the Victory Loan. When the campaign was commenced the general opinion was that the government could use every dollar which was likely to be raised, and if it had not been for the recent political events, this would undoubtedly have been the case. The prospect of peace, however, and the new financial conditions which will follow, have changed the outlook. Whereas, formerly the interest rate could not be expected to decline so long as the war continued, it is now expected in most quarters that it will fall off considerably.

Since the end of July the war cost in Canada has been financed by advances made to the Dominion Government by the Canadian banks. The total floating indebtedness of this kind is now about $175,000,000. It is also planned that Canada shall finance certain credits to the British and other governments to enable them to make purchases here. This will involve, according to a recent announcement of the finance minister, the expenditure of about $250,000,000. When these items are deducted the balance remaining of the Victory Loan would be about $250,000,000 or sufficient to finance the Dominion Government at its present rate of expenditure for seven or eight months.

It is fully expected, however, that from now on the government's war outlay will continually decrease and instead of spending around $30,000,000 per month, in six months they may be spending only $10,000,000 or $12,000,000. Were the government to accept all the Victory Loan subscriptions, therefore, no further borrowing might be necessary for a period of about one year.

In view of these facts, therefore, the soundest policy would seem to be to accept only a portion of the subscriptions. There is, however, another aspect which must be considered. If the government accepts only say $500,000,000 of the subscriptions the effort and expense involved in raising the additional $175,000,000 is entirely wasted. This waste always takes place when allotments are not made in full, and they are unavoidable in so far as the committee in charge of the campaign, being unable to estimate the exact result of their efforts, must make a sufficient effort to secure the minimum required.

The equivalent of this expenditure might very easily be saved to the Dominion Government in the better conditions under which a future loan might be raised. If the government were to cut down the allotments at the present time, they would, of course, require further funds in the near future and would be able to secure them at a lower rate of interest. The very fact that peace is in sight and an absence of high-grade investments from the market has already caused a strengthening tendency in government and municipal bonds.

The government will, according to an announcement just made, accept all subscriptions of $500,000 and under, in full. Larger subscriptions will be cut down. Over $500,000 and up to and including $1,000,000, will be accepted in full up to $500,000, and 80% of the balance. In the case of those over $1,000,000, the allotment will be the same as in the case of subscriptions up to $1,000,000, and 60% of the amount in excess of that. On a subscription of $1,000,000 the allotment would therefore be $900,000; on one of $5,000,000 it would be $3,300,000; and on one of $10,000,000, $6,300,000.