

# Financing Further Mmunition Orders

A Few Points in Favor of a British Bond Issue in Canada

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It has been generally taken for granted in Canada that the recent action of the Federal Reserve Board at Washington, in warning American banks against locking up too much of their funds in belligerent securities will have a stimulating effect on the munition industry in the Dominion. The warning was timed to appear just after the offering of British and French treasury notes was announced by Messrs. J. P. Morgan and Co., and one of its effects undoubtedly has been to make the Western Allies more determined than before to develop their own capacity in munition making, and that of their Dominions. The Finance Minister and the Chairman of the Imperial Munition Board have intimated that the orders, contracts, etc., for Canadian plants in 1917 will perhaps only be limited by our ability to finance credits for the British Government. This being the case it follows that widespread and general curtailment of unnecessary expenditures, with the object of investing the savings in the war bonds, would have immediate and important effect in increasing our output of shells, etc., and in lessening the economic dependence of the Allies on the United States.

Although the Finance Minister has on several occasions expressed the Government's earnest desire that Canadians should save their money and refrain from investing it in non-Canadian securities, there is yet no official information as to the form or kind of war bonds (designed to facilitate British settlements for munition purchases here) that our investors will be asked to take up. The principal question is whether there will be an issue of British Government bonds or notes made direct to the investment public of the Dominion, or whether our subscriptions will be asked to an issue of Dominion bonds, proceeds of which to be used to enable the Ottawa Finance Department to make further direct loans to the Imperial Munition Board.

In order to discuss the question intelligently it is advisable to review the past financing in connection with British munition purchases here. Apparently one-half of the proceeds of the two domestic war loans has been applied to the purchase of short-date British treasury bills. In other words Dominion bonds to the amount of \$200,000,000 have been issued in the Canadian market and \$100,000,000 of the proceeds were loaned to the Munition Board. Also the chartered banks have loaned a further amount of \$100,000,000 to the Board, on short date British Treasury Bills. Apart from this a few of the banks have advanced \$20,000,000. to Great Britain in connection with grain purchases here. With reference to the sums advanced by the banks, there are no complications. When the Imperial Government redeem the treasury bills the credit transaction with the banks is cleared off.

## How Past Orders Were Financed.

The loans to the Munition Board, by the Dominion Government, out of proceeds of the domestic war loans, have however, some peculiar features. As generally understood, the Dominion authorities received \$50,000,000 in British short-date treasury notes in connection with the first war loan, a like amount of \$50,000,000 in connection with the second war loan. Now the first war loan issue consisted of ten year Dominion bonds and the second consisted of fifteen years bonds. So if the British Treasury Bills, held by our Finance Minister, to the amount of \$100,000,000, are paid off, the Canadian Treasury receives \$100,000,000 in cash—the relative bonds issue? there against not being due until 1925 and 1931. In all probability any repayments thus received from Britain will be immediately re-invested in fresh treasury bills representing new contracts for our manufacturers. And of course if the British bills now held are renewed, the question of freshly disposing of the cash payments thereon will be deferred until maturity of the renewals. Sooner or later the British bills will be definitely or finally paid off, and our Government will come into possession of \$100,000,000 cash (or a greater amount if the Dominion Government

loans to the Munition Board are further increased). And the question of disposing of the money will require to be settled. Probably there will be odds and ends of war expenditure to be provided for. There may be for example a considerable floating debt in London requiring attention, and for some time after peace is concluded the abnormal war expenditures will be in evidence. It may be the case that the realizations from British treasury bill holdings will be applied for these purposes; and if so they would obviate new issues of Dominion bonds and in that way straighten out the accounts.

## Must Not Overload Banks.

These points all come up for consideration in any discussion of further loans to Britain by Canada. It certainly seems, if the Canadian banks carry \$100,000,000 in this one form of security, that they should not be asked to increase the amount. To overload the banks with British treasury bills would expose our banking system to exactly the same danger as that against which the Federal Reserve Board warned the American banks. As it stands, the bank loan of \$100,000,000 to the Munition Board amounts to more than one-eighth of the total amount of current loans and discounts for mercantile and industrial customs in Canada. So it would seem that the fresh loans by the banks, for munition purposes will probably be confined to the amounts of old loans repaid, thus keeping their investment at or around the \$100,000,000 mark. They might conceivably let the item rise to \$125,000,000, but any increase beyond that amount would appear to be unwise, unless, of course, a batch of old bills was due to be paid off within a very short time.

## An Imperial Government Issue.

So one is forced to the conclusion that for the most part the new or enlarged loans to the Imperial Munition Board will require to be made out of funds contributed by Canadian investors. As mentioned above, the method of issuing Dominion bonds here

and using the proceeds, wholly or in part, as loans to Britain, complicates the Dominion finances; and has the disadvantage of exaggerating the amount of the Dominion's funded debt—thus to a certain extent affecting the market for our bonds in the United States. On the other hand, if one or more issues of British Government bonds were made in the Canadian market there would be no undue inflation of Dominion debt and the situation would be simplified generally. Necessarily the British bonds offered here would require to be short-dated (not more than five years' currency) free from the British income tax, and they should bear an attractive rate of interest. The Exchequer 6 per cent bonds due 1920 would appear to suit the purpose very well. They would be more attractive to Canadians if in dollar denominations. And one would think it quite feasible to arrange for an issue of dollar bonds payable at Montreal, Toronto and perhaps New York. If the bonds yielded 6 per cent they would attract investors here, and probably many subscriptions would come in from friendly investors and financiers in the United States—especially if payment of interest and principal at New York also were provided for.

## An Experimental Issue.

There are points in favor of trying an experimental issue of say \$50,000,000 in that form. If made early in 1917 such an issue should not militate importantly against the success of a third domestic war loan later in the year. It is advisable to have the British bills mature in a short time, because of Canada's incessant need of capital for development purposes. If Canadians by keeping their productive activity at the maximum and curtailing needless expenditures, are able to absorb \$100,000,000 of British bonds in the course of a year or so, then when the bonds mature and are paid off the effect on our finances would probably be more beneficial than if we imported \$100,000,000 cash capital through borrowing abroad. An issue here of British 6 per cent at par need not necessarily force up the interest rate on a domestic Dominion loan to the 6 per cent level. In view of the prevailing quotations on the Anglo-French "fives" in New York, British bonds here would require to yield at least 6 per cent; Canadians generally would be on more familiar ground in buying Dominion bonds, and probably would be more inclined to invest in a different

# The Great War

Of old there was a great and memorable year when the Hebrew nation was renewed and "all things became new," the "great year of deliverance" with its songs of joy and gladness, the sursum corda! (Lift up your hearts) of a people filled with gratitude and praise. It calls for no prophetic vision to read the welcome signs of the times; that 1917 will be the great year of deliverance, of renewal and uplift for the British nation and Empire. That is the fair outlook and the joyous prospect.

"Hope like the gleaming taper's light,  
Adorns and cheers our way;  
And still, as darker grows the night,  
Emits a brighter ray."

That anchorage has not failed when clouds and darkness hung over the clear path of right and duty; the "brighter ray" grew and spread as the searching, trying months passed, today with heart and voice we rejoice in noontide brightness. Although anxious days are doubtless in the way of the confident and triumphant victory, we cannot doubt that the worst has passed and in the glorious triumphs of that past we have the assurance and certitude that they are the prelude of that near day of glorious and most welcome paeans of praise in the glories of blessed peace.

The national mind has been dusted. National duty has been realized and brought home at a terrible cost. Evil, "organized infamy", the menace of generations is at the front of righteous resistance, but deeper the enduring and the eternal.

"Love took up the harp of life  
And smote on all the chords with might—  
He smote the chord of self."

The true standard of values has been lifted up, eternal law vindicated and through sacrifice of the most precious things, even life itself, that home, country, right and liberty might be made secure; that the glorious heritage bequeathed by sire to son, that distinguished our race and people, shall be unimpaired, be handed on with a more resplendent glory to generations yet unborn.

In the needful but lesser things of life the great year at the door, as fruits of the war, will be in industrial and commercial relations, a larger co-operation and a keener intelligence. Individualism has its place in leadership, enterprise and the onward steps of progress; world conditions make individualism the helper of nationalism. Thus the war in merging interests has been made plain. The dragon spirit is one thing—Germany has evinced it—and the free spirit another. Harnessed in wisdom, seeking the greatest good of the greatest number, the higher claims of the nation can be met without jeopardy to the fullest liberty consonant with the real meaning, aim and end of liberty. Vast changes are inevitable within our Empire. Age long effort has been broadened and deepened by a common sacrifice. The unity was deep in ties as broad as deep as our national life. An overwhelming danger revealed our oneness and Flanders expressed it. The great year will be a new era to emerge, a bond sealed in blood that will be larger, greater than the greatness of the past.

With the expansion and in some outward form the consolidation will be international relations, so wisely so ably enunciated recently by Lord Bryce with "a Federation of Nations." Strange to us that out of strife so vast and a welter of blood so deep should come in a measure the realization of the dreams of poets and the hopes of statement: "There is a Providence that shapes our ends", and out of evil educing the larger good. The moral and social reforms brought to fruition and evolved by the new time be creative of still greater blessing. For all reforms are but stepping stones to greater things. What seemed afar off has been brought within practical experience and the new order, in spirit and purpose, found an abiding place in the upward and onward trend of greater, higher national life. For present good is retained by larger gains.

From the trenches across the seas come many

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