The Chronicle

Banking, Insurance and Finance

ESTABLISHED 1881. PUBLISHED EVERY FRIDAY

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GUARDIAN BUILDING, MONTREAL.

Annual Subscription, $2.00. Single Copy, 10 cents.

MONTREAL, FRIDAY, NOVEMBER 5, 1909.

CANADA'S BORROWINGS AND THE ENGLISH BANK RATE.

One thing remarked in Montreal financial circles during the past three weeks is that the rise in Bank of England rate to 5 per cent. would make a considerable difference to government financing of railway-building policies and of the public debt. As everybody knows, the Finance Minister has had free recourse to the market for temporary loans ever since the large expenditures on the new transcontinental line began. During the latter part of 1907 it was possible to say that, as the market for long-term bonds was deranged by the abnormal conditions in the United States, it was the part of wisdom to run along on a hand-to-mouth basis until the money market resumed its natural state.

Following on the heels of this period of stringency and panic came the easy money period of 1908, in which the Bank of England rate was 2½ per cent. and the market rate in London for short and three months' bills one and a fraction. On former occasions, after a first-class panic at one of the world's great money centres, and an enforced curtailment of industrial activity in all the world, there has ensued a period of dirt-cheap money in which it has been possible for borrowers enjoying the highest credit to issue bonds on extremely favourable terms. It was then quite reasonable for us to expect that Canada might borrow on long-term bonds in the neighbourhood of 3 per cent. when the industrial depression should have produced the usual piling up of funds in the centres.

There was another thing operating to induce the Minister to wait, and to tide himself along for awhile on temporary loans. Although day-to-day money was very cheap it was found that Dominion of Canada bonds could not be disposed of at a lower interest basis than 3½ per cent. Now in the cheap money period of the nineties we had borrowed at 2¾; and when the transcontinental railway scheme was submitted to Parliament by the ministers they had assumed that the necessary loans could be had at 3 per cent. So in the early stages of the post-panic relaxation it seemed reasonable enough to borrow from day to day for current needs, and from time to time to make a bond issue large enough to clean up the floating indebtedness, in the hope that our rate on long term bonds would go down to 3 per cent. But when the cheap money had continued for a year and our rate had shown no sign of getting down to the 3 p. c. level, and everywhere in the world industry and trade were rapidly raising their heads, one might conclude with reason that the time was opportune for issuing a large loan and thus providing funds amply sufficient to meet the national needs for a year or a year and a half in advance.

That is the policy which THE CHRONICLE strongly advocated and it now appears as if it would have proved decidedly advantageous. Events have moved rapidly in financial London since the end of September. The market rate of discount no longer hangs at one and a fraction. It is quite possible that the proceeds of the last Canadian loan, the final instalment on which was payable late in September, provided funds sufficient to clear off all our floating debt in London. But if it did so it is hardly likely that anything worth while would be left over for running expenses. In other words the probability is that if the temporary loans were wiped out and the $10,000,000 for the Grand Trunk Pacific handed over to that company, the national treasury would be nearly bare of funds available for spending purposes. And renewals of outstanding loans, or new loans negotiated in the past two or three weeks, could hardly have been secured at less than 4½ p.c. Indeed a rate higher than that may have had to be paid.

Now there are two questions which are very likely receiving earnest attention at the hands of the Finance Department officials at Ottawa. The first is: How long will the high bank rate and the high market rates at London last? and the second: What effect has been produced upon the market for Canada's long-term bonds by the change in monetary conditions in London?

Of course, if it were going to happen that the increased industrial and speculative demand for credits operated to bring on immediately another stringent period, the outlook for any more cheap loans by the Dominion would be decidedly poor. Happily the experts are not looking for that to happen. They appear to think the stringency may last through the present year and perhaps into the beginning of 1910. It will be but natural if the tension then relaxes somewhat. Afterwards, as the revival of industry and trade gathers way, the