IS CANADA AT THE MERCY OF WALL STREET?

AND MUST GREAT BRITAIN ALSO BOW TO THE NABOBS THERE

A Second Article on a Topic Which is Arousing Many Fierce and Acrimonious Discussions

ON July 31st, there was published in the "Courier" an article entitled, "Did the Hon. Mr. White Succeed in Wall Street?" It attracted considerable attention, was reproduced largely in the "Daily Journal of Commerce," Montreal, and in several other daily papers. It has been discussed in every banking office in Canada, sometimes favourably, sometimes adversely. The Montreal "Daily Mail" wrote a column reply to it, and the Montreal "Gazette" tried to riddle it in a two-column leader.

The chief points in the article were:—First: That Hon. Mr. White showed great wisdom in going to New York for money so as to prevent Canada having to pay out gold to that country; Second: That the rate of interest on that $45,000,000 loan was the highest Canada ever paid and that the terms granted to the New York investors were liberal; Third: That certain financial men thought the bonds were sold too low, considering the high rate of interest, but that the answer would be found in the later selling price of the bonds.

After four weeks, it is possible to go over the facts of this loan in the light of subsequent developments and emphasize the lessons to be learned. And there are lessons for every Canadian connected with big business and every man who is interested in the financing of his city, town or village.

1. Wisdom in Going to New York

NO one seriously disputes the first point in that article—that Mr. White was wise in going to New York. Even the Montreal "Gazette," in its furious, sputtering criticism, does not deny that, nor dispute the reasons laid down. Canada is buying more than she is selling in the United States, and that state of affairs can continue only so long as the United States loans money to our governments and municipalities.

But there is another reason. Mr. White has money to his credit in London, because he is getting money from that point to meet all his war expenditures. That is the arrangement between the British and Canadian Governments. But Mr. White found himself face to face with adverse exchange rates. **He could not get his war money over the ocean without paying an excessive rate of exchange.** That is a point the **Gazette** overlooks, though the Montreal **Mail** properly emphasizes it. If Mr. White had brought $25,000,000 of British notes or drafts to this country during the past month, the discount on that sum would have amounted to about $850,000—a terrific discount—due to the fact that the rate of exchange per pound has fallen from $4.86 to below $4.70.

Indeed, one may safely hazard the guess that Mr. White will use the $45,000,000 he got in New York to pay war expenditures and every other kind of expenditure until the rate of exchange improves. He, nominally, borrowed that sum for expenditures other than war, but that doesn't count. He will liquidate his war expenditures and later bring money from London to make up the deficit.

Further, there is no doubt that in this part of his plan, Mr. White has the fullest sanction of the British Treasury officials. They, no doubt, advised him that a loan in New York would help the exchange position temporarily. If the loan didn't improve it, as the British authorities expected, Mr. White's financing certainly tended to hold up the rate to a point higher than it would otherwise have been.

2. The Terms Were Liberal

MUCH discussion has raged around the second point that the terms were exceedingly liberal. The Montreal **Gazette** says that Wall Street knew that Canada would have to pay a high price in London and put the screws on accordingly. The **Gazette** is correct when it says the screws were put on, but is wrong when it says Canada would have had to pay "6 per cent. at least" in London. As a matter of fact, Canada still has money to its credit in London, borrowed at 4½ per cent. The "Gazette" is not well informed.

In the "Courier" article it was pointed out that the United States is interested in loaning to Canada because of its enormous sales of goods to this country. The "Gazette" tries to pooh-pooh this argument by pointing out that the business men who "sell" to Canada are not the men who "loan" to Canada. It is sad to see a prominent daily show such a lack of knowledge of the commonest principles of national finance. The United States bankers are now trying to arrange a huge loan for Great Britain, in order that the United States manufacturers may get paid for their shipments of war munitions. It is the same principle. Indeed, the principle is as commonly present in peace time as in war-time. Neither Great Britain nor Germany could ever have built up their huge foreign trade had it not been for their ability to "finance" their best customers.

The United States being interested, it would be reasonable to assume that Hon. Mr. White would get favourable terms. Yet his five per cent. rate and his "option to convert" into twenty-five year bonds looked excessive. It came as a shock to the financial community in Canada who had not realized that the rate of interest in London and everywhere else was advancing steadily. Mr. White recognized it and did not shy at paying five per cent.

Mr. White himself has not expressed an opinion one way or the other. He is apparently willing to bide his time and let events tell the story. For example, if Great Britain were to negotiate a loan in New York at 4½ per cent. it would show that the Canadian rate was high. On the other hand, if Great Britain's loan is made at five per cent., it will prove that Mr. White had fully sounded out the possibilities before he reached his decision.

In all matters of this kind, the terms of a big government loan must be a matter of judgment. Events will prove whether or not the judgment of Mr. White and Sir Frederick Williams-Taylor was right. At least, they cannot be accused of extravagance in payment of commissions. When a loan is floated in London, the commission paid is always over two per cent.; in this case, Mr. White paid only three-quarters of one per cent. This is probably the lowest commission ever paid on a loan of this size, and the total cost of the loan is diminished to that extent.

3. Test of the Selling Price

AS pointed out in the "Courier" article, the **TEST** of the price fixed by Mr. White and J. P. Morgan and Company would be the subsequent market quotations. The one-year notes were sold at 100 and the two-year notes at 99½. If the price increased when the bonds were listed on the stock market, then the original selling price was low. If the price was nearly stationary, then the original selling price was fair. That is the general proposition.

Now, after four weeks, what are the facts? As soon as the subscription books were closed and the allotments made, the price of these bonds rose about half a point. The time was opportune. More people wanted the bonds than were successful in getting them from the original sellers. Hence the early market quotations were high. Then came a change. There arose rumours of a huge British loan. The sterling rate dropped further and it was seen that some big financing must be undertaken. The Canadian loan had a few days' notoriety and passed out of mind. Hence on Friday of last week (23rd), the price fell below par.

It would be unwise to press this analogy too far. In these days it is exceedingly difficult to judge between cause and effect. The Canadian loan in New York at five per cent. may have taught the New York lenders a lesson. It may have helped to show them what a strong position they were in. They may not have fully realized it. Hence the willingness to pay five per cent. on the part of one of the allied governments may have caused the New York lenders to stiffen their rates.

On the other hand, the rates may have been stiffened before the Canadian loan arrived in New York. Great Britain's big domestic loan at 4½ per cent. might have told them that a five per cent. rate was coming if the war was prolonged or if events continued to look dark for the Allies.

There is plenty of room for argument on this point, and some space for honest differences of opinion. While this is the case, the general impression is gaining ground that, as events have developed, Hon. Mr. White and Sir Frederick Williams-Taylor made a reasonable bargain. They were in a tight corner, since exchange was dropping and it was next to impossible to bring gold over the Atlantic at a reasonable cost. They were facing all sorts of possibilities and contingencies, some realized since and others proved imaginary; and they made a fairly shrewd guess as to what would happen. Their enemies, if they have any, will say they were lucky; their friends will say that they showed good judgment and some prescience.

The truth is that both the British and Canadian Governments are financing without regard to the effect on all other securities. In a London despatch quoted in the **Monetary Times** (August 20th), it is stated: "The issue of the British war loan has had a demoralizing effect on all gilt-edged securities." London's list of 387 representative stocks showed a decline in value of £98,589,000 between June 21st and July 20th. Similarly during the past four weeks Canadian bonds and other securities have shrunk millions in market value. The excuse in Britain and in Canada is that the needs of the State must come first.

4. A General Rise in Rate

AS predicted in the "Courier" article, the rate demanded by borrowers all over Canada and America has risen since the Dominion Government loan was made. Dealers who had bonds on hand for sale at that time have been forced to drop the price. Any Government or municipality, or private corporation which has been borrowing money since has had to pay a higher rate. The "Courier" warned them that such would be the case and the warning has been justified.

One private corporation which has since arranged a considerable loan in New York is said to have paid 5 7-8 per cent. for the accommodation. Another which raised a smaller amount has had to pay 6 per cent. Municipalities that expected to get money at five per cent. are finding it difficult to get quotations at any rate. The bond dealers and other underwriters are not sure what will happen and are not keen to buy. In this they probably reflect the opinion of these customers.

As pointed out in the "Courier," the rate paid by the Dominion Government sets the rate for all other loans, public and private. That contention has been proven in a striking way on this occasion.. **Every loan made in Canada and every sale of bonds, debentures, and mortgages made in August, has been affected by the rate of the White-Taylor loan made in New York in the latter part of July.** That was all that the "Courier" predicted, though some critics of the article tried to read other sentiments into the statements made at that time.

Fortunately, this New York loan seems to have put the Dominion Government in a position where, with a proper economy which is not at present shown in all departments, it should not require another borrowing until the end of the year. If, however, it must borrow again in 1915, the loan will probably be domestic. There is no reason why Canadian investors should keep quite so much money in the savings banks at three per cent. and allow their Governments to pay five and five and a half per cent. to United States citizens. A domestic loan would be a good idea. It would cause many people to take money out of secret places and, moved by patriotic impulses, put it into government bonds to help the Empire in its day of need.

Canada has entered definitely into a new era of interest-paying which may last a few weeks or which may last several years.