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How Exchanges are Being Maintained

GREAT Britain and Canada Have a Good Working Arrangement. We Borrow from Britain Our War Expenditures in Europe; They Borrow from Us Part of the Funds for Purchase of Munitions Here—How the Munitions Advances Have Been Made.

"WHEN the war broke out the exchange was very much in favor of Great Britain as against this continent, and the result was that Canada borrowed her war expenditure in Great Britain up to about the spring of 1915," said Sir Thomas White, in his instructive address in the House at Ottawa last week. "If we had not done that I think," he continued, "we should have lost considerable gold, because the exchanges were greatly against America. We borrowed at first, therefore, from the Imperial Treasury. As our situation improved we were able to take care of our own expenditure here. In 1915 the exchange was reversed and became unfavorable to Great Britain. It is very unfavorable now to Great Britain, although not nearly so unfavorable to Great Britain as to other European belligerents.

"The exchange situation to-day is such that Great Britain can only purchase on this side of the Atlantic if she is able to borrow on this side of the Atlantic. That is really an understatement of the fact, because she must not only borrow in order to buy here and in order to pay for her purchases on this side of the Atlantic, but she must also borrow for the purpose of sustaining sterling exchange and holding it at the figure of \$4.76, which is about the gold export point. That is also of great importance, although this being a technical matter, its importance is not realized by the general public. Our position very much improved by reason of our great production in 1915, by reason of the large prices obtained for produce of all kinds and by reason of our great production of munitions. Canada has been able, out of her own revenue, and by her own borrowing in Canada, to help Great Britain in making her purchases in Canada. That is of great advantage to Great Britain and also of great advantage to Canada. Generally speaking, the policy which has been adopted is this: We made an arrangement to borrow from Great Britain for our expenditures in Great Britain and on the Continent; that is to say, we do not buy exchange on Great Britain to pay for the maintenance of our troops there or on the Continent, we borrow the amount necessary from the Imperial government and they borrow from us here part of the amount that they require to pay for their munitions. That runs about \$25,000,000 a month in this country. One way of dealing with the accounts would be to offset one against the other.

"But Great Britain has been obliged to borrow heavily in New York and she had been obliged to lodge collateral in New York as security for her borrowings. I think it is unfortunate that she has been so obliged, but it is the fact, and it is an object to her to find securities of a high quality which she can deposit as collateral. I went to New York a year ago last fall at the request of the Imperial Treasury to meet Lord Reading and the representatives of the Treasury. I thought that they would be obliged to give collateral later on and I made the proposition at that time that as we owed them, let us say, \$100,000,000, and as they required collateral in New York, we should fund our debt of \$100,000,000 to them by issuing them our securities for the same period and at the same rate as they had issued theirs in the London market, and that they should use that collateral to borrow against in New York, where our credit is about as high as that of any country in the world. Later that plan turned out to be of great advantage both to Great Britain and to us, as it gave them more than \$100,000,000 of high-class collateral which they put up with other securities against their \$250,000,000 loan. While it gave them collateral to the extent of \$100,000,000 or more, it gave us also an advantage in that we funded our floating debt to Great Britain. That simply refers to advances on account. But it liquidated the open account in respect to these advances. The result is that we funded our debt.

"It was not only an advantage to Canada to make an issue to pay off her indebtedness, but that issue was made without any expense to Canada and at precisely the same rate of interest as Great Britain had borrowed on the London market on the Imperial credit. We had the further advantage of the exchange situation, which for some time had been favorable to us, and in determining the amount of our indebtedness which should be cancelled over there by the issue of these securities we had regard to the exchange situation which existed between Great Britain and Canada at the time the advances were made. That, I may say, was at the suggestion of the Imperial Treasury, and it was altogether a good arrangement for both them and us. Altogether, we issued, or are about to issue, to the Imperial Treasury about \$122,000,000, and to that extent liquidated our indebtedness for advances made by Great Britain to us in Great Britain.