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The Journal of Commerce

FINANCE AND INSURANCE REVIEW.

MONTREAL, JAN. 5, 1877.

THE NEW LOAN.

The recent discussion of the terms of the new loan by the leading political daily journals has only confirmed us in the view which we took of the subject in our article of the 15th ultimo. As we fully anticipated, after the return of the Finance Minister, the leading organs of the government in Montreal and Toronto have afforded explanations which are calculated to remove the objections originally offered by the opposition press, and which were conceived in a spirit calculated, in our judgment, to be injurious to the public interests. On one point alone the ministerial papers failed to offer a satisfactory explanation. We are not informed of the reasons for requiring tenders for the previous loan, and offering the last at a fixed price. We have no doubt that there was a sufficient reason for the course formerly adopted, and we think that it is a pity that it was not given. The invariable usage of the Imperial Government is to require tenders, and that Government is sufficiently master of the position to be able to enforce its own rules on the money lenders. It is not improbable that there may be a treasury minute requiring tenders in all cases in which loans secured by

Imperial credit are offered to the public. The previous loan consisted partly of Imperial guaranteed bonds, and, on the assumption that such a regulation is in force, the tender system was the only one that could have been resorted to under the circumstances. We endeavoured in our former article on the subject to impress upon our readers that it is absolutely necessary for all classes of borrowers of money to study the wishes, nay even the prejudices, of lenders. The conclusive answer to those who persist in maintaining that the late loan should have been offered by tender instead of at a fixed price is that lenders very much prefer the latter mode of placing a loan on the market. The reason for this is obvious. When tenders are invited the custom is for the borrower to state in a sealed envelope the minimum rate which he will accept. The consequence is that a certain set of lenders outside the ordinary jobbers give from 1 to 2 per cent. above the fixed rate for what they want, while the bulk of the loan is generally obtained at the fixed price, the tenders being often under it. The success of loans in the London market, we need scarcely observe, depends on the regular jobbers. They, of course, expect in running the risk of taking large loans to make a profit by disposing of them in small amounts to their customers, and they are not likely to approve of a system which enables those customers to supply themselves without their intervention. As we have already stated, the Imperial Government is sufficiently master of the position to enforce its treasury regulations, and the more so because there is a very large class of investors among the various associations and companies, which do not deal in foreign or colonial securities, which is able to absorb a very considerable portion of a loan of moderate extent. Such is not the case with loans to foreign or colonial governments or corporations. In those cases the jobbers are masters of the position and able to insist on the publication of the fixed price instead of its concealment. That really is the point at issue. We presume that there can be no doubt that, if the last loan had been placed by tender, the sealed minimum would have been 91, the rate at which it was offered. The *Toronto Mail*, which has again endeavoured to disparage the negotiations, states that, if the Minister of Finance had asked 92 cash, "he would, we think there is evidence to believe, have been fairly successful." We consider the *Mail* wholly mistaken in his criticism on the condition of deferred payments which was in strict accordance

with the usage of the market. It would have been a blunder to have fixed a cash price. Of course the mode of payment is an important element in the calculation of the price, but if 91 with deferred payments were too low a rate, the proper course would have been to have fixed a higher rate, likewise with deferred payments. Party writers in Canadian newspapers are merely knocking their heads against a stone wall, when they seek to alter the usages of the London money market. The *Mail* falls into another serious mistake when he draws an inference from the fact that "the loan was subscribed for three times over" that a higher price would have been given. It is quite notorious that when loans are offered in the London market the general practice of the jobbers is to ask for a great deal more than what they really want, in the hope of getting what they require. A loan brought out by such houses as Barings & Glyn's is likely to stand sufficiently well to induce jobbers to run the comparatively trifling risk of getting too much, in order to secure what they want. This is one of the advantages of a fixed price. When the minimum price is concealed, people have not the same confidence in tendering except at low rates. The *Mail* is evidently of opinion that he has made a great point by quoting from a London paper that the loan was at a premium of from 1½ to 2½ per cent. on the day it became marketable. We confess that, far from looking on this fact, assuming it to be one, as unfortunate, we think it highly gratifying. Is the *Mail* simple enough to believe that the jobbers who subscribe for any loan do so with any other idea than of making profit by the operation? "Somebody (says the *Mail*) realized £50,000 the moment the loan was thrown open to public competition." Now the expression "somebody" implies that the loan was taken by some one individual, and elsewhere Mr. Cartwright is directly charged with "handing it over to the Dominion agents without calling for tenders or inviting competition," and by his action in the matter it is said that "he has voluntarily placed himself in a position which must create grave suspicions unfavorable to himself." We have no hesitation in asserting that these base insinuations against the financial agents of the Dominion, firms of the highest standing and of the most unblemished honor, will meet with no encouragement from right-minded men of any political party, and it would be ungenerous not to add that the insinuation against the personal honor of the minister of Finance is equally deserving of condemnation. Before these unworthy