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PRESENT AND FUTURE BORROWINGS

The circumstances of the borrowings which are at present being made in the New York market by the governments of both belligerent and neutral countries have a wide interest. It will be in recollection that some months ago the Washington Administration formally announced that no loans by belligerents in the United States would be permitted. Although no later notification of the United States Government's attitude has appeared, it seems that the Administration at Washington has now modified its position. Apparently, the Administration does not object to these borrowing operations provided that there is no outward transfer of the borrowed funds. The borrowings which are now taking place do not call for any transfer of funds outside the United States. They are merely a means adopted of payment for the immense supplies which are being drawn from the United States, both by the belligerents and by neutrals, alike in the shape of war equipment and of ordinary supplies. These purchases could have been paid for in two other ways, by gold shipments, and in the case of some countries by the sale of American securities. But Europe, under the present circumstances, will not part with more gold than can be helped, and is more disposed to pay for purchases in its own securities than through the sale of its American holdings.

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These securities are being offered in the New York market to yield a rate of interest, generally speaking, round 5½ to 6 per cent., and a recent editorial of the New York Journal of Commerce furnishes an acute analysis of the reasons why for this high interest rate. A study of the income yields from standard American bonds in recent years shows that these foreign loans are apparently intentionally offered at rates of interest beyond the normal yields of any bonds in competition likely to attract American capital, so that a strong inducement is given to American capital to take up these bonds. On the other hand, the rates now being offered are apparently excessively in advance of the interest yield of the securities of European nations before the war. Thus the average return from Consols in 1913 was 3.42 p.c., from French rentes, 3.45 p.c. and from German threes, 3.95 p.c., there having been a rise in these yields of from 0.34 to 0.40 per cent. since 1910. The explanation of this phenomenon, as pointed out by the New York Journal of Commerce, is that the financing is purely of a temporary character, the securities offered all being of very brief duration. For the moment, American enterprises are being overbid in the competition for capital, but the rate of interest promised is for only a year or two in most cases. The theory on which this financing is being arranged is, in fact, that when the war is over, the European nations will be again able to borrow at a rate of interest somewhere near their former rate—at all events much below the 5½ or 6 per cent. now being paid. Hence the disinclination to realise at depreciated levels American securities yielding a relatively high rate of interest according to European standards.

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What the trend of the rate of interest will be after the war remains to be seen. But even if it were to rise to 5½ or 6 per cent. in the case of borrowings of the European governments, which is barely conceivable, it does not necessarily follow, in the weighty opinion of our New York contemporary, that American capital would continue to take an interest in these loans. "The same factors that have placed the American interest rate above that of Europe," it says, "would still be operative and would still tend to make the offered interest on American securities rise higher than that paid in Europe." This opinion is a distinct damper to those aspirations which find occasional voice, that New York will in the not far distant future supplant London permanently as the world's financial power-house. The opinion suggests also that caution needs to be used by Canadian borrowers at the present time in their use of the American market. For short term issues needed to supply funds for absolutely necessary works, the American market may at the moment be found exceedingly useful. But there is the possibility if borrowers go beyond this, that they may find later on when the London market for new issues re-opens, that they are paying a considerably higher interest rate than they need have paid, had they waited and borrowed in London. Whatever the loss of capital as a result of the European conflict may be, there seems little reason to doubt that London will remain after the war the cheapest market for Canadian borrowers. Undoubtedly a valuable preference will be again accorded Canada in financial London, as a result of present events, and in the economic future of Canada, it will be a factor of some importance that our borrowings are made as cheaply as possible.