

there is no doubt but that the cost to the government would be greater. The interest rate would have to be more favorable, and the distribution of the loan would be different. A yield of five and three-quarters or six per cent. would make the bond more favorable to the man of small means, but they would not appeal to the man of large income so much because they would be taxable. The existence of one billion and a quarter of tax-free bonds will, moreover, complicate the situation, because these are available for purchase in the market. There would no doubt be a strong demand for them, until the increased cost adjusted the value of tax exemption. The man of large means would have to pay more for them; the small holder would probably dispose of them at a profit, and purchase the higher yielding taxable bonds; and the government would lose, because it would have to float its loans at a higher interest basis, and would collect little more income tax, through the large holdings of tax-free bonds which men paying heavy rates would make it a point to acquire. But the justice of the contention, nevertheless, remains, and a concession which results in the advantage of particular classes should not be retained any longer than is necessary.

#### PUBLIC AND PRIVATE CREDITORS

Seed grain liens for the year 1919 will no doubt be considered shortly, and the old system is due for one or two important revisions. Whether it is the proper function of the Dominion Government to make such loans is itself open to question, but if it does so it should not interfere with the security of mortgage holders. The loans were first made in 1915 under the authority of Dominion and provincial legislation. It was enacted that the government should have as security for the loan a first claim upon the land and its produce. The security of mortgage holders was, therefore, undermined without regard to the standing of such securities in view of foreign holders.

The rate of 5 per cent. which was fixed in 1915 has remained, whereas the market price for money has been increasing and even for a farm loan secured by a prior lien on good land, the rate is  $6\frac{1}{2}$  or 7 per cent. In the West, the Dominion government is, therefore, not only assuming the best security but is also loaning at rates much below the present market and below the rate at which it borrows itself. When Canada is borrowing heavily, as at present, the use of money is worth about  $5\frac{3}{4}$  per cent. per annum, and the people as a whole are, therefore, paying three-quarters of one per cent. in order that the western farmer may secure capital at 5 per cent. to invest in business which is offering greater profits than it has ever done before.

If it was the case that a large section of the West was filled with recently arrived immigrants who were in danger of being forced off the land through a single crop failure, there might be some justification for government assistance of this kind at the public expense. Most of the grain growers have, however, been established for several years, and with possibly a few extraordinary exceptions they have all had two or three successful crops which they have sold at unusual prices. What immigration there has been into the Canadian West during the past three years has been mainly from the United States, and almost invariably the immigrants have been former agriculturists who have sold their property there and are quite capable of surviving one or two unsuccessful seasons. Extraordinary assistance granted to meet extraordinary circum-

stances should not be maintained beyond the period of necessity.

The banks operating in the West have the utmost confidence in the credit of the farmer and his ability to pay, and are at all times prepared to make such advances as his condition warrants. A mortgage holder, moreover, would, in his own interest, willingly leave over the payment of interest for a year or so rather than adopt any foreclosure proceedings, because he knows that if the land has value at all, it can be used profitably at the present time. Mortgage holders have continually objected to the action of the Dominion government in transferring them to a secondary position from the point of view of security, and rightly so. In return, it is expected, of course, that mortgagees will display reasonable leniency to assist in the task of production.

#### NEW CROP AND THE EXCHANGE MARKET

Up to the date of writing, the market for New York funds in Montreal and Toronto has not been sensationally affected by the near approach of the grain export movement. The quotations have dropped off to a certain extent but the premium still stands not far from the 2 per cent. level. In the West, threshing is now general, and wheat is already moving to market. However, in the ordinary course it is usually some time in October before the exporters' bills of exchange become numerous enough and large enough to influence the exchange market notably; and in these war times the special measures and regulations put in force by government sometimes operate to affect the financial and trade movements considerably.

The Dominion government's recent announcement guaranteeing a market for the surplus wheat produced in 1918, at the prices fixed by the Board of Grain Supervisors for Canada, rather created the impression that the financial arrangements for the purchase of the Canadian wheat crop of 1918 by Britain have not yet been definitely completed; and that in case of the earlier deliveries it might be necessary for the Dominion government to implement its guarantee—that is to say, the government may be required to take delivery of the grain from the Canadian dealers and shippers, pay for it, and retain the ownership until such time as the British government has definitely arranged to take all that is offered. It will be seen that the effect produced on our exchange market will depend largely upon the manner and method of financing the harvest movement. In ordinary times the shippers at Winnipeg and other Canadian centres would draw their bills of exchange on the consignees in the United Kingdom or in New York, and in either case we would have the funds at the American centre practically at once. If it devolved, on the other hand, that our government buys the wheat in the first instance, paying for it with Canadian funds, and holds the title thereto for several weeks, the effect upon the exchange market will not be so immediate. The bills of exchange would not be so promptly available for negotiation at New York, and the relief to our importers and others who have large payments to make in the United States would be postponed.

Should it be the case that Great Britain has agents ready to buy all our wheat as it comes forward, payment being made promptly in American funds, we might expect to see that premium on New York drafts shrink or disappear some time next month or in November. Even if, under the pressure of heavy shipments of grain, the