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BANKS AND GOVERNMENT BONDS.

With the nearer approach of the time when its heavy borrowings for the National Transcontinental Railway can no longer be delayed, the Government will find a deeper interest in studying the international money markets. London is, of course, the place whence most of the funds are expected to come, but London, New York, Paris, Berlin, have become so interdependent one upon another that conditions at all of them have to be taken into account. Several years have gone by since the project was first mooted. Monetary conditions were stringent then, but it was hoped that they would improve before the loans were needed. As a matter of fact the stringent conditions date back to the Boer war, and at the present time, it is not easy to see how they are to be relieved if the rate of industrial expansion continues. So, with regard to the new money he requires, and to the old loans maturing, the Finance Minister will, apparently, have to do the best he can, perhaps in markets not differing greatly from the present.

Though London will be the main market for the bonds it may be that a part can be placed in Canada. The rate of interest on bonds issued by a government in such high credit as ours could not well be high, but there are other considerations that help to make them attractive to certain classes of investors. In the States it is well known that some of the wealthiest millionaires make a practice of holding a considerable sum in government bonds yielding two or three per cent. They do not, as a rule, withdraw funds from other investments or ventures to put into government bonds, but they can quite handily acquire the latter by habitually putting a part of their profits accruing from deals of one kind or another into them, until they have what they consider is a sufficient quantity.

The advantages attaching to bonds of this nature are well known. The investment is stable and safe under almost any conceivable conditions, and as collateral they are unsurpassed; money can be raised on them practically at any time.

Insurance companies, trust companies, banks, and other corporations also find it advantageous to hold them for the above, as well as for other reasons.

In Canada the class of very rich men is not so important as it is in the States. And quite possibly the rich men that we have would not feel attracted towards 3 p.c. government bonds. But, doubtless there would be among them some who would be disposed to assist the government in its financing of a national undertaking. Some subscriptions could also be looked for from the class of small investors. Quite a number among these, especially among the older men, find Dominion Government bonds attractive.

However, the most important support would have to come from the corporations, fiduciary and financial. The insurance companies are not slow to advertize the fact when they have a part of their assets in government bonds. The trust companies also that might have a reasonable amount in the security could take credit for it with the people.

So far as the banks are concerned, at first sight it might appear that with commercial borrowers clamouring for all the loans they can get, there would be no banking funds available for putting into government bonds at so low a rate of interest. A banker might take the ground that it would be better to use his resources entirely for the commercial and industrial development of Canada and for the Government to get all the funds it needed for railway building from abroad. In that way the country would have the use of more money than if part of the bonds were taken here. But, no matter how much the bankers might desire to use all their resources in commercial loans, prudence forbids them doing so. They must keep a certain proportion in the form of cash, call loans, securities, etc., as a reserve. It would be quite within their ability to maintain some part of the increased liquid reserves they will require to carry against increased liabilities in the form of Dominion Government bonds. And it need not be a lock-up either. For, deposited with London bankers as cover for drawings, the bonds could be drawn against practically to their market value. They form a collateral security most highly regarded in London. If the proper arrangements have been made, all that is necessary to utilize them is to draw bills on the London bankers and to negotiate them in Montreal or New York. It is very likely, too, after monetary conditions in the world's great centres settle down, that the overdrafts obtainable against the bonds would be, quite often, at a rate less than the bonds bear. Whenever this happened the circumstance would add to the profit of the transaction.

Thus the banks could help maintain the national credit without withdrawing their resources from the channels now filled by them, and without lock-