CANADA AS CREDITOR.

Under this heading, the London Economist, in its issue to hand by this week's mails, gives considerable space to discussion of the decision of the Canadian Government to devote $50 millions of the enlarged War Loan to the establishment of a credit for the Imperial Treasury. The Economist, which is evidently much impressed by this decision, remarks that this event constitutes a sufficiently dramatic change in the financial relations between Canada and the Mother Country, even for these days when so many economic landmarks have been swept away by the avalanche of war. While in the first half of the current year, colonial governments went to the London market for £15,405,000, Australasia, New Zealand and India, as well as Canada have lately raised internal loans and it may be expected, says the Economist, that if the war goes on and these countries continue to earn large profits by selling to the mother country their produce at high prices, others are likely to follow the Canadian example now set. In other words, the mother country will be lent by Canada and the other countries, goods needed for the war.

The Economist proceeds to make some very interesting and weighty observations in regard to the present innovation, which we quote in full as follows:—

FINANCE, THE HANDMAID OF TRADE AND PRODUCTION.

"It is a very interesting turn in the wheel of financial fortune to find the young countries, whom we have so lavishly helped in the past with our capital, now ready, at the hour of our need, to return the compliment, and lend some of it back to us in the shape of the goods which our past top-dressing has enabled them to produce. Until the war we and France were the great markets for capital whither all the young communities, in need of the sinews of production, used to repair. Now we and France have need of all the capital that we can raise at home and more, and we are already to borrow some in America and Canada, and we may fairly expect to add to the list of our creditors if the war drags on. There is nothing magical about this change in our position and theirs. It is very easily accounted for if we remember that finance is only the handmaid of trade and production, and that no nation can lend to others unless it has a store of goods and services available, in the shape of which the borrower can take the money; also that those who wish to sell goods to nations which have good credit and prospects, but a slender stock of goods to export, can only do so if they lend them the money to pay for the goods with. Before the war we had goods and services ready which we wanted to sell abroad in countries which were less developed, and so we lent them money which they took in the form of our goods and services. America, South America, Japan, Egypt, Russia, China, Scandinavia, and all our dependencies bought goods and services from us, and owed us the money. The more we lent the more we exported, because the loans were taken, not in gold, but in commodities and services. Now the trade balance is on the other side of the ledger, and so the loan balance follows it. Our power to export is reduced, and our need to import is increased. The countries to whom we used to lend goods still need them for internal development, but owing to the high prices produced by the war, they prefer to let internal development wait, and to put all their energy into turning out stuff that we need. So we reap where we have sown, and the big profits that our debtors are making give them a balance that some are already beginning to lend us.

FINANCE AND PRODUCTIVE POWER.

"It is an instructive example of the manner in which finance follows or accompanies trade, and useful in these times when too many people seem to think that finance is a kind of magical jugglery that can make money out of nothing. No one can finance others unless he has stuff or services to put down, either his own or other people's, on which he has a claim. Accommodation paper with nothing behind it may pass current for a day but soon finds its way to the dustbin. War has raised the price of goods, and those who can turn out goods are the financiers, and those who need goods are the borrowers. The fact that one of our colonies is already able to lend to us merely means that her productive power, helped by the high prices that war has placed on her products, gives her a surplus for export, and enables her to lend it to us. The fact is of good augury for our financial staying power in the war, but we shall do well to be cautious in relying on it. There are limits beyond which it will not be wise to prove the process, and it is very expensive, as we found in America. Those who borrow in young countries must pay the price for capital that rules in them, and that price is always relatively high."