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CANADA AND THE NEW INTEREST LEVEL.

Canada is vitally interested in the question of what is likely to result in the market for capital as a consequence of the British Government's action in issuing its new war loan to yield 4½ per cent. Long years as a borrowing nation lie before us. Some authorities think that partly as a result of the American investor's disinclination to take up securities outside this continent, the influence of the new interest level will be felt less in the United States than anywhere else. But, assuming that this is the case, there is no assurance that Canada will be able to supply her needs in that market. It is true that within recent years the American investor has shown an increasing interest in our securities, and has absorbed a very fair and increasing proportion of our bonds. But, however satisfactory that may be, his demand has not been sufficient to indicate that we can in the future afford to rely solely upon that market to supply our needs. Thus far, there is no reason to doubt that in the future, Canada will have to rely mainly for her borrowed capital upon Great Britain.

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The effect of the new loan has already been to depreciate in market value, the low-yielding long term securities of the Canadian Government and provinces which have their market in London. In regard to future borrowing by these authorities, it is obvious that they can hardly expect to get better terms than the Imperial Government itself. It must be remembered that the new war loan will run for 10 years at least and though it may, of course, rise to a substantial premium, its action in this respect is limited by the possible redemption date so that for some time, investors are likely to find it a reasonably attractive holding from the income point of view, aside from the possibility in the event of a very long war, of conversion into a loan bearing an even higher rate of interest. Under these circumstances, it would seem likely that both the Dominion Government and the provinces will find it necessary to restrict their borrowing to absolute necessities. The former will eventually, of course, have to put its war financing on a permanent basis, and it may be suggested that means may be found whereby the Dominion Government can do this in the cheapest possible way through the Imperial Government—an extension or amplification of the arrangement now in force being made. Within the last year or so, some of the provinces have been successful in borrowing at fairly reasonable rates of interest in the New York market. Possibly, they may be able to continue doing so to a certain extent, but they are likely to find that too frequent applications will not be appreciated, and that there will have to be a long end to the plentiful spending for which some of the more "enterprising" of the provinces have become notorious.

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In regard to the municipal market, the outlook is obscure. Some useful information on this subject was collected last week by the *Financial Post*, but the net upshot of its collection of opinions is that there can be no certainty about the outcome of the present situation. The United States market is again in this case looked upon as likely to continue to absorb a certain proportion of our issues. The insurance companies also are looked to as possible supporters of the market for the higher yielding bonds. In this connection it may be noted that while municipal issues are made for necessities of civic life and not for mere "frills" the insurance companies and other investors are performing an essentially patriotic service in purchasing these bonds. The purchase of these may not be so showy as a subscription to the war loan, but it is equally useful. Whether the war lasts three years or five, it is still essential that our cities and towns should be kept in such condition that they are not swept by pestilence. But in view of the high yields which the insurance companies generally have been obtaining in recent years, it is to be expected that these investors will continue to insist upon comparatively high rates of interest, more especially as the war is making its demands upon them in increasing volume as the casualty lists come in.

What is likely to happen in the case of railway and industrial financing can only be guessed at. Of railways, we have a-plenty for the present and in the next ten years, they are not likely to call for a great amount of capital, once present needs have been arranged for. A rough guess at possibilities in regard to industrials would be that industrial bonds will go out of fashion and have as successors higher yielding preference stocks participating also with common stocks in profits. The one thing certain in the outlook is that, if a favorable interest rate in the future is to be ensured, capital must be accumulated as it has never been accumulated before to replace that wasted.