

PUBLISHED EVERY FRIDAY

BY

The Monetary Times
Printing Company
of Canada, Limited

Publishers also of

"The Canadian Engineer"

Monetary Times

Trade Review and Insurance Chronicle
of Canada

Established 1867

Old as Confederation

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How Exchange Situation Affects Canada

BIGGEST Item on Our Balance Sheet, Interest on Securities, has been taken away from Sterling Exchange and Become an Item in New York Exchange—Importers are Benefiting and Exporters are Losing on the Present Rate—Continuance of Export Trade Very Necessary.

IN a recent interview at Ottawa, Hon. W. T. White, finance minister, stated: "Any improvement in sterling exchange rates will benefit Canada." A prominent Toronto merchant who does considerable buying in Great Britain and elsewhere abroad, writes *The Monetary Times* as follows:—

"I thought it an extraordinary statement for the minister of finance to make, he having frequently very large sums of money to pay in London in the shape of principal and interest. Does Mr. White not find it beneficial to buy exchange at a low rate to pay his indebtedness in London?"

"I will venture to say that during the past six months Canada has saved millions by the exchange rate on London being low. I heard a silk merchant say, the other day, that he was able to pay his liabilities in France at 85 cents on the dollar. In other words, he was able to buy exchange on Paris to pay for his debts there at 15 per cent. less than normal. The Dominion government, every provincial government, every civic corporation and trust company, and in fact every merchant having any relations with England or money (principal or interest) to remit there, benefits by a low rate of exchange. Now, on the other hand, it does not in any way affect the price we are paid for our products, as the world's markets settle this, not any one country's."

Commenting on the question raised by this merchant, Professor Adam Shortt points out that from the view of the importing merchant, the correspondent quoted above is quite correct in his contention, backed as it is by practical experience. "He is entirely astray, however," says Prof. Shortt, "when he says that the present exchange situation does not adversely affect the value of our products sent to Europe."

The Monetary Times asked another well-known merchant, engaged largely in the export business, for his views. He writes:—

"When sterling exchange is at a discount undoubtedly the merchant who has payments to make abroad benefits; equally the shipper who is paid for his products abroad suffers. In the one instance a pound sterling settles a debt abroad larger than its par value, \$4.86 $\frac{2}{3}$; in the other case a pound sterling at credit abroad is worth less than its par value when converted into currency here.

"It is well to remember that, almost every year at some time during a period of heavy demand for money, financial arrangements are made by governments, local or federal, and by bankers or financial houses, in the sale of treasury bills or the sale of bills of exchange against securities lodged in London, whereby over a temporary period money is borrowed to meet the pressure and is returned later when things are easier. With an adverse rate of exchange, all such transactions are hindered and rendered difficult, as there will be the natural fear that, if money is brought out under a severe discount a charge will be created which will make the money unprofitable if exchange is re-established on a higher basis.

"Broadly speaking, there is no advantage to the country in continued abnormal conditions, and exchange is no exception to the rule. The nearer to par debts abroad can be discharged, and the nearer to par collections can be made for products shipped abroad, the better for all concerned. It is not well to subject the movements of the natural products of the country to foreign markets to a severe discount in exchange, and thus institute an added charge which does not make for wholesome conditions. Nor is it good for the country as a whole to have conditions present which make difficult easy financing abroad when the requirements of the country call for additional moneys."

Mr. John Macdonald, president of John Macdonald & Company, dry goods house, Toronto, points out that the present low rate of exchange apparently would be very beneficial to the importers who pay their bills in London.

"At the present rate of exchange," he adds, "Canadian importers who pay their bills in London are making a profit of $3\frac{1}{3}$ per cent., or \$33,333 on every \$1,000,000 worth of sterling money sent to London.

"The Canadian exporter, if sold at sterling prices, will lose as much when he gets his bills converted into currency, but when shrewd enough to sell in currency prices he would not suffer any loss.

"As the government has remittances to make for interest or principal of borrowings it will save $3\frac{1}{3}$ per cent., but if new loans are taken up in England it will lose on them and their profit or loss will just be in proportion as to which of these items are the larger. For Canada to reap the maximum benefit of the present conditions would be to buy in sterling and sell in currency."