DID THE HON. MR WHITE SUCCEED IN WALL STREET?

THE STORY OF THE GETTING OF FORTY-FIVE MILLION DOLLARS FROM SHREWD UNITED STATES INVESTORS

Did Mr. White Score a Triumph, or Was the Triumph Scored by Morgans and Their Associates? Will Canada Lose Ten Million Dollars by This Transaction?

WHEN the Canadian Government borrows money and agrees to pay a certain rate of interest, that transaction affects every borrower, public or private, in the Dominion. For example, if the Canadian Government will pay only 3½ per cent., the Provinces will probably be able to borrow at 3¾ or 4 per cent., the municipalities at 4 or 4¼ per cent., and private borrowers at 4½ or 5 per cent. The Dominion Government, according to history, can always borrow a little more cheaply than the Provinces, while the Provinces borrow a little cheaper than the cities, and the cities a little less than the private borrower.

Hence, every transaction by the Dominion Government affects the Provinces, the municipalities and the private borrowers. The Canadian Minister of Finance sets the rate at which all borrowers shall pay. If the Minister is careless or extravagant, and pays an excessive rate of interest, he forces all other borrowers to pay a higher rate. If he is frugal and a good borrower, he helps all other borrowers to get money cheaply.

To take an extreme case. Supposing we had a lazy, small-headed bungling Minister of Finance at Ottawa who borrowed money on a large scale at seven per cent interest. The Provinces would be compelled to compete with him, and might have to pay 7½ per cent. Then the municipalities would have to compete with the Dominion and the Provinces in the money markets, and would have to pay 8 per cent. Private borrowers, say railways, traction companies, manufacturers, and so on, would be forced by competition to pay 9 per cent. Thus we see that every loan of a big nature must be made on terms which are set by the Dominion Minister of Finance.

Why We Went to New York

WITH these circumstances in mind, let us examine the latest exploit of the Hon. Thomas White, Canadian Minister of Finance. He is getting all the money for war expenditures from London. The British Government has agreed to help him in this respect. He has no difficulties so far as war expenditures are concerned. But if he has not enough money to pay for other expenditures, such as canals, post-offices, armories, docks, dredging, and other public services. He much borrow elsewhere.

Now, Hon. Thomas White needed forty-five million dollars to meet the deficit of the year 1915. Whether there ought to be a deficit or whether there ought not to be a deficit is not a matter to be discussed here. There is a deficit, and that deficit must be met. Therefore the Hon. Thomas White arranged with the Bank of Montreal, J. P. Morgan & Co., Brown Brothers & Co., First National Bank and National City Bank of New York to raise the necessary forty-five million.

There can be no objection to our going to New York to borrow. It is practically the only market open to us, though the Dominion had never gone there before. The Provinces and the municipalities have been going there since the war broke out. They have borrowed over a hundred millions in that city during the past twelve months, and they also got their money at reasonable rates. Moreover, Canada is buying so much more from the United States than we are selling to that country that it was difficult to pay for all we wanted. The rate of exchange was therefore against us. A big borrowing like Mr. White contemplated would help to restore the balance. That is, the Dominion Government would get its money, not in cash, but in credits due American firms by Canadian creditors. Thus it would be beneficial all around and prevent the necessity of sending $45,000,000 in gold to New York to pay our debts there.

How the Rate Was Decided

SO far so good. The next point for Hon. Thomas White to consider was, "What rate of interest shall I offer the New York bankers?" In deciding this he had several points to keep in mind. In the first place, the New York bankers were anxious to see Mr. White borrow there. They were willing to make the loan. They are interested in seeing United States firms continue to sell largely in Canada, which they could not do if Canada had no money to pay for goods. It was just as vital to the United States to lend us that money as it was for Canada to get that money. Each party to the bargain was interested. Hence Mr. White must have know that the situation favoured a low rate of interest.

In the second place, Mr. White knew that the Ontario Government was borrowing there at five per cent. interest, and that the city of Toronto had got money there at five per cent. He would know, therefore, that he should be able to borrow in New York at 4½ or 4¾ per cent.

In the third place he had to consider what other countries were doing. Great Britain has just raised over three billions of dollars at 4½ per cent. But this interest is subject to income tax, so that the borrower would be netting between 4 and 4¼ per cent. If the income tax goes up in the near future, the man who lends to the British Government will not net more than 4 per cent. Having examined this situation, Mr. White would have to decide whether the interest on his New York borrowings would be subject to any taxes. He did this and decided that they would not. It was announced that these interest payments would be "free from taxes imposed by the Dominion of Canada, including any income tax." Not only did Mr. White promise not to tax these interest payments himself, but he will not let any one else tax them. Thus whatever interest the United States investor got would be "net." As the British Government was paying about 4 per cent. net, the Dominion Government should pay about 4½ per cent. net.

The Generous Terms Offered

THESE are the preliminary figures. Now let us see what Hon. Thomas White actually did. He agreed to take $45,000,000 from the New York bankers, and give 5 per cent. gold notes as follows:

$25,000,000	....	due August 1st, 1916
$20,000,000	....	due August 1st, 1917

He agreed to pay the interest half-yearly on February 1st and August 1st. He agreed to pay the interest in United States gold in New York City. He agreed that these notes should be convertible, at the option of the holder, at any time prior to three months before maturity, into twenty-year five per cent. bonds of the Dominion of Canada, par for par, to be free from any right of prior redemption. Further he agreed to take this loan at the following prices:

The one year note at 100 and interest.
The two year notes at 99½ and interest.

Finally, he agreed to pay the New York bankers ¾ of one per cent. commission on the proceeds.

This was all he agreed to do. Yet when one figures it out, no other bonuses were necessary. Five per cent. interest for the gold bonds of the finest British Dominion, no taxes, half-yearly interest, payable interest and principal in gold, convertible into twenty-year bonds at option—what more could the keenest Yankee want? And he didn't want any more. As a matter of fact, that forty-five million loan was taken up in five minutes. The books opened, the investors yelled "We take it," and the books closed. It was the swiftest sale of bonds ever made in the history of the world.

It was easy money for the bankers. Their commission amounted to $336,750, and they earned it in five minutes. Of course, that wasn't much among five of them, but it would buy quite a few dinners at the Waldorf. It would pay the rent of the five institutions for two or three months at least.

Then the vital question comes, "Why did the United States investor grab that issue as if he were getting gold dollars for ninety cents?" The only possible answer is that the Hon. Thomas White agreed to pay five per cent. when he could have got the money for 4½ per cent. There cannot possibly be any other answer.

Now, let us see what Canada lost. The interest on $25,000,000 for one year at five per cent., and on $20,000,000 for two years at the same rate is $3,250,000. The interest at 4½ per cent. would be $2,925,000. Mr. White, therefore, cost Canada $325,000 by a mistake in judgment.

There seems to be no possible defence. He knew that the credit of the Dominion was better than that of the Provinces or the city of Toronto, and that these authorities had borrowed at five per cent. He knew that Great Britain had just borrowed at about four per cent. net. He knew that the United States bankers have more money than they know what to do with, and that they realize that they must lend to Canada to keep up their sales in this country. All these facts were known to every financial writer and every financial broker in Canada, and hence should have been known to the Minister of Finance. All these facts were publicfacts.

Then why did Mr. White promise to pay such a high rate?

What Will be the General Effect

FINALLY, think what this means to Canada. Suppose the Provinces and the municipalities want to borrow another hundred millions in New York during the next year, what will happen? The bankers of New York, having found Mr. White an easy victim, will hold up the smaller borrowers. They will demand 5½ per cent. as sure as fate. Think of the loss that will mean?

Figure it out for yourselves. The various borrowers want a hundred millions for an average of five years. They pay 5½ per cent. instead of five per cent. What will it amount to? The answer is, two and a half million dollars.

But there is another way to look at it. Mr. White decides to pay five per cent., and he invites tenders. J. P. Morgan & Co., offer to buy the bonds at 99¾, another firm offers 101, another offers 102½, and another offers 104¾. Who will get it? The firm that offered 104¾, of course. In that case, instead of getting $44,563,250 for his forty-five million dollars' worth of bonds, Mr. White would have got about $47,250,000, or nearly three millions more than he actually got.

There are financial men who believe, rightly or wrongly, that Mr. White could have got two and a half millions more for his bonds than he did get. The test of their belief will be the selling price of these bonds three months hence. If they are then selling at 104, or thereabouts, then these men will be right.

The financiers who claim that Mr. White lost two and a half million dollars have no animus against him. But the fact remains, that the financial world, rightly or wrongly, is laughing. Canada cannot afford in these days to be laughed at.

Probably the only way to get at the truth would be to call a special session of Parliament and have the whole financial situation discussed. There are other rumours equally grave in the air. A special, non-partisan session, at which those who have complaints could air them and answer could be given, might be the best remedy for the situation. If there is no extravagance at Ottawa, these rumours should be stopped. They cannot be aired except on the floor of the House of Commons, and, therefore, a special session seems advisable.