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RE-ORGANIZING BRITISH FINANCES.

The great financial operation announced this week by Mr. McKenna, the Chancellor of the Exchequer in the British coalition government, is much more than the mere offering of a new loan. It is, in effect, an immense conversion of the British National Debt, inverting the conversion process carried out by the late Lord Goschen, and raising the standard of interest upon it to 4½ per cent. The scheme is also a determined and statesmanlike attempt to mobilize the wealth of the country in the country's service on a scale that has never been previously undertaken. While the terms now offered to holders of the existing Consols and the war loan issued a few months ago are generous, advantage cannot be taken of them unless the holders are prepared to increase their holdings of government stock at the present time. The man who holds £100 Consols at present must, for instance, apply for £200 of the new loan. For that he need only pay in cash £133 1-3, his Consols holding being exchangeable for the remaining £66 2-3 of the new loan. In effect, what has been arranged is that the holder of Consols is able to exchange his 2½ per cent. Consols for the new 4½ per cent. loan at about the artificial minimum price (since reduced to 65) on the London Stock Exchange. It is, of course, known that if free dealings had been permitted the price of Consols would by this time have gravitated to considerably lower levels. Similarly, the holder of the recent war loan must subscribe for the present loan to the extent of double the par value of his existing holding; he pays £105 in cash for £200 in the new loan, and £95 in the scrip of the recent war loan, although the market quotation for that is under 94. These arrangements should mean large conversions on the part of those who are in a position to put up fresh cash. What success will be achieved in securing small subscriptions remains to be seen, but the terms offered are certainly attractive. Small bonds of £5 to £25 can be secured at every Post Office, and in addition deposits of five shillings at a time will be received towards the purchase of a £5 bond and on these deposits 5 per cent. interest will be paid. Up to the present practically the limit of interest obtainable on small savings in England has been 2½ to 3 per cent., so that if the advantages offered by the new loan are well understood by the people generally, an enormous diversion of savings into the new channel would seem to be a foregone conclusion.

It is impossible to judge at present what are likely to be the ultimate and far-reaching effects of this great revolution in Imperial finance which has been so quietly and expeditiously effected. That they will be in the aggregate very great, there can be no manner of doubt, and financiers for many days to come will be concerned in watching closely the course of events. It is at least clear that Canadian bankers and financiers must take the present sweeping change at once into their consideration as a factor that is bound gravely to modify their former calculations. One result already seen to a certain extent is heavy depreciation in the market values of outstanding colonial securities, bearing low rates of interest, the market of which is in London. Very largely these stocks take their cue in market valuation from the course of British Government securities; when these can be purchased to yield 4½ per cent., there is little temptation to buy colonial stocks to yield 4¼ per cent. Probably the continuation of official minimum prices on the Stock Exchange will be so arranged as to tide over any period of danger in this respect, but undoubtedly holders of these stocks are face to face with circumstances which will give them anxious thought. As regards new borrowing, it does not follow that because so high a rate as 4½ per cent. was offered for the new loan, that therefore the Chancellor of the Exchequer's advisers are convinced that the close of the war will see a period of very high interest rates. Other circumstances than the probable trend of the interest rate were undoubtedly taken into consideration in arriving at the figure. The desirability of effectively mobilising reserves which a lower interest rate would leave untouched, and the political expediency of making the loan a spectacular success are contributary causes in the fixing of the interest rate which come to mind. The fact remains, however, that for at least ten years and possibly longer, the British Government will be paying 4½ per cent. on a huge loan. Under those circumstances what rates will have to be paid by colonial governments, municipalities and others borrowing in the London market when the Treasury embargo upon new issues is finally removed? It may be, of course, that investment funds will continue so plentiful in London that the new loan will speedily rise to a premium, and in consequence of the possible early redemption date, investors will look elsewhere. If current ideas of the recuperative ability of the British people's investment power,

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