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Mexico, the United States and Canada

How Would a Mexican-American War Affect Our Borrowing in the United States? Canada's Present Market Would Have to Finance Heavy War Loans, But there Should Be Ample Funds Available for the Dominion.

If the United States goes to war with Mexico, how will Canada's financial relations be affected? That this contingency is recognized as an important factor has been shown on several occasions recently. The city of Calgary, for instance, which last week sold $1,500,000 of bonds, was advised in some quarters to wait until this new war situation was more clearly outlined, before it sold its bonds. The price received for the securities would probably have been at least one point higher had it not been for the new war cloud. Since only the end of 1914 the United States has acted as Canada's chief banker. According to *The Monetary Times'* records, Canadian loans in the neighboring republic since the war commenced, have totalled $284,000,000. Last year the United States took over 60 per cent. of our high-grade securities and this year will probably take 80 per cent. In view of these facts the possibility of a Mexican-American war has been viewed here with some concern.

A Mexican war would involve considerable borrowing by the United States government, and these war loans would naturally have a first claim upon the market. There is comparatively little cash available in the United States treasury for war, and that would soon be exhausted. The Wall Street Journal points out that there are two ways available for the United States government to raise money by virtue of existing enactments. One is to issue Panama bonds, of which $240,500,000 represents the balance of bonds authorized for this purpose which have not yet been issued. The other is an issue of one-year 3 per cent. certificates of indebtedness, in regard to which the secretary of the treasury is authorized to issue to the extent of $200,000,000 in an emergency. The Panama bonds carry 3 per cent. interest and it is believed that the bond market could take, comfortably, an issue of $50,000,000 of these without prejudice to the existing government issues or the general market. If a large loan of $100,000,000 or more were found necessary resort might be had, preferably, to the 3 per cent. certificates. The only time these were used before was in the 1907 panic when about $15,000,000 were issued with the circulation privilege to relieve the money stringency.

In a crisis of this kind it is generally to be expected that patriotism will go a long way in helping the government sell any bond issue it might decide upon and that such an issue would not be prejudiced at this time by the more remunerative foreign loans that are now floating in this market. Presumably, a Mexican war issue would not meet with the same overwhelming success that attended the Spanish war loan of 1898. A sum of $400,000,000 at 3 per cent. was authorized in that loan but only $200,000,000 was issued on June 13, 1898. Congress took special steps to make that loan a popular one. It was issued in denominations of $20 or multiples of that sum and in the allotments subscriptions of individuals were first accepted. A great advertising campaign by the government was carried out in connection with this issue. After a period of 31 days 320,226 subscriptions were received, amounting to more than $1,500,000,000.

There is already one issue of 3 per cent. Panama bonds outstanding. The act of August 5, 1909, raised the interest rate on these bonds from 2 per cent. to 3 per cent. and under authority of this act an issue of $50,000,000 of 3s was made June 1, 1911, and payable June 1, 1961. The average price realized for that issue was 102.5825. These bonds are not available as security for circulating notes of national banks or federal banks. The Spanish war loan was issued at par and one of the reasons contributing to its success, was the fact that the bonds were available as security for circulation notes of national banks. There are $63,945,460 of the Spanish war issue still outstanding. They are payable August 1, 1918.

New York bankers and brokers believe that the immediate effect on the stock market of a Mexican war, would probably be sharp declines in quotations but that ultimately prices would work to higher levels. In support of this belief, the argument is advanced that the United States government would be in the market for large amounts of munitions of war as well as various other products and that the industrial corporations of the United States would be called upon to work at peak-load in turning out the heavy volume of business that must ultimately come to them.

Canadian requirements in the United States are not large. Even were the United States at war, its bankers probably could well afford to finance the comparatively small requirements of this country. Domestic war loans of the United States would account for large sums of money but there should be ample left to let Canada have the $200,000,000 or so per annum in the aggregate which its governments, municipalities and corporations would seek in that market. The United States has no war debt; it has the smallest normal debt in comparison with the belligerents; it has loaned $830,000,000 to the warring countries; and with good crops this year, it will have a favorable trade balance estimated at from $2,000,000,000 to $2,500,000,000.