

upon them except as a whole ; for, although your right could not be denied of declaring a maximum to be converted, and of giving priority to those who brought in their bonds first, it would be an invidious thing to do, unless you were going to pay off the rest, as Mr. Windom did when he fixed his maximum in the United States' conversion described in my letter to you of 3rd June. Besides, the object of the Government being to get a really appreciable saving of annual charge, unless the operation secured that it would not be worth doing at all ; so that, while any operation in consols, owing to your not having the power to compel the holders to come in, is so uncertain that you cannot rely on making the saving you want, you know exactly what saving you can make by an operation in the 5-30s, if you will only give the price which makes it better for the holder to come in than to be paid off.

5. One force in operating on the 5-30s consists in the greater likelihood there is of your not displacing investment. The more certainly that you can act upon the holders of 5-30s in comparison with what you can do with the holders of consols the better you are able to insure three things you especially want—namely,—

- (1.) To make as little disturbance as possible in the market.
- (2.) To be obliged to float as little fresh stock as possible in new hands.
- (3.) And to make your operation bring about as much as possible a simple exchange by present *bonâ fide* investors of one form of security for another.

6. Lastly, if an operation in the consols were to fail it would go far to spoil one afterwards in the 5-30s ; whereas, since you cannot fail in the 5-30s, if your credit is good enough to raise the money to pay them off, you can make much surer of success ; and success in an operation for the 5-30s naturally paves the way for another in consols. You would, of course, have to pause between one operation and the other, but the pause would be measureable by the extent to which your stock had been absorbed. To put an extreme case, suppose all the holders of the 5-30s were to come in, the absorption of the stock would take place at once, and, no displacement of investment having been made, you might go on very quickly to consols.

These are, then, some of the reasons which, upon a balance of considerations, have induced Sir Penrose Julyan and myself, in concert, to advise the Government that they may not only best make their first operation in the 5-30s, but may, with considerable advantage, deal with the whole seven millions at once.

Now, we have very carefully considered, over and over again, whether we cannot name at once the exact figures on which we would advise such an operation to rest. We are very sensible of the force of the reasons that have been often adduced why the Government, and not the Agents, should determine the precise time and terms of any operation. Nor do we disguise from ourselves the fact that leading members of the Legislature wish no conversion to be undertaken until the approval of Parliament has been given to the very figures on which it is to be made. But we have come, with absolute certainty in our own minds, to the conviction that it is impossible for us to give any exact figures now. The account I gave you in my letter of the 11th of the movement in the market during that single week could now be enforced by much clearer and more conclusive illustrations of what I was then saying. I enclose you a leading article which appeared in the *Times* three days ago, showing how great and sudden a change there has been, and how uncertain it is whether the market will not soon take an even more stringent turn. Confirming, as I think I may say the article does, the ideas I so imperfectly expressed to you on the 11th, it may perhaps help to strengthen the impression which it is the object of this letter to convey. No figures that we could possibly give you to-day could be for a moment relied upon as being the same we should give you on the day you receive this letter, for the simple reason that what may be very easy in the money-market to-day may be quite impossible to-morrow. To seek, therefore, the approval of Parliament to definite figures for the conversion of the 5-30s would be utterly illusory ; the figures will change in a week, and will, almost certainly, be so changed by the time you are reading what I say that any decision founded upon them would simply be entirely useless.

But, though it is impossible for us to give such figures, there are limits within which the control of the Legislature as well as of the Government over the action of your Agents can be effectually secured, and a margin fixed within which alone they shall be capable of exercising any discretion. These limits may be expressed simply by this formula :—

“The 5-30s shall only be converted into 4-per-cent. inscribed stock on such terms as will lessen the annual charge for interest by at least  $x$  per cent., after deducting a sum sufficient, if invested at compound interest in the same stock, to extinguish the augmentation of capital in fifty years, besides paying the expense of the operation.”

Within the four corners of this formula you would be quite certain of neither running the risk of excessive terms being granted by the Agents, nor endangering that perfect secrecy which is indispensable to any operation at all.

Supposing, then, this formula to be the foundation of the operation, let us see how you would give effect to it on your side.

The central figure is, of course, the price at which you can place a conversion-loan : in other words, the price at which you can place seven millions of inscribed stock upon the market on the day your operation is announced. Let us suppose that the highest you can place it at is 95. Then it requires a fraction over £105 of stock to produce the £100 of cash you want. This price of 95, however, is (so to speak) the “wholesale” price at which you can place all the stock required in the conversion. But the market price of the day is a quotation for £500 stock, or (again so to speak) the “retail” price. Now, the net market price of our inscribed fours to the seller was a few days ago a fraction under 96 $\frac{1}{2}$ . If, therefore, the bondholder is offered £105 of stock in exchange for his 5-30 bond, there is so much margin of profit to him in accepting it in preference to taking his money. For, when the Government can only place so many millions of stock “wholesale” at 95, he can get for his £100 bond 96 $\frac{1}{2}$  “retail.” This difference is, I need