

not say, nothing but the natural difference in any market between dealing with millions and dealing with hundreds.

Now, let us suppose that the whole of the 5-30s are being converted, partly by raising money at 95 to pay off some, and partly by inscribing the rest in 4-per-cent. stock. How are you to decide what offer to make to the holder?

There are six million 4½s and one and a quarter million 5s: together, £7,250,000. The present charge for interest is £332,500. The first thing to do is to have a calculation made at the Treasury showing what, at say £105 of 4-per-cent. inscribed stock issued to pay off or convert a £100 bond, would be the result in—

- (a) Augmentation of debt;
- (b) Annual charge for the augmented debt;
- (c) Gross saving in interest.

Having found this gross saving, the next step is to find the rate per cent. which, if its amount were invested at compound interest in the same stock, would extinguish the augmentation made in the debt at the end of, say, fifty years; and this has to be deducted, with an estimate of the expense of your operation (including the difference between the charges of the Crown Agents and Bank of England), from the gross saving. This will give the net saving made by giving £105 of stock; and this is the figure which, in our opinion, unless a favourable turn should happen in the money-market, denotes the greatest amount of saving you may expect to make.

With this figure before you the Government will then determine the least x per cent. of saving which they are willing to accept; and then, by repeating the same calculation for every ½ per cent. above £105, you reach the point where this "least saving" is shown, which immediately fixes the greatest exchangeable quantity that the Agents may concede to the bondholder. At every stage in the scale the total sum of the saving will appear which each successive ½th per cent. leaves; and your calculation lets you compare the x per cent. you are inclined to fix with the effect in total sum of saving which it will produce.

Now, we have worked this out ourselves with great care, and our general conclusion may be expressed in this way:—

No operation is possible that depends upon being able to float a 4-per-cent. conversion-loan at a higher price than £95. This price is equivalent to giving the holder a fraction over £105 of stock for his £100 bond.

No operation is worth undertaking that requires more than £108 of stock to be given. Somewhere between £105 and £108 discretion must be left to the Agents.

I have thought it better to put our conclusions in this shape, rather than show them by tables, as I proposed doing in my letter of the 12th. Tables are very good things when one sees exactly what they are meant to prove; but when this is at all obscure or intricate they are only puzzling, and I have preferred to express our advice in terms, and can only hope I have made it plain. At any rate you will perceive that it is only within close limits that we advise an operation at all; and it is only within those limits that we say the Agents should have any discretion. The question remains, how far your determination of the limits, or the Agents' discretion within them, can safely be submitted for the decision of Parliament.

In my letter of the 11th I incautiously placed among the points that might be decided by Parliament the questions of "which loan was to be dealt with first," and "what was the largest percentage to be conceded to the bondholder." Further consideration has shown me that it would be dangerous to take a vote upon either, because a few hours afterwards it would certainly be known here. Once a maximum was voted, no one here would be satisfied with less. We advise, therefore, that neither the maximum of 108, which we have spoken of for the bondholder, nor the minimum of 95, at which we think 4-per-cent. stock can be placed, should be disclosed or made the subject of any vote. On the other hand, there would be no risk in asking Parliament to decide the margin per cent. within which the Agents should be restricted. Thus (supposing our views to be approved), all Parliament would be asked to do is to say that we may act within the narrow limits of 3 per cent. which lies between 105 and 108. Nor would there be any risk in Parliament deciding the net percentage of saving that must be a condition, because it is very improbable that any one would know how to apply that decision so as to find out its relation to the other figures, which were undisclosed.

In addition, however, to the safeguards which are given in our proposition, there is another, which we do not suggest without hesitation, but which, as it would give you that absolute control over the action of your Agents which Parliament may choose that Ministers should exercise, may help you in obtaining the sanction of the Assembly to your proposals.

The complaint has been that the Agents have had too much power. We say they must, at any rate, have power within some limits, because, inasmuch as the operation depends on their judgment of the money-market at a particular moment, and this judgment depends on their means of instantly making intricate calculations up to the very last moment before announcing the terms to be given, it is simply futile to say they shall have no discretion at all. But the Government may do this: They may make sure that no terms shall be announced without their approval. Suppose the Agents to have made up their own minds on a given day to certain figures, they might, by a carefully-devised cipher, communicate these to Ministers, and in a few hours your sanction or prohibition of them might be telegraphed. The parliamentary responsibility of Ministers would then be absolutely saved, and Parliament would know that, although the necessity of the figures being really settled by the Agents cannot be helped, Ministers would have to approve these figures before the Agents could announce them to the public here. I will see at once whether I am able to devise such a cipher.

Having thus examined the general principles which we think must govern a conversion, I turn to a few other points of process on which you will desire to know our opinion.