

The Chronicle

Banking, Insurance and Finance

ESTABLISHED JANUARY, 1881

PUBLISHED EVERY FRIDAY

Vol. XXXX. No. 6

MONTREAL, FEBRUARY 6, 1920

Single Copy 10c
Annual Subscription \$3 00



THE GENERAL FINANCIAL SITUATION

No particularly useful purpose is being served, and a good deal of harm is being done, by the mutual recriminations regarding exchange, which are now being indulged in by the cheaper sort of newspapers on both sides of the Atlantic. The position of the United States in this connection is well summed up by a New York financial writer as follows:—"Nothing is more certain than that financial America must support industrial Europe. We shall have to do it on our own behalf, unless we wish to have our own foreign trade confronted with such contraction of Europe's orders for material from our manufacturers as will gravely affect the American position. That our government, as a government, should not participate is a sound contention; so is the condition that we should help with our advances of credit only such European countries as are using their own financial and industrial power to the utmost. But after making these proper reservations, our own part lies unmistakably before us."

It is to be remembered that the industrial capacity of the United States has now been developed to such an extent that domestic demand cannot always absorb its maximum production. Export trade is an absolute necessity to the United States if industrial activity is constantly to be maintained at home. This fact has been recognized all along by the well informed American financial leaders, and accounts for the impatience displayed in the New York financial district in regard to the pettifoggery and personal spite of the Senate. There are certain United States products which outsiders must have, no matter what the cost.—For instance cotton and wheat in the case of Europe, coal in that of Canada. Outside these raw materials, which are vital necessities of life to the countries concerned, there are a host of exports by the United States, particularly manufactured goods, which at a pinch can be dispensed with by outsiders. The meat of the whole matter is simply this—that the longer the United States delays action in granting necessary credits to Europe, the greater will be the prejudicial effects on its own industrial activity.

However, the opinion expressed by the financial writer quoted above, that credits should only be

granted to Europe with caution is shared by the best financial circles in London. In the view of London bankers, Europe is demoralized by observing how war expenditure was met by expansion of credit. The British labour party is maintaining that if such expansion was legitimate for war, it is even more legitimate for production after war—an attitude which disregards the emergency character of the war expenditure and the fact that it represented the mortgaging of the future productive power of labour. In this connection, it is interesting to note that the authorities at Ottawa appear to be coming to the conclusion that the time has arrived for a cessation of the policy of granting large government credits to foreign countries for purchases here. That this policy was justified after the Armistice, no one who is aware of the uncertainty felt at that time in regard to the immediate future of Canadian industry and commerce will deny. But under present circumstances, a continuation of a policy of unrestricted credits of this kind would merely have the effect of raising further the discount on Canadian funds in New York. This would come about through the fact that, particularly in the case of some manufactured sold on credit, purchases of raw material would have to be made in the United States which purchases would have to be paid for in cash, while the additional distribution of funds among all classes of the community as a consequence of these credits, would probably result in the continued unrestricted expenditures on American goods which are not necessities, that is so marked a feature of the Canadian economic situation at the present time.

We have previously expressed the opinion that the effects of the heavy discount in the Canadian dollar in the States upon the volume of Canadian imports from that country, is only likely to be quite gradual—probably much more gradual than in the case of Europe,—owing to the enormous present spending power of many classes of the Canadian community. Any recovery in the sterling and other exchanges on New York would, of course, have a sympathetic effect upon the Canadian exchange in that centre. But apart from this, the only remedy for the present condition of affairs is to buy less and export more to our southern neighbors, and