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THE GENERAL FINANCIAL SITUATION

Mr. T. B. Macauley is an authority on life insurance. But we are not convinced that his diagnosis of the exchange situation, published in a newspaper a few days ago, can be accepted as an entirely satisfactory guide to the present position. Mr. Macauley is an ardent Imperialist, as every one knows, and his statement has the disadvantage of all special pleading. His aim is admirable, but the achievment of it would not put sterling exchange at a parity in New York, without the intervention and aid of other vital factors, which Mr. Macauley has entirely overlooked. Morever, like some other ardent Imperialists, Mr. Macauley colours his canvas as regard conditions in the mother country, somewhat too gloomily. The present position of sterling exchange in New York is not, as Mr. Macauley suggests, merely the result of the fact that British purchases from the United States have been recently in excess of British exports to the United States. As a matter of fact, the trade balance between the two countries has been in favour—strongly in favour—of the United States for decades, and even with British imports so recently increased as they have been through the war, were that the only matter in question, sterling exchange in New York would not be at $3.30 or anything near it.

The present position of sterling exchange in New York, is, in fact, only to a very small extent, if at all, due to the surplus of British imports from the United States over exports to that country. The main reason for the present state of affairs is that London is maintaining strictly its position as the world's international monetary clearing house, and accordingly the position of sterling exchange on New York does not reflect merely the position of London to New York, but the position of the rest of the world to New York. Sterling exchange is not merely a barometer of the trade balance between two countries, in the way that normally Canadian exchange on New York is a barometer, (though not at the present time) ; it is the focussing point between the two most highly developed industrial and commercial countries in the world, of the whole world's trade and finance. This fundamental fact Mr. Macauley has entirely overlooked. An increase of British exports to the United States and a corresponding diminution of imports may help, to some extent, to rectify sterling exchange. But it will only have as much influence in its rectification as the reverse movement has had in the decline. Sterling exchange on New York will strengthen in proportion as the financially weaker European countries reduce their over-abundant paper currencies, resume their normal industrial activities and cease to lean on London. It will improve in proportion as the need decreases for making vast exports of staple commodities from Great Britain to poverty stricken countries, which have to be given long term credits. It will improve when France begins to export, in reasonable proportions, her fine textiles and china ; when Italy can take a golden stream from tourists in exchange for her beauty ; when Austria, instead of starving in misery can begin to lift up her head, and when Germany commences to get on her feet again financially. Mr. Macauley seems to have left quite a lot out of account.

Neither is Mr. Macauley happy in his reference to the present selling by British holders of their American and Canadian securities, and his suggestion that the maintainance of sterling exchange, even at its existing valuation, merely depends upon the supply of these holding out, is, if he will permit us to say so, simply ludicrous British investors are not selling their securities as a last resort before plunging into the abyss of national bankruptcy, but simply because under present circumstances, it pays them very handsomely to take profits, and invest those realized profits elsewhere. The whole of the world outside Great Britain is not comprised —in Canada and the United States, though some folk occasionally think so, and because British investors are realizing here, it does not necessarily follow that they are hard-up. In the highest financial journals, there is plenty of evidence to the contrary. The fact is that the total volume of British investments abroad is, at the present time, not proportionately, seriously less than it was before 1914,, although their location has changed.

With much that Mr. Macauley has to say regarding the encouragement and development of trade within the Empire, we are in thorough agreement. But as we have shown that it is not a