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MONTREAL, THURSDAY, AUGUST 20, 1914

DOMINION FINANCE

There is a widespread desire, finding expression in many journals, that the Dominion Government shall, to assist the financial situation, proceed vigorously with the various public works for which it has received Parliamentary authority. There are two conditions under which such a request may properly be met. The first is that the works to be undertaken should be those that are generally recognized as of substantial importance, leaving aside those of less urgent or more debatable character. The second consideration is that the Dominion Government should see its way clear to finding the money needed.

Governments, corporations and employers generally who are fortunate enough to have their finances in a comfortable position can do much to relieve the situation by manifesting confidence and keeping their operations going. Such a course is to be desired and commended. But it would, be small benefit to anybody to enter upon large operations if there is no money in sight to meet the cost. In such a state of affairs a curtailment of operations may be not only prudent but absolutely necessary. Before we call upon the Dominion Government to prosecute vigorously the construction of public works throughout the country we shall do well to remember the financial difficulties which the Government are obliged to face. The revenues are falling and will continue to fall. Loan operation in England are practically impossible. Indeed the loan lately issued in London, which largely remains in the hands of the underwriters, is not likely to yield much money to the Government, since payment can hardly be enforced now, and the underwriters are asking to be relieved of the instalments falling due. There is no other money market open to our Government. These would be embarrassing conditions for the Government finances even if there were no war funds to be raised. But when under such circumstances the Government has to provide fifty million dollars to meet the cost of the Dominion's assistance, in various forms, to the mother country in this time of trial, it will be seen that the resources of Government and people are likely to be severely tried. The banks no doubt will cordially co-operate with the Government, and citizens who are lucky enough to have the means at their disposal will patriotically respond to any call the Government may have to make for loans in Canada. But when everybody concerned has done his best, it is still almost certain that the Government will not find the money to do all the things that it and the public would like to have done. Curtailment of expenditures in some directions may therefore be found unavoidable.

THE LACK OF AN AMERICAN MERCHANT MARINE

Two things happened in the past few days which served to call the attention of the United States to their lack of a merchant marine. The first thing which drew this home to the Americans was the outbreak of hostilities in Europe, which resulted in their merchandise, food stuffs and other commodities being piled up on their wharves. The second occurrence, which impressed the lack of a merchant marine upon the neighboring Republic, was the opening of the Panama Canal. On Saturday, this was declared open to commerce, but no American merchant ships are able to make use of it.

The United States has a total trade of more than \$4,000,000,000, of which \$3,700,000,000 is carried on by sea. Of the country's imports, amounting in 1913 to \$1,697,000,000, less than 11 1/2 per cent was carried in American ships, while of the \$2,000,000,000 worth of exports but 9 per cent was carried in American bottoms. Last year, the British merchant marine engaged in the American trade accounted for over 39,000,000 tons, or considerably over one-half of the tonnage furnished by the United States. German ships accounted for 9,100,000 tons, French ships for 2,100,000 tons and Dutch ships for an equal amount.

There is now a movement on foot in the United States to either purchase or build up a merchant marine of their own. One of the questions discussed in this connection was that the United States should purchase the North German Lloyd and the Hamburg-American ships which are now tied up at various docks in the United States. It is doubtful, however, if the United States will be able to secure a merchant marine so long as she maintains her present tariff. It has been found that a highly protected country, such as the United States, is incapable of building up a merchant marine unless she resorts to subsidies and other artificial aids. In addition, there are other difficulties confronting the United States, such as insurance, low rates of interest and the lack of any intelligent co-operation on the part of the Government. It is, to say the least, somewhat of a parody on the United States to find that while the country has a total trade of over \$4,000,000,000, making her rank third among the trading nations of the world, but little over one-tenth of her imports was carried in her own ships and less than one-tenth of her exports. The outbreak of the war and the opening of the Panama Canal have focused the attention of the American people upon their lack of a merchant marine.

GREAT BRITAIN'S FOOD SUPPLIES

From some sources, there are fears expressed regarding the food supplies of Great Britain. These fears are groundless. Great Britain has not only the money to pay for supplies, but what is probably more important at the present time, has the ships to carry them. Great Britain trades with every country under the sun and draws her food stuffs and her raw material from the four corners of the world. In the present conflict, her ships have driven the German and Austrian fleets from the high seas, leaving the trade routes open to British and neutral ships. As no food stuffs can be sent over seas to Germany or Austria, it means that Great Britain will have available larger supplies of food stuffs than was the case formerly. It seems somewhat incongruous that in Great Britain, a country which has to import all its food supplies, there has been no marked increase in the cost of commodities, while in Canada, a food exporting country, many of our commodities have shown marked advances. The difference is probably due to the action of the British Government which is regulating prices and has taken over the flour mills in that country as a precautionary measure. There is no likelihood of the people of Great Britain suffering from the pangs of hunger so long as her ships rule the waves and an energetic Government stands between unscrupulous purveyors and the public.

BRITAIN'S BEST CUSTOMER HER GREATEST RIVAL

Germany is Great Britain's greatest competitor for the foreign markets of the world. The "Tight Little Isle" still maintains her supremacy, despite the fact that her German rival has a population 20,000,000 greater than she possesses. For many years there has been a struggle taking place between Germany and Great Britain as to who shall lead in the world's commerce. It is a somewhat curious fact that not only is Germany Great Britain's greatest competitor for foreign markets, but she is also her best customer. During the last year, Germany imported \$40,382,767 worth of British goods, being followed by Australia as the second best customer with \$34,840,701. During the same year, Germany's total trade amounted to \$1,021,487,000 as compared with Great Britain's trade of \$1,184,839,000. Germany's trade was divided into imports of \$525,000,000, and exports of \$496,487,000, while Great Britain's trade consisted of \$659,000,000 imports and \$525,000,000 exports. While Germany is steadily gaining upon Great Britain in the volume of business transacted, Great Britain continues to show a higher per capita trade than her German rival. The following table shows the imports and exports of the three chief commercial countries of Europe for the past three years and indicates that Great Britain is holding her own in a very satisfactory manner—

IMPORTS
(000's omitted)

	12 months ending December 1911	1912	1913
Germany	\$477,213	\$525,660	\$525,857
France	322,633	329,234	340,335
United Kingdom	577,398	632,903	659,378

EXPORTS (DOMESTIC)
(000's omitted)

	12 months ending December 1911	1912	1913
Germany	\$398,548	\$440,376	\$495,630
France	243,074	368,503	275,015
United Kingdom	454,119	487,223	525,461

An examination of Great Britain's trade for the past year shows, as stated above, that Germany was the best customer, with over \$40,382,000 of British goods, of which 69.4 per cent were manufactured. Australia was Britain's second best customer with \$34,840,000 of which 90.3 per cent were manufactured. The United States comes third with \$30,065,000, of which 72.3 per cent were in that class. France is fourth on the list with \$23,585,000, of which 61.4 per cent were manufactured goods. Canada, despite our preference on British goods, is fifth on the list of her customers, with importations of \$23,531,311, of which 84.5 per cent were in the manufactured class. The sixth on the list is South Africa, with \$21,000,000. The seventh place is taken by Holland and eighth by Belgium. The ninth place is again occupied by a British possession, New Zealand taking \$10,390,334 worth of British goods, of which 88 per cent were manufactured. Thus among the first nine best customers of Great Britain, four places are taken by Overseas Dominions. It shows that while trade does not necessarily follow the flag, it is a considerable factor in promoting commercial relations between the outlying parts of the Empire. It is possible that one of the reasons for Germany's feverish desire for a powerful navy is due to the fact that she is anxious for colonial possessions, who will contribute to her volume of trade, just as the British possessions augment her trade returns.

SATAN REBUKING SIN

"War, the wild beast of civilization, is loose. Dreadful anxiety oppresses the hearts of men. Civilization has declared war against itself, and because a few choose to set millions at the game of murder, progress stops and the world goes back." So runs the leading editorial in the Hearst papers of August 9th. How would it do if William Randolph applied similar language in condemnation of the policy of his string of yellow journals which were ravenous in their demand to set the United States at war with Mexico? We might paraphrase his own diatribe against Europe and apply it to his erstwhile Mexican policy: "Because a few American monopolists wish to save their titles to American lands they would set millions at the game of murder."

Germany needs a first-class publicity agent.

The stories of hardships told by returning American millionaires almost rival those told by the people who came over in the "Mayflower." It may be that the present crisis will develop a new aristocracy in America.

British merchantmen and passenger ships throughout the world continue to sail the seas without fear from German men-of-war. The naval traditions and background of a thousand years help to make the British seamen supreme.

One of the direful effects of the war is that the supply of radium has been cut off.

As radium is worth many million dollars per pound, it is not likely to affect the cost of living for many of us.

Pope Pius X, whose death has just taken place, to an unusual extent enjoyed the love and confidence of the whole world.

Not only was he loved and admired by his own people, but those of a different faith realized that he was an exceptionally good man.

In 1913 there were built in the United States, 1474 vessels of a total tonnage of 246,162, of which 1,093 were steam vessels of a tonnage of 248,415. The total tonnage built in 1912 was 237,669; 1911, 291,162, and 1910, 242,068.

THE WORLD'S SHIPS AND SHIPPING.

	Sailing Vessels	Steam Vessels	Total Vessels
	Net Tons	Net Tons	Net Tons
Great Britain	936,000	10,766,000	11,702,000
Germany	877,000	2,852,000	3,729,000
United States	1,215,000	1,482,000	2,697,000
Norway	403,000	1,108,000	1,511,000
France	454,000	1,014,000	1,468,000
Japan	187,000	925,000	1,112,000
Italy	279,000	785,000	1,064,000
Holland	48,000	782,000	830,000
Russia	567,000	548,000	1,115,000
Sweden	162,000	841,000	1,003,000
Austria-Hungary	12,000	616,000	628,000
Spain	31,000	510,000	541,000
Greece	143,000	449,000	592,000
Denmark	79,000	426,000	505,000
Belgium	12,000	203,000	215,000
Various countries	525,000	684,000	1,209,000
Totals	5,630,000	23,841,000	29,471,000

—New York Annalist.

THE DOGS OF WAR.

A contemporary reminds us that "dogs of war" is not a mere metaphor; in the Middle Ages mastiffs were used as auxiliaries in attack, and were equipped with mail studded with spikes and scythes, so that they could even attack cavalry. Henry VIII. offered King Charles V. of Spain, 40,000 men and 4,000 war dogs to fight against France. Of late, to a certain extent, a use has been found for dogs in the army to aid sentries in detecting the presence of an enemy.—Exchange.

CLIMBING THE ALPS.

More than 7,500,000 persons climbed the Alps by funicular railways last year, according to statistics just published. There are now forty-eight of these mountain railways, and the authorities have before them demands for seven more. If this continues every Alp will have its funicular in the future.

INSURING THE GOLD CARGOES.

The insurance rate at Lloyd's on gold cargoes in ocean transit rose on the day of England's ultimatum to 20 shillings per £100, as against 5 shillings the week before—a rare, declares the London Financial Times, "without parallel since the Napoleonic wars."

LIFE INSURANCE.

Observation tells anyone that the most uncertain thing in all the world is life, and that no person has any reliable reason for feeling sure he will reach old age. It is neither economical, safe nor wise to postpone taking life insurance.—The Union Mutual.

SMILE.

When the whole blame world seems gone to pot, And business is on the bum, A two-cent grin and a lifted chin, Helps some, my boy, helps some. —The Wall Street Journal.

The Government of New South Wales has spent \$2,200,000 on the abattoirs now building at Homebush Bay.

"A LITTLE NONSENSE NOW AND THEN"

England and France, just now, are more directly interested in the "opening" of the Kiel canal.—Wall Street Journal.

"I've been catfishing all morning." "Where?" "On the hotel piazza. I've heard all the scandal of the place."—Judge.

The failure of the Delaware peach crop is indignantly denied by all the pretty girls of Wilmington.—Philadelphia Record.

"If Holland opens its dykes and floods the country, what can the German troops do to get across?" "Borrow the Swiss navy, I suppose."—Baltimore American.

"Were you glad to get back to school after the holidays, and see your dear teacher again?" "Well," replied the very observant boy, "I believe I was just about as glad as dear teacher was to get back to see me."—London Opinion.

If all nations had adopted Canada's plan of making the soldiers get their wives' consent would there have been a war?—Wall Street Journal.

Candidate (enthusiastically)—"What a remarkably fine boy, Mrs. Blobb! How old might he be?" Mrs. Blobb—"E's just four months, sir." Candidate—"You surprise me! Is he the youngest?—Tit-Bits.

Ikey (as they passed an ice-cream stand)—"Fadder, I'm awful varm. Buy me some ice cream." Father—"No, no. I'll tell you instead some ghost stories 'vot'll make your blood run cold."—London Opinion.

Even Ontario's own Rowell would scarcely object to bottling the German fleet.—Calgary News-Telegram.

A very stout old lady, going through the park on a very hot day, became aware that she was being followed by a tramp, says the Philadelphia Public Ledger. "What do you mean by following me in this manner?" she indignantly demanded. The tramp slunk back a little, but when the stout lady resumed her walk he again took up his position directly behind her. "See here," she exclaimed angrily, "if you don't go away I shall call a policeman." "For heaven's sake, kind lady," urged the tramp, looking at her appealingly, "have mercy and don't call a policeman. You are the only shady spot in the whole park."

THE NEUTRAL LANDS.

God's pity on the neutral lands That had no wish to fight, The little lands of fruitful peace Now given to the blight. The meeting ground of deadly hosts, Their burning cities smoke, Their trampled fields are drenched with blood, Their streams with corpses choke.

God's pity on the women's hearts That had no wish for war, The women's hearts that bear all men And bloody strife abhor, Now they may only wait and fear And weep the brave and true, Each bursting shell must lay them waste, Each sword must pierce them through. —McLanburgh Wilson in New York Sun.

BANKING OPERATIONS AND ACCOUNTS.

(Number Twenty-seven in a Series of Short Articles on Business Economics. (By Professor W. W. Swanson).)

In our analysis of this hypothetical bank statement we have assumed that the loans have been left with the bank on deposit, against which cheques may be drawn. All Canadian banks pay both demand and time deposits on demand, even although they have the right to require notice with respect to the payment of the latter.

Let us suppose that depositors now call for cash to the extent of \$50,000. The account will then read:

Capital	\$500,000
Undivided profits	7,772
Deposits	417,978
Resources	\$925,000
Loans	\$475,000
Real estate, etc.	25,000
Specie	425,000
Liabilities	\$925,000
Capital	\$500,000
Undivided profits	7,772
Deposits	417,978
Resources	\$925,000
Loans	\$250,000
Bonds and stocks	200,000
Real estate	75,000
Other assets	35,000
Expenses	5,000
Cash items, specie, legal tender notes	425,000
Liabilities	\$3,240,000
Capital	\$500,000
Reserve or surplus	130,000
Undivided profits	10,000
Deposits	2,500,000
Resources	\$3,240,000
Loans	\$250,000
Bonds and stocks	200,000
Real estate	75,000
Other assets	35,000
Expenses	5,000
Cash items, specie, legal tender notes	425,000
Liabilities	\$3,240,000

If no further demands are made by depositors, it is clear that the bank can extend the scope of its operations, either by increasing its loans or by purchasing securities. We will suppose it has done both, and that profits have been made and expenses incurred. The statement would then read as follows (assuming that the bank has not yet had recourse to note issues):

Capital	\$500,000
Reserve or surplus	130,000
Undivided profits	10,000
Deposits	2,500,000
Resources	\$3,240,000
Loans	\$250,000
Bonds and stocks	200,000
Real estate	75,000
Other assets	35,000
Expenses	5,000
Cash items, specie, legal tender notes	425,000
Liabilities	\$3,240,000

Leaving aside, for the moment, the consideration of several items that appear for the first time, the reader should carefully examine the relation between the loans and securities (bonds on the one hand, and the deposits on the other). Obviously any increase of the loans or stocks and assets must be made good in some form or other. It could provide for a certain amount of these by parting with its legal money reserves; but it is obvious that there is a limit to this procedure, for it would soon put the bank in a most precarious position. Therefore, loans are provided for by giving the borrower a checking account at the bank, and securities that have been bought may be paid for by the bank in the same way.

The extent to which this process can be carried on will depend in part on the business habits of the community and in part upon the legal money reserves which the bank maintains. If it is the business custom of the centre in which the bank is located to conduct its business mostly by cheque, it is obvious that this credit system can be carried to great lengths. But although this is the normal method of doing business, no banker can lose sight of the fact that there may be a sudden demand made upon the bank by depositors, for payment of their accounts in legal tender money. That is why all prudent bankers keep a certain of their demand liabilities in gold or legal tender notes. It will be recalled that this proportion is left to the good judgment of the Canadian banker, the only legal provision that the government has made being that the bankers must keep 40 per cent of what reserves they elect to hold in the form of Dominion notes (legal tenders). Other governments fix a definite reserve, notable in the case of the banking system of the United States, all of which will be explained in detail in due course.

Of course, there is the constant temptation to deplete the reserves to increase the loans and securities, because it is from the latter that the bank makes its profits. But a proper cash reserve cannot be made good by securities, however excellent these may be. Although good commercial paper may be certain of payment at maturity, still the demands upon the bank are demands for cash, and cannot be answered by the offer of even the best securities. If a bank cannot meet demands made upon it in legal tender money, it has failed; and any offer of securities is merely a proposal to begin to divide the property of the bank, if, however, the bonds, stocks, and so forth, are wisely selected they may form a very valuable secondary reserve; for in that case they can be readily sold for cash. In extreme cases, of course, even the best securities can not find a ready sale. Still, they form a very important auxiliary to the reserve of actual cash.

The natural method of securing the proper apportionment of resources between securities (including loans) and reserves, under ordinary circumstances, is by increasing or diminishing the loans, or in other words, the purchases of securities made from day to day in the regular course of business. If the bank's days its discounts, or even slackens its usual activities in making investments, the regular succession of maturing paper will gradually strengthen its reserves; (a) either by the discharge of the obligation in cash, or (b) by relieving the bank of obligation to pay, by the cancellation of deposit accounts or the return of its notes.

To return to our statement, however. On the liabilities side are certain items classified as "reserves" or "surpluses," called incorrectly in the Canadian system "reserves." This has absolutely nothing to do with the real reserve of a bank, which is made up of legal money to meet emergency conditions. The "reserves" is simply a part of the profits that have been carried to a special fund to strengthen the position of the bank. The item appears as a liability because the bank owes this money to the shareholders. The "undivided profits" are the profits earned but which have not been disposed of by dividend payment or otherwise. It is obvious that this is also a liability that the bank assumes toward its shareholders.

On the assets side are found "expense" accounts, which represent a certain amount of cash which the bank has paid out. They will disappear when the periodical statement of accounts is made, being deducted from the undivided profits. They are considered an asset for the present because the bank has discharged a certain part of its obligations in one form or another. "Other assets" covers any form of property held by the bank not otherwise classified—doubtful securities, or property held for temporary needs. For example, while a bank can not properly invest in a mortgage, it may be obliged to accept a mortgage in settlement from an embarrassed customer, to be held temporarily. "Cash items" include such demands on individuals or other banks as are collectible in cash; and can, therefore, be fairly considered the equivalent of cash in hand. They may be considered part of the reserves, which are then made up of cash items, legal tender notes and gold.

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Capital Paid up..... \$7,000,000
 Reserve Fund..... \$7,000,000

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THE Royal Bank of Canada
 Incorporated 1869

Capital Authorized - - - \$25,000,000
 Capital Paid up - - - \$11,540,000
 Reserve Funds - - - \$13,500,000
 Total Assets - - - \$180,000,000

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THAT TROUBLESOME GOLD.

A leading banker said, Thursday, that he wished all the gold in the world was at the bottom of the sea. The scramble to secure gold and to protect the gold supply has become a comedy. Heavy gold shipments from this country are sent abroad, and when the tide turns the gold is sent back here. In some instances the original seals placed on the casks in New York have not been broken when the shipment has been returned from Europe to New York. Gold is a shuttlecock never at rest but keeping international markets constantly stirred up.

The late Major Thomas B. Kirby, for many years money editor of The Wall Street Journal, and the late Cope Whitehouse, an international authority on gold, were once discussing the heavy export of the yellow metal from this country during 1909.

Major Kirby said: "Mr. Whitehouse, the only way that we can ever settle this problem of the shipment of gold to Europe, foreign exchange, the risk and the incidental worries and details, would be to have an international Congress of the World's Powers agree to load the world's hoard of gold on worn-out ships. Against this gold the international Congress should issue negotiable certificates to the various powers representing the amount of the gold each owned on these vessels.

"Then on a given day all of these gold-laden vessels should set sail for the middle of the Atlantic Ocean. When the vessels met, their holds should be loaded with dynamite, a time-fuse set and the crews withdrawn. The explosion would send the gold to the bottom, and settle for all time to come this non-sensical performance of carting the stuff back and forth across the ocean."—The Wall Street Journal.

HOW WILL EUROPE BE FED?

"America," says the London Statist, "is reported to have sold about 96 million bushels for shipment during July and August and September to Europe. But even if this large quantity is exported, a considerable amount of wheat will be required from other countries; so that it will be at once seen how serious the position will be if Russia is prevented from exporting."

A special fund to strengthen the position of the bank. The item appears as a liability because the bank owes this money to the shareholders. The "undivided profits" are the profits earned but which have not been disposed of by dividend payment or otherwise. It is obvious that this is also a liability that the bank assumes toward its shareholders.

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TWO CASH MARKETS FOR STOCKS AT

Took Some Time for Transacting "Gutter" to Become Generally Recognized by Traders

GOVERNORS TOOK ACTION

Then it Was That the Clearing House "Cash" Was Established and Rules Made Sales Should be Made Below Closing

Boston, August 20.—New York now has markets for the purchase and sale of securities on the New York Stock Exchange, one "Gutter" market on New Street, and the conducted in the Exchange Clearing House, the guidance of the special committee of the Exchange.

The "Gutter," was established immediately the board closed, but the transactions have not been generally recognized, particularly Stock Exchange Governors, until after several days of active trading. Then it was that the House market "for cash" was established, and the ruling made that no trading should occur under the last closing price. American Beet Sugar stock has been most in demand in both cash markets, and greater part of the orders placed have been the Clearing House owing to the fact that it has commanded a premium. Several hundred shares of the American Sugar Refining Company has also been quite active, on Tuesday 10 in the "Gutter." Some sales have taken place at higher prices than were last in the Stock Exchange.

United States Steel common last week to 64 1/2 in the "Gutter," but has since recovered where sales were made through the Clearing House. At the moment sales were reported at 64 1/2 under "Committee of Five" auspices at 64 1/2 was quoted in New Street at 64 1/2 to 64 1/2. There has been a good demand in the "Gutter" for Reading, Erie, Union Pacific, B. R. T., and business in New Haven. There seemed to be persistent inquiry for B. R. T. on Tuesday. 200 shares were wanted at 8 1/4, and sales effected at that figure. Later the bid price dropped about 80 1/2.

Inquiry regarding the division of buying orders in both cash markets, leads to the conclusion that in general there has been more pressure than buying demand.

It was also learned that on a single day in the cash market conducted through the House handled more than 20,000 shares of fairly evenly among industrials and rails. Copper stocks appear promising for sale. Those seen on the "offered" lists in New Street included Nevada Consolidated, Amalgamated Copper, Utah Copper, did not figure to an important among stocks offered. The present condition of copper trade, curtailed production, and a slump in formation, formed the basis for holders of these offering their holdings at the present time.

As soon as the prices quoted in the "Gutter" reached the level of the last closing, transactions will invariably be transferred from New Street to the Clearing House. Notwithstanding the several rollovers contemplated by the Stock Exchange committee of "Five," Stock Exchange houses have patently abandoned their "Gutter" affiliation and understood.

One method of concealing identity of a "Give Up" has been the adoption of clearing through banks, where both certified checks of buyers and certificates of sellers pass. This obviates the city of Stock Exchange houses on either end of transaction "below the market" yielding their city. One Stock Exchange partner took a cue from this to secure some bargains in listed stocks for the last closing price level, out to New Street the morning of the latter. In that way the Stock change man took care of his customer, who did not violate any of the Stock Exchange rules. "It is understood that several houses have called on the carpet" before the committee of five to explain their connection with some recent transactions, which did not go through the Stock Exchange Clearing House.

CURIOSITY IN LEGAL TENDER

As an indication of the unprecedented conditions now existing in Great Britain, Sir W. Mackenzie wrote back with him, on his trip, a curiosity in the shape of a small piece of white paper, on which is printed: "Legal tender the sum of £5." These notes, he declared, were circulated in millions throughout the country, in order to cope with gold scarcity conditions.

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