

THE TARIFF QUESTION.

The sterling exchange market in New York has ruled lower this week—the extraordinary French demand for gold being apparently satisfied. The exchange situation may be affected rather importantly by the going into effect of the new Underwood tariff. It is now said that the great controversy will be ended and the bill will become law on or about 1st September. As the *New York Journal of Commerce* remarked the other day, the fervid speeches of Republican senators against the bill fall flat, nobody pays much attention to their predictions of disaster, but what all want to see is an actual trial of the new conditions and above all to have the tariff definitely fixed so that business men can go ahead. The foreign merchandise held in bond at New York, most of it waiting to be entered at the reduced rates, now exceeds \$80,000,000. So on the going into effect of the new rates the import statistics should show great increases, and a considerable amount of exchange will be required to settle for the foreign goods. One might expect that the distribution of the large mass of imports would favorably affect the traffic of the railways. The inward stream of goods should complement or balance to some extent the movement of cotton, wheat, corn, etc., to the seaports for export.

AN ILL ADVISED ATTACK.

The continued weakness of U. S. Government 2 per cent. bonds appears to have annoyed some of the Government officials at Washington. These bonds fell to 95½—a natural result of the uncertainty created by the wording of the new banking and currency bill. Yet the Secretary of the Treasury was so ill-advised as to ascribe the decline to the machinations of New York bankers anxious to defeat the currency bill.

POVERTY IN THE CAPITAL MARKET.

Reasons why for the Present "Indigestion"—Development of Backward Countries and Great Activity of Trade—Discrimination a Difficult Matter.

In an interesting article discussing the present condition of the London capital market, it is pointed out by the *London Economist* that in regard to British investments abroad during recent years, the capital raised has gone (if not into war) into new enterprises, which will not be immediately reproductive. Many of them will require the expenditure of more capital to bring them to the profit-earning stage. Money spent in building a hydro-electric station, for instance, or in irrigating a tract of dry land is capital wasted if the respective expenditure stops short before current can be generated or the dykes can be filled with water. The expenditure *must* go on.

DEVELOPMENT OF BACKWARD COUNTRIES.

The trade activity of the past three years, the *Economist* proceeds, is due very largely to the development of the resources of backward countries. The

great volume of British exports is most certainly due in part to capital investment abroad. To complete their programmes, the directors of big enterprises abroad are relying upon their ability to borrow more upon the ultimate prospects of the enterprise. The money is not being wasted in the majority of cases; it is being exchanged for goods in Great Britain, and for labour in the developing countries. But there is a limit to the rate at which new countries may develop, and it is determined by the rate at which the surplus capital of the older countries accumulates. The present "indigestion" in the capital market is proof that the limit has been reached for the time being. Underwriters have stock upon their hands. The public has not only invested all its savings, but in addition has been tempted by the cheapness of new investments to copy the underwriter, and has purchased stocks with the assistance of overdrafts from banks. The insurance companies—perhaps the biggest force in the investment markets to-day—are about as full as they care to be. In normal times they anticipate a regular addition to their funds each year, and the calls on the issues they have taken up will probably take all their spare funds for some time, especially as they secure most of their investments as underwriters.

With the usual sources of capital run nearly dry, with industry at home finding full employment for all its liquid resources, it is evident that the applications for new capital must undergo some restriction. It is an easy and obvious remark that underwriters will be the better for a fast until the capital accumulations of the community catch up with the demand, but anything more than a postponement of new issues is not easily brought about. What is wanted is not postponement, but an adjustment of the demand for capital to the inelastic supply, and, above all, a cessation in the frightful waste caused by the Balkan war.

RESTORING THE BALANCE.

Berlin is said to be now in a more liquid condition than for some time past, though she has probably not any large margin for investment. London's exhaustion is only temporary, and is probably due in part to the disinclination of investors to buy stocks in a falling market. Paris has most on her hands just now owing to the large sums which her bankers have lent out to the Balkan States, on securities which the most optimistic cannot regard as liquid.

It is the realisation of this, continues the *Economist*, and the desire of the more cautious to restore their margin of liquid resources by reducing their liabilities, which has caused the slump in investment markets, and the enforced restriction of capital expenditure has also shown itself in the commodity markets, where the raw materials of many manufactures have fallen in price during the last month or so. The prices of most manufactured and semi-manufactured goods keep up because the materials for their manufacture were bought at high prices. But there seems to be a general inclination on the part of manufacturers to work off present stocks before buying more, and this desire is caused, no doubt, by a falling off in new orders.

INVESTOR'S CONFIDENCE NOT SHAKEN.

Very much depends on the amount of this falling off in orders. If it is but slight, there need be no actual liquidation of stocks, and the stream of