

The Chronicle



Banking, Insurance and Finance

ESTABLISHED JANUARY, 1881

PUBLISHED EVERY FRIDAY

Vol. XXXX. No. 21

MONTREAL, MAY 28th, 1920

Single Copy 10c
Annual Subscription \$3.00

THE GENERAL FINANCIAL SITUATION

Too much attention to newspaper headlines may easily lead these days to wrong impressions regarding the present development and trend of economic events. The era of high prices is not universally coming to end immediately, but the trend of circumstances suggests that in certain lines, though not in others, the summit has been reached and passed. What is happening may fairly be described, we think, as follows. In the United States a movement is under way to lower retail prices. This movement is particularly evident in the clothing and allied trades, and is a result partly of the public's refusal to buy at the summit prices lately prevailing, and the necessity, owing to pressure from the banks, for the liquidation of stocks. To what extent this is really a genuine movement in the direction of lower prices, and to what extent it is merely advertising and window-dressing, is extremely difficult to determine; the one thing certain is that it is not entirely genuine. Participation in it by wholesalers and manufacturers is not yet much in evidence. Concurrently with this movement, and as a result of the tightness of credit everywhere, there has developed a decided weakness in certain primary markets. Grain and foodstuffs were reported as slumping in Chicago a few days ago; heavy declines in some other staple commodities are reported in Great Britain. The Stock Exchanges also have been decidedly weak. These declines, we believe, represent mostly the curbing of speculative excess as a result of tight money and "nerves" on the part of speculative holders. They are indicative of a beginning of the process of deflation; but they show no more than a beginning. Deflation will be, it is to be hoped, a long and gradual process, if it is speeded up, the result may be, in fact, inevitably will be panic and disaster. What has happened thus far is the merest preliminary.

It will be noted that in the United States, where the reduced prices movement has been carried farthest, it affects only articles which more or less come into the luxury class. Clothing and shoes are not luxuries, it is true, but they comprise a

class of purchases which can at least be reduced to a very considerable extent. Foodstuffs, sheer necessities, have been scarcely touched thus far; in fact, they show some tendency the other way. Some Canadian authorities are talking of \$3 to \$5 wheat in the fall. It is perfectly natural that articles of the luxury class should first feel the effects of monetary stringency, but there will be scarcely any substantial steps towards deflation until the production of foodstuffs causes their price to decline. Only when foodstuffs come down substantially will it be possible to secure, without hardship, a deflation of wages from the extravagant standard now prevailing in certain cases, although the outrageous demands which are still being made in various quarters suggest that some of the so-called working classes are doing their best to secure deflation with hardship, through making the industries in which they are engaged unprofitable. When the unprofitable stage is reached, the step of the shutting down of factories and unemployment is not far off.

Deflation in the ultimate analysis, comes back to the old matter of supply and demand. Monetary stringency and currency reform may have some effect; but abstention from consumption and increase of production and transportation facilities are absolutely essential to complete the process of deflation without hardship. In fact nowadays, as always, there is no sovereign cure for economic ills except thrift and hard work.

In the paragraph above, transportation facilities have been linked with production. It is significant that in the United States just now, emphasis is being strongly placed upon the necessity for increased equipment for the railroads, and for holding railway labor. There is no doubt that the transportation blockade, consequent upon labour-strikes, and the shocking condition in which the United States roads were allowed to get during the period of the war, has had a good deal to do with recent economic troubles. The necessity for new equipment extends to the Canadian roads, and we are inclined to think also that, apart from equipment, the time is approaching for a new