but also of the possible profit on the exchange. Such transactions will not only have the effect of stopping a further fall in exchange rates, but will often send them in the opposite direction since increased demand upon the supply of paper tends naturally to enhance its value. If for any reason, however, exchange rates remain low the continental holders of bills keep them until they become due and so earn the higher interest. If the exchange rate rises to any extent, certain holders will at once begin to sell—having earned their interest for the time they have held the bills, and seeing their way to secure a certain profit on the exchange, they perhaps think it well to take this, and employ their money in some other transaction.

With interest rates relatively high in London (as they have been for some months back compared, for instance, with Paris), and with foreign exchanges low (owing to anticipated autumn shipments from abroad), indications have pointed for some time to more or less of a "money squeeze" in Britain, aggravated by threatened exports of gold. In such a case the remedy seems almost the homœopathic one of *similia similibus curantur*, since the measure adopted has been a further raising of the interest rate.

A CASE IN POINT.

Let us see how the cure works out, going back to August 14, when the Bank raised its rate from 4 to 4½ p.c. The subsequent course of events was given succinctly by The Evening Post of New York in its issue of August 24, as follows: "The rise in the Bank's official rate on Thursday was followed by so urgent a bid from the open London market, as a result of Saturday's mysterious fright in Lombard Street, that private discounts, passing the bank rate, had by Monday advanced to 4⅞ p.c., nearly double the customary rate at this time of year. With this urgent bid from England, and the resultant expectation of an approaching 5 p.c. Bank of England rate, Paris exchange on London rose from 25 francs, 15 centimes, which was distinctly in favour of the French market, to 25.23½, thus crossing the par of exchange. The New York sterling market, standing in the middle of last week at 4.86⅝, the par of exchange, had run up violently by the following Wednesday to 4.87⅞, close to the point at which London itself could take our gold.

"The Bank of England did not again raise its rate last Thursday; all of these foreign exchange rates have accordingly fallen back. But the incident strikingly illustrates the condition of the markets. London's excuse for last week's 4½ p.c. bank rate was that our market might attempt to draw away England's gold. Yet the week's events seemed to indicate that a 5 p.c. bank rate might have drawn gold from here to London. There remains then the problem as to which market, London or New York, has the greater power over the capital of the other."

The problem put by The Evening Post has during the past fortnight or so been in course of solution. Autumn exports (about to be, or actually shipped), had already given America considerable command upon credits in London, when the New York banking crisis occurred on Tuesday to Thursday, October 22-24. Nothing was done by the Bank of England to check the supplying of America's crying need, and at the close of the week New York engagements of gold had begun with frantic eagerness—the exchange rate on Saturday being well below the import point. By the following Thursday, gold engagements had amounted to $25,000,000 or over. The Bank of England rate was then raised from 4½ to 5½ p.c.—the directors evidently deeming that America's drain had gone about as far as was safe from the British and international standpoint. But although demand exchange from Saturday to Saturday had risen to over $4.88, gold engagements still continued—the desire of American banks for increased reserves transending all ordinary considerations of profit-and-loss in gold importing.

TO CHECK THE OUTFLOW OF GOLD.

The Bank then had recourse to the process of "increasing the dose," and Monday of this week brought a 6 p.c. official rate—with the possibility of an increase to 7 p.c. should so drastic a move seem necessary. Although there was a further withdrawal of gold from the Bank on Tuesday—bringing total gold engagements of the present movements to America up to $36,000,000—the encouraging announcement was made of a purchase in London of £3,000,000 in sterling bills by the Bank of France. This action strengthened the hope, since shattered, that the Bank would not find it necessary to enforce a 7 p.c. rate. It was looked upon as indicating that the 6 p.c. rate—even if not sufficient to stop America's demand—would serve to attract sufficient gold from other sources to offset any further drain. It is to be noted in this connection that not since 1873 has the Bank's rate been over 6 p.c. On November 7, of that year as a result of a panic on the stock exchange, the rate was put up to 9 p.c.

Just what will be the immediate result and final outcome affords interesing conjecture. The immediate purpose of the Bank—merely considered as a bank—is to prevent excessive depletion of its own reserve. But ultimately—as has been shown in earlier articles of this series—the Bank of England's reserve is that of the country's banking system as a whole. The importance, therefore, of caution is manifest. When continued exports of gold threaten to dangerously reduce the reserve, an advance in the rate becomes necessary. If this increase in the official rate is not followed by the market, steps have to be taken to compel it to follow suit. Sometimes—as was the case at the middle of October—the Bank enforces its influence by itself begining to borrow from the open market, thus lessening the supply of money and strengthening the market rate. At other times—as more recently—it is considered necessary to take the more drastic step of advancing the rate. So soon as the market has begun actually to follow suit, London holds out the advantage to foreign bankers of an increased interest over what they can earn at home, supplemented at times by a prospective profit through a possible rise in exchange. The resultant tendency is then for their purchases of London bills gradually to raise the rate of exchange and stop the outflow of gold.