

actual declaration of war, after which and following the few days of holiday when the banks were closed it was a case of the public wishing to deposit rather than withdraw their money. Relief measures had been framed, including the general and bill moratorium, the granting to the banks of power to take out £1 and 10/- notes up to the extent of 20 per cent. of their liability on deposits, and the discounting of all pre-moratorium bills at the Bank of England, who took such bills under the direct guarantee of the state. It is not difficult to see that during the period between August and December of last year there were powerful influences at work in the direction of inflation, and everything conspired to disguise from the money market the different set of forces which were likely to operate after the war had proceeded for some length of time. The slackening of trade and the jar to the credit system in itself reduced enormously the supply of bills in the London money market, while the same influences added to the supply of credits, which were finally increased to an overwhelming extent by the discounting of bills at the Bank of England whereby probably something like £100,000,000 of new money got into the market. Not only so, but at this time the ease in the London money market was still further emphasized by the enormous increase in the gold holdings, mainly due to the payment of United States indebtedness to Great Britain by means of shipping gold to Ottawa. Similar arrangements were made whereby all the South African gold output practically passed into the Bank's hands, although most of it was earmarked at the Cape and not shipped to London.

These influences combined to produce, if not actual inflation, unhealthy ease in Lombard Street, so that with a 5 per cent. bank rate there was for a considerable period discount rates at little over 2 per cent. That such conditions were profitable for a time for the government in its borrowing operations, and enormous lines of treasury bills were placed on satisfactory terms to the exchequer, while this same ease assisted the government with regard to the terms on which it floated its first war loan for £350,000,000, it was of undesirable character, due in part to the natural slackening of trade resulting from the war and in part to the undue creation of credits by the various relief schemes.

War Problems.

These artificial conditions seem to have caused the London money market to ignore too completely the fact that the great European war was bound to bring with it two vital problems for solution by Great Britain, one being the actual financing of the gross cost of the war, and the other being the financing of that part of it relating to the external payments for goods and munitions imported. The first of these problems is common to all the belligerent countries, but the latter must necessarily be most acute in the case of Great Britain, which under ordinary times is so large an importer and which at the present juncture is called upon to finance not only her own imports from abroad, but those of her chief allies. Not until the spring of this year was the gravity of this latter problem grasped. After the famous conference between the finance ministers of Great Britain, France and Russia, in Paris, it became apparent that the treasury was beginning to realize the position, and the country became aware also of the extent to which Great Britain was likely to be called upon to finance the necessities of its allies. It was at that time, and in recognition of this fact, that arrangements were entered into between the three countries whereby on the one hand enormous credits were granted to them in

London, while on the other hand the banks of France and Russia entered into certain covenants to send gold there in some kind of proportion to the advances made. At the same time the government also began to impress upon the community the necessity for restricting all fresh capital issues in so far as they involved money leaving the country, while still later it was perceived that the problem of financing imports was one which called for the selling of American securities held by British holders, and even for the most drastic economy on the part of every individual, so that by lessening all unnecessary imports something might be done to correct the effect of the inevitable reduction in Great Britain's exports occasioned alike by smaller demands on the part of the foreign powers and by the diversion of industrial activity at home to work directly connected with furnishing the government with the munitions of war.

This vital necessity for economy and the cutting down of imports was recognized far more promptly by Canada than it was in Great Britain, for indeed both in Canada and the United States the readiness with which the people are prepared to adapt themselves to times of depression as well as prosperity accounts in no small degree for the remarkable rallying power of those communities from any temporary setback in material prosperity.

In the London money market, although the broad principles of this problem of financing exports was more or less recognized during the first half of the current year, such recognition was not expressed in discount rates as it should have been, so that it has been left for recent events in the shape of the great government loan to occasion the rise which ought to have occurred months ago. Even now it is a case simply of Lombard Street calculating that the war loan may greatly diminish cash supplies so that the rise in discount rates becomes an absolute necessity rather than an intelligent perception by the banks that the requirements of the situation make it necessary that the value of money should be permanently raised at the chief monetary centre.

London's Position as the Monetary Centre.

As to the precise effects produced by the war upon London's position as the monetary centre of the world, it would be easy to make out a case for asserting that even this great war has had no marked effect upon the financial prestige of Great Britain. One could assert that throughout the war she has been able to borrow upon terms which would have been impossible to any other country, while at the present moment she has the great neutral country of the United States anxious to grant her credits to an almost indefinite amount, whereas Germany has found it difficult to raise even the most meagre amounts in the New York money market. All this is true, but it is just as well that the fact should be frankly confessed that the real supremacy of the London money market and of the empire's premier position in the world of finance is for the moment being determined *not* in the great cities of the motherland, or in those of her empire beyond the seas, *but upon the battlefields of Flanders*. A decisive German victory would involve the loss of Great Britain's premier position in finance as well as in other matters, and a deadlock involving an inconclusive peace would also mean such a crippling of the resources and such a lowering of the prestige of the empire as to give the United States an easy lead in any struggle for financial supremacy ensuing after the war. On the other hand, given a decisive victory for the allies, and any loss of financial power and position in the matter of lending to the world temporarily