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London's Money Market in Wartime

FINANCIAL *Effects of the Blow Aimed by Germany, Seen After a Year's Belligerency—National, Overseas Dominions' and Allies' Credits have to be Carried Largely by Great Britain—Economy in Finance is Greater Britain's Need Now.*

IN discussing the war and the London money market in the Journal of the Canadian Bankers' Association, Mr. Arthur W. Kiddy takes it for granted that numerous articles have already appeared in various Canadian journals, setting forth the details connected with the prices of last August. Such articles have appeared in *The Monetary Times*. Mr. Kiddy, therefore, gathers up some of the threads of the position with the object of forming, if that be possible, some kind of intelligent view as to the present position and outlook.

At the outset there is one fact which, although well recognized, cannot sufficiently be borne in mind, namely, the financial and military unpreparedness of Great Britain for the war which broke out last August.

It would be stupid to hide from ourselves Great Britain's unpreparedness and the preparedness of Germany, because while in any event the occurrence of a great European war must have had the effect of dislocating financial conditions all over the world, the disturbance was undoubtedly accentuated by the suddenness of the calamity and the fact that when Germany, having first thoroughly prepared for war, chose to aim a blow at the whole fabric of credit she greatly desired that that blow should strike at the very heart of the British Empire. We have now to try and discover what have been the precise effects so far of the blow inflicted and what is the extent to which Great Britain is withstanding the enormous strain which has been placed upon her along the following lines: (1) The effect produced upon the national finances themselves; (2) the effect produced upon home trade and London money market conditions, and (3) the effect upon Great Britain's position as a great monetary centre. Somewhat the same conditions obtain in the world of finance as those which may be applied to actual military and naval developments, namely, that while Britain's losses both in men and money have been deplorable, they have been infinitely greater in the case of the foe.

And by the national finances is meant the actual government accounts, as formulated in the annual budget. In recording the effect of the war upon the national finances of Great Britain it is necessary to note that even before the outbreak of the war they were occasioning some anxiety. The reason for this was that for many years attention had been so concentrated by Mr. Lloyd George upon social reforms at home, as to occasion, in

the opinion of many, a great outburst of national extravagance and the imposition of taxation on a scale only to be justified by war itself. The point must be noted, because it shows that even before the outbreak of war the country was suffering some strain in the matter of taxation, while these budgets had also played their part in stimulating that extravagance of living in the country which it is now its task to curb; and further, these conditions had found their formal expression in a decline in the national credit, as represented in the price of consols, thus making them all the more sensitive to any sudden calamity such as the outbreak of a great war.

But while this is true, far from the national accounts presenting any difficulty in the matter of equilibrium the chancellor of the exchequer had imposed such taxation that almost every year closed with handsome budget surpluses, and but for the war the financial year ending the 31st March, 1915, would no doubt also have shown a great surplus. Approximately the position would have been that there would have been normal revenue to the extent of over £200,000,000, with an expenditure of a somewhat smaller amount. The effect of the war up to the date named may be gathered from the fact that the actual position for the financial year was:—

*Total expenditure	£560,473,533
Total revenue	226,684,080

Deficit	£333,799,453
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*Of this total expenditure, about £362,000,000 was special war expenditure, including the grants to various parts of the empire overseas.

The revenue for the year was considerably over the £200,000,000. This was due to the fact that in the autumn of last year following on the war the chancellor of the exchequer levied fresh imposts both as regards the income tax and indirect taxation, calculated to produce some £15,000,000 or £16,000,000 for the year covered by the foregoing figures, and about £65,000,000 in the current financial year. The yield from this new taxation was greater than estimated for the year 1914-15, and promises to be still larger again in 1915-16.

At the beginning of May, Mr. Lloyd George presented his budget for the new year. It was merely a skeleton budget, owing to the impossibility of determin-