

in recent years, the cessation of new enterprises and the marked caution followed in every direction in the matter of improvements and new developments are all having a most vital influence in lowering the average interest rate, and that this condition is likely to continue, regardless of whether or not we witness a fair revival in industrial activity."

Accumulation of Funds.

One fact seems beyond dispute. Despite the call for funds for the cost of the war, money is accumulating rapidly. A remarkable condition, for example, is found in the London market. While the British treasury's special regulations have prevented the making of a large number of new issues, the applications for capital, which received sanction, aggregated to the middle of November £679,734,228, being mostly war loans.

The capital actually subscribed and paid up last year was the greatest ever raised in Great Britain. A large part of the money came out of banking funds, but when due allowance is made for this fact, the capital subscribed by British investors out of their savings was much greater than ever before. The ability of investors to provide as much money as they have done arises from the fact that the amount of capital being spent upon the construction of houses, buildings, etc., is unusually small, and that the greater portion of the savings of the nation has passed through the London market in subscriptions to British government loans and to other public issues of capital.

Destruction of Capital.

In considering the future interest rates we may bear in mind the recent statement of Sir George Paish, that the war does not mean any appreciable destruction of the world's capital as it existed prior to the war. Where property (houses, ships, machinery, etc.) is injured by gunfire, by bombs, or in any other way, or houses, buildings, machinery and other property are allowed to deteriorate, or stocks of goods accumulated before the war are consumed and are not replaced, there is destruction of pre-war capital; but even during the war the construction of houses, factories, ships, etc., is continuing in most countries, and, as far as it is possible to come to a conclusion, the wastage of old wealth through the war is made good, or nearly made good, by the creation of new wealth of a permanent character. Thus it was estimated after the first twelve months of war that Great Britain was just as wealthy and just as well off as she was before the war commenced, having met the full cost of war out of money which otherwise would have been saved out of extra savings and out of increased income. In other words, she was about \$2,000,000,000 less well off than she would have been but for the war, although she was no poorer than she was before the war. Whether or not the wastage of old wealth by war will continue to be almost made good by new wealth, cannot be forecasted. On this point Sir George Paish says:—

Aggregate Wealth of World.

"As the war becomes more and more costly it is possible that no new buildings or houses will be erected in the belligerent countries, and that the maintenance outlays will be inadequate; but unless the war is a very long one it may be doubted if there will be any substantial reduction in the pre-war wealth of the belligerent countries due to these causes, while the wealth of the neutral countries as a whole should show appreciable increase. The increase in the latter will not be nearly as great as it would have been but for the war; still, it should be

appreciable. The wealth destroyed by the war will consist, first, of the savings that would have been available for new construction in the countries engaged in the war, or which may be lent to them by other countries, who but for the war would have employed their savings in adding to their own productive power; and, secondly, of capital withdrawn by a belligerent nation from other nations and consumed by it, a process which involves the payment of the capital withdrawn by the nation which loses it out of its savings, and a consequent reduction of the amount of its savings available for reproductive purposes."

In brief, the existing great war expenditures do not involve a diminution in the aggregate wealth of the world as it existed prior to the war, but it does mean a small addition to that wealth during the war, and that the addition to the wealth of non-belligerent countries will be in some measure neutralized by the diminished wealth of belligerent countries which suffer either from the destruction of property, or from need to borrow abroad or to sell their foreign investments in order to meet their war expenses.

Future of Interest.

For all practical purposes the wealth of the various nations is substantially unchanged, less the shrinkage in the market value of property and securities arising from the rise in the rate of interest. The latter factor should, however, be in large measure disregarded, as when the war is over and capital again accumulates rapidly the rate of interest and the value of property will probably return to levels not far removed from those prevailing prior to the war, especially if the world adopts measures for the prevention of great wars, which, unfortunately, seems doubtful. Even if values do not fully recover to their pre-war level, as Sir George says, capital will be as effective as, and perhaps more effective than, it was before the war in wealth production, owing to the desire or necessity of everyone to work harder and more efficiently. Hence the income derived from pre-war capital may be as great, or greater than, it was before peace was broken. It will be realized that the true measure of the wealth of nations is the annual real income derived from its use, not the number of years' purchase of that income, which is liable to wide fluctuation.

May Be Ample Funds.

Last year, the Canadian bank deposits made new records nearly every month. In September, for instance, the total deposits were \$1,052,000,000. The deposits payable after notice, usually regarded as the people's savings, in that month totalled \$693,000,000. There has been a steady increase in what, in the true sense of the word, are savings deposits, and ordinary depositors also being either unable or unwilling to lend their funds at present, were transferring abnormally large current account balances to savings bank accounts.

Looking at all the money signs, it would seem that after the war, when it is hoped that confidence will be fully restored, and allowing for the demands of war loans, there will be ample funds for legitimate investment purposes, with a tendency for the rates to harden as the world gets back into its peaceful gait.

Dollar V. Sterling Exchange.

The value of the English pound sterling in America which in normal times is \$4.8665, declined last year to as low as \$4.50. This is discussed fully on other pages of *The Monetary Times*. The decline in sterling exchange has raised discussion as to the probability of dollar