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THE GENERAL FINANCIAL SITUATION

The rise in the Bank of England's official rate of discount to 7 per cent. (a figure which has not been reached before, except in times of actual panic, since the middle of last century), and the preceding movement in the discount rate of the Bank of France to 6 per cent. are events of considerable interest to Canadians in relation to the general financial outlook. Alterations in the discount rate of the Bank of France are, like the proverbial angels' visits, few and far between. Internal financial conditions in that country, as is shown by the depreciation of the franc in foreign markets, are extremely bad, and the present move is no doubt associated with a desire of the Paris bankers to set about the enormous task of mending French credit and putting the country's finances in order—a task which is likely to occupy many years, in spite of the amazing capacity for thrift and economy possessed by the great majority of the French people.

The rise in the Bank of England's rate, on the other hand, would appear to constitute part of the campaign for restricting the supplies of funds for speculative purposes, which the British bankers have lately taken in hand. In Great Britain, as in Canada, there has been since the conclusion of hostilities a great wave of stock exchange speculation, stimulated to some extent by the excessive taxation which has made a great number of people, who formerly were not very keen on this particular form of indulgence, eager to take a chance of adding to their income. There has been, moreover, a vast output of new securities by both high-grade borrowers and by industrial concerns whose offerings were of a more speculative character. Some month or two ago, high British financial authorities were reported as seriously concerned regarding the results of a movement that merely continued inflation and habits of free spending, and it is well known that the British banks have lately been shutting down on extensions of credit, to an extent that the output of new securrties has been checked. The present rise in the Bank of England's rate is an evident continuation of this campaign.

Thus it is seen that the pinch of tight money which is being felt in Canada, particularly for speculative purposes, is by no means confined to the Dominion but is being experienced elsewhere. Even in the United States, whose present conditions are referred to below, competent observers are looking for a severe "money-squeeze" in the fall. We are inclined to think that there will be little change regarding tight money, as far as Canada is concerned, until the price of commodities comes down—a process which possibly may be eventually hastened by a money panic originating in the States—though of that there is in fact no present sign. While some local Stock Exchange opinion is inclined to look hopefully to the opening of navigation as making an end to the present stringency, we are of the opinion that any relief in this respect will be at best temporary and probably of little effect, and that no really marked change in present conditions is to be expected for some time, until either the banks' current loans are reduced by a decline in commodity prices or their loaning resources amply increased through the growth of deposits. As things are, inventories and corresponding bank loans which are being carried by many of the smaller commercial and mercantile concerns are at figures which a few years ago would have appeared unbelievable.

In connection with this subject, attention is drawn to the abnormally high levels of interest which are beginning to prevail in the United States.

It is pointed out that the United States Treasury's bid of 5 to $5\frac{1}{4}$ per cent. for temporary bank loans made last week is higher than any such bids since the reconstruction period after the Civil War and that $4\frac{3}{4}$ per cent. United States Government bonds maturing in 1923 are down to a point to yield $6\frac{1}{4}$ per cent. to the present purchaser—a return which has not been obtainable since the early months of 1863. Moreover, strong railway and industrial corporations are offering new securities on a 7 to a $7\frac{1}{2}$ per cent. basis—even the Pennsylvania Railway is offering 7 per cent bonds. "This abnormal rise in the cost of capital," writes one observer, "reflects three distinct facts in the situation,—the prodigious waste of accumulated capital in the war, leaving the actual stock of capital much reduced on the return of peace; the doubling of prices during the war, making it necessary to use