THE BANK OF ENGLAND SITUATION

The position of the Bank of England, as per latest advices, shows the reason for the recent advance of the bank rate. The last weekly statement to hand, compared with same date last year, and 1897 is as follows:

	1899.	1898.	1897.
	£	£	£
Circulation	28,417,990	27,043,175	27,205,140
Public Deposits	8,950,245	5,804,566	7,201,055
Other "	39,658,569	35,244,984	37,149,557
Govt. Securities	14,840,990	9,904,640	12,876,416
Other "	31,432,629	26,779,448	27,883,742
Reserve of notes & coin	20,282,863	22,195,937	21,511,893
Coin & bullion	31,900,853	32,439,112	31,917,033
Proportion of reserve to liabilities	41½	53⅞	48¾
Bank rate	5	4	3
Consols	103 11-16	110¾	113 5 16
Clearing House returns.	181,481,000	175,689,000	166,291,000

The decline of the proportion of reserve to liabilities commenced in December last year, when it fell from 53 7-8 on 15th November to 50 3-8 on 14th December. A month later it went down to 40 5-8, then it advanced to 45 3-4 in February, and the rate was dropped from 4 to 3. As late at September last, the reserve was up to 52 1-8, the falling-off from that proportion to 41 1-2 having been very rapid. As a rule, the more rapidly does the Bank of England reserve decrease, the sharper are the advances in the bank rate, and the more suddenly and rapidly does the rate advance over from 3 1-2 to 5 per cent. the quicker comes a recovery of normal rates. The present situation is, however, unprecedented. An exceedingly costly war is in progress while trade is prosperous beyond precedent, and money is seeking investment to an enormous extent. Thus, there is everything in the commercial situation to inspire confidence, though the demand for funds to sustain the vastly enlarged industries of the country is putting all British banks under strain. Were even the Government out of the market as a borrower for war purposes, money would probably be dearer than in 1897 or 1898, owing to the commercial demand, but, as the war is absorbing a large amount of capital, and investors are somewhat shy under the anxieties caused by the war, the combined demand for trade and for war naturally causes enough financial pressure to increase the rate. The exports of gold from the Transvaal being stopped is also a factor in producing scarcity of supplies in the money market, and the Indian Government is keeping a tight hand on its gold in order to build up a strong reserve. We do not regard 103 11-16ths as a low figure for Consols bearing 2 3-4 per cent. interest, which will soon be reduced. Early in 1865, when the interest was higher, and the Bank rate 5 per cent., with a tendency down wards, Consols were below 90, although the revenue was quite buoyant, and many years elapsed before par was reached. We confess to a feeling of gratified surprise at Consols, the standard security of the world, having receded in value to so trifling an extent since war was seen to be inevitable. The drop from 104 3-4 in September last to the present quotation might be amply accounted for by the British Government ceasing to buy Consols on Savings Banks account, so that it may be fairly said that Great Britain has entered upon an exceedingly costly war without the national credit having been reduced a fraction.

THE AMERICAN GOVERNMENT BUYS ITS OWN BONDS.

When the money market in New York last month was in a highly perturbed condition, rates threatening to rise to the 50 per cent. point reached in 1890, the Secretary of the Treasury issued a circular announcing its readiness to purchase $25,000,000 of Government bonds. For those of 1907, at 4 per cent., 112.75 was offered, and 111 for the 1904 issue at 5 per cent. The Secretary has expressed his belief that, but for this movement, a serious panic would have occurred for which the Government would have been blamed. The sudden entrance of a buyer of securities on so gigantic a scale naturally drew down on the Secretary some purgent criticisms from those whose operations were adversely affected by his entering the market. Considering into how dangerous a condition the country was drifting when the Secretary stepped in, every interest in the country being on the tenter-hooks of anxiety and alarm, we cannot but regard the Gage's policy as having been inspired by a clear apprehension as to what was required to rest on confidence, by providing funds, the scarcity of which amongst bankers was exciting the disturbance of credit. When the Bank of England on several occasions has been so hard pressed that the Government came to the relief of the situation by issuing Exchequer bills, there were criticisms passed upon this policy even sharper than those passed upon the action of the Secretary of the United States Treasury. There are times, however, when the soundest theories must be violated, and some interests ignored, in order to prevent grave disasters to the whole finances and trade of the country. When a panic is developing it calls for and excuses exceptional and even irregular measures to avert the danger. The action of the Secretary was irregular, as the law only authorizes the Treasury to buy bonds out of surplus revenue. There has not been any surplus revenue enjoyed by the United States for 8 or 9 years, consequently the offer to purchase bonds by the Treasury was a policy not contemplated by the law, which arranges only for such purchases to be made for the sinking fund account out of surplus revenues. But, when a country is on the verge of financial collapse, of a panic that threatens to paralyze its trade, because the money available for its commerce is inadequate to meet urgent demands, while the Treasury has a gold reserve of $100,000,000, and a cash balance also of nearly double that amount, it seems the height of folly to keep all that vast amount of money locked up by the Government when a moderate portion of it would avert a terrible national disaster. It seems also to us an amazingly foolish system of national currency and finance for the American banks to be so bound