# The Bank of England Rate

The anxious discussion in financial circles, since the Bank of England on Friday put up its minimum discount rate to 6 per cent, shows the importance of that step. The general public, however, remains perplexed why the bank's announcement should alarm a foreign market; wonders how the fact of an arbitrary advance from 5 to 6 per cent in the interest rate of one institution can stop gold exports from London, or shut out American borrowers from the London money market and asks why so rich and prosperous a community as our own need be disturbed if either of these results is effected.

We pointed out on Saturday one reason for the world-wide excitement. London is still the world's central money market. English capital seeks investment in all money markets of the world. When, therefore, demand for money, the world over, has suddenly become urgent, the situation is necessarily reflected by the strain upon London. The interest rate charged by the bank which holds the reserve against English banking liabilities is the most accurate index. Hence, if the Bank of England marks up its rate to the highest figure touched in more than thirty years, it is a fair conclusion that pressure on the world's money markets is severe.

This inference is the more reasonable from the well known fact that rise in the London bank rate causes similar rise in the cost of money to every British merchant. The Birmingham and Manchester tradesman may not be a customer of the Bank of England; but since that bank, directly or indirectly, controls a large part of the London supply of capital, and since it refuses to let its money go at less than the 6 per cent rate, other lenders are bound to follow suit. If they did not, dealers in money would snap up the funds offered by private banks at the lower figure and would relend them at the bank rate. Exactly here comes in the process whereby the bank, raising its interest rate, "controls the foreign exchanges." London's own capital moves back and forth between London and every other market of the world. If money rates on these other markets rise substantially higher than at London, and borrowers have the necessary credit, English capital is transferred from London in great volume.

Its transfer causes the rate of international exchange to move against London; when that rate has fallen far enough, it reaches a figure at which it is profitable to ship gold from England. This is what lately happened with New York exchange. Wall street's money rate, during our "September squeeze" was so much higher than London's, our bankers applied so urgently for loans in London, and their credit was so high, that something like $40,000,000 gold was taken from London for New York within a month. Loss of this gold, much of which was drawn from the Bank of England's own reserve, gravely impaired the position of that institution; its ratio of reserve to liability, which London dislikes to see below 40 per cent, fell ten days ago to 35½.

If exchange on London is low, and English gold exports uncomfortably heavy, an obvious remedy is to raise the London bid. If the Bank of England, and with it the general London market, outbid the other markets, English capital loaned abroad will naturally return. It left England because it could earn more abroad; it will come back if it can earn more at home. But as its outgo from England moved the exchange rate against London, so now its re-transfer to London, so now its re-transfer to London from New York, Berlin, Paris, or elsewhere turns the balance of international exchange in London's favor. Where lately, "sterling was falling" on all these markets, now "sterling is rising rapidly." With its rise, profit in exporting gold from London ceases. Were it to rise much further, London would import gold.

This is the simple mechanism of "control of the foreign exchanges" by the Bank of England. The question whether New York need be concerned at Friday's abnormally high bid of the bank for money involves other considerations. Our floating indebtedness on the London market is very large. Our market owes much less to Europe, through Europe's investment in our stocks and bonds than it owed a dozen years ago; but it has probably never before owed anything like so much on our banker's notes. During several months it has been the common talk of financial London that New York houses were borrowing in such sums as almost to strip the London market of its usual surplus resources. The head of a great London bank, which had itself at the start loaned heavily in New York, declared in a published interview, a fortnight or so ago, that the London banks had reached a pitch of infatuation, that they were advancing to New York their "purest resources," that the proceeds of these loans were invested in stocks by the borrowers, notwithstanding the kind of loan involved was one which is never allowed for stock exchange purposes in London. His warning was directed quite as much to London as to New York, and the view then set forth is reflected in the Bank of England's action. It has been clearly understood in financial circles, since the Bank of England rate went to 6 per cent last Friday, that, in the bank's own view, these American loans not only must not be increased, but that those now outstanding must be repaid as fast as they fall due.

If the Wall Street borrowers acquiesce, then the interesting question is exactly how our market will be affected by the transfer to New York banks of these London loans. Our weekly bank statements indicate that not less than $30,000,000 of such obligations have been assumed by our banks in the past two weeks. The problem remains how much more must be similarly shouldered by New York, and how far the bank position will be weakened in the process. It is possible—though we should say hardly probable—that our bankers, bidding against the Bank of England, will endeavor to raise further loans in London despite the higher bank rate. This would precipitate an unusual and most dangerous struggle in the international market. People closest in touch with the Bank of England say that such an attempt would mean a further rise in the bank rate to 7 per cent or higher. When one considers that the few occasions of higher rates have been seasons of serious financial panic, the nature of the situation is easily understood.—New York Evening Post.

### NATURALLY CONFUSING

Professor L. O. Howard, entomologist in chief of the government, has a little daughter 4 years old, named Janet. She showed him, the other day, the well known photograph of the president jumping his horse over a fence.

"Papa," said she, "ith it a picture of the good Lord?"

"No, dearie," replied her father.

"Ith it the thecretary of agriculture?"

"No, my pet. It is Mr. Roosevelt."

Janet looked thoughtful for a moment. Then she said: "Why, of couth! It'th funny how I alwayth get thothe three people mixed up."—Lippincott's.


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