Journal of Accountancy

Volume 31 | Issue 1 Article 3

1-1921

# Some Problems of Foreign Exchange

H. G. P. Deans

# Some Problems of Foreign Exchange*

By H. G. P. Deans

The subject of foreign exchange has been engrossing the time and attention of bankers, economists and business men throughout the world for the past two years. In fact, since the signing of the armistice in November, 1918, the foreign exchange situation has become one of the most difficult and serious problems that the business men not only of America but of the whole world have had to face. Business men, bankers and economists have been searching for two years for some cure for the disordered condition of the exchanges and they have not been able to find it. There is no cure but time and return to normal conditions.

The foreign exchange banker of today has to be a different man from the foreign exchange banker of ten years ago. Prior to that time the foreign exchange business of the whole country was conducted almost exclusively by and through a round half dozen private banking houses in the city of New York, one or two of them being partly English and the remainder very much German. American banks had never taken seriously the question of the profits to be made in foreign exchange and had been content to transact their business and to see the business of the country transacted through these private banking institutions.

As time passed on the business of the country grew, and word began to get abroad in banking circles that there were large profits to be made in the foreign exchange business—profits which had been overlooked by national and state banks. As a result, it became the custom, or the fashion, if you please, for large banks throughout the country, in the larger cities, at any rate, to organize foreign departments and to open direct accounts with the principal foreign countries of the world. That practice has grown now to such an extent that most of the large banks in New York, Boston, Philadelphia, Cleveland, Chicago, St. Louis and many cities west of us have foreign exchange departments in which you

* An address delivered at the regional meeting of the American Institute of Accountants, Chicago, November 19, 1920.

can buy and sell on practically any banking center throughout the world.

I am going to avoid statistics as much as possible. Personally, I have always had suspicion of statistics. Years ago before I came to this country I used to be a very assiduous reader of the *Illustrated London News,* with which many of you are no doubt familiar. In those days James Payn, the novelist, used to conduct a more or less witty column in that paper, and I remember his writing on one occasion something which sank down into my mind so that I have never forgotten it. He said in answer to a correspondent: "There are three degrees or classes of lies; there are lies, damned lies and statistics."

Therefore, in trying to describe to you some of the problems and difficulties of the foreign exchange business, I am going to keep away as far as I can from statistics, which are sometimes made to mean anything or nothing. I am also going to avoid speaking at too great length.

Let me say to you first of all that in its simplest form the functioning of foreign exchange covers all the operations connected with the buying and selling of foreign debts—in other words, with the buying and selling of substitutes for metallic money.

Foreign exchange is a commodity, just as gold or grain or wool or corn or wheat is, and it is controlled and governed by the same laws which govern any other commodity; that is to say, it is subject to the laws of supply and demand. If there are more sellers of debts than buyers of debts, of course the price of exchange goes down, that is, the price of debts goes down. If, however, there are more buyers of debts than sellers of debts, the price of exchange, other things being equal, goes up.

In his *Theory of Banking,* McLeod, who is a well known authority on the subject, in comparing the foreign exchange with wheat, says among other things:

"If money is scarce and wheat very abundant, the price of wheat must fall; but if money is very abundant the price of wheat will rise. The price of debts or foreign exchange obeys the same rule. If money becomes very scarce, the price of debts must fall. If specie becomes abundant, then the price of debts will rise. The price of debts then must follow the same great laws of nature that the price of wheat does."

At the present time the foreign exchanges are in a deplorable condition. They are depreciated to an extent that none of us ever expected to see. There are of course many reasons why they are depreciated, but chief among these reasons is supply and demand.

As a banker, engaged in the business, I can conservatively say that there are ninety sellers of exchange for every buyer, if I except in that statement the large numbers of people who come into our banks every day to buy small personal remittances as presents to relatives or for the discharge of trifling obligations on the other side. There is today, however, no commercial buying of foreign exchange. Before the war, we owed Europe three or four billion dollars. Since that time we have paid off the three or four billion dollars we owed, and we have lent ten billion dollars in addition. The result is that there is practically no demand for remittances to Europe at the present time. We owe nothing there; we have no interest due, no obligations to pay. It is all the other way. That is one of the chief reasons why exchanges are in their present condition.

Another and almost as important a reason is the fact that the United States today is practically the only country in the world that is still on a gold basis. By that I mean that other countries, while many of them have plenty of gold, are no longer exporting gold, and consequently an American creditor can no longer command gold from his foreign debtor.

Most of the European countries—and many of the others for that matter, although the European countries are the principal offenders—have so increased and distended their paper issues that today they have become unwieldy and no longer bear any relation to the gold reserves of the issuing countries. As a matter of fact, the paper issues of such countries as Germany and Austria bear absolutely no relation to the gold of those countries.

Before the war it was universally accepted that paper currency should have behind it a substantial gold or silver reserve, the purpose of such reserve being to enable each country to redeem its notes promptly on demand. But unfortunately, as the war ran on, many countries and particularly the enemy countries, adopted the plan of financing the war through the issue of paper money. Germany issued paper money as fast as her printing presses could turn it out, asserting, whether she believed it or not, that the indemnities she would subsequently collect from the allies would redeem that excess paper.

The result has been, however, not only with Germany but with France, Austria and Italy, as well as most of the smaller European countries, that their paper issues today are unredeemable. They have not enough gold to redeem them and are not likely to have for many a long day to come. Consequently in terms of United States currency, this country still being on a gold basis, the paper issues of these various foreign countries are much depreciated because at present unconvertible.

Britain and the United States are on a better basis. The expansion in our country is trifling compared to that which has taken place in other countries; and this, of course, is one of the reasons why today the American dollar is selling at so high a premium over the currencies of other countries.

Another reason why the foreign exchanges have depreciated is that five years of destructive warfare have so depleted all European stocks of raw and manufactured materials that many countries have little they can now export in exchange for those things which, even at the present ruinous rates of exchange, they must have.

During the war and for some time after it our government continued to make loans to Europe out of the ten billion dollars which was voted by congress for that purpose. When that ten billion dollar allocation was exhausted, the loans stopped; and with the stopping of the loans the exchanges began to fall.

These in a general way are the reasons which are at the bottom of the present depreciated state of the exchanges as a whole. I might perhaps add, however, that in one or two instances there are also special reasons why the exchanges are as low as they are today. For example, the French franc is adversely affected by the extent to which Russia is indebted to France. Russia owes France a large sum of money. The prospect of collecting it at the present time is far from good. The French need the money badly, worse than they ever did before, but the likelihood of being able to get it for some time is remote.

That is also true in a lesser degree of Great Britain, because the Russian debt to Great Britain is by no means inconsiderable;

but it has not had as great an influence on British finances, which are more stable and extensive than French finances. In addition, however, to the Russian debt with which England has to contend, she has other troubles. There are the disturbances in Ireland, for example. There are the troubles in India, the unrest in Mesopotamia and in other parts of the empire which may or may not be serious, but nevertheless are expensive for the British taxpayer and are cumulative in their effect in delaying or deferring the return to normal of the British pound sterling.

Another important factor has been the breaking up, as a result of the peace conference, into various units of such countries as Austria and parts of Russia and dividing them into smaller nations. It is a question whether this plan of self-determination for small peoples is altogether a good thing. As a result of it, some countries have become economically crippled. One large industrial country, Austria, for instance, has been split up into three or four small units, all of which are feeling their new nationalism. Their manufactures have become disordered, their finances have been upset; their position is as yet and will be for some time to come by no means clear, particularly in regard to the proportion of the debts of the old countries for which they are to be responsible; and their exchanges have fallen so low that trading is almost impossible.

The Polish mark can be bought now in Chicago for 25 cents a hundred. You can buy the German mark today, which before the war sold for 24 cents, for $1.25 a hundred. You can buy the French franc, which before the war was valued at 20 cents, for 5¾ cents. The Austrian crown you can buy at 30 cents a hundred; the Italian lira for three cents, and so on down the line. Mind you, we buy the franc from the Italian and the lira from the Frenchman, which shows that the opinion they have of one another's currency is not by any means flattering.

At present we are in the midst of our export season. Under normal conditions exchange falls in the autumn. This year it fell, but it was so low when it began to fall that the price at which foreign exchanges are selling today on the Chicago market is something of a tragedy.

Imagine, if you can, the state of mind, to say nothing of the state of pocketbook, of a German who has to find seventy-five marks with which to buy one dollar's worth of cotton, when formerly he had to find only four marks. And do not forget that Germany and Austria were the two countries which before the war were the largest and perhaps the only consumers on a great scale of our low-grade cotton. We have a lot of low-grade cotton in this country today, and our problem now is to dispose of it. If we cannot find some means of shipping it to Austria and Germany, the price of cotton in this country is going lower instead of higher.

As I said, however, the export season is at its height, and Europe is in sore straits for means of paying for what she desires to import from us and what we are equally desirous of exporting to her, namely, our surplus. Money rates in this country are unusually high, so that even allowing for the fairly liberal rates of interest which European banks are paying on deposits, our own demand for capital in this country is so keen that American banks have not been able to carry in Europe the foreign balances which they were in the habit of carrying.

The result is that there is a constant pressure to sell on the foreign exchange market. I may say further that not only is that pressure exerted because of the depreciation in foreign money, but also because of the fear always lurking in the back of every exchange dealer's mind that exchange may fall lower.

Foreign exchange before the war did not give us much concern, because during that period money rates were easy, business conditions generally were normal and goods moved freely. If England owed us something we got gold for it. If France owed us a balance we called for gold and got it. Per contra, if we owed England and France, we shipped gold to them. Under these conditions, therefore, the fluctuations in foreign exchange did not exceed perhaps 1½ or 2 per cent per annum.

Prior to the war, money rates were fairly easy and foreign exchange rates were kept within bounds by what were known as the gold points. In other words, as soon as it became cheaper to ship or to import gold, gold was shipped or gold was imported, and that checked the upward or downward movement in the exchanges. Those days, however, are over.

History is repeating itself. The other night, while sitting at home, I was reading and refreshing my memory with Green's

*History of England.* Writing of the conditions in England about 1816, immediately after the Napoleonic wars, Green says:

"Peace left the country feverish and much weighed down by heavy taxation and enormous debts. The markets were glutted with unsalable goods, and mills and manufactories were brought to a standstill. Much of the prosperity of English agriculture was fictitious and rested on the high price of corn brought about by the war."

It seems to me that with some little modification, that description would almost fit our country today.

The foreign exchanges are, of course, the direct reflectors of the disordered state of the world's affairs, and time will be required to restore them.

Until trading and commerce readjust themselves, as they must and will some day, we may expect great and violent fluctuations. We have them every week or two, sometimes we have them every day. We had a bad break this week. Sharp movements take place most unexpectedly and for reasons that cannot always be discerned or explained.

I do not want to go into too much detail, but last Saturday, only six days ago, you could have bought all the sterling exchange you wanted in Chicago for $3.33 a pound. Yesterday afternoon you could get $3.51 a pound for the same sterling. There is an advance of 18 cents. To what it is attributable, nobody yet knows. The news from abroad is no more favorable than before. Whether there has been a slowing down of exports temporarily or not, I do not know, but these unexpected movements take place and we find out a week or a month or two months after they occur what caused them; but at the time of their occurrence they are often hard to explain. There are so many cross currents in the foreign exchange market at the present time that it presents a situation which is exceedingly difficult to grasp. For example, we may not know it until afterwards, but France may be a seller of Belgian exchange, while London is selling marks, or vice versa. Therefore we cannot understand at the time what brings about these remarkable fluctuations, which occur without any warning.

The changes brought about by the war are only now beginning to make themselves thoroughly understood to many of us, and some of them are not and will not be completely understood until the system of governmental control of commodities and prices throughout the world has been completely ended. That situation is rapidly coming about. The foreign exchanges are now free and regulating themselves according to the laws of supply and demand. Over some few other commodities, however, it is understood that a partial measure of control is yet being exercised.

To go back a little, shortly after the declaration of war, in August, 1914, most of the foreign exchanges rose rapidly. The pound sterling, which had a normal quotation or par value of $4.8666, rose to $7.50. The French franc with a par value of 19.3 cents advanced, if my memory is not at fault, to something like 23 cents. The German mark, with a par value of 23.8 cents, advanced to about 27 or 28 cents, and so on throughout the list. The reason for that was because those countries had been suddenly plunged into war and they were trying to draw home all the capital they had abroad, and they were rapidly selling all the securities of other countries, and American securities in particular, that they had, and were also selling in the American market any of the foreign securities they owned which the American market would or could absorb.

At that time there was a great hue and cry throughout the country as the result of representations made to us by England and France, that we ought to ship gold; that the pound was selling at 40 per cent premium in America and no gold was released, and that gold ought to be forthcoming. Many of the merchants and business men in this country were indignant with the government and the bankers because it was thought they were slow in agreeing to the exportation of gold at that period. But wiser counsels prevailed. There were better hands at the helm than some people thought at that time; and as a result of one or two conferences held in Washington, it was decided to form what was known as the one-hundred-million-dollar gold pool.

This is all ancient history now, but they did form the one-hundred-million-dollar gold pool, and that hundred million in gold was held in reserve to meet any emergency. The country could use that gold if necessary; but it was pointed out at the time by those best qualified to speak that the exchange of any country engaged in war must sooner or later go to a discount, and consequently it would be only a short time before the English, French, Italian and Belgian exchange would fall to a discount when reckoned in terms of the American dollar. Therefore, it was felt that it would be a great mistake on the part of this country and a needless expense to ship a large amount of gold abroad to protect the exchange rate when because of these reasons the exchange rate must necessarily adjust itself within a short time and render gold exports unnecessary. The wisdom of that course was demonstrated within a few months when the foreign exchanges, which had been so much against us, began to break and to turn in our favor.

Nothing of a very decided character took place until August, 1915, about a year after the outbreak of war, when, like a bolt from the blue, sterling exchange broke from about $4.70 a pound to about $4.25 a pound. Sterling at $4.25 a pound looked cheap, although it was difficult to say at that time whether it was really cheap or merely low. Those who bought around that figure made money, for shortly afterwards sterling went up. The rise, however, came about because of arrangements which were entered into shortly after that time between England and the banking firm of J. P. Morgan & Co. of New York acting as fiscal agents for the British government in particular and the allies in general in this country.

As a result of that arrangement Morgan & Co. agreed (the British government, of course, finding the money for the purpose) to take up the daily slack in exchange. The practical working of the arrangement was smooth and satisfactory. Sterling exchange quickly came back to 4.76 a pound, or about 2 per cent below par, and was maintained in that neighborhood until November, 1918, the month of the armistice.

The French franc, which had fallen low, was also brought back to $5.45, or about 6 per cent discount. The Italian lira was brought back from a price of about 10 to the dollar to a price of about 6½ to the dollar, and maintained by the allies artificially during the whole period of the war.

About the end of November, 1918, however, government control or artificial support of the exchanges was withdrawn without any warning to the market as a whole. Many people were running along with a feeling of false security. Others thought, if the allies were able to maintain exchange at these prices during the war, that as soon as the war was over many of these exchanges would go to par. As a matter of fact, as soon as the drawbar was pulled out, foreign exchange began to drop.

Perhaps the most remarkable outcome of the war has been the complete transformation of the United States from a substantial debtor country into the chief creditor country of the world. In many respects it is a position that is far from being as comfortable as that which we occupied when we owed something. As I said a little while ago, at the outbreak of the war we owed Europe four billion dollars. We have paid that off, our government has lent ten billions to the allies for the prosecution of the war, and, in addition to that, there is overhanging the market a commercial floating indebtedness of between three billion and four billion dollars, so that Europe at the present time is indebted to us to the extent of about fourteen billion dollars.

While it is true that we have become a creditor nation, it is also true that we have become a creditor nation more by accident than by design. How long we may be able to maintain our position as the world's chief creditor nation will depend very much upon our own thrift and upon our own ability.

Prior to the war and for a great many years before the war, England, France and Germany were the world's principal creditors; but these countries had become creditor nations because of the thrift and industry of their people and by reason of the fact that their people were in the habit of investing their savings abroad.

As the world's creditor nation, I am afraid we shall have to revise some of our ideas and try better to realize that our new position as well as bringing us great wealth and prestige also brings with it great responsibility and great obligations. For years our own country was dependent for its upbuilding upon loans obtained from Europe. Without the money which we got on what now seems to have been extremely reasonable terms from the old world, we would never have been what we are today.

There is little likelihood that Europe can ever pay off what she owes, except in goods and in services—and we must realize that. Lately we have heard people who ought to know better, I believe, asking whether this government or that government is likely to pay its indebtedness. Governments have rarely paid their indebtedness in the past, and the holders of their bonds never thought of asking for the payment of those bonds. All they were concerned with was the prompt payment of the interest, and people generally who were supposed to be well off or rich were envied by their friends if it was known that they had their fortunes invested in government bonds.

Today, however, we find any number of people looking askance at government bonds and asking if they will be paid. Many of them will never be paid. On many of them the interest may not be paid unless we revise our views and realize that we must do something in the way of commercial credits for the rehabilitation of Europe. We must give our old world debtors time in which to pay for the raw materials we would export to them and of which they are sorely in need. We must give them time to manufacture these raw materials into the finished product and sell it, before we demand payment of them.

To maintain American business on an even keel, and to prevent as far as possible in this country these alternating periods of feverish business activity and acute depression, something must be done to promote and make possible a reasonable continuance of our foreign trade. To assist in bringing about this condition we must be prepared to play a generous part in the matter of loans. We must be prepared to extend credit to deserving buyers of raw material.

Credits for the sale of our surplus products are in a different category from credits for the prosecution of a destructive and disastrous war and should not be regarded as having any relation, for one is a credit for the purpose of construction and the other is a credit for the purpose of destruction.

The principal nations of Europe, bear in mind, have actually more gold on hand today than they had in 1913—not more gold, by any means, in proportion to their liabilities; not more gold in proportion to their paper issues; but more gold actually in hand than they had in 1913. The high premium on the American dollar in most foreign countries is seriously injuring our export trade.

I have spoken to you chiefly of export trade. Import trade is as essential to us, to our welfare and to our happiness as the export trade. Everybody in this country, however, when he talks about foreign trade usually talks and thinks of export trade. Now it is axiomatic that to buy we must sell, and to sell we must buy.

The transaction must not be one-sided; it must be mutual. Europe and South America need us—but we need Europe and South America. Overproduction is already beginning to make itself felt here, and if our export trade is seriously cut down, industrial difficulties must spread in this country.

Last advices from Chili, which we received in the bank the day before yesterday, quote the American dollar there as having gone to a 50 per cent premium. In other words, it is now selling for 7½ pesos against a normal value of 5 pesos. That means if a merchant in Valparaiso, Chili, today owes a Chicago firm $100,000, it costs him $150,000 to pay his obligation. It might ruin many people if they were compelled to remit at this time. Because of these conditions brought about by the collapse in commodity prices moratoria in Brazil and the Argentine are a possibility. They have already gone into effect in half a dozen other countries which could not pay under these conditions.

The Brazilian situation is extremely grave because of the condition of the coffee and rubber markets. In 1913 crude rubber sold for $3.50 a pound. Today the producers of crude rubber in Brazil are having hard work getting 20 cents a pound. While none of us has noticed any particular decline in the price of coffee at the corner grocery—and the corner grocer is the last man to know that the price of coffee has declined—the wholesaler will tell you that the coffee for which he paid 18 cents a pound is worth only 6 or 7 cents today in New York and perhaps 3½ to 5 cents, according to the grade, in Santos. As a large part of the Brazilian exports consists of rubber from Para and coffee from Santos and Rio, you can readily understand the situation that exists in that country.

Almost the same situation exists in the Argentine, where the principal exports are corn and hides. There is almost a complete suspension in the wool, hide and leather trade. It is almost impossible to buy or sell. I have as a client in Chicago a large firm engaged in the wool business. Let me tell you this instance to illustrate the peculiar mental attitude or psychology in the wool trade at present. Wool is quoted here and in Boston, which is the principal market, as unsalable—and it is unsalable. If you have any wool you will find that you cannot sell it, because nobody will make a bid for it. This Chicago client, however, conceived the idea of buying some cheap wool. He had read that the Montana sheep-growers and clippers had had a splendid clip this year. Therefore he came to see me about a month ago with two of his buyers and I equipped him with a letter of credit for $100,000 and sent them off to Montana to buy wool. These men spent thirty days in Montana; they offered good American gold dollars to every farmer they met, but they could not buy a pound of wool. They would ask the farmer why, and the farmer would reply: "You don't offer enough." My client said that his answer to that was: "What is this wool quoted at in Boston today?" Now Boston, as I told you a moment ago, is the only real wool market in this country. The farmer would say, "Six cents." "Well, I will give you eight cents a pound in Montana for your wool." The buyer and seller could not get together. There was a practical impasse, a suspension in the wool trade. Prices have declined so low that the sellers think if they sell now they are giving the commodity away; and while some of the buyers would buy, many of them are afraid the price will go even lower.

The situation in South America has lately grown very acute. Last spring a loan of $50,000,000, which had been made to the Argentine government, fell due in New York. The Argentine government wanted to renew the loan, but the American bankers thought they wanted to have their money back again. The result was that the Argentine government paid off the United States, but in order to pay us they went to London and borrowed the money there. Our attitude which compelled them to do that was, in my opinion, short sighted. Fifty million dollars, considering the figures in which we have been dealing for the last year or two, is a mere bagatelle for the United States, but it is a considerable sum for the Argentine.

We have been working hard in this country—or at least we want it thought that we have been working hard—to wean Central and South America from trading and banking with Europe. A transaction of this kind is not the way to do it. By it we are helping to throw South America back into European hands, and today, notwithstanding the condition of the European money markets as a whole, South America can get a longer and better credit there than she can get in the United States.

Our crops, nature having been kind and bountiful to us this year, are too big for home consumption. Europe is still hungry.

Our low-grade cotton is literally overflowing the warehouses of the south. It largely exceeds our home demand, while the spindles of many European countries are idle for lack of it.

Experience seems to teach that most men throughout the world are honest. In the past Europe thought American business men were honest, otherwise Europeans would not have lent as freely as they did for the development of this country. America would not be what it is today had it not been for our ability to borrow in the old world. They trusted us in those hard-up days of ours, and we must trust them not only for their sakes but for our own. This is our problem, if we ever expect to get payment of the interest on the money which Europe already owes us. This is our problem if we value our own financial and social security. This is our problem if we would keep our own factories going and our own labor busy. An idle, unfed and discontented Europe is a menace to the security of the United States.

There are one or two figures which I want to read to you that are interesting and have some bearing on what I have just been saying. I believe they are fairly accurate.

It may not be generally known that with only six per cent of the world's population and only seven per cent of the land surface of the world the United States produces:

20 per cent of the world's gold.
25 per cent of the world's wheat.
40 per cent of the world's iron and steel.
40 per cent of the world's lead.
40 per cent of the world's silver.
50 per cent of the world's zinc.
52 per cent of the world's coal.
60 per cent of the world's aluminum.
60 per cent of the world's copper.
60 per cent of the world's cotton.
66 per cent of the world's oil.
75 per cent of the world's corn.
85 per cent of the world's automobiles.

In addition we also refine 80 per cent of the copper and operate 40 per cent of the railroad trackage of the world.

Believing these figures to be substantially correct, can we expect to get on without an international market? It is impossible.

The domestic demand for funds continues strong, and the need for extending help to Europe and to South America is pressing. However, it is generally true that money is forthcoming at some sort of a rate, and the time has apparently come when rates that a few years ago would have seemed very high may no longer be regarded so.

It is well to remember that money, while high, is only relatively so. Money as a commodity, during a period when other commodities soared in price, advanced little in its cost to the consumer. The prices of most other commodities have advanced from 100 per cent to 350 per cent, but money costs have increased on an average of only 25 per cent—and that in the face of a great increase in the cost of rendering banking service. The increase in the interest rates to the borrower has been less than the increase in the cost of any other element entering into production or distribution.

Foreign trade and foreign exchange, which go hand in hand, require immediate help. The situation is bad, but not to my mind hopeless. It will work out in time. We have all got to go on working and living and working for a living; but things will work out much sooner and much better if not allowed to drift entirely by themselves.

Some means must be found, and should be found speedily, for funding into a long term loan the ten billion dollars which the allied countries owe to our government. All of you have no doubt read from time to time suggestions in the newspapers and elsewhere to the effect that we should remit that debt or cancel it. In other words, that we should call it off. I am not at all sure that that would be the right thing to do. As a matter of fact, I dissent from that opinion. I know from talking with the leading bankers of Great Britain that they would not listen for a moment to any cancellation. The French have not declared themselves positively on the subject, but I do not believe they can afford to consent to it, and I believe the same thing is probably true of the Italians and the Belgians. There is a vast difference between compromising or canceling a country's internal debts and failing promptly and properly to deal with a country's external debts. What England, France, Belgium or any other foreign country may eventually do with its own internal debts is an absolutely different question from that involved in this ten billion dollar loan. They may compromise with their own people, or they may even go to the extent of repudiation; but to do anything that would suggest repudiation or unwillingness to pay their external debts would blacklist them for all time in other countries.

If the weight of that ten billion dollar debt could be taken off the foreign exchange market; and if in addition to that some means could be found—and I think the means could be found easily among the banking and commercial interests of this country—for the funding into a five-year loan, let us say, of the floating debt of three or four billion dollars, so that these two debts which hang over the foreign exchange situation could be taken out of the way, I believe that within less than one year we would be back to something approaching normal conditions.

There is no short cut from the financial and economic troubles with which the world is today beset. Bankers, lawyers, doctors, economists and business men have been looking for some cure, some panacea for the financial ills which have surrounded us for the last year. There is nothing, however, but the old-fashioned way out—namely, hard work. In other words, the cure is not to be found in this nostrum nor in that, but only in the gradual and probably painful convalescence of the entire world through hard work, industry, thrift.

A return to normal conditions need not be expected for some time. There are too many reasons why the world cannot get back at once to normal.

Russia, for example, a great wheat-producing and consuming country, is not functioning at present. It has vanished from among us as though it had never been, and its place as a consumer and producer may not be filled for many a day to come. Russia will recover in time. Bolshevism will wear itself out, for it is in principle economically unsound.

Germany, one of the greatest industrial countries in the world, and a large consumer of Brazil's rubber and coffee, of America's cotton and grain, is temporarily out of the market, and it will be some time before she is able to resume her place.

There seems to my mind little doubt that Germany is emerging from the state of financial and economic chaos in which the end of the war found her. The Germans are a resourceful people. The one great mistake they made was in bringing on the late war. They were conquering the world by peaceful penetration but they threw away their chances when they engaged in the world war. Commercially their country was growing more rapidly than any other. The Germans have a natural genius for developing new fields. Before the war commercial Russia was German Russia. So thoroughly had the German business man penetrated into that country that nine-tenths of Russian industries were directly under German control. The two countries, Germany and Russia, lie side by side, and it is natural in view of all that has gone before that they should trade together again in the future as the United States and Canada, being close neighbors, trade together today.

None of us can say what will happen in the future—prophecy is always a dangerous thing—but it need not surprise any of us if within a few years Germany again gains control of commercial Russia. This, of course, is what France fears; but it is open to question whether the world has not more to fear from a Russia and a Germany in their present condition than it would have to fear from a Germanized Russia, prosperous, industrious and contented.

The German people have to overflow somewhere, and the logical outlet for them is into Russia. Before the war Germany was England's greatest customer and England was Germany's greatest customer. Until trade relations are re-established on something approaching a normal scale between these two great countries, the world's trade will continue to be dislocated.

England, the country whose affairs today are perhaps more nearly normal than the affairs of any other country, barring our own, is suffering acutely from many of the disabilities from which we suffer, including an acute lack of working capital. England is not at present able to discharge her former function as the world's principal banker. No longer can we or other foreign countries repair to the London market for cheap loans, for the British government itself is borrowing on a six per cent basis, and the English banks are paying five to five and one-half per cent on foreign deposits.

The prosperity of England, which is an industrial country, depends upon her ability to produce and manufacture more cheaply than can the countries to which she sells. England's prosperity therefore hinges almost completely upon her ability to keep down the cost of production.

Many countries throughout the world are facing changes and far-reaching readjustments in their economic and financial life, and my opinion is that depression and perhaps hard times, not only in Europe but in this country, are not very far away. Deflation is under way and deflation is always painful.

Customs tariffs will no doubt be revised both here and abroad. At any rate, they will be up for serious consideration and discussion, and the problem before the American people will be to decide whether we should permit foreign goods to come in as they have been coming in, and in that way enable the impoverished countries of Europe in some measure to offset their obligations to us, or we should go further and by reducing our tariffs on certain imported articles thereby stimulate the flow of European merchandise to this country.

The war, fortunately, is over—although some of our rulers at Washington do not as yet seem to be aware of it. Deflation and contraction have set in. The dollar will buy a bigger loaf of bread and get a better day's work done in the future than it has in the past. The time has come when the fiddler must be paid and there is only one way in which we can pay. That is by practising strict economy, working hard and saving our money.