A B C OF FOREIGN EXCHANGE

Most Important Crisis in History of International Trade Has Caused Dramatic Upset in Financial Capitals of World

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Money Talks in So Many Languages That Only Gold Can Act As Interpreter, and Its Dicurse Has Made the World a Tower of Babel

A reader of newspapers can escape seeing reference to the confusion and losses caused by the use in international trade of as many sorts of money as there are countries concerned.

A country makes its currency almost as much a point of honor as its flag, and would not dream of using the money of any other country or allowing any other country to interfere with it by suggestion regarding the name of the currency, its basis, or manner of use. And, truly, it is domestic trade, within the limits of any one country, there is little practical objection to indulging such preferences or prejudices. They have their uses, just as patriotism profits by pride in the flag, whatever its colors, and even whatever crimes it may cover or errors it may condone.

It is different in trade between nations. Imagine the bookkeeper of a man in international trade keeping his accounts in pounds, marks, francs, dollars, krone, rubles, gulden, drachmas, pesetas, yen, milire, and so on. Through the list, always too long and much lengthened by the addition to the roster of nations of a dozen or two created by the Treaty of Versailles. Each of the list must have its own currency, of course, for currency has always been thought—erroneously—to have something essential to do with sovereignty, and not as being primarily a matter of trade. In each of these countries wages can be paid and spent and goods can be exchanged with little difficulty, but it is constantly harder for the keeper of international accounts to balance his books.

Even in the primary school one of the first lessons is that apples and oranges cannot be added or subtracted. In the next grade it is taught that fractions can be added only by being reduced to a common denominator. International traders and their bookkeepers have just that sum to do under conditions more difficult than trouble school children. Fractures do not change while the sum is being done, but the value of the money of one country in the money of another country is as changeable as April weather. Last week the value of pounds in dollars or of dollars in pounds changed while the international bookkeepers were telegraphing or even telephoning about it. Dollars or pounds or any other currency change their value according as goods are plentiful or scarce, but that occurs over considerable periods of time and by changes so small that they pass unnoticed from day to day and sometimes from year to year. But last week the most expert valuers of the money of one country in the money of another country stopped trading, the alterations of values were so swift and large. If that is the case with the money changers—they call themselves cambistas when they are calculators and when they trade arbitragers—imagine the troubles of merchants, exporting or importing, trading over thousands of miles of distance and over weeks of time, with little or no knowledge of the technique of the money market. Whether the bargains are done in the money of the seller or the money of the buyer, whether the contract is for payment when the goods are put on board cars or steamships, or when the goods are delivered—f.o.b., c.r. o. d.—it is all the same, the profits of the trade may be turned into a loss by the change in the value of the currency during the time necessary to do the business.

It is plain that merchants trading in that manner cannot be sure whether or not they are solvent. Few businesses are managed on a margin as great as the fluctuations in the "exchanges" (of one currency for another) more than once in a single day of the last week or so. The confusion was greatest where the depreciation was greatest, but it was universal, except in Russia. Nobody will take Russian currency for goods or exchange any other currency for Rubles. The Bolsheviks set out to make money worthless and succeeded. Russia printed currency until it was so worthless that it was thought a waste of paper and labor to print any money, and it proved by weight instead of by count. Notes of large denominations when used at all were used in strips or sheets, like our postage stamps.

This is less so in other continental countries, but in all in some degree it is true. As the cable quoted Professor Jastrow of the University of Berlin, no authority for Germans at least: "Our money trading machine has broken down. We no longer have a standard of value. It must be stated frankly and ruthlessly that we no longer have a functioning monetary system."

That is a calamity, for under our industrial system of production all goods are produced and exchanged for money. The Socialist theory is that goods can be produced only for use, for consumption, and that production should stop when the need for goods is satisfied. The Socialist claims that when goods are produced for money they are produced for profit, and that the greed for profit is illigible and leads to exploitation of labor. It is apart from the point to discuss the Socialist notion that the invention of money was the ruin of the working class. The point here is the confusion of the exchange of currencies produced by the breakdown of the monetary system, as Professor Jastrow said last week.

Why is it that greater jut now than at any other time? It is because of the difficulties of the keepers of international accounts who have to deal with fractions without a common denominator. Exchanges of currencies used to be managed by the use of gold. When different currencies would buy equal amounts of gold the currencies were of equal value in the same place, and of different values in different places only according to the cost of moving the metal from one place to another. But gold can now be got for currency at par only in the United States. In other countries gold is at a premium, and if the gold is at a premium the currency given for it must be at a discount. The discount may be of any degree. In London the discount last week was the greatest ever known, 35 per cent., while the premium on gold was 47 per cent.

Why was there a difference between the premium on gold and the discount on currency? Chiefly because the gold was wanted to spend outside of England, particularly in New York, and the currency had value only in England. If Americans were as eager to buy in England as Englishmen are to buy in the United States, the two currencies would be in equal demand, and therefore of equal worth. But when other nations are buying in the United States on a scale of four billions of dollars more than they sell to the United States it is proved that there is a greater demand for dollars than for other currencies. In other words, other currencies are at a discount—compare with dollars.

There are two reasons for the premium on dollars, compared with other countries. One is that the dollars can be spent in New York to greater advantage than anywhere else, for the world's greatest stocks of the most wanted goods are here. The other reason is that the...
dollars can be taken from New York to buy anywhere whatever the world wants and cannot buy here. In one day last week $17,000,000 was sent from the United States to Argentina, which is willing to take dollars now, although ordinarily Argentina prefers pounds.

More correctly speaking, Argentina prefers neither dollars, nor pounds, nor any other particular currency, but wants its bills paid, and the United States owes Argentina, having bought there more than it sold there. In just that manner all countries which buy or sell outside themselves want the balances due them in their own currency. The old notion was that the balances were wanted in gold because gold was wealth in itself, but that theory has been exploded. The balance of a nation's trade represents profits, and the only way to reduce profits to possessions is to bring them home. Argentines would be compelled to take its own currency if we could supply it, but, having no way to put Argentine currency in gold, that brings out the point that there is no international money. When gold is sent from one nation to another it goes as bullion, as a commodity, not as currency. It is universally acceptable, because gold will buy anything anywhere, but it is not international currency of legal tender.

How does it happen that there is no international money when every year there are scores of billions of international trade? Why is the lack of an international currency more grievous this year than in other years? The reason is that world trade is on a commodity basis rather than a currency basis or even a gold basis. It is customary to speak and think of the exchanges of currencies, although the fact is that the exchanges are of goods. Nations are not traders, although the world has produced among its many marvels some nations in which nations have traded directly with each other in a manner contrary to all prior experience. The exchanges are between their private traders, and their private negotiable paper has value in foreign countries because it is money to the extent of the goods the buyer promises to sell that is held in the purchase.

By long foreign traders are accustomed to paying and receiving payment in other than their own currency. Thus, when a man buys his tailor's bill, that the bill is negotiable. The bill is converted into dollars, with the assistance of the bank, although both are strangers to each other or perhaps in the bank. The American sellers in pounds to British buyers want dollars. The British buyers in pounds must pay dollars. In such cases, the banks are merely honest brokers bringing strangers together to do services for other strangers, for the entire business is impersonal and without a trace of nationality, despite the national pride in currency and obstinate loyalty to inconvenient forms of it.

There are several reasons why this system has broken down. It never before has happened that there was a war so sudden an accumulation on the same side of the ocean of such eager demand for everything, and on the other side of the ocean such accumulation of supplies of both the wanted goods and the credit necessary to move the goods. Usually there is an approach to balance of wants, credits, and dollars. Sellers' checks. Under such normal conditions there is a free movement of gold to even the balances when they are even. Now the trade is unbalanced by billions, and there is little gold free except here to move. There is no question which is the world's primary market for both money and goods just now. But our primacy is troublesome.

There are dangers in selling more than the buyers can pay for, or in consuming ourselves the excess above our wants which we fear to sell. The fabric of paper is so intricately woven that no thread can be unraveled without spoiling the entire pattern. There can be no stoppage of production and progress without stoppage of wages and disturbance of security markets, as well as goods markets. The front pages attest this beyond the dreams of man in the street. It is a question of bread and butter to him, even though he may think that he has nothing to fear from foreign exchanges and cares nothing for the outlandish currencies which the newspapers persist in printing.;;