International Exchange.

ADDRESS TO MEMBERS OF THE ROTARY CLUB ST. JOHN'S, NFLD., JUNE 6, 1922, BY. MR. E. B. MC-INERNEY.

Mr. Chairman, Rotarians, Fellow Guests:

Much as I appreciate being asked to say a few words here to-day, I must confess that it is with no little trepidation that I accepted, for the reason that I am in the midst of pulling up stakes and striking tent, and I felt that the scent time and attention that I would be able to give to so important a subject as International Exchange—which was the subject suggested to me—would be such as hardly to do justice to you, to the subject itself or to myself. However, I shall bear in mind the last of three rules an erstwhile elocution teacher of mine used to impress on me. He contended that the three fundamental principles of public speaking were, "to stand up, to speak up and to shut up;" so, gentlemen, as I have said, I shall remember at least the last of these three rules.

I propose to trace very briefly indeed the history of Exchange, to "count the rings on its horns," as it were, and refer briefly to its operation and the various factors that influence it. Just as a few years ago an aeroplane was a rarity to many of us and to-day is a familiar object to most of us, so Exchange has come to be familiar and to have a very definite and vital meaning to countless numbers. This is only as it should be, for a moment's reflection brings one to the realization that Exchange is the end of all production, and indeed, in its broadest sense the ultimate object of nearly all our efforts. Then too, during the past seven years the principal countries of the world have been seriously disturbed by the spectacular depression and violent fluctuations in the principal foreign currencies—a situation which had its effect on each and every one of us.

THE ORIGIN OF EXCHANGE.

International or Inter-tribal Exchange reaches back to those early days when the nomadic tribes formed the unit of society. When one tribe came in contact with a tribe from another country, opportunity arose for exchange. One tribe would possess what the other would not, and wanted, and an exchange of articles would follow. Thus, International Exchange was one of the earliest phases of civilization. Then, with the settling down of the nomadic tribes in fixed localities, a division of labor became necessary, the husbandman remaining at home to till the soil, whilst the hunter and fighter went abroad. An exchange of commodities ensued, and as the community developed into the village, the village into the town and the town, through all the varying degrees, into the Nation, Exchange became wider and wider, until to-day it may be said that every one makes for Exchange. Now the discontinuance of barter and the invention of money was a most important development in Exchange, and that barter involves three outstanding difficulties; first, there must be two parties each desirous of disposing of the thing or things the other wants; the things to be exchanged require to be of equal value and the things must be exchanged simultaneously. Money solved all these difficulties, in that money, whether it be metallic money, paper money or credit, is the universally accepted third commodity by which the relative value of all other commodities is expressed. The evolution of money is a very interesting study, and much has been written on the subject, but time will hardly permit of more than a passing reference to the various processes leading up to the choice of the precious metals which have been found to be the most satisfactory basis and means of Exchange. The thing first used as money was something possessing intrinsic value; for instance, the primitive savages used shells, and until such times as they were used for money they were worn by the women as ornaments round their necks. At another stage the wandering tribes used cattle, because they were self-portable; in fact, the cattle were used at a much later stage by the Latins and Greeks, hence our word "pecuniary," derived from the Latin "pecus," meaning cattle. Various other things were used, such as tea, coffee, tobacco and furs. From these early days there developed the use of metals, and as the baser metals became more plentiful, the precious metals came into use. Gold and silver were first used in the form of ingots, the first coins being used by the Greeks and the Romans. Then token money came into use, such as our silver pieces, which, as silver, do not possess their real legal value. Then, when it came to be recognised that intrinsic value was not essential, paper money was resorted to; and perhaps it is not generally known that Canada led the way on the North American Continent in the use of paper money.

"CARD MONEY."

In the days of the old French Legion in Canada, the Intendant of the Army stationed at Quebec ran out of gold. He had no ready means of procuring it from France; his men were becoming restless and threatening mutiny. He was at his wits' end, but finally hit on a bright idea. He cut up into pieces several packs of playing cards, wrote on each piece the promise of the Government of France to pay a sum certain in money and impressed upon each piece the seal of France; and this "card money" circulated first amongst those men and later throughout Canada; and, indeed, it has only been within comparatively recent years that the name "card money" has given way to that of "paper money." From paper money there developed the use of Bank Drafts, Bills of Exchange and Cheques until to-day we have metallic money, paper money and credit. Now, as we all know, most of the principal countries of the world have adopted gold as their money standard, and under the gold standard all money circulating in one country has a definitely fixed value for conversion into the money of all other countries adhering to the gold standard. So long as a country is able and willing to pay its debts in gold, Bills of Exchange on that country are tantamount to a call on an equivalent amount of gold. In normal times, the method of ultimately settling international debts is by the shipment of gold; and as the cost of shipment is subject only to slight variations, Bills of Exchange can fluctuate only from par to the extent of the cost of shipping. This was the situation up to the outbreak of the War in 1914. For instance, during the period of thirty-three years, from 1881 to 1914, the pound sterling fluctuated to the extent of only nine points. During the years between 1914 and 1920, exports from the United States to European countries expanded enormously, whilst owing to the low productive capacity of Europe, imports fell off correspondingly. Then, in addition, the United States owed less for what are known as "invisible items," such as insurance, freights and expenditures of American tourists abroad. Consequently, the debit balances against Europe increased vastly year by year. At first Europe attempted to settle by shipments of gold but it was soon found that there was not sufficient gold in existence to settle on this basis, with the result that the Governments of most of the European countries imposed embargoes upon the shipment of gold, which resulted disastrously for all European currencies, which were offered in unprecedented volume in the New York market. To aggravate the situation still more, speculators took positions on the short side of the market, with the ultimate result that the bottom fell right out of Exchange.

INFLUENCES ON EXCHANGE.

Exchange continued to vary with the varying fortunes of War, and since the War, more than ever before, Exchange is influenced by political, commercial and financial conditions the world over. In addition to commodity movements, security imports and exports and interest payments—which generally are accepted as the three most vital factors influencing the rise and fall of the Exchanges—the money markets in the chief centres of the world have a decided influence. For instance, a situation arises which sends up the rates for short and long term money in New York; a movement immediately starts in to loan money in New York for account of European Bankers. The money brokers draw on their European correspondents for the foreign equivalent of the amounts so placed, which, of course, has a depressing effect on European Exchanges. Should the reverse situation arise—that is, should interest rates go down in New York and rise in London—the reverse operation takes place. Another importatn factor—and a relatively new one—influencing Exchange is the price level of goods. Before the War practically the same amount of money would buy the same amount of the same merchandise the world over. This, however, is no longer the case. Owing to the fact that the production of merchandise in Europe did not keep pace with the production of paper money, more money, which was plentiful, was paid for merchandise, which was not so plentiful—in other words, prices rose. Now, owing to different conditions, this situation did not exist in the United States. Is it not obvious, therefore, that an opportunity might present itself to a merchant living in New York to buy Marks at the market, which, in turn, he would send to Germany, buy merchandise with them there, bring the merchandise back to New York and sell it for more than the original cost of the marks. Without labouring the point further, the effect on Exchange is obvious. It should be borne in mind that Exchange operates on the principle of a see-saw. One end cannot be disturbed without effecting the other, and if momentarily there should be a discrepancy between, say, pounds sterling in New York and dollars in London, this discrepancy is very quickly adjusted by the operation of arbitrage. To illustrate, assuming that pounds sterling are ruling in New York at 4.50 and dollars are selling in London at 4.50½ with the fast cable service now existing between London and New York, an alert Exchange trader would immediately take advantage of the situation, buy sterling in New York and buy dollars or sell sterling in London, thereby making a clear profit of half a point. Again, when the situation is reversed, the reverse operation follows.

DEFLATION SET IN.

The history of Foreign Exchange over the spread of the past one hundred and twenty-five years has been marked by three outstanding disturbances—the French Revolution and the Napoleonic Wars, the Civil War and the World War; and had not the tendency been checked in Europe to work the printing presses overtime rather than the factories, I fear that those War-ridden countries would have suffered an experience similar to that through which the United States passed after the Revolutionary War, when the walls of barber shops and saloons were papered with worthless Continental notes—whence, by the way, came the expression 'not worth a Continental.' However, undoubtedly deflation has set in; and though the return to that Happy Hunting Ground called "Normalcy" may be slow, hazardous and at times discouraging, still, with all the countries of the world on the same mission bent, and with the record of time as a guide, some, at least, will overcome the difficulties that beset the way and will arrive at their destination. I may be pardoned for quoting four lines of a bit of verse I came across some time ago, which seems not inappropriate:

"East from the Mahanadi and north of the Nicobar
You will come to Evening Island, where the santamingos are;
Their tails are sunrise orange and their wings are skylight blue.
You catch a santamingo and all your dreams come true."
