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British View of American Exchange Situation

PAYMENT *for Large Importations Without Imperilling Britain's Gold Supply is Weighty Problem—Various Remedial Measures Suggested—Position of Canadian Wheat Surplus—Factor of Russian Finance.*

GREAT BRITAIN'S most urgent financial problem is that of paying for its abnormally large importations from neutral countries, and especially from the United States, and at the same time of preventing an undue drain on the gold supply, which is required to preserve Britain's financial stability, and which in the last resort—failing any other alternative—will have to be called upon to liquidate British indebtedness to foreign neutral countries, especially to the United States. This is the view of Sir Robert Balfour, M.P., in a recent contribution to the English press. Since this opinion was expressed the \$500,000,000 Anglo-French loan has been negotiated in the United States. Sir Robert continues:—

"The adverse position of the American exchange is emphasized by our large importations of munitions of war from the United States and the fact that we have been importing much larger supplies of food and raw materials from that country than in ordinary seasons, for the reason that the crops in other supplying countries were comparatively small or were unavailable owing to war conditions, and present indications are that we will continue to require exceptionally large supplies from the United States. Prices have also been comparatively high, a circumstance which has naturally influenced the exchange situation also. The fact that it has not been possible during the past twelve months or thereabouts to import the customary supplies of food from Russia, has affected the American exchanges adversely, and any change in that direction would doubtless tend to relieve the situation. Russia is heavily indebted to this country, and there will be a double inducement—that of a favorable exchange and of assisting the Russian finances—to draw supplies from that country if it becomes possible to do so. A few months hence we may be able to obtain supplies of wheat from the Argentines and the Australian colonies, and may thus gain some advantage in respect of prices, which naturally will also tend to help the exchanges.

"Besides these considerations, our government have, as is known, prevented certain supplies reaching Germany, and in order to avoid controversy with the United States—on the vexed question of contraband or otherwise—have paid the United States for them, thus adding in quite an unusual manner to our exchange difficulties. We presume, moreover, that the large sums owing to financial houses and merchants in this country under credits to German and Austrian enemies, which were outstanding when war was declared and which remain unpaid, have

exercised an indirect influence on the foreign exchanges to our prejudice. These outstanding credits amount to a very large sum, and it is understood that they have been financed for the time being by advances from the British government through the Bank of England, and whatever their amount may be they doubtless add to the burdens of the country at the present time. Apart from the requirements of this country, the importations of our Allies—more particularly France and Russia—have greatly aggravated the American exchange situation. We do not know the extent to which these additional requirements have done so, nor how far our government has afforded our Allies assistance in financing their importations from the United States. Moreover, our government have made advances by way of loan to other European countries, particulars of which have only partially transpired, but which in the aggregate have doubtless amounted to a considerable sum.

"The principal European powers have always held large reserves of gold against the contingency of war requirements, and these they are reluctant to part with. Substantial sums have come to this country, both from France and Russia, for transmission to the United States, and these have helped to maintain our gold reserves, and it is understood that further supplies will be forthcoming as necessity calls for, but it has become increasingly evident that other steps are required to safeguard the American exchange situation besides the shipment of gold, with which, indeed, the United States is more than adequately supplied. Under normal conditions the exchanges between this country and other countries, including the United States, are sufficiently protected by a comparatively unimportant inflow and outflow of gold, and when the outflow has tended to become inconveniently large an advance in the Bank of England rate of interest and other restrictions have been sufficient to hold it in check. Conditions now are not normal, however, and methods which have been adequate under normal conditions are no longer effective. It is very doubtful if an advance in the Bank of England rate at present would materially, if at all, alter the situation. The importations into this country are always in excess of the exports, and it is not disputed that the excess of importations has been liquidated previously by remittances of interest from foreign investments, freight earnings in excess of disbursements abroad and by services of various kinds rendered by this country to other countries, and there has remained in