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THE GENERAL FINANCIAL SITUATION

The Canadian Reconstruction Association, an organization which we believe we are right in saying, has a good many ties of interest with the Canadian Manufacturers' Association, issued a few days ago, a statement dealing with what it calls the "menace to Canadian industry" involved in the revival of German trade. The statement makes extremely interesting reading, and it touches a matter which doubtless deserves serious consideration. But, in our view, the association is "viewing with alarm" when such alarm is not justified, and its reasoning which leads to the conclusion of the "menace to Canadian industry" is quite unsound.

The "menace to Canadian industry," in the association's opinion, apparently arises mainly as a result of the extraordinary depreciation of the mark, which in the New York market is worth only about one-sixth of its par value, and as a result of the premium on New York funds, a trifle more in Canada. This depreciation of the mark, the Association argues, enables the German manufacturer to overcome quite easily all the obstacles of enhanced cost, etc., arising as a result of the war, and still undersell the Canadian manufacturer in this market. "A German manufacturer," says the association's statement, "probably could afford at the present time to pay as high wages as are paid in this country, all costs of transportation, the Canadian duty, and yet undersell manufacturers here simply for the reason that in German currency the Canadian dollar is worth more than five times what it was worth before the war." Theoretically, this is true, but it is only theoretically true. It would be true in practice if, but only if, purchases by one country from another were paid for by gold, that is to say, if international trade were carried on, on what may be called a cash basis instead of a basis of barter. The argument that a heavily depreciated exchange stimulates export trade is an extremely dubious one. There is the case of the depreciation of Canadian exchange on New York. That is fairly substantial, but we doubt very much if it can be proved that Canadian exports to the States are being directly stimulated thereby, as a result of that and no other cause,

although there is a certain benefit to those actually engaged in export.

In the same way, the German manufacturer engaged in export may derive a certain benefit from his depreciated exchange. But any benefit which may be derived in this connection will be to a very considerable extent offset by the fact that exchange will be heavily against Germany on all her purchases abroad of essential raw materials and manufactures. For instance, in order to pay for Canadian nickel, Germany will have to export about five times the value of her own products that she would have to export were her exchange at par. Similarly with many other essentials. And Germany, it is to be remembered, under present-day circumstances, is by no means a self-contained country. She will have to make enormous purchases abroad, and to pay for those, either in gold or in products of a value equivalent in international currency to her purchases. Paying for raw materials on this basis means a very considerable driving up of the cost of production, and a marked lessening of the capacity of German manufacturers to derive an advantage in export trade from the depreciated currency.

In this matter, it may be remarked, we have to clear our minds of cant, and of the foolish habit of "seeing red." We have to recognize the fact that only by trading with Germany can the Allies ever secure from Germany payment of the indemnity fixed in the terms of peace, and that an industrially prosperous Germany will be as good for the industrial prosperity of this continent as an industrially prosperous rest of Europe. There is no economic sense, however much patriotic enthusiasm there may be, in the resolve never to touch anything German again. What does need to be safeguarded against, however, is "dumping," which it may be possible for Germany to carry on in certain lines. It is interesting to note in this connection that the British Government is now arranging to establish in Berlin a department charged with the supervision of British-German trade, with a view to avoiding "dumping" on the part of Germany, and the maintenance of an equilibrium be-

Continued on page 1029