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JAS. J. SALMOND, President and General Manager
A. E. JENNINGS, Assistant General Manager
JOSEPH BLACK, Secretary
W. A. McKAGUE, Editor

Exchange Situation Affecting Canadian Trade

Present Levels, Resulting from New Trade Relations, Must Soon Alter Course of Commodities — Could Loans be Arranged Through Banks? — Plan to Restore Exchange by Barter in Russia—Position of United States and Canada

By A. B. BARKER.

ONE result of the changes in our habits of trade, due to the war and the exchange situation, will be the realization that, after all, trade consists in exchanging goods for other goods. This has always been admitted in the abstract, but the working of our complex commercial machinery has rather obscured the fact, until the general belief appeared to be that the exchange was for money. This view has been fostered, unconsciously, perhaps, in the trade journals, where the chief stress is laid on selling ability, the production being apparently created for the salesman, not the salesman for the production.

Money is a measure, the price of the goods exchanged being quoted in terms of money as a convenient method of stating the value in exchange. That the goods are primarily exchanged for money does not alter the fact that in the final analysis the goods are exchanged for other goods. Nations do not trade with each other as nations. Trade is between individuals, and the total of the transactions between the individuals in one country with those of another make up the volume of the trade between the two countries. Usually there will be a balance one way or the other as the shipments vary, and this balance must be settled in money, in normal times gold, that being the accepted medium between nations.

The Trade Triangle

Canada's trade has been chiefly with Great Britain and the United States. We sold more to Great Britain than we bought from her, and bought more from the United States than we sold. Owing to the latter being indebted to Great Britain, we were able to settle our debt to the United States by transferring to her the balance coming to us from Great Britain by selling sterling in New York.

The war has changed all this. On account of the strain of that struggle Great Britain is no longer a creditor of the United States, but a debtor, for the food and munitions supplied to her and the allies for four years, and is unable to settle the enormous balance against her in gold. As a consequence, sterling in New York is at a discount of 30 per cent. She is also unable to settle in gold the balance due Canada. Before the war Canadian securities were sold in Great Britain in large amounts, and the funds obtained thereby also helped to make up the sterling sold by us in New York to offset the balance in favor of the United States against us for goods purchased. The London market is now closed to us and this supply is shut off. We have continued to purchase heavily in the United States, however, and as we are unable to settle, our funds have fallen to a discount of between 8 and 10 per cent., which is the market estimate of the chance of eventual payment.

Premium Must Reduce Imports

This discount increases the price we must pay for every article we buy in the United States, and will in time reduce the volume of trade with that country. This prospect is not pleasing to the business community over there, as it means the disappearance, or at least the reduction, of profitable trade.

A recent cartoon depicted Uncle Sam, with a market basket, crossing a dollar bridge to Canada, and the typical American business man, in a high hat, with an axe, labelled "premium on New York funds," chopping the bridge. It was clever, but hardly fair. The bridge is being damaged, but the destructive force is economic law, not the American business man, who is only acting according to his training, and ours. As a matter of fact, he is genuinely anxious to save it, but, as he has grown accustomed to selling on his own terms, the change in conditions is not yet appreciated. He is a salesman, and his whole trade organization is built up on that hypothesis. He frankly tries to discourage purchases from other countries, by means of a tariff, just as we in Canada do, in order to protect home industries from outside competition.

Economic pressure, such as is now being exerted by adverse exchange rates, works slowly, necessarily, as it means changing the habits of a nation, but it works surely, and steadily, and in the end our most cherished theories go down before it. Just now it looks as if this pressure would force us to buy from Europe, and sell to the east, unless, of course, some arrangement is made with the United States in the way of tariff concessions on both sides, but that is another story.

Borrowing in United States

Investment by Americans in our securities, or direct loans, will help to keep our trade to the old channel for a time, and there are reports, in the American papers, that Canadian business organizations have already been negotiating for advances in that market. If this is done, it will necessitate new arrangements with the Canadian banks, as one of the axioms of our banking system is that a customer shall keep his whole account with one bank. However, it may work out by means of the trade acceptance system, developed by the new Federal Reserve Banks in the United States, and changed conditions, of course, will modify theories.

Trade Without Money

According to the latest press despatches from Europe, arrangements are now being made for the resumption of trade with Russia by barter—the exchange of goods for other goods without the intervention of the modern mechanism of credit. It is interesting to note that the methods proposed are almost identical with those used by the Hudson Bay Co. in their dealings with the Indians in our own northwest. Chen the Indian trapper brought in the result of his winter's work to the Hudson Bay post, the value of the skins was reckoned in counters, or tokens. With these he paid the debt which the company had allowed him to outfit at the beginning of the winter, and the bal-