

## Concerning the "Rate of Exchange"

An English sovereign weighs 123.27447 grains, and being eleven-twelfths fine, contains, therefore, 113.0016 grains of pure gold. An American dollar weighs 25.8 grains, is nine-tenths fine and contains 23.22 grains of pure gold. Dividing the quantity of gold in a sovereign by that in a dollar we obtain the figure 4.8665. This means that a sovereign, at any time or place, is equal to 4.8665 dollars or that 10,000 pounds sterling are equal to 48,665 dollars in gold. Containing as they do the same amount of the money commodity—gold.

Well, then in tonight's paper I find the following:

### New York Exchange.

NEW YORK, June 14.—Commercial 60-day bills on banks 4.59; commercial, 60-day bills 4.58½; demand 4.61½; cables 4.62½.

These quotations give the "rate of exchange" upon which is calculated the price at which "paper on London" is bought and sold, that is to say, that the brokers are today buying and selling commercial paper, bills of exchange and drafts payable in London at prices calculated on these rates. These rates fluctuate from day to day, and as we see, vary in themselves. Before, however, discussing these matters, we shall consider the bill of exchange itself.

International trade resembles any other business transaction, in that it is conducted on a money basis. If, then, actual payment in money was made for every purchase it would involve the shipment of the money from the debtor to the creditor. There would thus be continuous "cross-shippments" of money as well as a continual stream of goods in both directions. This could only be effected at considerable trouble and risk, not to speak of expense. To meet this difficulty, there has been developed a system by which the greater part of such transactions are effected without the use of money at all. The system of international exchange is not unlike the "clearing" system by which the various banks in a city liquidate the cheques they hold against one another, but is complicated by the fact that the transactions take place over a greater distance, cover longer periods of time and are in terms of different and varying money units.

The bill of exchange was invented in the middle ages, when it was not only difficult but exceedingly risky to ship money. For instance, a merchant in Venice, instead of sending 1000 ducats to Amsterdam, gave them to a fellow-townsmen who had dealings with Amsterdam, and who gave him in exchange a letter ordering his correspondent at Amsterdam to pay 1000 ducats to the person who presented the letter. The merchant therefore simply sent the letter instead of the money. Later on these documents were made transferable by means of endorsement.

Payment for goods can be made in such a manner, but more commonly the exporter "draws on" the importer for the agreed amount, that is, he writes an order upon the importer to pay usually at some

specified place the amount named in the bill. The bill would run somewhat as follows: If Paul in New York has sold goods to Peter in London, he writes on a form for the purpose, something like this: "New York, June 1, 1919. Sixty days from date pay to Isaac, or order (the sum of 1000 pounds sterling for value received," adding below: "To Peter at London," and signs "Paul." This document, or rather, something to the same effect, to which is attached a bill of lading of the goods and other papers, certificates of insurance and whatnot, the exporter sells to Isaac, the broker, or to a bank doing that sort of business, which thus purchases a right to have the amount of money mentioned paid to its order in England. Now then, as English exporters are at the same time shipping goods to America, and creating claims of the same kind, it will be seen that, provided the claims be equal, no money need pass if the claims can be brought together and cancelled. This is done by the brokerage firms and banking houses.

Now, we have seen that the English sovereign is equal to 4.8665 dollars. This is called the "par of exchange" and would make the bill we have just mentioned worth \$4866.50. The price, however, that our exporter will get from the bank will generally be away from par, and will depend upon a member of considerations.

In the first place it will be discounted according to the standing of the firm upon which it is drawn, and upon the length of time it has to run. For example, in today's quotations we find that 60-day bills on banks are quoted a fraction higher than commercial 60-day bills; bills payable on "demand" are higher than those for a given time, while "cables," that is, bills put through by telegraph instead of the mail are higher still. This is a matter of interest on the money involved; the longer the time the bill has to run, the more it is discounted.

Quite apart, however, from these considerations which are fairly constant, the rate of exchange is subject to variations from the operation of the law of supply and demand, like the price of everything else bought and sold. Any excess of paper on London appearing on the New York exchange, as against English claims on America will naturally tend to lower the rate and vice versa by the pressure of competition. Now, then these claims represent goods or other values and it will be readily seen that an excess of English exchange on the New York market is an indication that the "balance of trade" is "unfavorable" to England so far as America is concerned, that is, that England is importing more from the United States than she is exporting to them. In normal times, this state of affairs would have only a slight effect on the market as there would be other countries with which England would have a favorable balance, and clearing could take place by similar, though more complicated processes through bills drawn upon them. Ordinarily, the variations in rate of exchange take place within very narrow and well-defined limits. As we have seen, this method of clearing is only used to avoid the trouble and risk involved in sending gold and, as the expenses of sending gold—packing, insurance, freight and loss of interest—only amount to about two cents per pound sterling. It is obvious, if the rate should vary more than this in either direction, that it will be profitable to ship gold. Putting the par of exchange; for simplicity, at 4.86, we should find gold leaving New York for London if the rate rose above 4.88, and coming to New York from London should the rate fall below 4.84. These points are known as the "gold" or "specie points." It is of very rare occurrence that gold is shipped by merchants in payment—such shipments being made by the banks in order to establish credits against which bills can be drawn. It will be remembered that, on the eve of the great war, the Kronprinzessin Cecilie left New York carrying several millions in gold for Europe. The bankers sending this gold had drawn

bills against it which they had sold on the exchange market. Owing to the activities of the English cruisers, she had to put back to the States, where she was interned, and the gold never reached its destination. The bankers had to "cover," that is to say, to redeem their bills at a loss and, I understand, started a number of law-suits against the steamship company, or someone, in which, however, they were unsuccessful.

Taking another look at today's quotations I find, notwithstanding all this, that they run about 4.60. This is a long way from par, to be exact about 26 cents. This requires some explanation. From what has been said it can be readily seen that the maintenance of the rate of exchange at or near par depends entirely on the condition that gold can be readily obtained and shipped if necessary. In the absence of this condition, the rate of exchange may fall to any extent. In the earlier years of the war, in consequence of the enormous shipments to Europe from America; the stoppage of European production and the embargo on gold shipments; there occurred on the New York exchange a serious fall in the rate of exchange on European countries. Sterling falling to something like 4.50. By the shipment of large quantities of gold, the surrender of American securities held in England and by the establishment of credits in favor of England by the United States Government, the rates was advanced to a point in the neighborhood of 4.72, where it was maintained, "pegged up" in the slang of the "street," by the British Government, probably by the purchase of English paper through agents. Since the signing of the Armistice, however, the rate of exchange on sterling has been allowed to sag to where we find it today, largely because the British Government wishes to increase the exports and to discourage the imports of Britain, an unfavorable rate of exchange acting as a species of protection. We are now better able to understand the effects of a depreciation of the currency due to inflation. These are:

- 1.—An immediate fall in the rate of exchange for that currency in foreign markets, which
- 2.—creates a demand for gold which rises to a premium, causing
- 3.—the disappearance of metallic money.
- 4.—An advance in prices corresponding to the depreciation.

All for this time.  
GEORDIE.

### GERMANY.

A remarkable illustration of the new spirit and temper in Germany is supplied by an appeal to the teachers and pupils in the high schools issued by the new Prussian Ministry of Education. The appeal to the teachers, which begins by demanding complete scientific impartiality in their teaching and abstention from all political propaganda, continues: "The terrible defeat of Germany puts the teachers to a heavy test of wisdom and character. They will easily be tempted to nourish in their pupils a feeling of hatred and vengeance against our enemies and to believe that it is right to awaken among the young a highly developed patriotic sentiment. We must direct our energies most earnestly against this cheap kind of patriotism which uses the vulgar impulses for its purposes. Hatred and vengeance must in no circumstances be preached to the young—not even when the enemy is openly doing us wrong. There must be no playing with the thought of war and vengeance. We must hold fast always to the hope and purpose that some day hatred between peoples will vanish from the earth, and that this war will have been the last of wars. We insist resolutely that the schools shall never again become centres of persecution and the glorification of war." The appeal desires that teachers should not regard themselves as set in authority over their pupils, but at least, in their official relations with their pupils, they should allow them freedom of speech and of conviction.

## SOCIALIST PARTY OF CANADA

### PROPAGANDA MEETINGS

SUNDAY, JUNE 22

At 8 p.m. Sharp

### EMPRESS THEATRE

Corner Gore and Hastings

Speakers..... T. Connor and M. Smith