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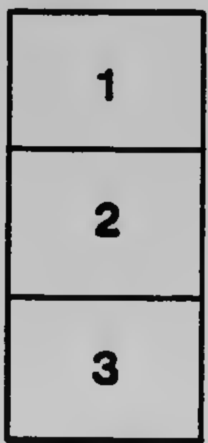
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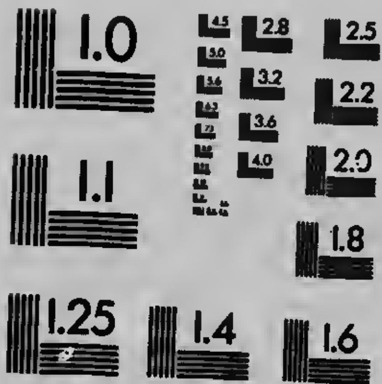


The Foreign Exchanges and British Credit in Time of War

By

SIR EDWARD H. HOLDEN, BART.

With the Compliments of
JOHN MACKAY & CO.
Toronto General Trusts Building
TORONTO

Introductory Note by Mr. Mackay

The accompanying address by Sir Edward Holden, the distinguished English Banker and Financier, upon the Financial Supremacy of Great Britain, the significance of the Foreign Exchanges and the impairment of German credit, is of peculiar interest and value at the present time. The commanding place which its author holds in the world of finance lends authority of the highest order to his opinions. It is therefore of unusual interest to those who own a proud allegiance to His Gracious Majesty the King and to the British Empire, to learn from the address that in its author's judgment the unique financial prestige of Great Britain promises not only to survive the war, but to rise even higher than before in the world's estimation. The address is a masterpiece of lucid exposition of the practical working of the foreign exchanges during the strain and dislocations of war; of the ominous significance to Germany of the course of the Exchanges, pointing as they do, to the exhaustion of her foreign security holdings and in combination with other factors to the impairment of her foreign and domestic credit; of the financial strength of Great Britain and the unmatched credit of the British Government; and of many other interesting and significant phases of finance. The demonstration (on pages 22 to 28) of the gradual exhaustion of German owned foreign securities is of unique interest as an authoritative interpretation of the Exchanges and as a searchlight on German financial operations. Authoritative light is also thrown on the German-American obstacles that had to be overcome by the Anglo-French Commission—of which Sir Edward Holden was a member—when it placed the $500,000,000 loan in New York last year; and a just and generous tribute is paid to the splendid spirit of the group of American Bankers who carried out that very large transaction. Of this address, coming from such a distinguished source it is sufficient to say, that it will find a permanent place in the library of all men of affairs into whose hands it passes. I have asked Sir Edward Holden to allow me to circulate it privately among the leading publicists of the Dominion and I desire to express my sincere thanks for his generous consent.

JOHN MACKAY.

Toronto General Trusts Building, Toronto
1st September, 1916.

With Sir EDWARD HOLDEN'S Compliments.

5, Threadneedle Street,
London, E.C.

THE

London City & Midland Bank

LIMITED.

THE General Meeting of the Shareholders of The London City and Midland Bank Limited, was held at the Cannon Street Hotel, London, E.C., on Friday, the 28th day of January, 1916, for the purpose of receiving the Report and Balance Sheet, declaring a Dividend, electing Directors and Auditors, and other ordinary business.

The CHAIRMAN (Sir Edward H. Holden, Bart.) said:

MY LORDS, LADIES AND GENTLEMEN:

We are very pleased to welcome you to this meeting and to have the opportunity of conferring with you on the present position of affairs. When we met you last year the war had been in progress for six months, and now a further twelve months have been added to that period. I am sure it will be interesting to you to have an explanation of the domestic and international position of this country at the present time.

Last year you will remember I explained to you the method of financing the war in Germany, and I drew a comparison between the finance of that country and of our own country, and pointed out that Germany would have great difficulty in paying for her imports with exports. I also told you that a German banker had said that every mark would be squeezed until it shrieked, but I think we shall presently see that the mark has already been so squeezed that there is not even a squeak left in it. On the other hand, I was charged at that time with being too optimistic from the German point of view when I said that the war with Germany would not cease on account of her gold position for twelve months or even longer.

Now, Ladies and Gentlemen, up to the present time London has been admitted to be the financial centre of the whole world, but it is predicted by some that after the war, we may lose that position. I venture to say that, in my opinion, we shall not only not lose our financial position, but we shall greatly improve it, and our banking institutions will stand much higher in the estimation of the world than ever before.

London has been and is at the present time the financial centre of the whole world. Everyone wishing to understand the financial relationship of this country to the whole world must comprehend this statement.

It has two meanings—one very simple and the other very complex.

All countries in the past which have wanted to borrow money have generally found what they wanted in London, and whatever has been lent has been granted freely and with little restraint. Hence London has always been regarded as the centre to which all requiring financial aid could come, and as the whole world has come at one time or another, and London has held herself ready to lend to all comers on proper conditions, she has been designated by common accord the World's Financial Centre. This is the one meaning of the statement which is simple. Thus she has in the following years lent to British possessions and foreign countries the respective sums of about

	£189,000,000	in 1910
	£164,000,000	„ 1911
	£160,000,000	„ 1912
	£197,000,000	„ 1913
	£159,000,000	„ 1914
and	£75,000,000	„ 1915

amounting to £944 millions sterling from 1910 to 1915, and we must not forget the large sums lent by the British Government to our Allies.

In consequence of the war, London's position is somewhat changed, and New York has come to the front as a great lender.

England went into this war unprepared, except as regards her Navy, while Germany had been preparing and perfecting her Army for the last twenty to forty years, and during the last fifteen years had been creating a powerful Navy, and had carefully provided everything necessary for carrying on the war.

As to whether this country is to blame for not paying attention to the warnings received for years before the war is outside the scope of our consideration to-day, but if we compare the position of affairs now with the position of affairs twelve months ago, we cannot but be struck by the enormous amount of work which has been done not only by ourselves but by our Allies.

Russia, France, Italy, Canada, England and others have improved and extended old factories and built new ones for the manufacture of munitions of all kinds, and these munitions are being produced at the present time by the employment of every available hand who can be spared from other businesses. I would like at this point, however, to express my conviction that it is absolutely essential for us to retain such an amount of labour as is necessary to maintain our exports, otherwise the exchanges will fall and our gold will go. To start these factories, equip them with the accessories necessary for the manufacture of munitions, and to provide food and means of transport for the armies, enormous sums have been spent by ourselves and our Allies.

Of the Allies, the credit of Great Britain stood the highest, and has been used to assist the credit of the other allied countries.

The basis of our credit is the £ sterling, and wherever we purchase, we use the £ sterling. For example, all our Government contracts with America have been paid for by sterling. If we agreed to pay for purchases in dollars, then we have had to exchange sterling for dollars, or, in other words, we have had to buy dollars with the £ sterling.

If the settlement of transactions took place in London, an order for payment would be given on the Paymaster-General at the Bank of England. The firm receiving it would immediately get quotations from the foreign market here or in America for a Cable Transfer on New York for the equivalent amount of dollars to be paid in New York the same or the next day.

If the settlement took place in New York, then the Government would have to obtain dollars either by selling sterling on London or by some other means.

The £ sterling is a wonderful instrument. It is really the English sovereign, and the English sovereign has a minimum weight of 122.50 grains and a maximum of 123.274 grains. The Foreign representatives of the sovereign are Foreign Bills of Exchange, Cable Transfers and Sight Drafts, and the English representatives are Cheques, Bills of Exchange, and Bank Notes. The foreign Bills of Exchange, Cable Transfers and Sight Drafts have hitherto financed imports and exports to and from this country, and very extensively the imports and exports of other countries. The English bill has been held in the portfolios of banks abroad as gold, because in non-war times, when the reserves of gold held by Foreign State Banks were allowed to flow without restrictions at the call of the foreign exchanges, and when gold freely flowed to and from London, the Sterling Bill was (and is now) paid in gold in London if demanded.

Now things are modified for a time. The imports and exports of all countries are deranged, and consequently gold is only flowing to London from our own possessions, which yield about 60 per cent. of the entire world's production, the output during 1915 from the Transvaal mines alone being about 39 millions sterling.

Yet, notwithstanding the derangement of the whole of the exchanges between different countries, including those between this country and other countries, and also of the imports and exports of all countries, the English bank-note, unlike that of Germany, is payable in gold and therefore prices, although high here, are much lower than in Germany.

Whenever the £ sterling falls below its gold value in any country, the importer of goods into Great Britain has to give more for the goods imported from that country, consequently prices rise; on the contrary, the British exporter gets an advantage because if he ships goods, say, to America, he will receive payment in dollars, and in bringing his money home he gets more sterling for the dollars. Thus imports should diminish in consequence of increase of prices, and exports should increase, because the exporter not only gets his ordinary profit, but also a profit from the Exchange.

This should happen in ordinary times, but when a world-wide war is raging, restrictions and impediments of all kinds prevent the free working of economic laws.

What causes the gold value of the £ sterling to fall? When in any market the sellers of the £ sterling as represented by the Foreign Bill, Cable Transfer or the Foreign Cheque on London, are more numerous than the buyers, then the Sterling Exchange falls. When exports are shipped from any country to the United Kingdom, the exporters are the sellers of exchange on London, and when exports are shipped from the United Kingdom to any other country, then the importers of that country are the buyers of exchange on London. But the importers of any country from the United Kingdom are not the only buyers. Anyone who has to send money to this country will be a buyer of exchange. Fluctuations in the volume of the imports and exports to and from this country are the main cause of the fluctuations in the Exchanges. The imports in such times as these may largely increase while the exports may fall or remain stationary.

The £ sterling has never had to carry such a load as at present. The imports into this country and into the countries of the Allies, on account of their respective purchases of war materials, are enormous, and are all additional to the ordinary commercial transactions carried on by traders.

In addition to paying for our own imports, we have assisted to finance the imports of our Allies ; consequently much larger amounts of the £ sterling have been offered for sale by our Government and private traders than were offered in pre-war times, and in accordance with the law of supply and demand, the £ sterling has for the present gone down in value. The £ sterling is worth in gold 4.8665 dollars, but at the present time the exchangeable value in New York is about 4.77 dollars. a depreciation of 1.9 per cent. ; in Holland, it is worth in gold 12.107 florins, but the exchangeable value is about 10.86, a depreciation of 10.3 per cent ; in Spain it is worth 25.225 pesetas in gold, but the exchangeable value is about 25.07, a depreciation of about .6 per cent. ; in Scandinavia it is worth 18.159 kronor in gold, but the exchangeable value is about 17.45, a depreciation of 3.9 per cent. Notwithstanding these temporary depreciations in the value of the £ sterling there are appreciations elsewhere. The £ sterling in Paris is worth 25.225 francs in gold, but at present the exchangeable value is about 27.97 francs, an appreciation of 10.8 per cent. ; in Italy the gold value is 25.22½ lire, but the exchangeable value is 31.65, an appreciation of 25.4 per cent., and in Petrograd, £10 is worth 94.57 roubles in gold, but the present exchangeable value is about 160.50 roubles, an appreciation of 69.7 per cent.

As we have said, the imports and exports to and from this country are mainly responsible for the fluctuations in the Exchanges.

The imports to this country from the United States for the first nine months of 1913 were 94 millions sterling, for the same period of 1915 they were 177 millions, while our total exports to the United States for the first nine months of 1913 were 44 millions sterling, for the same period of 1915 they were 40 millions.

For the same periods, the imports from Holland and Dutch Colonies in 1913 were 20½ millions, and in 1915 they were 28½ millions, while our exports to Holland and Colonies in 1913 were 17 millions, and in 1915 they were 17½ millions.

The imports from Sweden in 1913 were 10 millions, and in 1915 they were 14 millions, while our total exports to Sweden in 1913 were 7 millions, and in 1915 they were 8 millions.

The imports from Spain and Colonies in 1913 were 11½ millions, while in 1915 they were 14½ millions. Our total exports to Spain and Colonies in 1913 were 8 millions and in 1915 they were 7 millions.

In all these cases, you will see that our imports have increased, and consequently the Exchanges have gone against us.

The Exchanges which have given us the most trouble are the Dutch and American, and the trouble in both cases has been caused by increased imports.

The situation of Holland, being contiguous to Germany, places her in a difficult position in the eyes of the Allies, and her Exchanges on London have fluctuated to an unusual degree. While the £ sterling is equivalent in gold to 12.107 florins the exchangeable value in December had fallen to 10.80.

Her Exchanges with London would have fluctuated less if she could have imported goods from this country without restriction, but fearing lest such goods might percolate through to Germany, their export has been restricted, and they are now only shipped through the Netherlands Overseas Trust.

As we have said, the £ sterling at present stands at a depreciation of about 10.3 per cent., and this has been brought about largely by the purchases of Java sugar by the Sugar Commission. The purchases were necessary to supply this country, and at the time they were made, sugar was several shillings a hundredweight cheaper in Java than in America and Cuba, the only other countries from which supplies could be obtained.

The sellers of the sugar in Java received in payment either Sterling Bills or Telegraphic Transfers, both on London. The import of commodities from Holland and her Colonies into this country for the nine months ending September 30th, 1915, exceeds the British exports to Holland by about 10 millions sterling, and Credit Balances have been created in London by the sale through Holland of large quantities of German-owned American securities. In addition, Holland is an important shipping centre, and her freights are principally paid through London. She is also extending her export trade with countries which previously traded with Germany, payments for which are largely made by cheques on London.

Against imports of 28½ millions from Holland and Dependencies to ourselves, plus the above credit balances, we have British exports of only 17½ millions and any securities which we may have sold to Holland. Holland at the present time is, therefore, a large creditor of London. With Exchange at 10.86, Dutch creditors desiring to remit their balances home, have to give £1 sterling for 10.86 florins, although when the sterling credits were created, the value of the sovereign in florins was higher, and at the present time it is impossible to buy sufficient florins to pay for the credits. Holland is a neutral country, and is desirous of doing nothing to imperil her position with Germany, and although a banking credit has been established in Holland in favour of certain German bankers, it would, I think, be inadvisable for this country to seek similar accommodation.

There was a hope that Holland would buy Exchequer Bonds, and particularly so as in addition to the return of 5 per cent. on the Bonds, the purchasers would make an additional profit out of the Exchange, but the Exchequer Bond has met with a strong competitor in the Anglo-French Bond issued in America, and is now being offered in Holland.

The English traders and bankers are in the same position in relation to Russia and France as the Dutch traders and bankers are to this country. Credits, which are necessary for traders here, are standing at their disposal in French and Russian banks, but the English bankers are meeting the difficulty by making advances against such balances. This alternative might be adopted by Dutch bankers until the Exchange rectifies itself. The last alternative is—should these balances be allowed to be taken away in gold, having regard to the fact that the restriction on the export of gold from Holland, which was imposed at the beginning of the war, may be removed and that such gold might ultimately find its way to Germany as the result of bill transactions between German and Dutch bankers ?

I said at the commencement of this speech that the financial relationship of this country with the whole world was complex, and that London had been named the financial centre because money could be borrowed here. It has been so named for a second reason, viz., that almost all the traders of the world have hitherto agreed that their transactions should be settled at this centre, because they could be settled in gold.

By all agreeing to a settlement at one centre, it follows that the sellers of Exchange on that centre would readily find purchasers and *vice versa*, and expenses would be cut down to a minimum.

These transactions have hitherto been carried through very satisfactorily—for example, let us take a specimen transaction with Japan. When America purchased silk from Japan, an American banker would arrange with a London banker that the agent of the American trader in Japan should draw a bill in sterling on London (which the American banker would agree to pay at maturity), that he should sell it and use the yen (the Japanese currency) received to pay for the silk. The silk is sent to America direct, is sold, and the proceeds are paid to the banker who agreed to pay the London bill. The American banker paid the bill drawn from Japan by purchasing a bill or cheque or cable drawn on London in sterling.

If imports into Japan were drawn against on London by the sellers, then it is obvious Japan would be buyers on London to pay for the imports, and the buyers of goods in Japan for export would be sellers of Bills on London. By concentrating the settlement of these transactions on London, they are carried through more economically and with the greatest smoothness.

In order to ensure a satisfactory working of the Exchanges, it is necessary that the £ sterling should remain as steady as possible, but such steadiness can only be maintained when the imports and exports, both visible and invisible, are fairly evenly balanced.

The most important Exchange we have is that between New York and London, and if we compare the last four or five years, we shall see how steady it has been, compared with the present year. In making the comparison, we must remember the £ sterling is worth in gold 4.8665 dollars.

In 1910, the £ sterling sold as high as 4.8840 dollars and as low as 4.8550;

In 1911, as high as 4.8760 and as low as 4.8550;

In 1912, as high as 4.88 and as low as 4.85;

In 1913, as high as 4.8860 and as low as 4.8540;

In 1914, as high as 6 dollars and as low as 4.8550;
while in 1915, as high as 4.8575 and as low as 4.50, which is the lowest point touched by sterling since the present system of international Exchange was devised in 1873. On the different basis of quotations formerly in use, sterling fell in 1857 to the equivalent of about 3.53 or a discount of over 27 per cent. That year was one of commercial and financial crisis, both in America and in this country.

On September 1st, 1915, the Exchange fell, as we have said, to 4.50, and during the whole of the latter part of the year from the middle of August it has been under 4.76.

Now, anyone presenting Notes at the Bank of England is entitled to receive payment in sovereigns varying in weight between 122.50 grains and 123.274 grains each. If a parcel of sovereigns of average weight be obtained from the Bank and shipped to New York, each sovereign would realise between 4.77 and 4.78 dollars on delivery in New York. Therefore, anyone purchasing Exchange on London at any figure current from the middle of August, 1915, to December 31st last, and using that exchange for the purpose of shipping sovereigns to New York, might have taken our gold.

From 1910 to August, 1915, there was no opportunity to ship sovereigns to New York at a profit, as the Exchanges were steady, because, taking into account the " invisibles " (that is, the payments on account of tourists, freights, dividends, etc.) and the shipment of securities, the imports and exports were fairly evenly balanced.

Several reasons contributed to the drop in Exchange in August, 1915. American purchases of exchange on account of " invisibles " were curtailed, the Finance Bills which usually matured in August were practically non-existent, the American cotton crop and the record wheat crop were beginning to move forward, *and heavy payments for the* *increasing purchases by the British Government were being made.*

These Government payments resulted in the selling of excessive amounts of sterling in New York, and as sellers were more numerous than buyers, the price of sterling fell and would have continued to fall had not our Government sent out a Commission for the purpose of ohtaining a Loan out of which the purchases could he paid for without having recourse to the sale of sterling.

The Commission met with great difficulties and not the least difficulty was the opposition of the German-Americans, hut the people generally were favourable to the Loan, as it was designed to facilitate the Trade hetween the two countries hy lifting the Exchange.

The Loan, as you are aware, was for the sum of 500,000,000 dollars, equivalent to ahout £100,000,000 sterling, half of which was taken hy France. It was purchased outright hy American Bankers, it heing left to the purchasers to re-sell to the puhlic.

Great credit is due to the American Bankers for the fair manner in which they met the Commissioners' proposals. Until this war hroke out, the largest Loans ever floated by a European Government were the £80 million and the £120 million French Government Loans of 1871 and 1872 respectively. These Loans were issued to pay off instalments on the Prussian indemnity, and the French Minister announced that the larger Loan was over-subscribed more than twelve times; seven times by foreigners and five times by the French nation.

Previous to 1914 the largest single Loan ever floated by Great Britain was the Boer War issue of £60 millions in 1901.

When we consider there was a thoroughly well-organised movement to prevent American Banks from participating in Loans to the Allies by German-Americans having headquarters in New York, and particularly when such persons claim to dominate the Banks from the Atlantic to the Mississippi, I assert not only that our Government but the people of the United Kingdom have been placed under a great obligation to the American Bankers for the magnificent spirit they showed in buying straight out a loan of such magnitude.

When the Commissioners left London, the exchange was 4.50; when they arrived in New York it had risen to 4.72½, and when they reached London on their return it had fallen to 4.62.

By this time the work of the Commission began to be felt, and the English Joint Stock Bankers, mindful of the great injury to trade which these fluctuations caused, made arrangements whereby a further £10 millions sterling should be forthcoming to prevent further fluctuations, and this sum was, if necessary, to be supported by an additional 10 or 20 millions from other sources. Moreover, to their great credit these English Bankers had, in August, assisted the country by placing at the disposal of the Government 20 millions sterling of gold.

As I have said before, the fluctuations of these Exchanges are brought about mainly by the excessive amount of imports over exports. Taking into consideration the fact that we are importing at an annual rate of about £750 millions sterling, and that the net expenditure of our people is about £2,000 millions per annum, the inference may fairly be drawn that of every one pound actually spent, at least 6*s*. 8*d*. is expended in the purchase of articles and commodities coming from abroad.

As we are inconvenienced so much in consequence of our increased importations, it is regrettable that our purchases are not reduced. We must impress the need for economy more emphatically on the minds of the men and women of this country, and remind them that there are only a few ways of paying for our imports.

We have heard the doctrine preached times without number that imports are paid for by exports ; for example, cotton is imported to this country from America, British exports are sent to America, Bills on London are drawn in America against the cotton and sold there, and the British exporters of the goods to America buy Bills, Cheques or Transfers on London to bring their money home. There are intermediate firms, bankers and others, who buy the Cotton Bills and sell against them to English exporters. Therefore, as far as the exports will go, we use them to pay for our imports.

In ordinary times, securities such as Stocks, Bonds, and Shares are always being purchased or sold and transported from or to abroad. When they are sold to London, they increase our imports, and when they are sold by London, they increase our exports.

In times such as these, we have large increases in our imports with diminished exports. Consequently, we have to look for other modes of payment.

Now when, notwithstanding the ordinary security transactions, the exports of a country are not sufficient to pay for the imports, gold is shipped, and if for any reason gold be not shipped, then the bottom absolutely falls out of the exchange, but this may be prevented by the shipment of additional securities.

Germany, by the Law of August 4th, 1914, released the Reichsbank from its obligation to pay its notes in gold, and further authorised the creation of all kinds of notes without any gold cover at all. Traffic in gold was restricted by a penal statute passed by the Bundesrat on November 23rd, 1914, the effect of which was to make the buying or selling of German gold coin at a premium punishable by fine and imprisonment.

As their gold is tied up, German traders can only pay for imports by exports and securities, or by borrowing, but, if there is an excess of imports and sufficient additional securities are not forthcoming, the Exchanges must fall. It is quite certain, judging from the excessive fall of the German mark, that the imports into Germany from the Scandinavian countries and from Holland are largely in excess of her export of commodities and securities to those countries.

The Currency of Holland, as I have already intimated, is the florin, and that of Germany is the mark. The gold value is 59.26 florins for 100 marks, and when the war broke out, 59.10 florins exchanged for 100 marks.

Importers into Germany from Holland are the buyers of florins, and exporters from Germany to Holland are the sellers of florins. It follows, therefore, that when Dutch imports into Germany are greater in value than the German exports to Holland, there will naturally be competition for florins to pay for the imports, and in January of this year the demand for florins was so great that 100 marks were only able to purchase 39.75 florins. This means a depreciation of nearly 33 per cent., proving that the imports from Holland into Germany are larger than the export of commodities and securities from Germany to Holland.

The following table shows how certain commodities which have been sent by Holland into Germany have increased during the eleven months ending November, 1915, over the corresponding period of 1913.

1,000 kilograms.	1913	1915
Potato Flour	37,020	64,534
Butter	17,926	33,527
Cheese	12,854	56,470
Cotton (unspun)	43,195	93,283
Coffee	47,846	123,490
Margarine (edible)	1,019	21,269

1,000 kilograms.	1913	1915
Tobacco and Cigars ..	47,172 ..	82,018
Tea	1,281 ..	5,739
Meat	19,241 ..	66.986
Fish	86,713 ..	148,861
Fresh Fruit	116,424 ..	155,501
Copra	24,160 ..	106,313
Eggs	14,948 ..	24,365
Cotton Kernel Oil ..	27 ..	11,565
Linseed Oil	5,736 ..	79,092
Herrings (cured) ..	68,472 ..	101,086
Pork	8,673 ..	48,132
Cocoa—butter	1,357 ..	5,670
powder	1,537 ..	10.792
Coconut Oil	939 ..	7,915

The following table shows decreases in the export of commodities from Germany to Holland during the period January to November, 1915, as compared with the corresponding eleven months of 1913.

1,000 kilograms.	1913	1915
Potato Products ..	34,388 ..	130
Beer and Malt Extract ..	18,286 ..	9,210
Drugs, Dyes, etc. ..	362,142 ..	84,777
Agricultural Implements	128,214 ..	46,983
Yarns	17,499 ..	1,835
Wheat	62,586 ..	—
Rye	173,770 ..	15
Barley	62,248 ..	—
Wheat Flour	45,638 ..	3
Hides and Leather ..	10,022 ..	3,279

1,000 kilograms.	1913	1915
Cotton	39,346	1,170
Coal	16,305,713	5,681,862
Haberdashery	64,423	32,508
Drapers' Goods	45,004	26,977
Metal	1,126,602	598,983
Sugar	132,797	155,712
Tallow	11,647	228
Wool	4,526	229
Soda	17,984	3,438
Cocoa Beans	10,835	—
Hides	10,081	2,068
Oats	80,125	36
Palm Kernels	48,502	—

Now, how does Holland stand with the United States? The parity between New York and Amsterdam is 40.20 dollars for 100 florins. During the nine months ending September 30th, 1915, the imports into Holland from America amounted to nearly £23½ millions, while the exports from Holland to America were only £4 millions, from which it would appear that the Dutch import of commodities exceeded the Dutch export of commodities by more than 19 millions sterling. This being the case, we should expect the florin to be at a depreciation in New York, *i.e.*, that fewer dollars would be exchanged in New York for florins; but we find, in fact, that more dollars are being given for florins, and at the present time about 44.25 dollars are exchanged in New York for 100 florins.

The increase in the value of the floriu, as expressed in dollars, indicates that the total imports into America from Holland exceed the American exports to Holland. Now we know that Holland has exported commodities to the value of only 4 millions sterling and that her exports of gold were of a negligible amount; she must therefore have exported large amounts of securities to pay for this balance of over 19 millions sterling. These securities have been sold by Germany to Amsterdam and by Amsterdam to New York, and it is interesting to note that, notwithstanding these transactions, the Dutch exchange on Berlin shows that the export of commodities and securities from Germany to Holland is not sufficient to pay for Germany's imports from or through Holland.

Turning now to Scandinavia, the parity of exchange between Copenhagen and Berlin is 88.88 kronor for 100 marks, and the exchangeable value of 100 marks at the present time is only about 67.75 kronor, representing a depreciation of 23.7 per cent., and in the case of Sweden, with same parity, the depreciation is 24.6 per cent. This points again to an increase of imports into Germany from

Scandinavia over exports from Germany to Scandinavia. The official trade returns of the United States show that during the nine months ending September 30th, 1915. Denmark imported commodities from America amounting in value to over 11½ millions sterling and exported commodities to America to the value of only about £350,000, leaving a balance of over 11 millions sterling. During this period imports into Sweden from the United States amounted to over £13 millions, and her export of commodities to about £1½ million, leaving a balance of £11½ millions sterling against Sweden. Again, as in the case of Holland, we find from the New York exchanges on Copenhagen and Stockholm that more dollars have to be given in New York for 100 kronor, and as only a very small amount of gold has been exported from Scandinavia to the States, the question arises: How did Denmark and Sweden pay for their respective balances? By Securities. Where did they get them? Obviously, from Germany.

Now, although the German mark has fallen about 33 per cent. in Holland and about 23 per cent. in Scandinavia, we must not be too premature in drawing conclusions.

While on the one hand it may betoken an exhaustion of German Securities, yet on the other hand the situation might be rectified to some extent if the gold were permitted to be exported. Of the two evils, either a fall in the exchange or a loss of gold, the German Finance Minister prefers the former, and keeps his gold. He has some good reason for keeping the gold, and it may be that when peace is restored, he will begin to import commodities as quickly as possible, and as he will not be able to pay for such imports either with a depreciated currency or with sufficient exports, he will pay with his gold and try to restore the Exchanges until such time as he can prepare his imported commodities for export.

Russia, France and Italy are pursuing the same policy with regard to the retention of gold. Their exports have been tied up; their purchases have increased; but they declined to part with their gold, with the result that although we finance to a large extent their purchases abroad, the Exchanges have turned against them. As their purchases are made in America for the most part, our payments on their behalf tend to depreciate our own American exchange, and in these exceptional times our Exchanges are also adversely affected by many of their own purchases through London, irrespective of their purchases through our Government. Thus, France buys steel in London from merchants who purchase it in America against a banker's credit. The cheque drawn on London against the credit depresses the exchange just as effectively as our own imports. To pay for the steel in London, France buys a cheque on London, thus pulling up the London Exchange against Paris.

As London is the financial centre of the whole world, we must expect the £ sterling to be buffeted about by the whole world.

Now, that being so, let us see how we are carrying the burden.

In consequence of the work of the Commission by which a credit for 50 millions sterling was raised for England, the Exchanges were relieved of the heavy pressure arising from the sale of Exchange to meet our increasing obligations to America, and during the last two or three months they have only had to carry the ordinary transactions of trade. Up to the time of the Loan, our payments were made not only by selling exchange in New York, but also by gold and securities from this country. We are, or should all be, desirous in the interests not only of the trade of this country with America, but also of the trade of every other country where the £ sterling is used as the medium of exchange, of seeing that exchange at such a point that there is no profit in taking gold from us. It is to be regretted that speculators, for the purpose of making a temporary profit, are doing all they can to force it down. We have during the past year directly or indirectly forwarded to America for the purpose of supporting the Exchange, more than 60 millions sterling of gold, and large amounts of American securities have been sold to purchasers in that country which have further had the effect of improving the Exchange. We are glad to see that our Government has been so desirous of facilitating the trade between this country and America, that it has appealed to all patriotic citizens to sell or lend to it their American securities, and it is of the greatest importance that all holders of such securities should come forward at the call of their country to assist in this great work.

London, as I have before explained, has maintained and will continue to maintain the position of being the financial centre of the whole world, but it can only retain that position by being able to supply gold when gold is demanded. The Bank of England has at the present time about 50 millions sterling of gold. The Government has 28½ millions, and the Joint Stock Banks have a further large sum, while I believe there is yet in hoarding a fair amount, and we are fortunate in having a continuous flow of gold from South Africa. If, on the conclusion of this war, we are still a free market for gold, we shall have scored a financial triumph as important to the country as a great victory in arms.

We will now briefly examine the recent speeches of Doctor Helfferich, the German Finance Minister. Doctor Helfferich is a clever Banker and is gifted with the power of covering up his Nation's weaknesses by criticising his adversaries. Notwithstanding this, he gives us some light on conditions prevailing in Germany. "This," he says, "is a terribly serious time which has come on the German Nation. . . . . Holding on will be more difficult in the second year than in the first . . . . To alleviate their present distress, to prevent threatened misery, and to obviate prejudice to the future of the German people, further efforts will have to be made." He announces the allocation of 10 millions sterling to a fund for the support of families wanting aid and those thrown out of work; and to further alleviate the distress, he does not wish to increase the burden borne by the people by new taxes, and he says that heavier taxes on consumption would add to the already high prices, and that the whole future life of the Nation must, as far as is attainable, be freed from the enormous burden imposed by the war. He then passes from describing the distress of his country to charging us with "obstinate ignorance"; with issuing "sensational advertisements," and with applying methods of "circus advertisement" to the serious business of war. He accuses us with experimenting, and with "artificial finance tricks and sensational attractions." He also accuses us with practising usury with our Allies; then he bursts into eloquence and says that "the beating of the wings of the world's fate can be heard in the smallest cottage." He speaks of being guaranteed a lasting security against attack and cupidity, and says that his opponents should be "led back from the curse of erring passions and artificially fostered fantasy to self-consciousness." Finally, he winds up his latest speech with the prophecy that "On the golden pillars of the British Empire gleams in flaming characters—Mene, Mene, Tekel, Upharsin."

It is difficult to believe that a financial expert of such ability could think that flamboyant statements such as these would carry any real weight. What we should like him to do would be to examine for us in a fair and impartial spirit the financial position of the German Empire.

Now, he asserts that our War Loans have not been so successful as theirs, but he fails to point out that after paying an Income Tax of 3*s*. 6*d*. in the £ our first War Loan returns £3 0*s*. 9*d*. per cent., and our second, £3 15*s*. per cent. to the investor. How does he expect that Loans issued to pay these rates can possibly stand as high as Loans issued to pay over 5 per cent. free of Income Tax?

While on this subject, I should like to say that it has been reported that clerks in the Belgian Banks under German control were compelled to suffer a deduction from their salaries of 20 per cent. for investment in the German War Loans, and we presume that the employees in other institutions have had to suffer similar deductions.

He further said that British Consols with a minimum price of 65 were 11 per cent. down, while German Threes had only fallen 8 to 9 per cent. A just critic would have stated that British Consols were subject to an Income Tax of 3*s*. in the £, whereas German Threes are not subject to any Income Tax at all. He also pointed out the depreciation of the £ sterling in New York, the value of which he said had fallen 5 per cent., but he failed to tell us what the German exchange had fallen. We, however, will supply that deficiency. At the present time the exchangeable value of the £ sterling in New York shows a depreciation of only 1.9 per cent., while the exchangeable value of the mark in New York shows a depreciation of 21.5 per cent. I do not see how he can derive much comfort from this.

Now as one old Banker to another, I should like to put the following questions to Doctor Helfferich, and if he will answer them without his customary embroidery, we shall receive a great deal of enlightenment :—

(1) When the War broke out, Germany had credit balances abroad against which they might sell exchange. Are those balances existing at the present time or are they all exhausted ?

(2) Have the exports of Germany not seriously diminished, thereby placing the country in a difficult position for drawing and selling exchange to provide for imports ?

(3) Assuming their balances have been exhausted and their exports diminished, is it not a fact that the German people have sold nearly all their American, Swiss, Dutch, Scandinavian, and even their Russian Securities ?

(4) Is it a fact that other Continental Countries have been selling sterling to purchase florins, and selling those florins for marks in order to create a drawing post in Holland?

(5) Did Germany pay gold for the Rumanian wheat, and, if so, why was this operation not shown in the Reichsbank statement?

(6) Is it not a fact that nearly all her foreign saleable securities have now been exhausted, thus placing her in a position of great difficulty in paying for her imports?

(7) As the Reichsbank Notes had already been rendered inconvertible by the Law of August, 1914, and the sale of Gold forbidden in November of that year, and as the Notes of the Loan Banks, War Credit Banks, War Aid Banks, Mortgage Banks, Insurance Banks, Private Banks, and Municipal Corporations, have no gold against them at all, does he not think that the words "Mene, Mene, Tekel, Upharsin," should rather be written on this towering pyramid of paper, for, when all these notes have to be redeemed, Germany will indeed be "found wanting"?

(8) Will he give us a categorical answer to the following query:—Is the gold shown in the Reichsbank Statement actually held in that Institution or are portions of it held in any Institution outside Germany?

(9) Will he explain to us in view of his statement that Germany has a sufficiency of food, the reports of riots in Berlin and the shooting down by the soldiers of poor women crying out for bread?

(10) Finally, I would ask him if he has forgotten that in his former speeches he has led his people to believe that they would not be taxed in respect to the cost of the War, for I find that on about December 20th, 1915, when interrogated by the Socialists, he had to admit in the Reichstag that the War, under all circumstances, would bring the Germans face to face with colossal taxation burdens.

I cannot conclude my speech without making some observations with regard to the War Loans issued in this country, and, if I may be allowed to say so, I scarcely think we have approached this question in the broad and comprehensive manner that we might have done. I believe there is no class of investor in the world more patriotic than the British, and there is a sense in which undoubtedly the Government is to be warmly congratulated upon having raised something like a thousand millions at an average rate of 3⅝ per cent., whereas Germany has been compelled to pay something over 5 per cent. This is a very great achievement, and nothing could perhaps better express both the patriotism of our investors and their complete and well founded confidence in the ultimate success of the cause of the Allies.

Nevertheless, I believe it to be absolutely necessary for a wider view to be taken by the Government of the financing of the war than is involved in the mere question of securing cheap terms for the British taxpayer. This is a matter in which it is vital that we should take not only a broad view, but a long view, and I do not hesitate to assert that, in the long run, an infinitely more important matter even than the amount of interest paid out annually by the Exchequer, is that the resources of the country, as expressed in securities, should be as liquid as possible, and that our national credit, as expressed in the price of our securities, should be at a premium and not at a discount. But this can only be accomplished if the Treasury looks the facts in the face, and places its loans on terms and conditions ensuring the freest marketability even during the times of war and the maintenance of price after the war, when there will be enormous demands for capital, and the values of all securities will automatically adjust themselves to the value which capital commands. Moreover, the Government must remember that with the growth of our national debt on the one hand, and the diminution of our holding of foreign and notably American securities on the other hand, a vast proportion of the saved wealth of the country will, before the end of the war, be represented in Government securities, and it cannot be a good thing either from the standpoint of thrift or from any other standpoint that this wealth should stand at a discount, just as, previous to the war, it was bad for the country that the credit of the Government, as expressed in Consols, should have stood at so low a level.

Fortunately the Government has shaped a course which still makes it possible for the whole matter to be adjusted, because the greater part of the debt, as expressed in the 4½ per cent. Loan, is, as you are aware, convertible into any loan which may be issued on more favourable terms than the $4\frac{1}{2}$ per cent. issue of last July. I plead, therefore, now with the Government that they should take no narrow or short-sighted view of this matter, but should look ahead and contemplate, first, the possibility of the war being of long duration, necessitating many future applications to the investor for funds, and further that they should remember that after the war, when restrictions are removed from the investment of our capital abroad, it is essential that the investor should not be driven into foreign securities for high yields of interest.

These are some of the conditions which the Government should recognise now, and should frame its policy accordingly. With the exception of this country, every nation has not hesitated to fling aside altogether the Income Tax on its War Loans, and while I do not suggest that it is necessary for our Government to take this extreme step, I do believe it to be absolutely essential that the investor should be able to know at any rate what is the maximum amount of Income Tax he is called upon to pay on the amounts devoted to carrying on the war. Unquestionably this has been and will continue to be a deterrent influence in securing the full measure of success which might otherwise be secured by Government flotations throughout the whole course of the war. Let us have an end once and for all to British capital being driven abroad into foreign countries because of an undue penalising of capital at home, whether in British industries or in British Government stock itself.

Briefly, therefore, the Government must see to it in all its future loan operations that while prudently conducted from the standpoint of the Exchequer, the still more vital consideration is kept in mind of ensuring that the national wealth, as represented in Government securities, shall tend to appreciate, rather than depreciate, and that when the war comes to an end, the conditions shall be such as to retain British capital within the country and not to cause it to be unduly attracted abroad until such time as the balance of trade is once again overwhelmingly in our favour. These are the broad and vital considerations on which our financial policy should be based, and let the Government mark this, that any small shortcomings from the Exchequer point of view arising out of the precise terms of the Government flotation will be more than made up from other sources of revenue arising out of prosperous conditions in the country, because capital is encouraged instead of being discouraged, and if, coupled with this policy, we also concentrate our attention more upon the possibilities of home production instead of decreasing our labour output as we have done for so many years, the present difficult times through which we are passing will prove to be merely an interlude, the fore-runner of even more prosperous times than the country has ever enjoyed in the past. But these conditions will not arise if a narrow view is taken now by our Finance Minister of what is involved in the true conduct of the finances of this great country.

Let me in conclusion of this part of my speech call your attention to the policy of our French ally. Under the wise guidance of their Finance Minister, Monsieur Ribot, and the skilful policy of the Bank of France, the Chamber of Deputies unanimously authorised the new 5 per cent. Loan at 88 per cent., M. Ribot announcing that "the raising of the rate of interest does not affect our credit; it is a question of equity, for something must be done for those who now at once put their capital at the disposal of the national defence," and that the coupons would be exempt from taxation.

The investors of France have all rallied round their

Finance Minister, and the Loan now stands at a premium.

We now come to our own affairs—and at the outset we must recognise the great economic changes which have taken place since the beginning of the War, the greatest and most important of which has been the large increase of credit.

The enormous purchases made and other expenditures incurred during the last eighteen months could not possibly be paid for either by gold or by silver. We have, therefore, had to use extended credit as a representative of these two metals. This extended credit consists principally of national loans.

When the Government issues a loan, deposits are drawn out of the Banks, and with these deposits a corresponding amount of the Cash Reserves. Such deposits are paid to the Government Account with the Bank of England, and it is obvious if the loan be too large or the instalments be not properly spread, so many deposits might be taken away as would sweep away the Reserves of the Banks. These facts ought to be taken into careful consideration by those in authority when Government Loans are issued.

If a deposit be taken from a Bank, placed to the credit of the Government with the Bank of England and afterwards spent by the Government in purchasing commodities manufactured in this Country, then such deposit will find its way through the manufacturers and the workmen into the Banks again, but to the credit of a different class of persons.

But if the deposit be paid away for the purchase of commodities not manufactured in this Country, then it finds its way to the credit of Foreign Banks and may be exchanged by them for commodities or securities which they purchase from us, or it may be taken away in gold. Now if gold be taken away it does not increase our credit but on the contrary it decreases it. On the other hand, if applicants for the Loans borrow from their Bankers, they create credit. If the Bank of England makes loans to our Allies or to others, it increases credit. But all these credits, created by loans or other borrowings, find their way ultimately to a great extent to the Joint Stock Banks, and thus we see the large increases which have taken place in the deposits of these Banks since the beginning of the War.

In June, 1914, just before the War, our own deposits were

£95,027,000, and in December, 1914 (including the Metropolitan figures of £11,000,000) they were £125,732,000; in June, 1915, they were £142,388,000, and in December, 1915, they were £147,750,000.

Our Cash on December 31st, 1915, was £30,881,000, of which £7,000,000 were sovereigns and half-sovereigns. Last year we showed £8,000,000 sovereigns. During the year, when we considered it would be useful, we handed to the Bank of England £3,000,000 sovereigns, and to the Government, £4,000,000.

The Money at Call and Short Notice is £8,651,000, of which the Stock Exchange Loans are now relatively a very small amount.

The two important items of our Assets are our Investments and our Advances.

The Investments now amount to about £39,000,000 and as you are aware, we are passing through a period when Securities are depreciating. It is therefore our duty to provide for such depreciations and we have accordingly written off this year, partly from profits and partly from our carry forward, the sum of £640,000. We have taken our War Loans at cost, but unless they appreciate in value, we shall write them down next year. We subscribed for

£21,000,000 of the last War Loan. Under ordinary circumstances we should not have taken such a large amount, but we considered it our duty to do all we could to assist our Country, and I am quite sure you will approve of our action.

You will observe from the Balance Sheet that of our War Loan Securities we have £1,490,000 lodged for Public and other Accounts.

Eight of the largest Joint Stock Banks in London arranged with a Committee of American Bankers that the latter would place in New York to the credit of the former a sum in dollars equivalent to about £10 millions sterling, which sum was to be used to steady the American Exchange and thus protect our nation's gold. In pursuance of this arrangement, we have deposited £1,100,000 of War Loan with the Bank of England under a Treasury Minute, whereby the Government guarantees this Bank from any loss whatsoever.

Our Advances on Current and other Accounts amount to about £66,000,000. Of this, £1,500,000 received from the American Bankers on the above-mentioned security was lent to the London Exchange Committee, as Agents for the Government, and on the guarantee of the Government, and this amount is included in the Liabilities on the

Debtor side of our Balance Sheet, and in the Advances on the Credit side.

Our Acceptances amount to about £9,000,000. This item was about £7¼ millions in December, 1914. In order not to discourage the trade of this country at the present time, but rather to encourage it, we have allowed this item to increase to its present figure. These Acceptances, with the exception of those used to import Cotton and a few others, are drawn by or on account of first-class Bankers and all are quite undoubted.

Our Bills amount to about £10,000,000.

Now turning to our Profit and Loss Account, our profits for this year amount to £1,130,976 against £1,106,808 last year. In dealing with our profits, we have this year, as hitherto, transferred to inside funds substantial amounts for the purpose of strengthening the whole framework of the institution. To these profits we add our Balance brought forward, amounting to £421,285, making £1,552,261.

Out of this sum we pay in dividends £745,803, being at the rate of 18 per cent. per annum; we transfer to Investment Account £642,860, writing down all securities to the prices ruling on the 31st of December, 1915, except

War Loans, which are taken at cost; we transfer to Bank Premises Redemption Fund £30,000, and to Officers' Pension Fund £20,000, carrying forward to next Account £113,597.

Before closing my address I should like to refer to our Staff, including those who are carrying on our work at home and those who are engaged in military or naval duties. The men who have remained at home have worked under great pressure during the past year, and the cheerful and self-sacrificing manner in which they have performed the extra duties which have fallen upon them owing to the absence of their colleagues, has been deserving of high praise.

About 1,850 of our Staff have already joined the Forces, and we anticipate that a further considerable number will follow them. Of the former, I deeply regret to say that, so far as we know, 46 have lost their lives in defending their Country, and I feel quite sure that the relatives of these brave men will have your sincere sympathy.

In order to carry on our business during the absence of so many of our men, we have engaged about 1,300 Women Clerks, and I should like to say that these young ladies are doing their work exceedingly well, and are giving us every satisfaction. In addition, we have also engaged a large number of Clerks under or over military age.

The additional cost to the Bank in supplying new Staff to take the places of those serving with the Forces is now at the rate of over £130,000 per annum, and it must be expected that this amount will gradually increase. At the same time we are paying the salaries of those Members of our Staff who are with the Forces, and we feel sure this policy will receive the cordial support of the Shareholders. I should like to explain to you that it is our practice to pay for our Staff the Income Tax on their salaries, and in view of the recent increase in this Tax, you will see this is a very considerable item. It is also our practice to pay our pensions out of our profits, the allocations hitherto made from our Profit and Loss Account to the Officers' Pension Fund having been used for building up that Fund and placing it on a thoroughly sound basis.

My Lords, Ladies and Gentlemen,—I hope and trust our next meeting will be under happier auspices, that our Country will have emerged victorious from this cruel and terrible War, and that our Bank, in co-operation with others, will have succeeded in upholding London as the financial centre of the whole world.

I now beg to move that "The Report of the Directors and audited Statement of Accounts for the year ending 31st December, 1915, already printed and circulated among the Shareholders and now read, be adopted."

The Resolution was seconded by the Deputy-Chairman, Mr. W. G. BRADSHAW, and passed.

The next Resolution, declaring a Dividend of 4*s.* 6*d.* per Share for the half-year ending 31st December last, making with the Interim Dividend 18 per cent. for the year, less Income Tax, be now declared payable on and after Tuesday, the 1st February next, was carried.

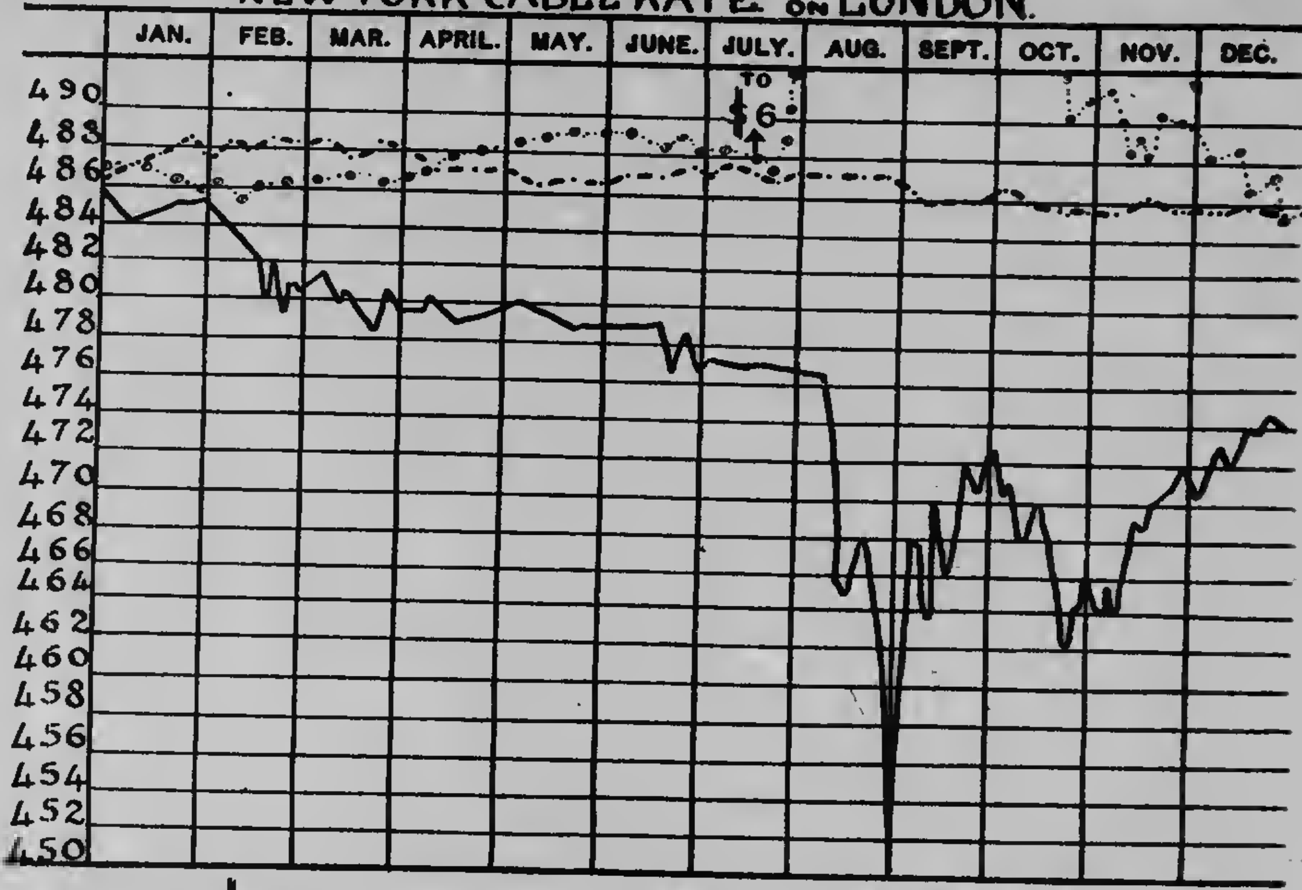
The retiring Directors, Mr. THOMAS ROYDEN and Sir PERCY ELLY BATES, Bart., were re-elected, as also were the Auditors, Messrs. WHINNEY, SMITH & WHINNEY.

The usual complimentary Resolutions to the Chairman, Board of Directors, Managers and Staff, having been passed, the Meeting terminated with a vote of thanks to Sir Edward Holden for his conduct in the Chair that day.

The following series of Charts show the movements of the Exchanges of neutral countries on London and Berlin respectively.

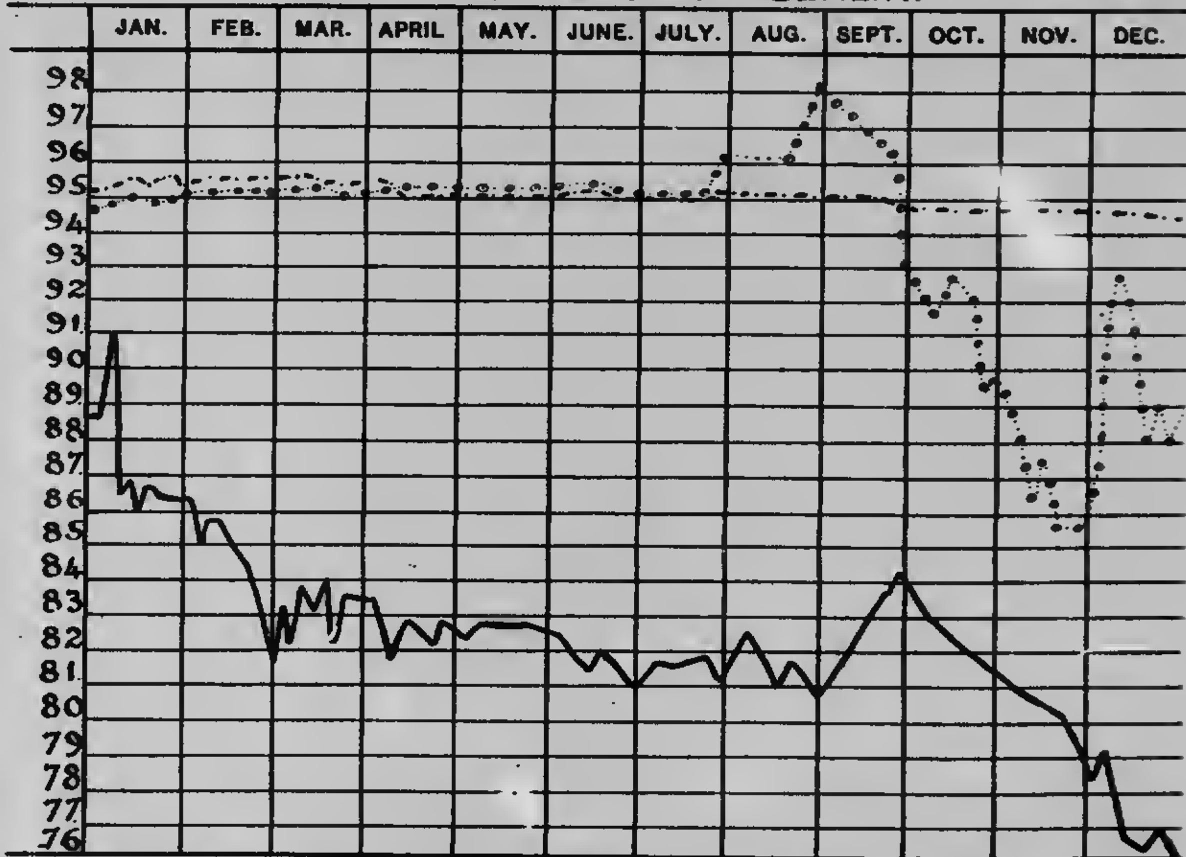
A

NEWYORK CABLE RATE ON LONDON.



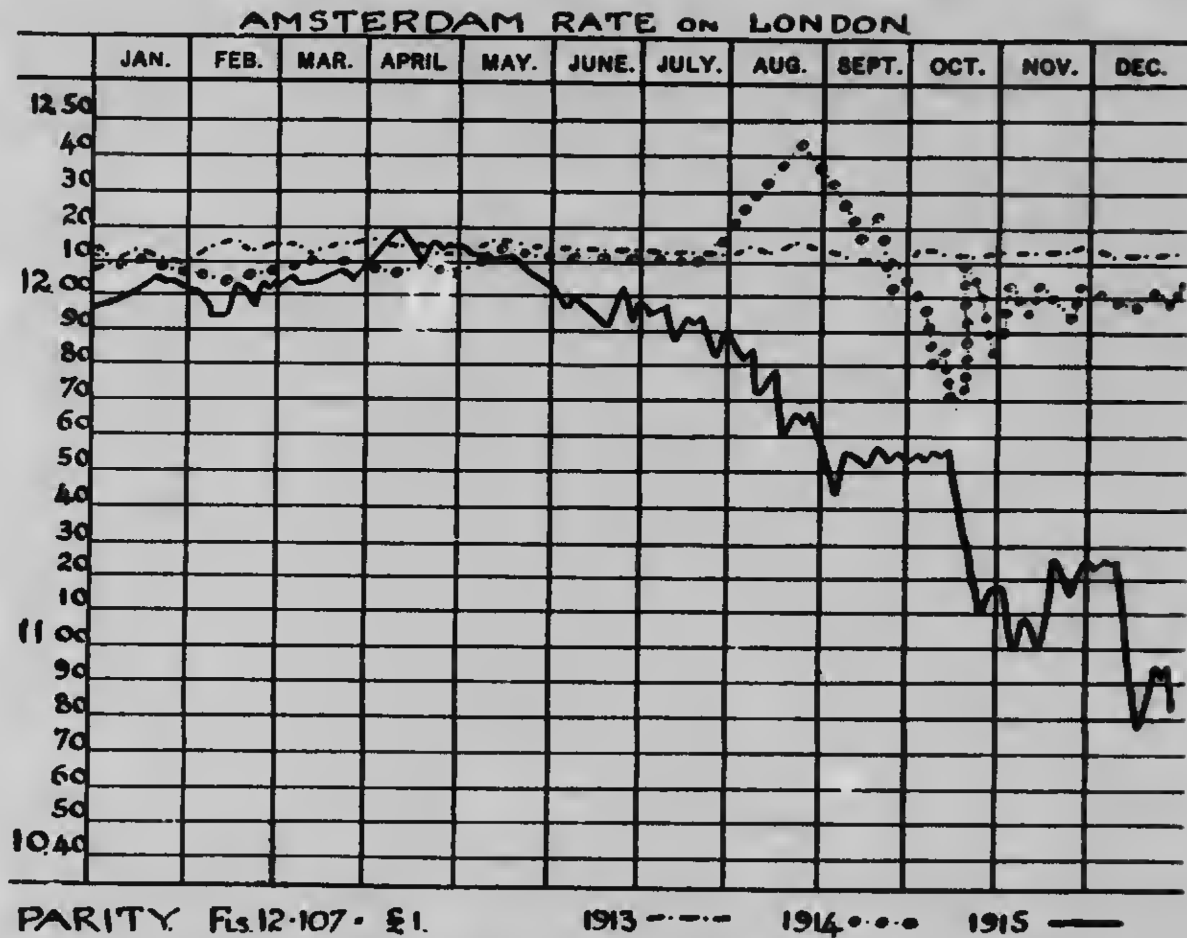
PARITY $4·8665 = £ 1913 - · - 1914 ∘ · ∘ 1915 ——

NEW YORK RATE ON BERLIN.



PARITY 95·28 CENTS · 4 MKS 1913 ‑ · ‑ · ‑ 1914 • · • · • 1915 ——

B.


AMSTERDAM RATE ON LONDON
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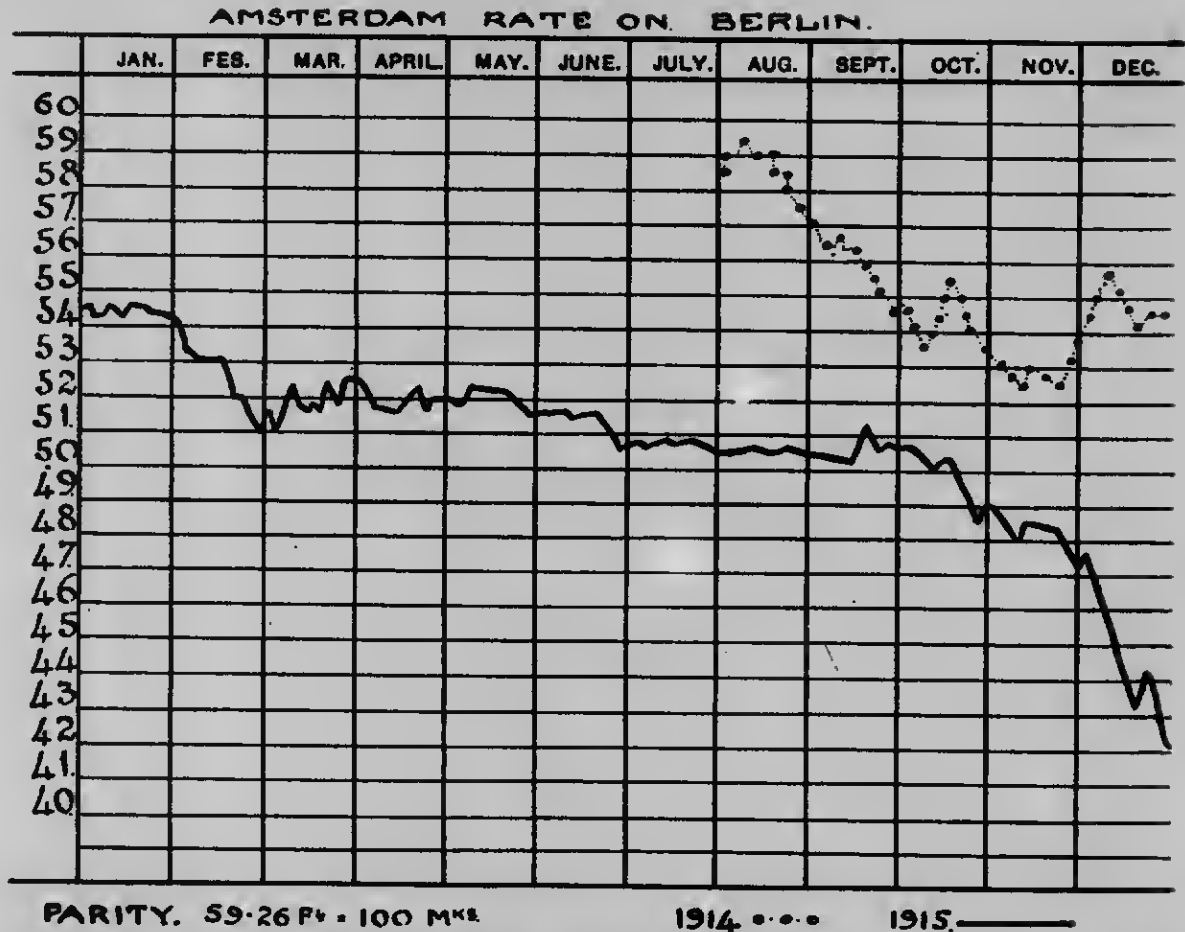
AMSTERDAM RATE ON BERLIN.
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PARITY. 59·26 Fl. = 100 Mks.
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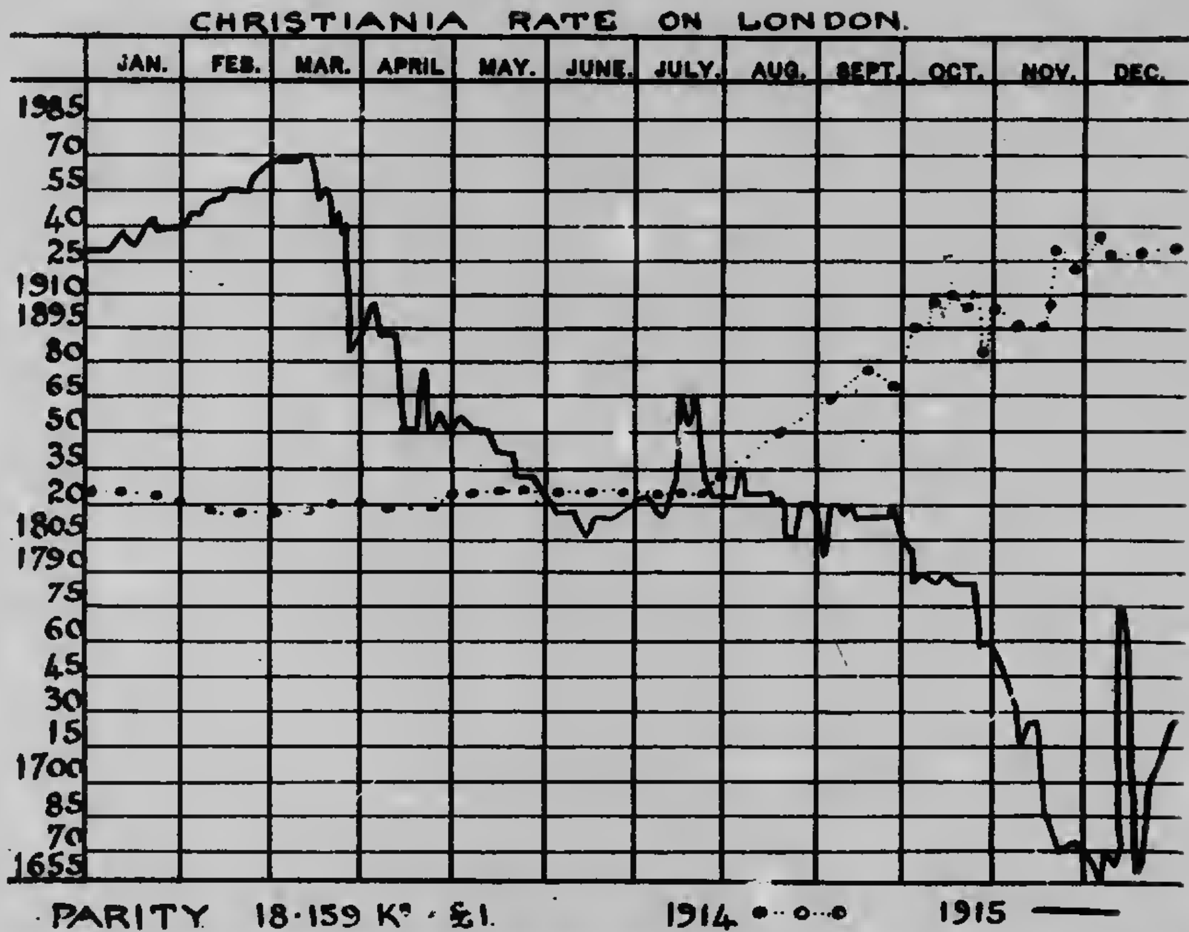
1915 ——



CHRISTIANIA RATE ON LONDON.
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JUNE.
JULY.
AUG.
SEPT.
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NOV.
DEC.
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1910
1895
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1805
1790
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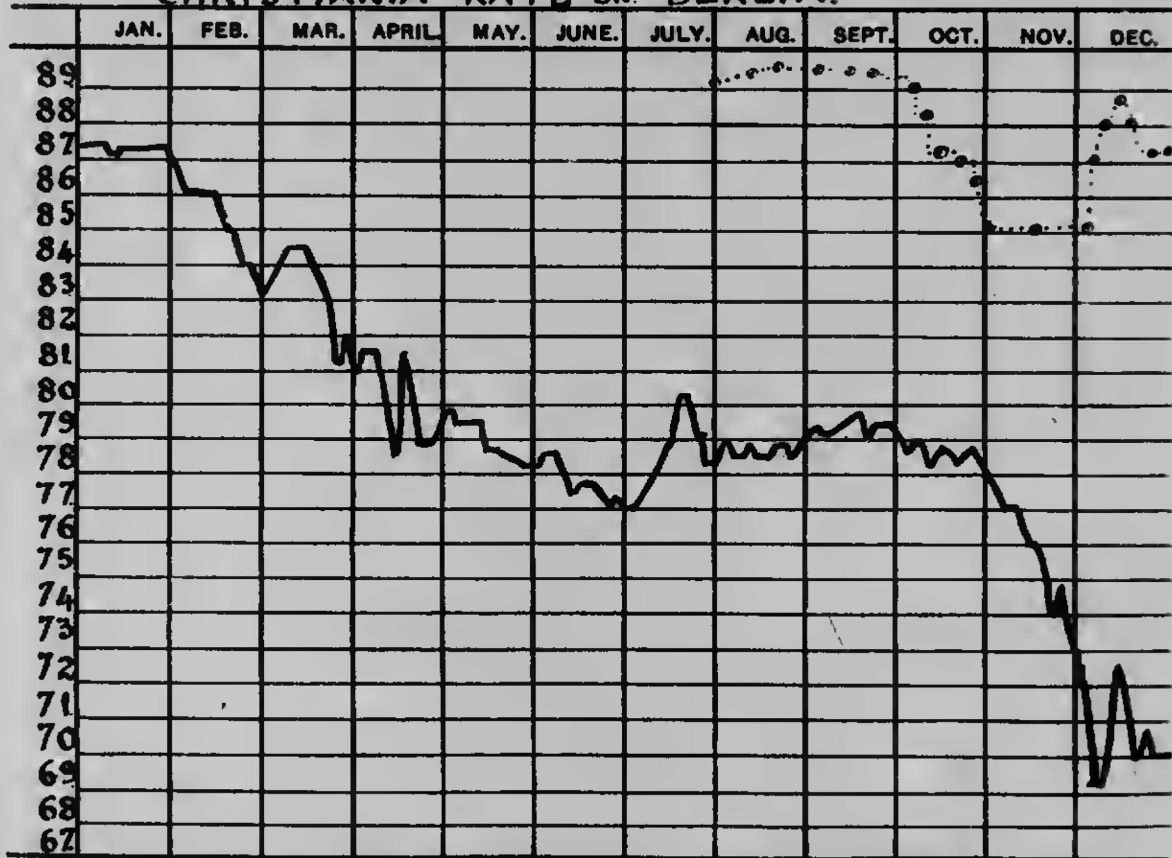
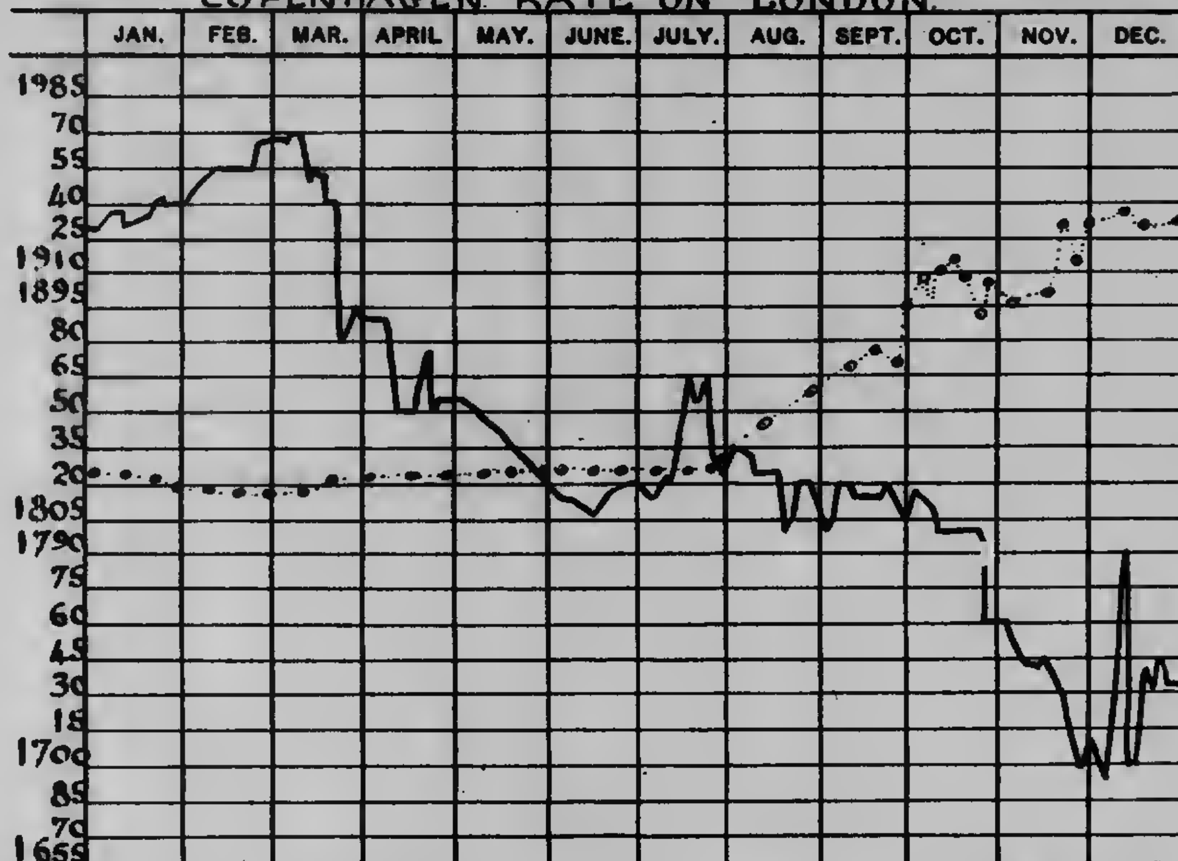
PARITY 18·159 K^r · £1.
1914
1915

CHRISTIANIA RATE ON BERLIN.



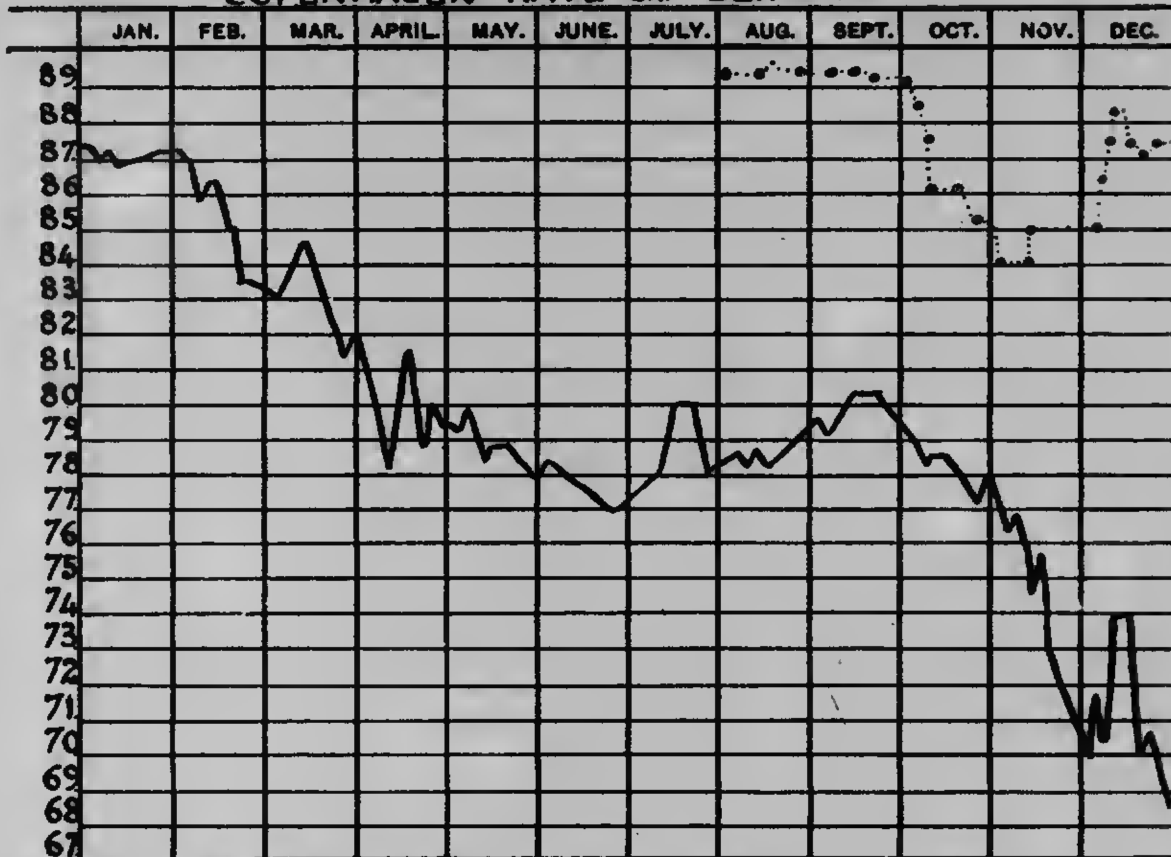
PARITY. 88·88 Kr. = 100 Mks.   1914 ·····   1915 ——

COPENHAGEN RATE ON LONDON.



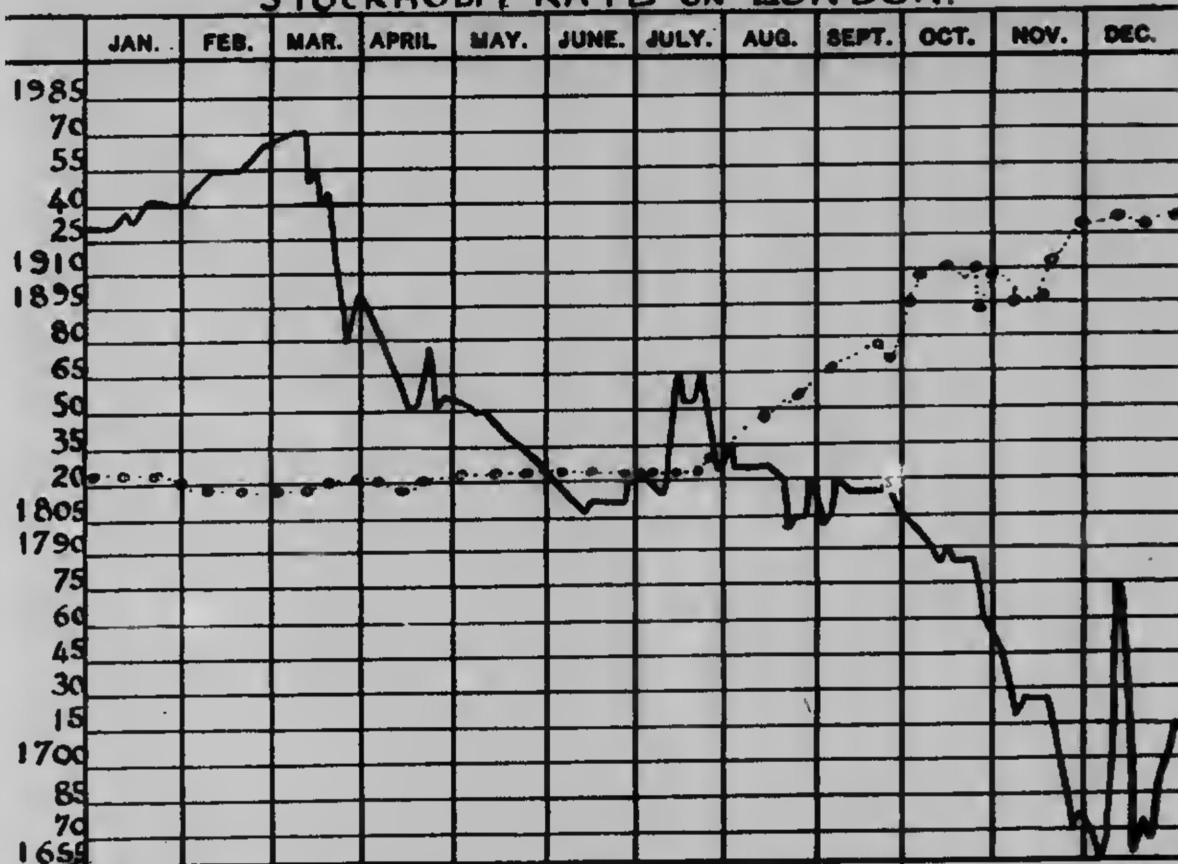
PARITY 18·159 Kr. = £1.   1914. • · • · •   1915. ——

COPENHAGEN RATE ON BERLIN.



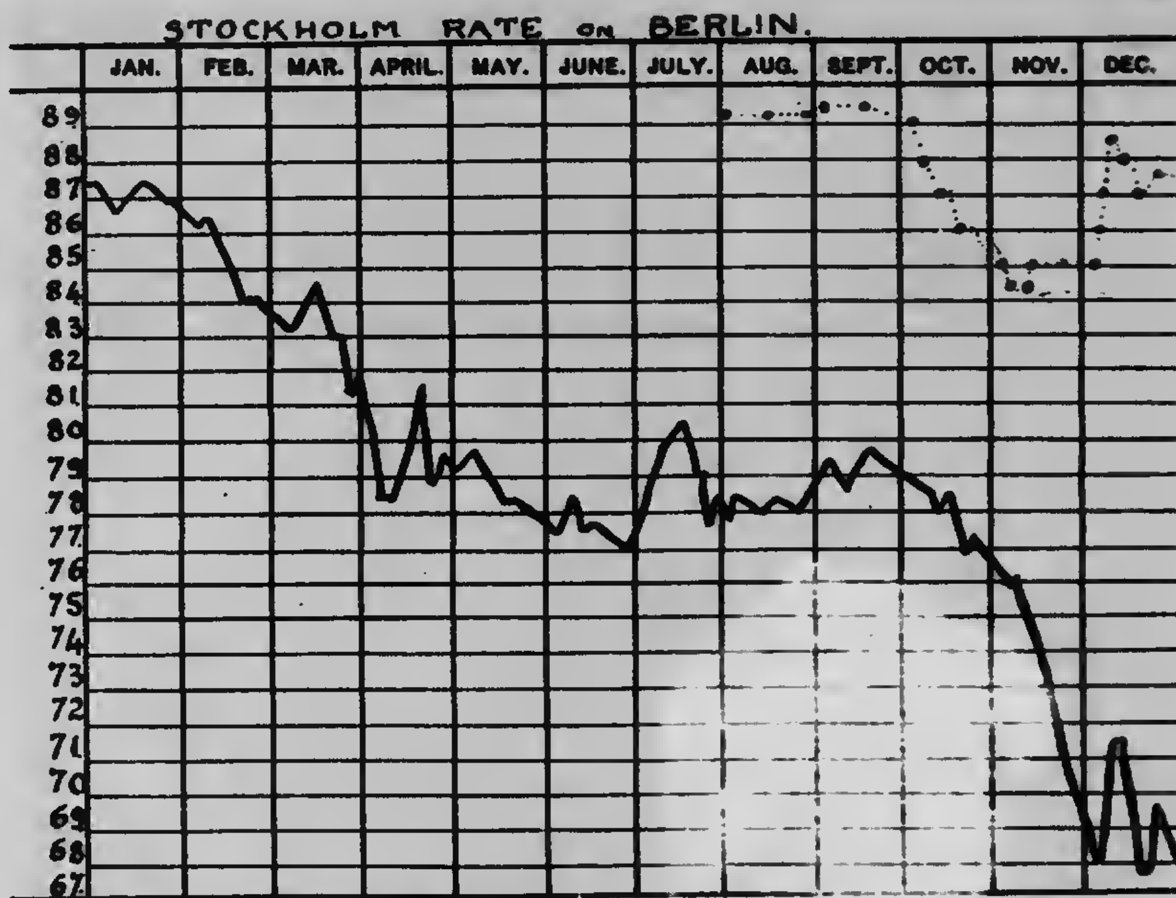
PARITY 88·88 Kr · MKS 100. 1914 •·•·• 1915 ——

STOCKHOLM RATE ON LONDON.

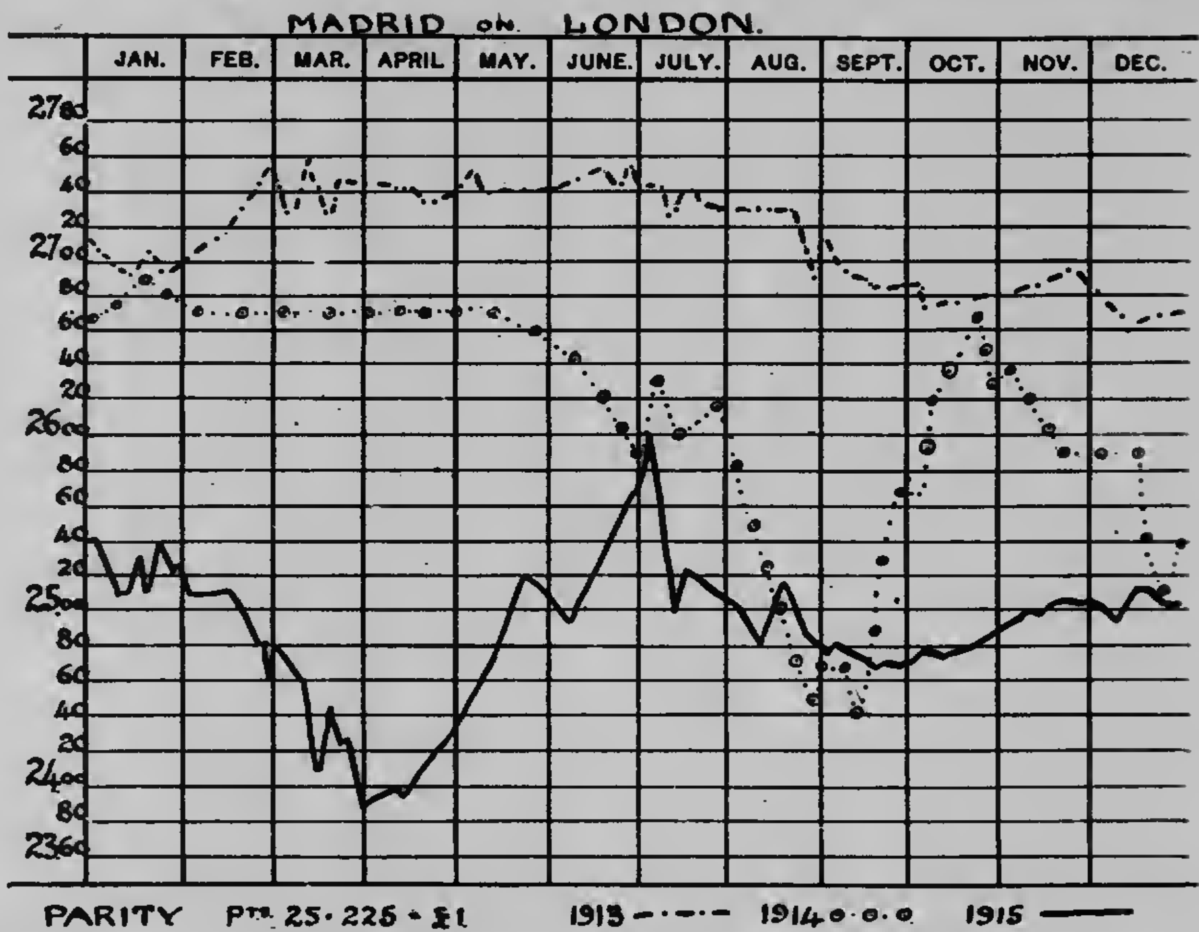


PARITY 18·159 K^{s} - £1.

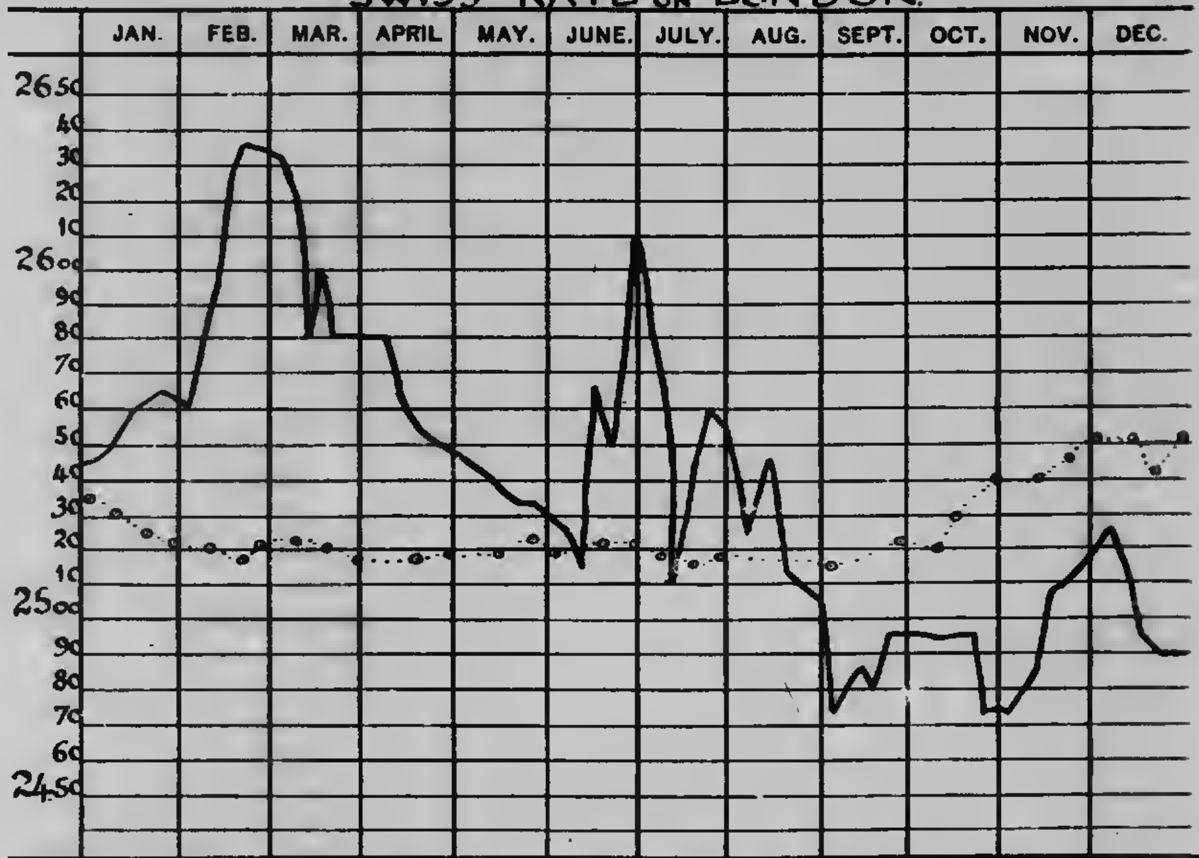
1914 o--o--o 1915 ——



PARITY 88·88 Kr. - 100 Mk.


MADRID on LONDON.
JAN.
FEB.
MAR.
APRIL
MAY.
JUNE.
JULY.
AUG.
SEPT.
OCT.
NOV.
DEC.
2780
60
40
20
2700
80
60
40
20
2600
80
60
40
20
2500
80
60
40
20
2400
80
2360
PARITY Pts. 25·225 = £1
1913 —·—·—
1914 o·o·o
1915 ——

SWISS RATE ON LONDON.



PARITY 25·225 Fcs · £1.   1914 · · ·   1915 ——