

(January 28, 1920.)

The World's Economic Situation

BY SIR GEORGE PAISH.*

Mr. Chairman.—It gives me very great pleasure to be here again in Toronto. It gives me very great pleasure to be here in Toronto and to look back over the last five years, and to remember how you men of Canada came to our help and helped us to get out of the most dangerous situation which we in Europe have ever been in.

I have come to you again to-day when Europe is in the condition of danger which those of us who understand know is quite as great as was the danger during the war. During the war, we were fighting militarism, a powerful military power who made her plans to destroy us,—and especially to destroy England and the British Empire. To-day, we are fighting an economic danger which, unless it is overcome, will entail Europe in anarchy and in chaos. Indeed, unless it is overcome, we on the other side will not be able to get the things we need in order to get us a living. I am sure that you men of Canada will do all that is in your power to render us that measure of assistance that you gave us during the war, and help us to overcome the consequences of the war.

Now, what is the situation? The whole economic organization of the world has been thrown out of gear by this war. To-day, the nations have to buy from other nations vast amounts of goods, vast amounts of produce,—for which they have little or no means of making payment. And, on the other hand, they are selling, to other nations who require their goods, vast amounts of goods, for which they cannot obtain payment. That is the condition of the Mother Country. Great Britain to-day is paying her way. She has paid her way all through the war; and, during the war, our difficulties have come not from financing our own requirements but from financing the requirements of our friends, the other members of the Entente. During the war Great Britain has provided other Entente nations and the Dominions with goods to the

*Sir George Paish, Editor of the "London Statist" is probably the foremost authority in Great Britain on matters of Finance and World Trade.

extent of nearly ten billions of dollars. And it was in arranging for that credit that we had to create credits abroad. The same situation is true to-day.

If you look at Great Britain's foreign trade you will see that for the past year our imports exceeded our exports by about £650,000,000 or £700,000,000. The whole of that was covered by the income from our foreign investments, of which we still own the greater portion, the greater part of what we held prior to the war. It has come from the great earnings of our ships and from other services; and all through the war our imports have been covered by our exports, and we have not had to run into debt on our own account.

At the present time, the British exchange is falling because we need to buy immense quantities of food and raw material, and even manufactured goods, from certain countries which generally require our goods in payment; and we are having to sell our manufactured goods to other countries which have no means of paying us. In 1919, Great Britain sold goods and rendered services to the continent to the extent of about £600,000,000; and the continent was able to pay us only about £200,000,000. On the other hand, we have had to buy from America, according to our own figures, to the value of about £560,000,000; and we have been able to sell back to America our own goods to the value of not more than £30,000,000. That leaves uncovered imports to the extent of about £500,000,000. Of that, roughly speaking, perhaps £300,000,000 would be due to us.

But, even when every possible allowance is made, we have had to buy from America something like £400,000,000 of produce more than we could pay for by exports or by shipping services. In the past year we have been helped, and Europe has been helped, to buy American goods by reason of the credit furnished by the American Government. While the war went on, as you remember, America took care of the exchanges as far as this continent was concerned. In a little over two years America enabled the Entente nations to buy nearly \$10,000,000,000 worth of produce which they needed. In the past year America's favorable trade balance with Europe has been no less than four and a half billion dollars. America has sold to Europe five and a quarter billions worth of produce and has taken back only three-quarters of a billion. So that four and a half billions has had to be financed.

Rather more than half the exchange necessary was provided by the American Government by sales of Liberty Bonds. It

is no longer possible for the American Government to issue Liberty Bonds for such a purpose. The result is that that method of financing our needs is gone. Since American loans have stopped, we have been financing our requirements in part by sales of securities and in part by bankers' credits. But the bankers of America have now loaned as much as they ought to loan, or as much as they are able to loan. The reserves in the Federal Reserve Bank have gone down nearly to minimum; in fact, sometimes below the minimum, so that that sort of exchange has gone.

Now we are up against the situation, where Europe needs to buy a very large part of her food and raw materials from this side and we don't see how we are going to pay it. We would be quite able to pay if you would buy our securities; but we can't pay in produce, because, for one thing, you don't want our produce; and the kind of securities we can offer to America are not the kind the American investor is accustomed to. Therefore, some method has got to be devised to enable us to buy the produce of all the world and to pay for them in securities that the world will take.

This problem is not one that affects England alone. It affects every country. Even you in Canada are suffering from exactly the same thing that we are suffering from. You are selling to us and buying largely from America. As we have difficulty in paying you, or even if we did pay you in securities that you will take,—we selling back to you some of the securities that we bought from you before,—you may have difficulty in selling those securities in America, to whom you are in debt. And so your exchange with America is falling at the same time that our exchange with you is falling in a greater measure.

The same is true of America. America has got the enormous trade balance of some \$4,000,000,000, and yet can't find the exchange to pay for the goods that America is buying from India, China, and South America.

Where does that bring us? It means this, that unless some method is found for putting the credit of some great organization behind it, it will break. You can't finance hundreds of millions of dollars of exports in the way that they're now being financed. It isn't possible. You can't finance them by financing loans. Bankers' credit is not suited for the purpose. A banker ought to make a loan only in so far as it can be easily liquidated. A banker should give a revolving credit which automatically liquidates itself. Otherwise, there would

not be that surplus. We in England have had a surplus in our favor, I suppose, for 150 years, if not for 200. Throughout the whole of that period, we have taken payment for our surplus in permanent securities. We never ask a country to pay, in fact, we are delighted if it doesn't pay. And over that long period of years we built up an investment account in colonial and foreign countries to the extent of \$20,000,000,000.

That is the situation. This situation demands that the other countries of the world should realize that they must take payment for their services in investment securities, not in bankers' credits. And some security must be created that will satisfy everyone's needs, some security so strong that every nation will take it. The world will get to the point of realizing the need for such a security. Of course, it is obvious that we in Europe should pay in any kind of security that we can. We are prepared to do that, and you can get almost any kind of security that you want. But, it is essential that you should realize that you must buy securities if you are to be paid for your produce.

Let us look at the need. Our friends on the other side of the boundary say to us; and, I think, rightly, "you must show us that you are doing all that is possible to meet the situation before we render any help." Of course, I would like to say right here that we are doing that and we are not asking for philanthropy; we are asking for business. We are asking America to do what we have been doing for 200 or 300 years. We are asking America to take payment in the very best securities that the world can produce, and it is because the American investor hasn't yet learned the value of international securities that we have to create some special security that he will take. I haven't any doubt that in another fifty years the American investor will understand international securities.

But clearly, when a nation is in course of growth, as America is and as you in Canada are, you need to invest in your own securities in normal times. You have got these great countries to build up. It is essential that they should be built up. It is essential that you will use your money for the building up of your own countries; but in abnormal times such as these you must be prepared to do the things that necessity demands; and such, for the time being, demands that you will reconstruct Europe. Unless you do so, your own progress will be stopped. You cannot jump from the old condition into a new condition in the way that I think America is trying to. It isn't possible. America's prosperity will wane and disap-

pear for many years unless she comes to the help of Europe at the present time.

The danger is so great, that we may at any time have a complete breakdown unless things are done to prevent that. The reason I came over was that I appreciated that a breakdown seemed to be very near, and that there was no time for delay. There was no time to delay in trying to inform people as to what the situation really was.

That is the situation now. We are faced in Europe with a need to buy produce, as much produce, as much raw material, as much manufactured goods, as we did in the past year; and that is the position in 1920. But we cannot see how we are going to pay for them, because you—I don't say you, because I think you do understand; if you will buy back your own securities for any wheat or produce that you send us—but because the other nations are not prepared to buy back securities; and unless we can induce them to do so, well, then, it is obvious that we shall not get the food, the raw materials, or the manufactured goods, that we need. That means, of course, that American exports will disappear, that she will keep her wheat, she will keep her cotton; and her mills that are now engaged for export will close down; that America will have many millions of unemployed; while we in Europe, who need her produce and goods, will be suffering from starvation and anarchy.

Gentlemen, in such a situation as this you will realize that something needs to be done. You will understand that I am not exaggerating if you will only look at the exchanges and the way that they are falling. I hope you will understand the vast amount of money that is needed to finance Europe at this time. Let me explain a little more clearly how it comes that Europe's needs are so great, how it is we need to buy so much from you and other countries at the present time.

Before the war, Europe altogether bought in grain about 1,000,000,000 bushels from outside countries; about 400,000,000 bushels of this came from Russia. With the closing of the Dardanelles, the shipment of this grain was greatly hindered. How long we shall be without grain from Russia no one can tell. You have to remember that that 400,000,000 bushels of Russian grain is short, and that increases the demand for grain from the rest of the world.

The war has destroyed a very large number of our men in Europe and has wounded a great many more, and the food production of Europe has gone down nearly forty per cent.

Before the war, we needed to buy from outside countries about twenty per cent. of our foodstuffs. We, in England, needed to buy nearly two-thirds. With the reduction of production, we need to buy so much more. Of course, we can be more economical; and if you could see the people in many of the places you would appreciate how far the economy has already gone. It can't go much farther without bringing that condition of starvation which will entail consequences which one doesn't care to contemplate.

Now, if we can induce the world to look at this matter as it should be looked at, if we can induce the world to take those co-operative measures that are essential; all these difficulties can be overcome. The present situation demands the spirit of co-operation and of fellowship; and if we co-operate to help those who are in need, not by giving them things, but by selling them things for securities, Europe will be able to pay England in the securities that will be created; and England would be able to pay America in the same securities; and America would be able to pay South America, or India, or Japan; and the business of the world would go on as it did before the war. The current of trade would be restored. The current of exchange would be restored.

How is that to be brought about? Under the Peace Treaty, an organization has been created to take care of world affairs. That organization is being created mainly to avoid war, but it has also been created in order to preserve civilization from danger, to promote co-operation. The League of Nations can take care of this situation. The League of Nations would have the power—that is, of course, if the members of the League were convinced, of the necessity and voted the power—to create the credit which will enable every nation to satisfy its needs, and would enable every nation to receive the securities. Let me say here, however, that whatever loans are created are not for the purpose of carrying on Governments, not for the purpose of meeting the ordinary expenses of Governments, but for the purpose of reconstruction. Every dollar that is raised should be raised for the purpose of restoring the mills, the farms, and the factories, of the devastated areas, so that their produce shall appear at the earliest moment possible—so that Europe would be able to pay for the things that it desired and needed to buy, by the sale of its own goods or by the services that it rendered, just as soon as possible.

How long will this take? If you look over those devastated districts, you will see that it will take some time. You cannot

repair the mischief of so great a war, of so great a disaster, in a day. It will take several years; and it is clear that Europe will need to buy far more than it will be able to pay for for at least five years, possibly for ten. Therefore, in arranging any measure of credit we have to think of the whole thing. If we financed merely for the next two months, at the end of two months the position will be worse than it is now. If we arrange for the financing of the whole; why, then, we can carry the whole thing through successfully. And, therefore, it is desirable that the nations should realize that the work to be done is to reconstruct Europe so that Europe will have no difficulty in paying its way.

I don't propose to-day to speak on the question of finances, but I desire to say here that you mustn't regard the financial stability of Europe as in any way reflected by its condition to-day. You would not regard the earning power of some great building just destroyed by fire, or partly destroyed by fire, as in any way handicapped for the future when it was reconstructed. So, you must not regard European financial stability after it has just been devastated by war as the measure of its financial stability in the future.

I have no doubt that Europe in the days to come will be far stronger than she has ever been in the past. I have no doubt that Europe in the course of a few years will again be lending money to the world, as it has for so many years. The world needs that money. There is much to be done; and I am convinced that Europe, if you will help her to get straight, will be able to carry on the work that she has carried on in the past.

In conclusion, I would just say this: it seems to me that what the situation demands is the creation of a security that all the world will take, that will be almost as good as gold, in fact, in some degree better than gold; because bankers when they hold large amounts of gold find that their money is eating its head off, as it were. There is no income. If those bankers were holding considerable quantities of the finest security that the world could create, bearing interest; and those securities were saleable in the markets of the world freely and easily, why, those securities would be quite as good as if not better than, gold. Now, if we can induce, or if the peoples of the world will agree to the creation of a security based upon the credit, not only of one nation, but on the credit of every nation, so that we have the entire world behind the securities; why, then, it is obvious that such a security will be the finest that has

ever been created. If we make the interest on these securities free from all taxation in all countries, why, I haven't any doubt that we shall find vast numbers of buyers.

And so, in order to prevent a breakdown, we have to think out some plan, it may be this plan I have suggested to you, or some other plan, by which the nations for the time being will accept payment for things they sell, in so far as they don't take payment in other goods and cannot obtain payment in other goods, in securities which all the world recognizes to be good. I can't think that any security would be as good as a League of Nations Bond.