FALSE EXCHANGE AND ITS COST

(*Col. J. C. Wedgwood, M.P., in the "Daily News," March 20th.*)

Our exports are too few and our imports too many. We have sold all our American securities to pay for imports. We have no more gold to export wherewith to pay. Our debt to America is enormous.

This would, in course of time, right itself naturally. The exchange would "go against us"; that is, a smaller sum in dollars would buy a pound's worth of goods. But, by means of ever-growing credits provided by Messrs. Morgan for the British Government and British people, the exchange is being artificially kept at 4·76 dollars to the £. If the Government would cease to raise fresh credits in America the exchange might drop to 3·70 dollars to the £. This would provide a natural stimulus to our export trade, a natural check to our imports. It would do exactly what the Board of Trade is trying to do by licences and prohibitions.

Take first the effect of a fall in exchange on exports. The American consumer would find his dollar go 25 per cent. further in this country than it does at present. He would have 25 per cent. more reasons for buying from us. The American investor would be able to invest his capital here 25 per cent. cheaper than before. We want purchasers, and we want capital. Therefore the change would benefit the export trade.

Imports would be reduced. The goods—food and cotton and machinery—that we buy from the States would cost us 25 per cent. more. The prohibition on the investment of British capital abroad might be taken off; no one would want to pay 25 per cent. above present prices in order to buy stocks and shares in America. I should add that it is not certain that cotton would cost us 25 per cent. more, for the Americans have to sell in any case, and must take what they can get.

Considering merely the export and import trades, it may be said that the disadvantage to the latter almost balances the advantage to the former; that there is little case for a change. But now the two vital reasons for the change to normal conditions appear.

Suppose I want to buy £1,000 of American cotton I go to the bank or bill discounter with my £1,000 cheque to transfer it to America. I ask for 4,760 dollars for it. He tells me he can only give me 3,700 dollars. At the present day I do *not* accept his offer; I go to a Government Department, which considers and approves my purchase as being "in the interests of society." He then gives me a piece of paper to Morgans, of New York, on which in due course Messrs. Morgan pay the full 4,760 dollars. Some day, when we have to pay interest to Messrs. Morgan, and as long as the exchange stands at 3,700, the British public will begin to realise that they are paying over 1,000 dollars on that transaction—that they are giving a 25 per cent. bonus to the importer in this country. And ever as our debt grows, as our exports diminish, and as our imports increase, the exchange gets worse and worse—3·50, 3 dollars, 2½ dollars—where is it to stop?—and the British taxpayer makes up the difference.

Seen in this way the course pursued by the British Treasury appears somewhat short-sighted, and manifestly unjust to the community. But the fact is the case is really far, far worse. The British Government, in addition to raising credit for the British importer, is also guaranteeing the French and Italian importer. We are artificially and by use of British credit keeping the lira at 30 to the £, and the £ at 4·76 dollars. The £ is only worth 3·70 dollars, but the lira—the lira which Italian importers now exchange with America at 30—4·76 to the dollar—may, for all one can tell, be really worth only 60 to the £. We are, indeed, giving the lira in America perhaps 2½ times its real value. For every £1,000 of food that Italy gets from America the British taxpayer may, if the Italian Government fails to meet its obligations, have to pay nearly £2,000. This is the road to British bankruptcy.

Sham Difficulties and Real

The arguments used in favour of continuing the exchange at 4·76 are three, as I understand them: First, that the Lancashire cotton mills would suffer by having to pay more for imported cotton. It may be so; but we cannot afford to risk a million a day to save 25 per cent. in the cost of raw cotton.

The second reason is that if under natural conditions the Italian exchange rose to 60 lira to the £, Italy could never pay interest on her debt to us, or her debt to America, which we backed. It would in effect double it. The answer is that such a rate of exchange would be temporary; the exports from Italy would increase; the bonus to exports being, not as is our case 25 per cent., but over 100 per cent. at first, and till the exchange improved. American capital would rush to Italy for investment, and again the exchange would improve.

The third reason is less easy to fathom. They say there would be a "nasty jolt" to our credit and to financial stability. Undoubtedly the bank rate here would have to be advanced; undoubtedly gilt-edged investments would droop still further. But trade and solid reconstruction can never come till a firm bottom is reached. I see no reason why the banks should suffer through a return to sanity.

The real difficulty is that there is no Government in this country at present. Mr. Lloyd George is away, and when at home is too busy to try to understand exchange or what it costs us. No other Minister is sufficiently interested or sufficiently understanding, or sufficiently pushful, to make a change. The result is that each department goes its own way; and we have the lamentable experience of a Treasury keeping up a system which bolsters up imports and reduces exports by one piece of interference with the laws of supply and demand, while the Board of Trade invents a whole series of other inferences in order to bolster up exports and suppress imports. When will this madness end? When shall we find a Minister strong enough to bring departments into line, wise enough to understand political economy?

COAL ROYALTIES AND COLD LOGIC

When contrasted with previous industrial inquiries it will be seen that the Coal Commission holds a distinctive place if alone on the score of the efficiency and pertinacity manifested in extracting the facts upon which judgment and estimates must be based. Mr. Smillie proved himself as skilful in conducting a cross-examination as many a trained advocate. He occupies a strong position. His logic was absolutely crushing, and his caustic comments will not be lost upon the country. Furthermore, Mr. Smillie set many so-called economists an excellent example by going to root causes, and thereby showing where the pressure is unfair.

The piercing light thrown upon the burden of royalties has given new interest to the inquiry; and Mr. Smillie adduced the information that 10s. 10d. is taken by the landowner for every ton of steel!

The Chancellor of the Exchequer, in devising new methods of taxation, should not overlook these profits. Mr. Smillie has earned public gratitude by his attitude before the Commission. It would be interesting to ascertain the value of ground rents, which, we imagine, would be an astonishing figure. Upon these rents the tax should fall. It is to us remarkable that the Labour Party have never really put the taxation of mining royalties or land values in the forefront of their programme. Now that attention has been drawn to it we certainly hope that the Labour Party will see the wisdom of working in this direction.—From the "*Wolverhampton Express and Star*," March 10th.