

The World Breakdown

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THE world has begun at length to feel the full economic consequences of the war, and of the dislocation of production which that great conflict entailed. How far reaching those consequences will become has yet to be discovered. In some measure the extent of the consequences will be governed by the wisdom with which an effort is made to control the danger. If the situation is handled wisely and in a statesmanlike manner, then readjustment will be effected without any great measure of suffering, but if the situation is handled by persons lacking knowledge of fundamental economic conditions, then a very great disaster is at hand. There will, on the one hand, be tens of millions of people lacking the necessities of life, while, on the other hand, there will be vast supplies in the warehouse, or on the farm, which will not be sent to the people who need them.

THE CONDITION OF WORLD PRODUCTION

It is essential to realize that the war has brought about a very great curtailment in the productive power of certain countries, and, that while it has stimulated and increased the productive power of other countries, the aggregate amount of world production is far beneath the level needed to meet the world's ordinary requirements. Given the very best and most efficient methods of distribution there would still be shortage, but with production a long

way below normal and with inadequate means of distribution, starvation, on a great scale, becomes inevitable.

With defective statesmanship the world will suffer from three evils: (1) lack of supplies where they are most urgently needed; (2) lack of employment, and (3) lack of buying power. In other words, there will be not only a famine in food and raw material, but a famine in money as well. With effective statesmanship, however,—and I am here speaking of the statesmanship of all countries—famine in food, raw materials and money should be effectively averted.

Food Supply of Western Europe Prior to War

From Russia.—To understand and appreciate the world need of food, it is essential to recall that, prior to the war, a very large part of the food needed by Western Europe was supplied by Russia and that the European nations experienced no difficulty in paying for these supplies because Russia had to make large payments to them in respect to interest on capital, and because Russia needed to buy from Western Europe great quantities of manufactured articles of all kinds and descriptions. Before the war, Russia supplied to Western Europe, on the average, some four hundred million bushels of cereals, mostly wheat. When war began, and the Dardanelles was closed, this great supply of Russian food was shut off from Western

Europe and has not since been available. Moreover, the power of Russia to produce food has been, temporarily at any rate, most seriously curtailed. In the early years of the war, when Russia was unable to send abroad her surplus, the production of Russia was greatly curtailed, while her consumption was increased. This movement went so far that in the spring of 1917 Russia had not enough food for herself and the economic privation which resulted brought about the Russian revolution. From that time to this, Russia has been in a state of great disturbance. The productive power of the country has remained at a very low ebb. Russia is not only unable to produce a surplus of food for export, but she is also unable to supply her own people with sufficient food. Probably no step would be more effective in inducing the Russian people to adopt a more constitutional and democratic form of government than that of supplying them with the necessities of life. In other words, instead of Russia being able to supply modern Europe with food, as she was doing prior to the war, temporarily at any rate, it needs to import food in order to support a very large number of people in the north of Russia.

Increased Demand for Import of Foods into Europe

The next factor to be noted is that the European nations, as a whole, need to import very much more food and material than they did prior to the war. Over practically the whole of the war area, that is, Germany, Austria-Hungary, Roumania, Servia, Italy and France, there has been in the aggregate very great curtailment of pro-

duction. As far as the data is available, the curtailment of output is not very far short of 40 per cent. The curtailment is greater in some countries than in others, but the average curtailment is this high figure. Hence, just at the moment that Russia cannot supply Europe with food, Europe needs to buy much more food than ever. There is then a double deficiency—a greatly diminished supply with a greatly increased demand.

Great Britain.—The productive power of Great Britain has, on the whole, been maintained, though not increased. Great Britain needs to buy from outside countries just as much today as she did prior to the war, when about two-thirds of all her food supplies had to come overseas. Including Russia and Great Britain, Europe's production of food has been curtailed between 30 and 40 per cent since the war. Prior to the war, Europe, as a whole, needed to buy from outside countries a substantial part of the food she used. Today, Europe needs to buy from outside countries nearly 50 per cent of the food she needs for consumption. To the extent that Europe cannot obtain those supplies, her people must go short. Some economy in consumption in comparison with pre-war levels is possible, but economy to the extent of 50 per cent is impossible without involving the people who dwell in the great towns of Europe in almost complete starvation.

In considering the world's food situation it is essential to recollect that just as the nations which produced a surplus of food for export meet their own needs before they send away their surplus, so the country districts of Europe usually meet their own needs before

they sell their surplus to the towns of Europe; and that, consequently, the burden of deficient supply falls mainly, if not entirely, upon the town populations. Moreover, in considering the present situation, another factor has to be taken into account. With the conclusion of peace last summer the people of Europe gave a sigh of relief, under the impression that their war privations were at an end and that there would be a very much greater supply of food in the future than in the past. Consequently, the consumption of food since last summer has substantially expanded and there has not been anything like the economy there would have been had the war continued, as the people had realized the difficulties that would arise in purchasing available supplies. In some measure, additional rations were granted in order to prevent political agitation and to keep the people quieter than they would have been if a stringent ration had been maintained. The effect of this greater confidence has been to bring about a substantial expansion in food consumption and to reduce the farmers' stocks in Europe to a relatively small total. Hence, for the balance of the current season, still greater imports even than last year are essential.

Fortunately, during the war with the great curtailment in production in Europe and increased need, the crops of the food-producing countries, which include the United States, Canada, Argentina, Australia and India, showed substantial expansion in the aggregate, an expansion which helped to keep shortage in the Entente nations within limits. Now, however, a short supply of food over the whole of Europe, including the Central Powers and Russia,

has to be met. The surplus supplies from these outside countries are not nearly sufficient for the purpose, and it is evident that, even if in one way or another, the means can be obtained to enable Europe to purchase the surplus food supplies of these countries, great economy in consumption will have to be exercised in order to make the supply last out until the new harvests are gathered next fall. Indeed, it is to be feared that, in spite of every possible measure that may be taken to supply the peoples of Europe with the food they require, there will still be most serious deficiency, which will amount almost to famine in certain countries and in certain districts. Even with the most efficient distribution of supplies, a condition of great privation would seem to be unavoidable in northern Russia, in Germany, in Austria, and in Poland, while Italy, France and even Great Britain will suffer from serious shortage.

DIFFICULTIES OF FOREIGN IMPORT TRADE FOR EUROPE

There has now arisen, however, a situation which warrants much anxiety as to whether or not even the food available in the countries that have produced a surplus of food will be placed at the service of the European nations, which so urgently need all the food which the world can supply to them. In consequence, not only because of their greatly reduced productive power, but also because of their inability to buy food from Russia, the European nations need to buy greatly increased quantities of produce from countries from which they do not normally buy, and which do not require European goods in payment, even if

Europe were in a position to export such goods.

From Canada.—Ever since Canada has been a great exporter of food to Europe it has been the custom of the Canadian people to buy from the United States, and not from Europe, the manufactured goods they require in payment for their food. Hence, Canada's imports of manufactured goods from Europe in proportion to her exports of produce has always been small. At the present moment Canada is not only exporting great quantities of food to Europe at high prices, but is also buying back in exchange very little of Europe's manufactures. Hence, the depreciation of Europe's currency in Canadian dollars is very great. On the other hand, Canada is buying, as usual, great quantities of American products, but inasmuch as she cannot collect her debts from Europe, except in securities which she has difficulty in selling to the United States, Canada is experiencing very great difficulty in paying the United States for her products. It is probable that Europe will not experience any great difficulty in buying Canada's products, as Great Britain possesses large quantities of Canadian securities, including farm mortgages which the Canadian people are willing to buy back. Unfortunately, the amount of food that Canada can supply to Great Britain in particular, and Europe in general, is but a very small part of the total amount required.

From Argentina.—When one considers the position of Argentina, the situation is much the same. Argentina is willing to sell her surplus supplies of food on credit and to take in payment either European credits or to buy

back some of her own securities which Europe possesses. Nevertheless, the amount of food and raw material that Argentina can supply to Europe for the balance of the current season is but a very small part of the great amount needed.

From Australia.—Unfortunately, there has been drought in Australia this season and the amount of food that Australia now has for sale is limited. A very large stock of wheat was built up in Australia during the war, but a good deal of this had to be sent to India last year as there was drought there, and now with Australia suffering from her recent drought, the supply of Australian wheat is greatly diminished. It is hoped that the new Indian wheat crop will be a good one, but owing to the difficulty of providing exchange, it is by no means certain that Europe will be able to purchase anything like normal supplies from India.

From the United States.—But when allowance is made for all the food and all the raw material which the countries referred to can supply, it is clear that Europe will need all the food and all the raw material, as well as all the manufactured goods which the United States can supply to her, and that, without the American supplies, the shortage of food and of raw materials in Europe will be exceedingly severe. In any case, the shortage will be serious, but without American supplies the shortage will be disastrous.

THE INTERNATIONAL MONEY SITUATION

During the War

But here another factor comes in. There is a famine in international

money. Europe, in spite of the vast volume of her national currencies, possesses very little international currency to purchase the produce and goods of the United States, unless that produce and those goods are supplied by the American people by credit operations of one kind or another.

When the War Began.—Doubtless, it will be asked: How was it possible for Europe to purchase so much American produce and so many American goods during the war, and how is it that only now is there difficulty? The answer to this question is two-fold. When the Entente nations entered the war there was a large sum of money due them by the American people, both on current account and investment account, and this money and these investments were used to pay for produce purchased from the United States until America came into the war. There were signs, however, in the spring of 1917, that the Entente nations were beginning to experience difficulty in obtaining the credits they required in order to purchase the food and material with which the American people were supplying them.

After America Entered the War.—When the American people entered the war, the American government assumed the task of supplying the Entente nations with all the money they required to pay for the produce and goods they were purchasing from the United States. In rather more than two years the American government supplied nearly ten billion dollars for this purpose. This action on the part of the American government caused the difficulties of the Entente nations in paying for the things they required in the United States and elsewhere,

entirely to disappear as long as the war lasted. In the spring of last year, however, the American government notified the Entente governments that it was not prepared to go on indefinitely lending money to the Entente nations to enable them to purchase the things they required in the United States, and that they must finance their purchases by ordinary credit operations.

Credit Difficulties After the War

Now that the war is over, the Entente nations experience very great difficulty in arranging credits for the purchase of food, raw material and manufactured goods in the United States. Nevertheless, they have succeeded in one way or another in paying for the produce and foods they required in 1919. In that year, America sold produce and goods to the value of nearly five and a quarter billions of dollars to Europe and accepted payment for them to the extent of only three-quarters of a billion dollars in goods, leaving four and one-half billions of dollars to be financed by credit operations of one kind or another. Of this total rather more than one-half was satisfied by the grant of credit to the Entente nations by the American government, and the other half was settled for, either by sales of European securities to American investors and bankers or by the creation of short credit. From the data available, it would appear that a large part of it was arranged by short credit, which merely means that Europe has still to face the task of payment. Recently, Mr. Glass stated that the American government had granted additional credit for about three-quarters of a billion dollars for

the purchase of war stores sold to France. This means that, altogether, America, in the past year, sold about six billion dollars worth of produce and of goods to Europe and that Europe was able to pay only to the extent of three-quarters of a billion dollars in goods. The whole of the balance of five and one-quarter billion dollars had to be settled in credits, long or short, and in securities.

The American government has now notified the European nations that it is not prepared to finance the exports of American goods by means of American government loans. This means that in so far as Europe cannot finance its purchase of American goods by ordinary credit operations, it will be unable to buy them. Let us now look at the situation which has thus arisen.

In the first place, Europe still owes a considerable sum on short credit in respect of produce and of goods bought in 1919, and, in the second place, it has to obtain fresh credit for the purpose of buying any goods it cannot pay for by exports of its own goods in 1920 and in succeeding years. Not only has the power of Europe to obtain credit from the American government come to an end, but her power to obtain credit from American bankers has practically come to an end also, not because American bankers are not willing to grant credit, but because their power to grant it has been used entirely. You will recollect that in 1914 the federal reserve banks were brought into being and were entrusted with the custody of the reserves of the national banks. This action by the government and by Congress set free for banking purposes something like four hundred millions

sterling, or two billions of dollars of gold and cash reserves for additional banking purposes, and gave the federal reserve banks the power to grant banking loans to the extent of about one and one-half times the amount of gold and cash placed at their disposal. In other words, the Federal Reserve Act by the stroke of the pen, as it were, gave the banks of the United States the power to grant additional credit to the extent of about six hundred millions sterling, or three billions of dollars. The bankers have now created almost the whole of the credit which the new law authorized. A good deal of that credit has been absorbed in financing the sale of American government bonds, and the balance has been used to finance the trade and commerce of the United States. Therefore, at the present moment, not only has Europe no power to obtain any credit from the American government, but it also has practically no power to obtain additional credits from American bankers. In other words, the methods by which Europe was able to buy the food and material it required from the United States during the war, and until the present time, have now almost ceased to operate, and unless some new method is discovered it is obvious that Europe will be unable to purchase any American food, raw material or manufactured goods other than what it can pay for by exports of its own products, that is to say, only to a relatively small total. The recent fall in the exchanges clearly reveals the great difficulty which Europe is experiencing in making payment for the produce and goods which the European nations so urgently require to buy from the United States.

Foreign Exchange Rates

This week the value of the British pound, which normally is equal to \$4.86 in American money, fell to \$3.18, a depreciation of over 34 per cent. The franc fell to a still greater extent. Normally, only 5.18 francs have to be given for an American dollar, but at the current rate nearly 15 francs have to be given for an American dollar, a depreciation of over 65 per cent. Normally, only 5.18 Italian lire have to be given for an American dollar. Now, no fewer than 18.82 lire have to be given, showing a depreciation of nearly 74 per cent. Normally, the German mark is equal to 23.83 American cents. Now, it is equal to only one cent, and therefore shows a depreciation of no less than 96 per cent. The value of the Austrian crown and the Russian rouble, and the currencies of Roumania, Servia, and the other Balkan states shows enormous depreciation, amounting indeed to not very far short of 100 per cent. In other words, their currencies in American dollars have very little value. All this implies that unless some step is taken to enable the European countries to purchase American goods, that the value of their currencies in American dollars will fall practically to the vanishing point, and that they will be unable to purchase. This means a money famine of an unexampled intensity, a money famine which at the present time, when Europe so urgently needs the food and raw materials of America, entails something far more serious than a money famine. It involves shortage of food in Europe to an extent which will bring starvation to many millions of people, and lack of raw material to an extent that will throw many millions of people out of em-

ployment. Moreover, unless the situation is dealt with effectively, a complete breakdown of the exchanges of credit, of commerce, and of trade throughout the world will become inevitable.

HOW TO MEET THE SITUATION

What is needed to rectify the situation is that the American public, in its capacity of investor, should either be willing to purchase European securities, or should purchase some new international security in which it has complete confidence.

After giving the matter the most careful consideration, I have come to the conclusion that the most effective method of dealing with this situation is by a coöperative effort of the most comprehensive character. The situation indeed demands as much coöperation and as much effort as did the task of providing funds to carry the war to success. The situation, in fact, demands that every nation should assist in the work of overcoming the difficulty, not only because of considerations of humanity, but also because of considerations of self-interest, for every nation is interested in the matter, either as seller or buyer, either as granting credit or obtaining credit. The very worst thing of all for everyone concerned, whether as buyer or seller, is that the situation should be allowed to drift so that no nation can sell and no nation can buy. Considerations of humanity are even more cogent than considerations of self-interest. It is inconceivable to imagine that the Entente nations, including the American people, should have fought a great war in defense of humanity and afterwards should allow humanity to be destroyed by a food and a money

famine, which might be averted by coöperative and sympathetic action.

The result of the war has been to cause the peoples of the world to demand the creation of a League of Nations for the preservation of peace, in order that humanity may never again be threatened by so great a disaster as the recent war. The peoples of the world, when they understand the present situation, will, I am sure, be prepared to demand that that League of Nations shall avert disaster to the race from a food and money famine, and will be prepared to honor any obligation that the League of Nations may incur in averting so great a catastrophe.

Therefore, I suggest that the remedy for the present situation is to be found through the League of Nations and by pledging the credit of the League for the due payment of any food, raw material or manufactured goods which the nations may supply to each other at the present time, and for which they are unable to obtain payment in other goods and in other products. There is a factor in the American situation which renders such a solution particularly advisable. It is very difficult to induce any American investor to purchase securities that are not tax-free, having regard to the heavy burden of taxation in this country. Very much the same situation exists in other countries, where the burden of taxation is a heavy one. To raise all the credit that is needed to enable Europe to purchase the food, raw material and manufactured products that it requires, not only to overcome its immediate difficulties, but in order to restore its productive power and repair its war damage as well, will demand a united and sustained effort. Nevertheless, the effort will be relatively unimportant in

comparison with the financial effort that was needed to carry on the war.

I am convinced that a credit of some twenty billions of dollars spread over five or even ten years will not only enable Europe's productive power to be effectively restored, so that it will be able to pay for the things it needs to buy from day to day, but that it will also preserve the world from a great disaster.

During the war, the nations spent for the purposes of destruction some fifty billions of dollars per annum. They now need to spend in five, or even ten years, a total of no more than twenty billions of dollars for the purpose of repairing the mischief of the war and re-starting the world upon a new era of prosperity, free from the danger of war. When one remembers that during the war these vast expenditures were made for the purpose of destroying wealth and destroying life, while the proposed new expenditures are for the purpose of creating wealth and preserving life, it is obvious that the amount is not only a small one, but well within the power of the nations to supply. An issue of League of Nations bonds, free from taxation in all countries and enjoying good markets in every country of the world, would enable the present situation to be effectively dealt with, and the peril to which Europe, indeed the whole world, is now exposed to be safely overcome. The League of Nations has been created to preserve mankind from the disaster of war. It will give an earnest of its power to preserve mankind from worldwide catastrophe by overcoming the grave danger to which civilization is now exposed from famine, and through famine, from anarchy.