THE GOLD STANDARD *and its Relation to* PROSPERITY

By WM. MACHIN.

A talk from 3YA by the General Manager, Canterbury Farmers' Co-operative Association.

". . . This means that the dragging, creaking wheels of Britain's trade are turning again more easily. It means more orders, more employment, a bigger turnover . . . a profit instead of a loss . . ."

A FRIEND of mine in Australia has his life insured in an English Company which has no office in Australia, and his annual premiums are £100 payable in England. Recently he went to his bank in Melbourne and asked them to pay this £100 in England for him. They asked him for an extra £30—£130 in all—at which he was aghast.

He found, however, that if he could get hold of 100 gold sovereigns in Melbourne and could get someone to carry them to London for him this would meet his difficulty—but he could not get any sovereigns! Australian notes were no help to him, for he found that he had to send £130 worth to pay his £100 in England. Then he tried to get English banknotes, but he discovered that while there were a few people in Melbourne holding English notes they would not sell them for less than a 30 per cent. premium because so many people were bidding for them that this premium was easily obtainable.

Someone advised him to buy some wool and sell it again in London. He did so, and soon he had £100 lying to his credit in a London bank. But he then found that he could sell that £100 in London for £130 in Australian money to someone else who wanted to make a payment of £100 in London, so his own payment of £100 cost him £130 after all.

THIS is the kind of thing that happens between two countries when the exchanges get out of gear as they have done between Britain and Australia, to the disadvantage of the latter by 30 per cent. This adverse rate of exchange between Australia and London, however, adds 30 per cent. to the gross income of all the Australian exporters who sell butter, wool, meat and other produce in London. Thus if they get 10d. per lb. for their wool in London, by the time this 10d. is paid to them in Australia it becomes 13d. So this has help to make up to them a little of the big fall in the prices of their wool, butter and other exports.

The same thing has been going on in New Zealand, but our rate of exchange here has not shown such a wide disparity—it has only reached 10 per cent., so each 10d. paid to us in London for what we sell there has only become 11d. here in New Zealand.

But this also cuts the other way. When we buy a hundred pounds' worth of goods—say, woollen cloth or artificial silk—in England and come to pay for them we have either to use £100 which we have already in London or to pay into a New Zealand bank £110 for a credit of £100 in London, so the cloth costs us £110, and in Australia it costs £130 to import.

This is the explanation of an adverse exchange rate on London of 10 per cent. in New Zealand and 30 per cent. in Australia, and it naturally results in these countries importing less goods to avoid the disadvantage of paying heavy exchange premiums and also, moreover, in trying to export in greater quantity in order to gain this premium.

Who holds the Gold?

End of month.	United Kingdom.	France.	Germany.	U.S.A.
January	139.5	446.9	109.8	880.5
February	140.8	450.2	111.8	885.4
March	144.5	451.7	113.7	892.4
April	146.3	447.8	115.9	898.6
May	151.9	447.9	117.0	913.4
June	163.3	452.7	69.6	943.8
July	132.0	470.2	66.7	942.4
August	134.3	471.5	66.9	

Gold-holdings of the Central Banks and Governments of the United Kingdom, France, Germany and the United States, showing the variations since the beginning of 1931. —By courtesy of "The Economist."

Another painful result is that interest on the money this Dominion has borrowed from people in England, which has to be paid in London costs this 10 per cent. extra in exchange, so that on the £8,000,000 of interest our Government now pays annually in London we have to find an extra £800,000, and this large extra amount must now be paid by the New Zealand taxpayers.

So the net result is that our total receipts from all our exports to Great Britain—say, £35,000,000 worth last year, are increased by 10 per cent. because the exporters are able to sell this money in London at this premium—some to importers, and some to the Government, and some to others who have urgent payments to make overseas like my friend with his insurance premium. The farmers thus get back a little of the big fall in their prices, and everybody else—more or less—contributes to make it up.

Now this has been going on all over the world during the last year or two. The Argentine, for instance, has had an adverse exchange of 40 per cent., so her exporters have been helped much more than the exporters of New Zealand and Australia. (Imported lamb worth 7½d. in London. Assume all equal in price—Argentine, Australian, New Zealand—the Argentine exporter gets 10¼d., Australia 9¾d., New Zealand 8¼d.).

TAKE Britain's exchange with France! Before the War this was 25 francs to the £1. It fell to 50 then to 100 and more, and in 1925 it was stabilised at 125 to the £1. This was a fall from par to 80 per cent. Belgium's exchange fell to 172 francs to the £1, a fall of nearly 86 per cent., and Germany's mark fell from 20 to the £1 to a wheelbarrow-load to the £1, and finally to nothing.

The British £1 itself depreciated during the War in relation to other currencies, and when in 1925 sterling stood at about 18/-, Britain by a great effort brought it back to its parity with gold of 20/- and resumed paying out gold in settlement of international balances on demand. When Britain did this—much too soon as we all now think—she gave other countries with depreciated currencies a great opportunity of competing with her, and she lost a lot of trade, particularly to France, Germany and Belgium.

For instance, 4.86 American dollars would then buy £1 worth of goods in England, but in France they would buy 125 francs' worth of goods, and the £1 would buy 125 francs' worth, and until prices rose to a high level in France she was a cheap country to buy in because of her depreciated currency and adverse exchange, and she consequently did more trade. Because of this she could buy wool in Australia on level terms with Britain, but could sell her finished cloth in Bradford cheaper than Bradford could make it.

Now, however, a new situation has arisen in Britain. So long as (*Concluded on page 8.*)