The Exchange Situation

STERLING exchange at $4.50 or even $4.60 is one of those disconcerting realities of war-time finance for which there is no explanation in economic theory or in strict business principles. Whatever the risk of shipping gold, it can be got across the Atlantic at rates well within the margin represented by a discount of from five to seven per cent. The owners of gold in England, if animated strictly by individualistic motives, would continue to export gold until stripped of their last ounce. Gold, however, we know is largely impounded in public or semi-public reservoirs, and is allowed to flow only when the national policy permits. But more astonishing is the behavior of the billions of American securities still held in England and France. For the most part the London price of these securities corresponds very closely with the New York price. The British holders of such securities can therefore make a profit equal to the premium on exchange by selling in New York. Now a rise of from five to seven per cent, known to be temporary, is ordinarily sufficient to precipitate an enormous selling movement. How are we to explain the fact that our securities are coming back only in negligible parcels, instead of in volume sufficient to wipe out the discount on London exchange?

It has been said that American securities held in England are in strong hands, and hence remain off the market in spite of the chance of a profit. But if pecuniary considerations alone are involved, there are no hands so strong that they cannot be pried open by so substantial a profit as the exchange premium offers. If funds released through sale of American securities could not readily be reinvested, the sluggishness of sale of American securities would be explicable. But with all the public treasuries of the Allies crying for money this hypothesis fails us.

To the average American it seems natural that the British and French should give us back our securities in exchange for the food, cotton and munitions we are sending them. If individual holders are reluctant to do this, why cannot the Allied governments, through the nationally controlled financial systems, bring pressure to bear upon them? It is superfluous to point out in what concrete ways such pressure could be brought to bear. No one would argue that the governments could not correct the exchange situation in this way, if there were no other ways that seemed to be more to their advantage.

As the war drags on, the Allied governments are developing an increasing interest in America as a source of funds. At the outbreak of hostilities our administration placed itself on record as opposed in principle to the flotation of war loans in the American financial markets, and various early projects were dropped. American public sentiment is still probably somewhat unfavorably disposed toward such loans. But American public sentiment is keenly alive to the advantages of a growing export trade. Suppose that the alternative presents itself: No more purchases in America, unless loans can be floated here. It is probable that the opposition to such loans would be decidedly weakened. There is increasing evidence that Allied financiers are speculating on the possibility of effecting a combination btween our interest in exports and their interest in floating loans here. The New York *Times* quotes "one of the best informed authorities" in London to the following effect: "America wants to sell Europe its goods, and if Americans hope to continue these sales they must find means of giving the usual credits and stabilizing exchange." It is admitted that munitions will be purchased from us, whatever the exchange situation. But wheat and meat and a thousand and one other things may be had elsewhere, and, we are told, we must expect our exports of such goods to decline unless we make satisfactory arrangements as to payment.

However much or little there may be in the threat to go elsewhere for goods, it seems tolerably clear that it is brought forward just now to prepare us to receive various proposals for loans with a reasonable degree of sympathy. And it is also tolerably clear why our securities are not coming back in greater volume. Through the volume of such securities exchange might be stabilized; but the difficulties inherent in the present anomalous condition of exchange, with the menace involved to our export trade, may serve the purpose of forcing open our markets to foreign loans.

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Agrarian Unrest in the South

COTTON is the single cash crop, and therewith also the chief agricultural export, of the South. Add to this the fact that the supply of cotton is financially controlled not at the centers of exchange, but at the actual source of supply, and you have in sum the essentials of the existing situation. How this situation has come to exist is still an untold story. The end of it all—the fact that financial control has succeeded in fastening itself upon the cotton-producing states of the South—is evident on all sides. There are statistics also, and practical experience besides; these exhibit certain salient features, such as absentee landlordism, the tenant system, and so forth. I shall not attempt to tell the story myself, since there are others much better qualified. Among these is Hon. Joseph T. Holleman, of whom the Atlanta *Constitution* says: "Probably no man is better posted concerning farm conditions in the South."

According to Mr. Holleman the situation has come about in this way: When the Southern soldiers returned to their homes after the Civil War, they had nothing left but their land. Fortunately in every town and village there were a few men who kept up their financial connections with the North. It was these men who saved the situation, by buying goods on credit and selling them out to the farmers again on credit. Under an arrangement of this sort the Southern farmers had to buy everything that they needed, not only seeds and agricultural implements, but also food for themselves and for their negro employees. Naturally the men engaged in this sort of business began themselves to accumulate land, by foreclosure, or by outright purchase. These men are to-day the large landowners and the large cotton producers of the South. "In every county you will find them," Mr. Holleman says. "They own the banks, the fertilizer plants, the oil mills, the warehouses and big supply stores, and all the important lines of business. They sell the farmer his agricultural implements, his fertilizers, his mules; all that he and his laborers wear, and all that he and his laborers eat. They also represent non-residents, who own large tracts of land, and they control these lands and dictate what shall be planted on them. They are also in politics, they are members of the legislature, they are active in all elections, they have candidates for all the county offices, they help elect the mayors of their towns, the solicitors of the city courts, the solicitors general, the county judges, the judges of the superior court, the congressmen, the governors, and the United States Senators."

In this trenchant analysis of the existing situation, Mr. Holleman shows us quite clearly there are three classes concerned: free farmers, tenant farmers, and absentee landlords. As for the first of these, according to our authority, "they are not more disturbed by the war in Europe than they would be by an eruption of the volcano Vesuvius. Nor are they concerned as to whether they can sell their cotton crop. If they get the price they want, they sell it. If not, they pile it up under the oak trees in their front yards and let it stay there." Thus, as Mr. Holleman says, "we need not concern ourselves greatly about the real farmers, the independent farmers of Georgia and the South. They have demonstrated the fact that they can take care of themselves, in good times and in bad times, in times of peace and in times of war." Nevertheless we should concern ourselves seriously about their decline as a class. "There are still such farmers left in Georgia and the South"; but, says Mr. Holleman, "you can count them in each county on your ten fingers." So it is everywhere over the cotton-producing area; even in the state of Texas free farmers are becoming fewer and further between. Altogether, according to Mr. Holleman's estimate, they number possibly 10 per cent of the farming population of the South.

As for the second class, that is increasing so rapidly that from statistics of the United States Census Mr. Holleman shows: "In twenty-seven Georgia counties there are 51,033 farm homes; 34,429 of these farm homes are occupied by tenants, and 16,604 are occupied by owners. In other words, nearly 70 per cent of the farms are occupied by tenants. These are the farms that are producing the cotton." Of the remaining 30 per cent, according to Mr. Holleman's estimate, 10 per cent are occupied by independent farmers; this leaves 20 per cent unaccounted for. These "are occupied by owners that are small farmers who have never reached the point of independence and who follow exactly the same system of farming that is followed by the 70 per cent making up the tenant farmers." Take Texas as an example of the new Southwest. In his preliminary report to the Federal Commission on Industrial Relations, Special Investigator Charles W. Holman asserts: "There are more than 200,000 tenant farmers in Texas." Startling as they seem, these figures are fully corroborated by Commissioner Calvin of this state, who has gathered together the statistics and worked out some calculations on his own account. According to Mr. Calvin, "in 1910 there were all-told 415,838 farms in Texas; of this