THE TER MEULEN CREDIT PLAN

BY W. F. GEPHART

The need for devising a Ter Meulen or other similar extraordinary method of mobilizing credit cannot be understood unless one appreciates in what manner the credit structure of nations and international trading was affected by the World War. This disorganization of national and international credit appears to the ordinary person in its superficial aspects as depreciated exchange rates and inflated price levels in the various countries. The rate of exchange is simply the relationship existing between the basic value of the monetary units of two trading countries and is chiefly an effect and not a cause of the depressed industrial situation in a country.

Depreciated exchanges result primarily from currency and trade conditions. Whenever a nation begins to issue an unduly large amount of paper money for credit purposes, doubt is created in the minds not only of its own people but of international traders as to its ability to redeem this currency in gold, the standard unit of international values. As a result of such a policy, the circulating value of the currency becomes less than its face value in gold, both in the domestic and the foreign market, although there may be considerable discrepancy between its domestic and its foreign value. Likewise, if a nation imports a much greater volume of goods than it exports there is a deficiency of bills of exchange for sale in the country and a surplus of buyers of these bills. This forces up the rates, and thus, as in the case of any similar condition of mal-adjustment between supply and demand, the price of the article advances. In this case it happens to be the price of exchange, but the same condition would prevail in the case of an actual physical commodity or goods.

Under normal conditions, when there is a mal-adjustment between the demands for and the supply of bills, much can be done through an artificial method of creating bills by financial institutions making arrangements with each other by which bankers' bills or other methods of settling international balances originate. Difficulty in the exchange rate, however, is not a new thing. In earlier times the South American and Central American countries as well as some of the Oriental nations experienced the same kind of difficulty which is now occurring in the European countries. It is only because of the importance of the international trading nations concerned and the extreme depression of the exchange of these nations that the problem seems unusual.

At the present time, the exchanges of Switzerland and Holland are near their old parities, but in practically all the other European nations their exchanges are below normal, and in some cases very much so. However, the difficulty with respect to international trading is not only, or perhaps primarily, in the fact that the exchanges are depreciated, but rather that these exchanges fluctuate so much over brief periods. These fluctuations in the rate of exchanges introduce a disturbing element in international trade: that is, this condition introduces uncertainty and risk because the rate of exchange is a part of the price or cost of the goods. A prospective purchaser, making a contract for the importation of goods, cannot know very definitely what his final cost will be with the rate of exchanges fluctuating violently over short periods.

The rate of exchange is the financial thermometer which registers for a nation the state of its industrial and business health. This general condition of the exchanges is but a part of the injurious effects of the war. The working of the complicated machinery of industry, commerce, and credit was interrupted by the war. Saved funds and current accumulations of free capital were used up in meeting the expenditures of the war. Little was provided for what, in normal industrial times, is called a replacement and repair fund for the industrial machine.

However necessary from a national point of view these expenditures were, the fact remains that they were largely uneconomical expenditures. Just as continued cropping of a field impoverishes the soil and luxuriant vegetation or ample crops will not again be produced until the soil is fertilized, so these European nations were using up in war expenditures the past and present current savings of their people. Or, just as the owner of a machine, who continually uses it and neither keeps it in repair nor sets aside a fund for the purchase of a new machine, finds himself, at the close of the lifetime of the machine, poorer, so these nations found themselves at the close of the World War.

Europe needs credit and chiefly of a long period character, and because of the unusual condition of these nations, special measures, though always undesirable, are necessary to provide her with this credit.

The Ter Meulen scheme of International Credits was proposed by Mr. Ter Meulen, a prominent international financier of Amsterdam. It was presented at the Brussels Financial Congress in September, 1920, and immediately attracted the attention of international bankers and students of finance. This Financial Congress was held under the general auspices of the League of Nations and this body appointed a provisional committee which was to have charge of organizing the Ter Meulen Plan of International Credits. This committee later selected Sir Drummond Drummond-Fraser as the organizer.

It is expected that the complete organization will consist, first, of a permanent international committee of bankers and business men which will have general charge of the operation of the plan. This general international committee will have under its direct supervision the organizer and his staff, as well as a committee in each of the nations which participate in the plan. The operation of the plan would be thus only indirectly connected with the League of Nations: this body acting, as it were, as a sponsor for the application of the initial idea and providing, perhaps, at least in a suggestive manner, for the appointment of the permanent international committee which it is expected will take the place of the provisional committee.

The essence of the plan is a combination of government and private security. There is to be provided a special form of government credit which will reinforce private credit. The Governments of the countries which desire to aid their importers, or which will in unusual cases desire to purchase directly products for themselves, will issue bonds. These bonds will be loaned to their nationals: that is to those of their industrial citizens who desire to import necessary products. These bonds are issued only in the amounts justified by the gold value of the underlying securities, which would consist either of pledged government securities, such as custom duties, or, in the case of private citizens, such collateral as they would have to present.

These bonds in order to be made more attractive are to be issued in whatever currency the lender may require: that is in dollars, pounds, francs, etc. The gold value of the underlying securities, whether of the State or of the citizens, is to be determined by this international committee of experts, aided by a local or national committee which is appointed by and operated under this international committee and is made up of bankers and business men. The League of Nations, as an organization, is thus not necessarily involved in the operation of the plan except in so far as this body originated the machinery, and, in a remote case, in the event of defalcation in the redemption of the bonds, and only then in case the guaranteed fund is not adequate to take care of the defaulted sum. These bonds are to be based on revenue-producing assets and it is assumed that the supervision of their issue under this international commission will command universal confidence inasmuch as the international and national commissions will have as their object the protection of the interests of the creditor.

The assumptions underlying the plan are: first, that both long and short term credits are necessary for the impoverished nations to which the plan is intended chiefly to apply. Second, that even these impoverished nations have unpledged revenue-producing assets to which a gold value can be assigned and which will thereby reinforce private credit. Third, that this impartial international committee will act as a trustee and thus increase the collateral value of such securities.

An importer in one of these impoverished nations, desiring to purchase necessary and essential goods in a foreign nation, would arrange the details of the terms with the proposed exporter very much as he formerly did: that is, the time, the payment, the price, and conditions of payment would be decided between the two parties to the transaction. The proposed importer would then apply to his Government for a loan of Ter Meulen bonds, stating the assets, if any, which he had to pledge. If the Government had already pledged some of its assets, as for example, certain custom receipts, and had secured Ter Meulen bonds through the local and international commission, then the Government would simply arrange the loan of the bonds to the importer on such terms as it pleased, satisfying, however, the local and international commission that the transaction was a desirable one.

If, however, the importer, as would be more usually the case, should wish to pledge certain assets, the local and international commission would assign a gold value to them and the bonds would then be issued. It should be understood that not only the importer and the exporter arrange specific terms in much the same manner that they formerly did, but that the importer and his own Government must arrange the details connected with the transaction. The international and national commission is interested primarily in two things. First, to see that the import is a desirable one; and second, to evaluate in gold the collateral or assets which are to be offered as security. This is to guarantee the important character of the import as well as to assure the creditor that the value of the bonds is amply protected by direct or indirect assets.

If the importer meets all the terms of the loan, that is, if he makes payments as agreed upon, the exporter at the close of the transaction returns the bonds to the importer, who in turn transmits them to his Government either for cancellation or for reissue to some other importer. If there is a default in payment, the exporter may hold the bonds as an investment, since there is no necessary relation between the amount and terms of the bonds and the amount and terms of the sales. The bonds may have a date of maturity and an interest rate quite different from the terms of the sale. If the exporter or creditor does not hold the bonds, he may sell them and pay himself out of the proceeds. If he holds the bonds, he cashes the coupons as they become due.

There are many other details of an administrative character which have not been completely decided.

Except in the case of Austria, no nation has yet applied for the right to issue Ter Meulen bonds. There are many difficulties connected with the organization of the plan. In our own country, for example, it would be difficult to understand how this Ter Meulen plan could function unless we had the banking corporations proposed by Senator Edge, to which the ordinary commercial bank could take these securities and realize upon them.

Up to the present time the various other unusual methods for financing foreign trade have not accomplished much. One of the most far-reaching and best-organized plans is that of the British Export Credit Board, which was initiated in September, 1919. Under this plan the Board of Trade of England was authorized to grant credit to British exporters in connection with the export of goods wholly or partly produced in the United Kingdom, to certain specified impoverished nations. The total sum first authorized was twenty-six million pounds, which was to be available up to September, 1925.

Results, however, were disappointing. It was claimed that the security required by the Board of Trade was too stringent and the British exporters wanted guarantees against losses rather than credit. In view of these experiences a revision in the plan was made whereby the British Government was authorized to guarantee exporters up to a maximum of eighty-five per cent of the invoice value of the goods, but to have recourse against the exporter for one-half of any loss finally incurred by the Government after taking into account the sum actually repaid by the importer plus the value of the security, if any, which he had put up.

In addition to the guarantee to exporters, the modified plan also permitted the Government to guarantee banks up to seventy per cent of the loss incurred. Yet in spite of the increased elasticity and the extension of the plan to the British Empire, this plan of granting credit and guaranteeing against loss has not achieved very large results. The statistics show that only £3,300,000 of advances and guarantees have been sanctioned under the above plans, and that two-thirds of this amount has been made for two nations, Roumania and Czechoslovakia.

The present stagnation in international trade is due primarily to a lack of purchasing power on the part of many people more than a lack of credit facilities. Many a manufacturer could secure raw materials if there was any assurance that the finished product could be sold. The consumption demand of many thousands of people in Europe has been reduced even for those commodities usually classed as necessities. They will actually buy less clothing and food than in the pre-war period. The lowering of the standard of living of many Europeans will thus affect international trade with them for some years.

The chief distinction between such plans as those of the British Export Credit scheme and the Ter Meulen plan is that the latter is designed to create purchasing power in the importing countries, while the British plan was primarily intended to aid their own exporters in selling their goods. A serious question may arise as to whether in many of these impoverished and disturbed countries government credit can add anything to private credit, and indeed whether in many cases private credit is not better than government credit.

It also may be a problem so to devise administrative machinery for the Ter Meulen Plan of International Credits that it may operate with sufficient expedition to meet the commercial demands of such transactions. Some private traders and manufacturers are getting limited credits which are handled by the ordinary private business and financial organizations. This, however, is credit of a short term character, and the most necessary need for the permanent rehabilitation of these nations is long term credit which Governments ordinarily can supply in a way that private individuals cannot.

The organization of world or international banks will not greatly aid Europe except in so far as such banks become agencies for securing funds for long time investment. Europe, like many newly organized corporations, needs someone to buy her stocks, not her bonds; that is, investors who have such faith in her economic, political, and social future that like all good stockholders they will not be as much interested in the immediate as in the final returns. The problem of Europe is not fundamentally one of securing from outside sources commercial banking credit, but primarily one of first adjusting her basic political, social, and economic relationships within her own borders before any kind of purely external aid can be of real value to her.

W. F. Gephart.

LOST STARS

BY STARK YOUNG

In Michelangelo's chapel one March day I was looking at the Pensieroso and thinking what a terrible intensity of living and of spiritual passion was there expressed beneath the poise and sophistication of that figure, what a brooding mystery of shadow was on those eyelids against the delicate finish and distinction of that face. I noted the suave elegance of the surface, and how the slight affectation was here spiritualized by the inner violence and force of the artist.

In the midst of these thoughts I turned suddenly and became aware of a lady sitting in the middle of the room. She was dressed in gray with a cherry color here and there on it; her eyes and her hair gave the impression of a dark violet; and there was a beautiful clear melancholy about her face. I knew at once that she was English—by the expression; by the figure, which was slimmer than that of the Continental women; and by the bit of ruching which she wore at her throat and which was just enough to rout the French perfection of her gown and leave it persistently her own rather than the dressmaker's. She sat there in one of those low Savonarola chairs, looking up quietly at the statue of the Medici with his elegant, intense body and the shadow over his eyes. Behind her chair a man stood, a ruddy, athletic Englishman in tweeds, very smart and very carelessly correct all over, a retired army man I should have said from a first glance at him. His manner, when there was any, toward the lady had the air of protecting her—that was about all. He looked less at the Medici than she did and more around and up and down the chapel. Presently I left the two of them there like that and forgot them.

The first week of April I went down to Assisi for the coming of spring.

Assisi is one of those hill towns in Italy built all of stone. It sits there on the top of the hill, brown and pale rose and ivory-