# MODERN FOREIGN EXCHANGE: MONETARY SYSTEMS, INTRINSIC EQUIVALENTS AND COMMERCIAL RATES OF EXCHANGE OF ALL COUNTRIES AND THEIR RELATION TO UNITED STATES MONEY

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# MODERN FOREIGN EXCHANGE

MONETARY SYSTEMS, INTRINSIC EQUIVALENTS AND COMMERCIAL RATES OF EXCHANGE OF ALL COUNTRIES AND THEIR RELATION TO UNITED STATES MONEY

**SECOND EDITION**

BY

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## INTRODUCTION TO THE SECOND EDITION

The first edition of this book appeared a few months before the European War disturbed the entire financial structure of the world.

Since then very few technical changes have been made in the monetary systems. Only four countries, China, Colombia, Salvador, and Turkey, have put in operation new laws relating to money. In this edition they are mentioned accordingly.

During the war several countries have issued different forms of subsidiary money to cover local needs of circulation. Iron, zinc, and aluminum coins have been issued in some of the belligerent and even in some neutral countries. Also other tokens printed on paper and cloth. All have more or less served their purpose for the time being and are supposed to be redeemed in current money as soon as conditions become normal.

They have not changed in the least the technical conditions of money in any country nor have they had any influence on their foreign exchanges. They will serve more as a good supply of specimens for numismatists and collectors of curiosities.

The great change, however, that the world has experienced is not so much technical as practical. Gold, which until the first shot was fired, was the automatic regulator

of exchanges, has almost disappeared from circulation and being no longer free to move from one country to the other, has ceased to act as the basis for the adjustment of international balances. Nothing has been devised yet to take its place and exchanges between countries have been left entirely to actual supply and demand, except where Government interference has artificially governed adjustment in the transfer of values.

Until a few months ago, exchange between the United States and Great Britain was pegged at an arbitrary rate of roughly $4.76 per £1 against a mint par of $4.86656 and gold points of $4.82 and $4.9065. This was done by means of permanent purchase of drafts at that price, the necessary funds for so doing being provided by loans made to the United Kingdom by the Government and the people of the United States. That pegging caused almost all the excess of London Exchange all over the world to be dumped into the United States, creating adverse balances against this country, which might be termed "artificial balances" because trade balances were actually in favor of the United States, as happened in Spain, Scandinavia, and other countries. Gold not being allowed to move except under the most stringent regulations, the adjustment of natural balances of trade against the United States was exceedingly cumbersome, and caused the unpleasant feeling of an American dollar at a discount in several countries. The moment exchange was left free again it commenced to drop reaching at this writing about $3.75 per pound sterling.

No one knows what the world will be able to do in the matter of either reëstablishing gold to its former position or substituting for it some other form of international adjusting medium universally accepted. Until then, exchanges all over the world will be disturbed with nothing certain for the future and subject only to supply and demand.

The immense amount of uncovered paper money issued and outstanding everywhere, the enormous war debts, the almost inconceivable sums needed to restore the damage and to set into normal motion the wheels of production and commerce, and the claim of gold miners for a higher price because they cannot produce it for what they obtain, are factors to be considered in deciding what will be done to keep up the parity of all moneys.

But whatever the world adopts as international exchange adjuster, and however it is put into operation, it is probable that the former relation between the different moneys will be maintained. In every country its domestic commerce will be regulated in its own money, as it is and as it was. The pound sterling will be made probably theoretically equivalent to $4.86656 and the same will apply to the moneys of all other countries in relation to American currency and all others.

No mention is made of the money of the new political entities as they are not yet finally determined. Czechoslovakia considers the adoption of a new unit called the "sokol" to be equivalent to the French franc. The country, whose exact boundaries have not yet been fixed, was