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THE "FINANCIAL NEWS" AND A BASELESS CHARGE.

In order to refute a totally unjustified charge of "fraudulent preference" raised and reiterated by the "Financial News" against the Swiss-German arrangement for full payment of loan interest scrips Dr. Egli, as financial and commercial correspondent of the *Neue Zürcher Zeitung*, has sent the following letter to the offending London paper, which was duly published on November 2nd:

Sir, — In reply to your repeated attacks on the agreement between the Swiss and German Governments for full payment of the German interest "Scrips" against special additional exports to Switzerland, which you so harshly describe as "fraudulent preference," may I ask for the courtesy of your space to put the case for the defence before your readers?

Although Switzerland — like England and Holland — is anyway buying much more from Germany than she sells to her, our Government has nevertheless agreed to some special imports, not previously taken from Germany, in order to cover the 50 per cent. of the scrip which Germany declared herself unable to pay out of the general balance of trade. In effect Switzerland is paying specially to avoid hardship to Swiss creditors, to whom, in proportion, the German debt payments are much more important than to English creditors whose investments are more widely spread. The extra 25 per cent. of interest due, which my country has specially provided for, are thus not taken from any other creditors and the charge of fraud has no justification.

As to the alleged preferential treatment, you have yourself reported Dr. Schlacht's statement, that the German Government is prepared to negotiate for similar arrangements with any other creditor nation. Thus the principle of equality of rights for all creditors is maintained.

In principle your objection to the fulfilment of obligations being made the object of bartering for special trade concessions no doubt is justified. But in these hard times this is, unfortunately, no novelty. As a typical example I may refer to the new trade treaty between Great Britain and the Argentine, by which, in consideration for the maintenance of good marketing facilities in England, the Argentine Government not only agreed to the unfreezing of peso balances by a bond issue in sterling, but actually put a considerable cash sum down for immediate payment to small creditors in Britain. That payment was, in effect, made at the expense of the creditors of other nations. But no one in the world dreamt of accusing the Argentine of "fraudulent preference" or Great Britain of disloyalty as against foreign co-creditors.

Can you deny that the Swiss-German scrip arrangement is of a similar nature? It is deplorable that the world has to resort to such cumbersome makeshifts, but surely they should not be intemperately criticised in one case and condoned in another. Your charge of "fraudulent preference" implying complicity of the Swiss Government has rightly incensed my countrymen.—Yours, &c.,

Dr. HANS EGLI.

In reply the "Financial News" published alongside with the letter some comments in support of its own contention, the most important passages of which read as follows:

We are content with our correspondent's admission that "in principle" the preferential selection of bondholders of one nationality, for favourable treatment in consideration of concessions on matters which have no relevance to the original contract between debtor and bondholder, are unjustified. It is, as we said, what in private law would be termed "fraudulent preference," and we are not in the least disposed to condone it because it can be urged that there have recently been other contraventions of a similar kind.

We do not in the least accept the view that the Swiss and Dutch agreements will necessarily increase their total imports of German goods, as they purport to do. The technically "special" imports can hardly fail to replace ordinary imports in some degree, and to that extent the discrimination against other bondholders is perfectly real.

As one of his statements was totally misinterpreted in this commentary Dr. Egli sent the following further letter to the *Financial News*, publication of which, however, was declined because it contained no "fresh substantial point."

2nd November, 1933

To the Editor of the *Financial News*, London.

Sir, — While thanking you for giving my defence of the Swiss-German scrip-agreement such prominent, if somewhat sandwiched, publicity in Thursday's issue, you will perhaps allow me to reply to your own comments.

You pervert my statement that on principle any bartering of concessions for the mere fulfilment of obligations is objectionable, into an admission that preferential selection of bondholders of one nationality has taken place. You entirely disregarded my emphatic repudiation of that contention by reference to Germany's willingness to make similar agreements with other nations (par. 3 in my letter).

If you will look up the definition of "fraudulent preference" in any legal manual you will find that in no way it fits our case. As the Swiss pay for that extra money by special imports there is neither fraudulent intention nor in effect a diminution of the debtor's assets in favour of one creditor. Your doubts about the "special" imports are unsubstantiated.

In conclusion I may say that the exchange of angry reproaches between friendly nations and newspapers is certainly regrettable. Considering your excitement about the possibility of the Swiss getting a few thousand pounds more from Germany than the British, you can hardly blame my countrymen for still feeling very sore indeed about the millions they have lost by what might be called the "negligent bankruptcy" of England's goldstandard. Further, it is a fact that several English newspapers, including the *Financial News*, have on more than one occasion published unduly gloomy reports about the conditions in Switzerland, thereby creating unnecessary difficulties in maintaining the gold-standard in my country.

Yours faithfully,

Dr. HANS EGLI.

If these letters have not had the immediately desired effect we may, nevertheless, perhaps hope that the *Financial News* will in the future try to avoid unwarranted accusations against our country and refrain from publishing one-sided reports on the conditions in Switzerland while create unnecessary difficulties for the defence of our financial order.

REPLY TO LLOYD GEORGE. *

By D. Schindler-Huber, Chairman of the Oerlikon Company.

Even clever people can sometimes say very amazing things. Lloyd George is certainly a very clever politician, but he is unfortunately too much of a politician, to be a good economist. This is proved by his article "The economic barometer is rising," in No. 248 of the "Tages-Anzeiger." With the skilful dialectics, which are Lloyd George's strong point, this article endeavours to persuade us to follow England's example and go off the Gold Standard, for according to Lloyd George's contention it is thanks to the abandonment of the Gold Standard, that the economic barometer is rising in England. Since January the number of unemployed in England has decreased by 566,338. Happy England! There were, however, in January of this year, according to official statistics, 2,834,262 unemployed, so that the drop in number of unemployed, which gives Lloyd George so much pleasure, thus amounts exactly to 20 per cent. Yet, in Switzerland, in spite of the country being on the Gold Standard, the number of unemployed has decreased during the same period by 50 per cent.: in France and Holland, which are on the Gold Standard, there has been a drop in the number of unemployed of 30 per cent., and in Italy, of about 28 per cent. When Lloyd George furthermore asserts that the number of unemployed is constantly decreasing from month to month, he is viewing the statistics through rose tinted spectacles. The statistics actually show that during the last four months the number of totally unemployed has practically remained unchanged and that even the number of partly unemployed, who are of lesser account, has only dropped very little.

Lloyd George has only bad words for the yellow metal. He assures us that "hunting for gold caused the world crisis." Gold was used by bankers and financiers for juggling tricks and only advantages accrued to the nation through the abandonment of the Gold Standard. Everything has, however, two sides, and it can now be seen, precisely in England, that for the large masses of the people there are also drawbacks arising from the abandonment of the Gold Standard, as the Prices increase and, at the same time, the paper money exerts an appreciable pressure on the wages. As a result of the abandonment of the Gold Standard, the English industry has to pay, at the present day, 5 per cent. more for most raw materials, and this hits very severely the largest industry in England, the textile industry. As it cannot recover the extra expenditure on raw material when selling the goods, it has both to

reduce wages and endeavour to increase the output of the workers. In 1932, the wages of nearly two million English workers were reduced, and only about 30,000 received an increase in wages; in the current year, things are not much better. As the cost of industrial production is made up of the expenditure on material and on labour, the higher the price of materials, the greater is the amount that has to be saved on labour. For this reason, the wages in English paper currency are more and more reduced and for this same reason the unemployment does not decrease, as the English factories have to try and do with as little labour as possible, owing to the increased cost of materials. Lloyd George should not have overlooked this reverse of the medal in the case of currencies off the gold standard.

Lloyd George represents matters as if gold and gold currencies provided bankers and financiers with the means, of playing all sorts of tricks and carrying on all kinds of speculations. The reverse is actually the case. Paper money favours unproductive speculation much more than gold money. It is only possible to speculate with goods, that fluctuate in price. The anchoring of currency to gold results in money having the same value everywhere and retaining the same present-day value during the following months and years. Even the most clever bankers and financiers have not yet discovered the means of making money out of something, that can always, and at any time, be bought and sold at the same price. Paper money, on the other hand, fluctuates constantly in value; it is thus much easier to speculate with paper money than with gold. The professional speculators do the best business each time there is an abandonment of the gold standard. When South Africa went off the gold standard, the mining share quotations rose by hundreds of per cents. in a few weeks. Those such as Stinnes, Bosel, Castiglioni, Ivar Kreuger, Onstie and whatever their name may be, who made great gains out of inflation, built up their enormous fortunes not with gold, but with paper money. It is quite amazing how people turn these perfectly patent facts upside down and ascribe to gold money every one of the evils arising precisely from paper money.

Lloyd George is likewise entirely wrong when he believes that the recovery of the world trade is dependent upon the abandonment of the gold standard. The world, at the present day, suffers from unprecedented over-production, and the abandonment of the gold standard reduces the purchasing power of the nations. Since England went off the gold standard, our exports to England have dropped to one third, while the number of English visitors in Switzerland has decreased to less than one quarter. Foreign goods and foreign travel cost the Englishman now 50 per cent. more than in the days of the gold standard: it is not surprising that so many of our hotels which depend upon the English clientèle are empty and are going through very anxious times. Is this enormous over-production to be cured by a universal reduction of the purchasing power? A policy more devoid of economic sense cannot be imagined. Lloyd George may assert that the abandonment of the Gold Standard in the United States was a very wise measure, but there are many people, at the present day, who hold other views with regard to this matter. The apparent improvement in the market which the abandonment of the gold standard caused at first in America has already disappeared and had to disappear, as, with the permanent reduction in value of the dollar, the amount the Americans could purchase became, in time, less and less, and things are worse at the end than at the beginning.

The abandonment of the Gold Standard has not led anywhere to an economic improvement, up to now. For the large masses of the consumers, it only results in a reduction of the purchasing power of their income. For industry, it means an increase in cost of materials, more severe competition and uncertainty everywhere. The professional speculators have alone profited by the abandonment of the gold standard; this does not help, however, the economic condition of the country, but only damages it.

PERSONAL.

We are sorry to inform our readers, that Mrs. Hahn, the wife of the popular Pastor of the "Schweizerkirche," had to undergo an operation for the removal of the appendix.

We are glad to say that the operation has been successful, and that she is making satisfactory progress.

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We wish to direct the attention of our readers to the enclosed report, and especially to the excellent article about: *Europa im weltwirtschaftlichen Strukturwandel*.

* Translation of an article published in the "Tages-Anzeiger fuer Stadt und Kanton Zurich," No. 256 of the 31st October, 1933, in reply to an article by Lloyd George in the same paper (issue No. 248, of the 21st October, 1933) entitled: "The economic barometer is rising."