Muddled Money Situation Explained By U.S. Department Of Commerce Expert

Bratter Says Silver Not Wholly Responsible For U.S. Trade Drop

World Depression And Decline In China's Exports Declared Major Cause For Her Lack Of Purchasing Power In Foreign Market

The silver situation, which has one half of the world riding in limousines and the other half pulling rickshas, and which is widely discussed but usually misunderstood is explained so that the general public may understand it in a paper recently released by Mr. Julean Arnold, American commercial attache in Shanghai. The paper was prepared by Mr. H. M. Bratter, of the staff of the United States Department of Commerce. Briefly, in substance Mr. Bratter says:

While the use of silver as money has declined, its production continues practically unabated. The drastic decline in price during the last few years indicates that the relation of supply to demand has altered. This change has been a matter of great concern, on the one hand, to silver producers and the governments of silver producing countries, especially Mexico, and on the other, to silver consuming countries and the nations trading with them.

Numerous Remedies

Numerous attempts are being made to define the adverse effects on trade of the decline in the price of silver, and to offer remedies. It is therefore pertinent to examine the supply of and demand for the metal; to trace the causes and effects of changes in its price; to give some attention to the marketing of silver, and, so far as space permits, to some of the proposals for "remedying" the present situation.

The question has a far broader aspect than the exigencies of the present moment. The widespread adoption of the gold standard has not provided the world with a thoroughly satisfactory monetary medium. While the gold standard is believed superior to the now defunct gold-silver bimetallism, there are occasions when the ghost of the latter raises its head. It is urged that we should restore silver to its place beside gold, make it again a co-standard of value, and thereby not only lighten the load now carried by the more valuable metal as the foundation of the world's credit structure but, at the same time, make smooth the course of trade with Asia.

Potential Supply

"Supply" does not mean that vast stock of silver mined in centuries past and accumulated in the form of works of art or piled up in the hoards of India and China. These are only potential supply. Being at present interested in the price of the metal, we are concerned only with the market supply which at any given moment or for any selected period is affecting the price. This supply consists of newly mined silver and metal minted in times past and again coming on the market. In short "supply" is the total volume being offered, and for a given year, the supply in the total of the offerings during the year.

The speculator who enters the market for a "quick turn" time after time, whether as a seller or a buyer, affects the price of silver in the same way as do sellers and buyers of newly mined silver. Bona fide and speculative sellers or buyers of Chinese exchange and, in China, of foreign exchange also influence the price of silver in equal degree per unit of operation.

Mexico Increases

In 1918 Mexico's gradually increasing production of silver passed that of the United States, and since then it has almost doubled American production. From 25,000,000 ounces in 1914, Mexico's production had developed to 108,000,000 ounces in 1929. The United States produced 61,000,000 Canada 23,000,000 and Peru 21,000,000 ounces in 1929.

Despite the fact that the price has been steadily declining, until recently the world silver supply has maintained a continuously high level. Some attribute this to the fact that silver is amalgamated with other ores and is mined as a necessary by-product of other metals.

Offerings Decrease

The normal expectation is for the price of silver to decline adversely in proportions to heightening the supply. In 1930, however prices continued to decline, although the offerings slightly decreased. This perhaps may be explained by the influence of the general commodity price level and the changed purchasing power of the dollar in which our silver price is stated.

Production of silver can not be suspended at once, nor can it absolutely be regulated to meet demand. There are no "pure silver" mines, the ore being invariably found amalgamated with ores of other metals. The most nearly pure ore produces about 20 per cent of the United States output. The Bureau of Mines publishes a statement showing that from the standpoint of value 48.5 per cent of the world's silver output comes from mines where silver is the principal revenue producing metal in the ore, a fact which indicates that it is much easier for other countries to regulate silver production than for the United States:

Asia Chief Market

Asia is the principal market for silver, and North America is Asia's principal source of supply. In 1930 India was supplied with 94,500,000 ounces, China with 123,000,000 ounces, and Hongkong with 14,000,000 ounces. These three countries took 231,500,000 ounces of the total shipment of 315,000,000 ounces to Asia, obviously a major portion of that distributed to the Orient.

When the demand for silver in China and India becomes increasingly effective, it is immediately reflected on the price of silver for that demand is the most important determinant of price.

Figures sent out by the United States Mint show that more silver than is produced in the United States in 1930 was sent to India and China from that country during that year. This anomaly is explained by the fact that figures for re-exports include only that silver which is sent abroad in the form in which it arrived in the United States. In this class is silver crossing the United States under bond. The important point is that practically all our silver goes to India and China.

Distribution Grows

Since 1924 the distribution of the world silver production has increased from 249,000,000 fine ounces to 315,000,000 ounces. Hongkong, adversely, has reduced its production from 108,000,000 in 1924 ounces to 94.5 million ounces in 1930 while China has increased its distribution over the same period of time from 41.7 million ounces to 123,000,000 ounces.

China in 1914 exported G.$9,100,000 of silver. The export of silver gradually ceased, and China found it necessary to import the metal to such an extent that in 1920, G.$114,900,000 of silver was brought into the country. This fell to $24,000,000 on the following year, but since then the import rate of silver has risen to $67,700,000 in 1929. The rate of import of silver indicates prosperity for China. In good trade years, the import increases. The gold import rate has varied proportionately with that of silver.

Cheaper On Decline

When the price of silver declines, silver becomes relatively cheaper, in Chinese eyes. Therefore, silver becomes a "batter buy" and Chinese purchases of it are likely to record not only an increase in volume bought due to the lower price but an increase in value of silver purchased due to the investment of a greater share of the Chinese income in silver.

India, on the other hand has gradually imported less silver annually since 1919 when in accordance with the Pittman Act, American silver dollars were melted and sold as bullion to India to be replaced later with purchases from the open market.

Momentary Deviations

A graph representing the price of silver over a number of years would closely follow the curve of wholesale commodity prices. Between 1914 and 1930 the price curves of these two items are almost synchronized. However, as the index number is made up of prices of a great number of commodities, a single one of those commodities may be expected to show considerable momentary deviations from the average. Also it may show a long trend, or permanent, tendency to move off at a tangent, as in the case of commodities passing into desuetude.

Since the irregular behavior of the commodities whose prices comprise the index number of wholesale prices is to be expected, such action on the part of the silver commodity need not be surprising. Thus, in September, 1917, when the high price of 1878 was for the first time regained, the price of silver was ahead of the wholesale commodity price level and proved to be ahead of the general trend of the silver price. This was caused by speculation, embargoes on silver exports from the United States, Japan, and other countries, and other causes. This condition, being abnormal, soon righted itself.

Results Of Speculation

Such examples of temporary divergence of the silver prices from the general course of commodity, are exceptions to the general relationship in commodity and silver prices "Synclines" and "anticlines" are results of speculation.

Of another sort is the gradually widening gap apparent in the course of the price of silver and of other commodities. This may be likened to the tangent-like movement mentioned above. If a commodity passes into greater and greater disuse, the price of that commodity may be expected to disassociate itself from the price of the general price level. This may be, in part, a valid explanation of the declining price of silver in recent years.

Closer Association

While charts may show occasional lack of relational changes in commodity prices and those of silver, if it is remembered that the value of silver has also changed, chart lines will be drawn into more close association.

Although the decline in the price of silver between December, 1926 and December, 1930, may be considered great at 47.7 percent decline per ounce, this is not so appalling when it is remembered that its divergence from other prices was only 32.93 per cent.

Factors Widespread

The silver market, being a world market, the factors which make up supply and demand are multiple and widespread. Supply, as stated before, is dependent upon new production and "other supplies." The discovery of new mines or of new metallurgical processes increases the supply of silver. It is affected by demands for amalgamated or by-product ores.

As in the conspicuous example of India's treasury's selling of silver since 1927, changes in coinage practice such as reduction of fineness of subsidiary silver coins quickly reflect themselves in the supply and price of silver.

Dependent On Conditions

The demand in Asia is dependent upon favorable trade conditions, good crops, domestic tranquility, actions of governments, strikes, shipwrecks interfering with deliveries of silver, speculation, warfare and foreign exchange operations.

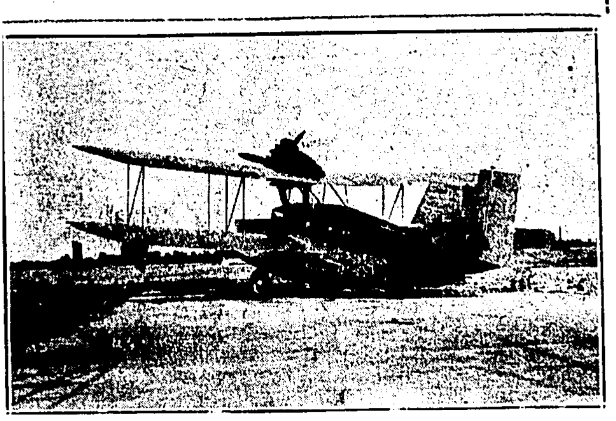
Exchange transactions of and with silver-using countries are worthy of special note in consideration of the silver question. China is the most important silver-using nation. Others include Hongkong, Persia, Ethiopia, and Honduras.

System Is Complex

China's currency system is very complex and heterogeneous. It may be claimed with accuracy that China

(Continued on Page 18, Col. 3.)

Newest C.N.A.C. Plane



The new Keystone Leoning air yacht, recently added to the China National Aviation Corporation's service, is pictured above.

Muddled Silver Situation Explained By U.S. Department Of Commerce Expert

(Continued from Page 11, Col. 4.)

s as much on a copper, or a copper-silver, standard as on a silver standard. The foreign trade of the country nearly all "passes through" silver at one stage or another. Therefore, to the foreign trader, China is on a silver basis; and changes in the value of silver, being usually reflected immediately in changes in the silver cost of foreign trade merchandise, are very real to the business man. The principal currency units are the yuan dollar, the Mexican dollar (both of these are coins), and the Shanghai tael (which is a weight of silver, and not a coin). In Hongkong, there is the Hongkong dollar (both coin and paper). These currencies, being definitely ascertained by weights of silver, are quoted in the foreign exchanges.

When the price of silver increases in New York or London by, say, 5 per cent, the value of any of the currencies named above also increases by approximately the same amount. There is always some opportunity for arbitrage operations, since the price of silver in New York is not necessarily exactly equivalent to the London price or to the value of Chinese currencies. But, in general, the coincidence is very close. Whereas, to the American silver miner or refiner, silver is simply a commodity and the silver price a commodity price, to the Chinese and to the operator in foreign exchange silver is a currency suitable for the settlement of international (and within China, domestic) transactions.

Dual Nature

This dual nature of silver results in this: that any change in the price of silver is a change in the external value of Chinese currency, and any change in the latter—such as follows balance-of-payments changes—is identical with a change in the price of silver. A decline in the price of silver means a decline in the purchasing power abroad of Chinese money.

It is because of this fact that it has been repeatedly claimed in the past year that the purchasing power China's 400,000,000 people has declined with silver, "pari passu." What are the effects on China's purchasing power?

Stocks Significant

Among the barometers of the silver market, Shanghai stocks are regarded as very significant, since China is the largest consumer of silver, and Chinese consumption is reflected in Shanghai stocks. The supply of silver in Shanghai and other treaty ports may be likened to the merchandise on a grocer's shelves. When the inventory runs low, new orders are placed. There is an important difference, however, since the stock of silver in Shanghai is fed, sometimes from foreign sources alone and sometimes from within China. In time of disturbances such as were experienced in 1930, silver flees to Shanghai (or other treaty ports where foreign protection exists) for safekeeping. When wealthy Chinese from the interior look for personal protection in the treaty ports, they also bring with them their portable wealth, including silver. Interior banks, similarly, send silver to the treaty ports to prevent confiscation by warring elements.

Thus, silver at times pours into the large coast cities from within China, creating an oversupply on the local silver market. Moreover, the very causes which prompt the flight of silver to foreign protection are the causes which destroy wealth and interfere with the production of new wealth in China. Warfare and banditry, moreover, prevent the free flow of export goods to the seacoast. In this way China's accumulation of oversea purchasing power is diminished and the effective Chinese demand for silver is lessened in New York and London.

Stocks Climb

Since January, 1928, silver stocks in Shanghai climbed from 107.9 millions of fine ounces to twice that amount.

Shanghai stocks are, of course, not the only factor in the price of silver. But they are watched by the market and, as in March, 1931, are sometimes regarded as a leading index of silver market conditions.

When advocates of plans to support artificially the price of silver say that the decline in its price has cut the purchasing power of China, they refer to the purchasing power in foreign countries. They point to the decline of 1930 in American export trade and conclude that, if we raise the price of silver, we will make it possible for China to buy more of our merchandise.

No Statement

They present no profit and loss statement of the transaction, no comparison of the probable benefits of better exports with the probable cost to us of effecting an increase in the market price of silver. One of the points these "plans" have omitted to mention is the decline in our trade with all countries. In many instances we have lost more business with gold-standard countries or paper-standard countries than with silver-standard China; of this fact statistical is easily obtained.

Even if our decline in trade with China were an isolated example, it is far from evident that such decline can be attributed to the price of silver. Since silver and exchange are in China two phases of the same thing, the decline in silver can just as well have originated (in part) from changes in China's balance in payments. Not only have China's merchandise imports from us and other nations declined, her exports have also declined. From the standpoint of China's consumption of silver, the exports, visible plus invisible, are the determining factor. If they exceed visible plus invisible imports other than silver, a surplus exists with which to buy silver abroad. If not, no surplus exists. As our figures have shown, China each year since 1917 has been an importer of silver on net balance and has, therefore, had the necessary export surplus. Unfortunately, we have no recent balance of payments estimated for China.

American Trade Drops

American trade with China declined 33.6 percent in 1930 from 1929 figures. This is not much worse than the 28.4 per cent decline of the United States with other foreign countries.

American exports to China declined 28.2 percent, while to the world American exports suffered a decline of 26.7 percent. Imports from China declined 38.2 percent. Such a decline in exports must obviously have affected China's ability to import silver. For China does not use silver to pay for her imports, but uses the net proceeds of her exports (visible plus invisible) to buy silver. Hence, a decline in silver means that China can buy silver more cheaply than before rather than that China's purchasing power abroad has declined.

The amount of silver in China absorbed in 1930 was only 10 per cent less than in 1929. The value of that silver was 35.6 percent less. And the value of our imports of Chinese merchandise during the same year declined 38.2 percent—a striking coincidence.

Higher In India

The price of silver is today higher within India than outside by 13½ cents (compared to price of about 30¾ cents on March 17). This is due to recent taxation of silver imports and production by the government with a view toward raising revenue and perhaps of giving an advantage in the Indian market to the silver produced by the government refinery at Bombay. Instead of increasing India's government's sale of demonetized rupees imports in 1930 continued at even a higher rate than in the preceding year. This was probably due to the limited capacity of the Bombay refinery, much of the silver having to be shipped to London for refining, and possibly to the boycott of British refined silver. The continued heavy import of silver reveals no loss of confidence. Rather it seems to indicate once more the fact that, when silver is cheaper, it is held by the Indian people to be a "good buy" and a desirable investment. A heavy fall in price stimulates silver imports.

The Indian government finds itself in a rather peculiar position with regard to silver. Having committed itself in 1926 to the eventual adoption of the gold bullion standard and the gradual disposal of but 250,000,000 rupees of silver coin from the paper currency reserve (there being then about 850,000,000 rupees in that reserve), the treasury has been melting rupee coins and selling them. The proceeds are converted into gold or gold convertible securities.

Store Of Rupees Swell

Although the Indian government began selling its rupees in 1927 in efforts to attain the 250,000,000 marks, the store of rupees has swelled to will over 1,000,000,000.

Reasons for the inflow of rupees into the treasury lie in the fact that the quantity of fine silver in a rupee (165 grains) which is being computed on a gold basis buys more than 480 grains of fine silver. The advantage to the Indian buyer of silver is obvious. Since it undertakes to peg the exchange, the Indian government suffers the loss. It sells sterling at approximately 1s. 6d.; the sterling is then converted into silver; and the silver is brought to India.

Other Reasons

Other reasons for the return of rupees from circulation are poor business as incidental to poor crops, and the 1929-30 investment of Indian States reserves formerly held in coin.

India has inestimable hoards of silver.

Mexico also suffers from the decline in price of silver, but as the world's chief producer of the metal rather than as a silver unit nation. Mexico as is all but one Central American nation is on a gold standard. Mexico's main difficulty comes from its inability to maintain free exportation of gold to keep its silver currency redeemable in gold both internally and externally. This has resulted in a decline of the Mexican exchange and internal disparity of silver and gold currency.