France Is Next

By Scott Nearing

THERE are three stages in the financial decay of a modern empire; in the first stage bills are paid out of tax receipts; in the second bills are paid by borrowing; in the third bills are paid by issuing paper money. Britain is in the first stage; France is well through the second; Germany has nearly completed the third. When the final stage has been passed, the empire is bankrupt.

Within the past decade Russia, Austria, Poland and some of the lesser European countries have passed through these stages of financial dissolution. Today France, following closely on the heels of Germany, is treading the same course. How long will it be before the franc follows the mark?

Last year France floated bonds and short term loans with which to meet her 20 billion francs deficit. Today her 5 per cent 1931 National Loan bonds are selling in New York at $39, while her 8 per cent External Gold Bonds due in 1946 are quoted at $97; francs are quoted in New York at about one-quarter of their pre-war value; France is paying 8 per cent to get money for which commercial firms pay 5 or 6. France is planning to make a 13 billion franc loan early in January, 1924. After that her 19 billion franc deficit for 1924 will be met by the printing press.

The New York Times, in a recent issue, published an article affirming that the French Budget for 1924 balanced, with a surplus of half a billion. This is true of the **general budget.** Additonal **special** budgetary items convert this apparent surplus into a deficit of nearly 20 billion francs.

France is spending nearly 45 billion francs per year. Her regular revenue for 1923 yielded 23 billion francs or about half her expenditures. The deficit was paid by borrowing. Today French credit is virtually exhausted. This fact appears in the prices of French bonds and in the depreciation of the franc. Were it not for the fact that the French government has been buying francs steadily for weeks, and thus pegging up the market, the franc would have slipped below 5 cents many weeks ago.

A survey of the obligations carried by the French Government reveals its utter instability. At the moment its liabilities are about 430 billions of francs, distributed as follows:

Pre-war debt	25	billion	francs
War loans	120	"	"
Short term loans	114	"	"
Owing Bank of France	24	"	"
Foreign debt	124	"	"
Miscellaneous	23	"	"

If France were to pay 5 per cent on these obligations the interest charge alone would require 21.5 billion francs or nine-tenths of her total income. She escapes the difficulty by paying no interest on her debt to the U. S. and borrowing to meet her other obligations.

Since the war France has been operating a large Empire; maintaining an army of three-quarters of a million; building the largest air fleet in the world; lending more than 6 billions of francs to Esthonia, Lithuania, Poland, Czecho-Slovakia, Jugo-Slavia, Roumania, in order to maintain her pan-European control; occupying the Ruhr and cursing European public life with her domination. **This has cost France more than the war.**

The pre-war debt of France was 25 billion francs. For subsequent years the debt was:

1919	144.8 billion francs
1923	430. billion francs

The four years of peace-time imperialism (1919-1923) have proved even more expensive than the five years of war.

France has reached the end of her rope. She has sped in ten years from a position of financial solvency and continental preeminence, to the verge of bankruptcy. When she passes over the brink, pulling Belgium and perhaps Britain after her, the keystone of European Capitalism will have fallen. After that the arch will crumble rapidly.

The Stability of Russian Finance

SURPRISE has been expressed in many quarters at the stability of the Russian Government. No student of the economic basis on which the Soviet Government is founded will feel any such surprise—quite the reverse, he will regard it as the most natural thing in the world.

Take the new Russian currency as an example. The Russian State Bank has adopted, as the currency unit, the chervonetz—a ten rouble piece—that has a par value of 21 shillings one penny in British money and $5.146 in United States money.

According to the law under which the chervonetz is issued, the State Bank must keep a gold reserve of at least 25 per cent of the total issue of chervonetz notes. The latest available report (Dec. 1, 1923) shows a note issue of 26.9 million chervonetz, with a gold reserve of 33 per cent. The ratio of gold reserve to note circulation in Britain is 17 per cent; in France, 10 per cent; in Belgium, 4 per cent; in Italy, 7 per cent, so that the banking position of the chervonetz is as good or better than the position of the more important exchanges.

The chervonetz is quoted in London and in New York. In London, since early November, it has sold at par with the pound, in a market where the franc has stood at 30 per cent of par, the lira at 25 per cent of par, the Belgian franc at 26 per cent of par, and the mark at very much less than one per cent of par. In other words, the chervonetz sells very much higher on the London market than the currency of any of the larger continental countries.

The chervonetz was quoted in New York (Jan. 17, 1924, Journal of Commerce) at $4.58. On the same day the pound sterling was quoted at $4.26, which means that while the pound sterling stood at 88 per cent of par, the chervonetz stood at 89 per cent of par. In the estimate of New York bankers, on Jan. 17, 1924, the promise to pay of the Soviet Republic was sounder than the promise of the British Empire.

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