

Leaflet No. 23.

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# CREDIT OR CHAOS

THE TER MEULEN CREDIT  
SCHEME OF THE  
LEAGUE OF NATIONS

EXPLAINED BY  
SIR DRUMMOND FRASER, K.B.E.

THE EXPERT APPOINTED BY THE  
LEAGUE TO ORGANISE THE SCHEME.

LEAGUE OF NATIONS UNION,  
15, GROSVENOR CRESCENT, S.W.1.



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[The following Address was delivered to a gathering of Manchester business men at the Town Hall, Manchester, on the 14th March, 1921, by SIR D. DRUMMOND FRASER, who has recently been selected by the League of Nations, as Organiser of the Ter Meulen Bonds scheme.]

The attendance was so numerous that it was necessary to adjourn from the small hall, in which the meeting had been arranged, to the large hall, which was filled to overflowing.]

**B**EFORE I come to the real subject of my address I would invite you to reflect for a few minutes on the circumstances which have brought us here together. To my mind it is a very significant thing that this meeting should have been organised by the League of Nations Union. For I am a banker and you are business men, and it might be thought that neither your activities nor mine could have any great interest for an association of idealists devoted to the highest international aims. What can the League of Nations Union have to do with bankers—beyond occasionally receiving cheques and, like other people, very frequently paying them out? I take it as a very high compliment to us that by organising this meeting in Manchester the League of Nations Union should have given implicit recognition to the importance of trade and commerce, credit, banking, and business, as an instrument for attaining that international solidarity which I believe that, in this country, at any rate, public opinion is determined to achieve.

The fact is that the war, and the economic conditions resulting from the war, have brought about an immense and very significant change in this respect. It was never fully realised before the war that commercial and financial prosperity throughout the world is of vital importance to each individual citizen in every separate country, and to the attainment of every high ideal. Nor was it sufficiently understood that, on the other hand, the goodwill and interest of every man who can think at all is a very vital factor in commercial prosperity. That is my second point. I believe that we business men can be of use to the League



of Nations Union, and that, on the other hand, the support of that Association is of very great value to us.

I believe that the importance of public opinion in financial matters was first recognised and declared at the International Financial Conference which met in Brussels in the autumn of last year. If you have looked at the Report which that Conference made to the Council of the League of Nations you must have noticed frequent references to the importance, not of expert opinion, not only of the opinion of bankers and business men, but of public opinion. "The first step," they said, "is to bring public opinion in every country to realise the essential facts of the situation." And again later: "In order to enlist public interest it is essential to give the greatest publicity possible to the situation of the public finances of each State." And again, in another part of the Report: "The enlightenment of public opinion is the most powerful lever" that there is for attaining the economic ends in view.

Now, that is a great discovery. It explains why we are here to-day, and why I, who have been appointed Organiser of the International Credit Scheme under the League of Nations, am here to address this meeting. For I must secure the sympathy and support of public opinion before I can do anything else. It is not the first time that I have appealed to the public in financial matters. During the war, when the Government needed every penny it could get out of the savings of the people, I used to maintain that the people to turn to in our troubles were not only the great banks and the great financiers who command millions of money, but the great public which commands millions of Treasury Notes and small deposits. The policy of appealing to the small investor was successful, and I am confident that the same policy will be successful now, when we have before us financial and commercial problems no less difficult and critical than those which faced us in time of war. I may have been appointed Organiser, but it is the force of public opinion which is going to make my organisation a success.

I need not tell you what a critical pass has been reached in the financial and commercial affairs of Europe. And you will not think that the troubles which we are facing to-day can all be swept aside by to-morrow. I am a little afraid that traders and others who are interested in the organisation which I am commissioned to build up may be perhaps a little too sanguine of what can, in fact, be accomplished. No credit scheme is going to set things

to rights in the twinkling of an eye. No credit scheme by itself is going to set the wheels of industry and commerce going again at their accustomed speed. But if I am anxious to avoid unduly raising your hopes and expectations, I am no less anxious to infect you with my own optimism. I am convinced that it will prove possible to effect a very notable improvement in the commercial condition of Europe by means of the Ter Meulen scheme.

There are a lot of very wise people who will tell you that nothing can be done because it is too late, or because the state of Europe is past mending. Whenever anyone undertakes a new enterprise on an important scale he will be met at once by these wise people, whose contribution to the work of the world usually takes the form of a jeremiad. Now, it is perfectly true that economic stability and commercial prosperity in Europe can only be completely restored when the Budgets of all the different countries have been balanced with taxation, when paper currencies have been curtailed and exchanges restored to some fixed relation with a common standard of value, and when a dozen other things have happened which still seem to lie in the far distant future. But it is certainly not true that in the meantime we can do nothing. We must take things as we find them; we must accept, for the time being, as inevitable the disorders in public finance, in currency and exchange, and so on, resulting from the war, and we must see what progress can be made in spite of these admitted disadvantages. The fact that the road is strewn with boulders is not a reason for failing to proceed upon our way. And, while I endorse all those counsels of perfection which are so freely propounded, I propose to examine with you whether even in this imperfect world we cannot make a beginning and bring about some gradual improvement.

You know very well that the Continent of Europe is crying out for goods: and you know that in this and other countries there is all the machinery and organisation required to turn out a far greater volume of commodities than is actually being produced. The need is there, and the potential supply is there. What is it that prevents an interchange that would be profitable and advantageous to all concerned? Three things, I believe: ignorance, poverty, and lack of confidence. Ignorance of the special needs and local conditions of foreign countries; especially of the new countries which owe their existence to the war. Poverty, because a nation's readiness to buy is, unfortunately, no measure of its capacity to pay. And lack of



confidence because economic and political conditions on the Continent of Europe are, even now, so unsettled that trade will not flow freely in its accustomed channels. Now, what can be done to remedy these three evils to begin with?

Ignorance can largely be remedied through the activities of the League of Nations. It might almost be said that the chief function of the League of Nations is to dispel ignorance. We must know precisely what is needed before we can begin to meet the need, and through the League of Nations we have an unrivalled opportunity of finding out. Now that this new organisation has been started, every trader in Europe, every Government in Europe, knows where to turn for help. Before very long I hope to set out on a journey through the principal countries of Europe, where, with the authority of the League behind me, I shall collect information, not only about what is required in the different centres of trade, but also about what the various Governments are prepared to do by way of providing security for the payment of debts incurred by their traders in the national interest. I see no reason to believe that ignorance need any longer be a serious obstacle to international trade.

But what of poverty? All Europe is poor, and it is very certain that Europe can not be made rich again within the space of a generation. How are we going to get round the obstacle of poverty? I can answer you quite confidently: by credit. That is what credit is for. It is perfectly possible for anyone to be poor for the time being and yet to have perfectly good credit. There have been occasions, I dare say, when every one of you had debts outstanding which he would have found it embarrassing to meet at short notice. But I am quite certain that not one of you ever doubted that those debts would in due course be paid. And to-day, no doubt, they *are* paid. Very well: the same thing exactly applies to the impoverished nations of Europe. They want very badly to incur expenditure which it would be embarrassing for them, at the moment, to meet. And are you going to refuse to trade with them, are you going to allow your machinery to stand idle and your workmen to be unemployed, because, though the need for goods is great, there is some difficulty about getting payment on the nail? Of course not. You are going to give them credit. You will satisfy yourselves first that they are honest and solvent; that they intend to meet their engagements, and that they have real assets which they are prepared to

pledge to you as security. And having satisfied yourselves on these points you will send them the goods.

The Ter Meulen scheme is only a particular application of this principle. But we are dealing now with nations, instead of with individuals: and you will appreciate how much easier it is to set up a working arrangement now that, through the League of Nations, we are enabled to go direct to Governments instead of dealing in each case with an individual private trader. I want to lay some stress on that point. An export credits scheme which provides for exporters no more security than can be put up by private individuals with whom they trade is not very attractive in these days. But the Ter Meulen scheme does more than this. The Government of a needy country is anxious to foster trade: it comes to the League, as any trader might go to his bank, and offers a statement of its position. Just as the trader specifies to his bank the transactions for which he wishes to be financed, so this Government will specify to the League the particular imports which it would wish to make. And just as the bank would require from a trader some security for the repayment of the debt which he proposes to incur, so the League will ask for some definite asset to be pledged by the Government against the credits which it is intended to open in favour of the importers concerned. The kind of assets which would be acceptable can easily be imagined. A specified portion of the customs receipts, a part of the railway revenue, or, indeed, anything which can be counted upon to produce a steady and regular flow of revenue for the Exchequer.

Now, the importer is a private trader in one of the needy countries. At least, that would be the rule. There is no objection to the Government importing on their own account under the Ter Meulen scheme, and in some cases it might be preferable that they should do so, especially where such things as food or railway material are in question. But we want to interfere as little as possible with the normal course of trade, and, normally, trade is carried on not by Governments, but by private individuals. So it becomes necessary to devise an arrangement by which the assets pledged by a Government to the League of Nations may be made available to the private trader for facilitating his imports. This is done by means of bonds, which merely represent on paper the arrangement entered into between the Government and the League.

Whenever any import transaction has been approved by an International Commission of practical business men



to be appointed by the League, the Government concerned is authorised to issue, for the benefit of the private importer who initiated the business, Ter Meulen Bonds, to be used by him as collateral security. These bonds would be lent to the importer, and his Government, if they think fit, will take security from him against the loan of the bonds. Having borrowed the bonds from his Government, the importer will send them to the exporter in a foreign country with whom he is dealing, and there they will be held as a guarantee of the fulfilment of the conditions on which he has arranged to obtain his goods on credit. Those conditions will have been fixed by him quite independently, and when, in due course, he has paid for his goods on the agreed terms, the bonds will be returned to him intact, and he will hand them on to his Government. The security which he gave in return for the loan of the bonds will be released, and the bonds themselves will become available for the financing of any other approved transaction.

Now, what are the advantages of this rather complicated arrangement? From the point of view of the importer in an impoverished country, the advantages are obvious and considerable. His trouble is this, that however sure he may be of his own honesty and solvency, he has some difficulty under present conditions in persuading exporters in a foreign country that it is safe to trade with him. And he will continue to have this difficulty so long as security can only be taken from him, instead of from his Government. He needs, above everything else, to provide exporters in a foreign country with a second line of defence on which they can fall back if he should fail to live up to his engagements. That second line of defence is provided by the Ter Meulen Bonds: and it is provided in such a way that all parties to the transaction are protected in a great measure against eventual loss. The League is protected because it holds, and sometimes even administers, the assets given in pledge by the Government which issues the bonds. The Government of the impoverished country can protect itself by taking security from the importer against the loan of the bonds. And the exporter is protected because he holds as collateral security bonds whose service he knows to be assured out of the assets held by the League. You see how the importer who is sure of himself has everything to gain by making use of the scheme which I intend to organise.

But what about the exporter? I think we shall find

that just as the poverty of the impoverished countries is got over by means of credit granted under the protection of the Ter Meulen scheme, so, too, the lack of confidence which now prevents exporters from finding a satisfactory market for their goods will be dissipated as soon as the scheme is properly understood.

The Ter Meulen scheme is concerned with impoverished countries, and I am not going to pretend that it will do anything towards breaking the buyers' strike among the people who have the means to buy but will not use them. I may say, in passing, that, in my mind, the strikers are holding out now for more than they are very likely to get: but I am not concerned with them. I am concerned with the people who would like to buy but can't, and I am suggesting that the Ter Meulen scheme will make it possible and profitable for exporters to trade with them.

Just consider for a moment what powerful stimulants are applied by this scheme to the flagging confidence of exporters. They have goods to sell and they are anxious to produce more goods, and to go on selling, if only they can be satisfied that they are not going to be let down too heavily when it comes to payment. Under the Ter Meulen scheme an exporter will be able to say: "I have satisfied myself about the standing of my customer"—(the exporter must still do that as he does now)—"I have his undertaking to pay if I will give him a little time to get his business going; I hold a bond which is issued by a foreign Government and secured by assets paid over to the League of Nations; the bonds are amply covered by the revenues assigned to their service, and there is a good margin for exchange risks; even if the worst comes to the worst and my customer fails to abide by his agreement, I am entitled to present the bond to the Government which issued it and ask them to redeem it by paying me the full amount due to me on my goods; and in the last resort I can still choose between the alternatives of holding my security until its due date, or handing it over to a holding company and borrowing on it, or selling out the collateral and being assured of finding a fairly ready market on account of the rapidity with which defaulters' bonds will be bought up by the League for the sinking fund."

Would it be reasonable, do you think, to refuse to trade on such terms as these? I scarcely think that British commerce would have established itself in the world as it has done if British traders had been in the



habit of refusing risks as negligible as those which remain to the exporter under the Ter Meulen scheme. But I can see that there are still two questions on which he might require to be satisfied. He would want to know that the collateral security which he holds is readily negotiable, and he would require protection against the risk of some social or political convulsion which might overtake, not only the individual in the foreign country with whom he trades, but even the Government and the country itself.

Now, the question of making Ter Meulen bonds readily negotiable is one which concerns, in the first place, the banks in the country of the exporter, and, in the second place, the investing public. So far as the banks are concerned, I am satisfied that they are very ready to co-operate with us if they can obtain from the Government some degree of protection against the exceptional risks of the present time. The British Treasury is usually mentioned only by those who wish to lay stress on its shortcomings. But I can tell you from my own experience that the Treasury is alive to the importance of restoring confidence as a first step towards recovery. The Government is prepared to go a long way—as far, I think, as it could be expected to go—in giving material support to the Ter Meulen scheme. You have all read the statement which Sir Robert Horne made in the House of Commons last Wednesday. But I would call your particular attention to a passage which was not, I think, very fully reported in the Press. He was speaking of the new Government offer to guarantee a large percentage of the invoice cost of the goods; and he went on to point out that the proportion of the invoice cost which the Government would be willing to guarantee must depend upon the nature of the security which the importer could put up. “We may guarantee,” he said, “as much as 85 per cent. upon approved security. But not necessarily in every case.” Now, the following words are what I want you to notice. I quote them from the verbatim report in Hansard. “Let us take a case in which an importer comes forward and tenders as security a Ter Meulen bond, representing the full amount of the purchase. If the price is really a fair price, he will get, upon that, a guarantee of 85 per cent. of the face value of the bond.”

That statement is worth remembering. It is a handsome response to my first suggestion. On a Ter Meulen bond the Government will—not “may,” but will—give the full guarantee of 85 per cent., if the price is fair, because the Government recognise that a Ter Meulen bond

is the best security that an importer could give. I think we should not have much trouble after that, so far as the banks are concerned.

But now as regards the public: I said we might have to rely upon the public in the second place, and you may remember that I held out some prospect that an exporter holding defaulters' bonds under the Ter Meulen scheme might be able to pass them on to a holding company. I foresee that if the Ter Meulen scheme is to be made effective on a large scale, we shall have to rely in the long run on public support, which takes the form not only of sympathy and understanding, but of cash. Some of you know that progress has already been made in this direction. Sir Philip Lloyd-Graeme knows it, too; and in the same debate which I have already quoted he referred to the “proposals which have been already made in one district.” He went on to say that he “believes they offer a very hopeful avenue.” That is a handsome response to my second suggestion. If the necessity arises of appealing to the public for subscriptions which will enable us to finance a revival of trade on these lines I am confident that we shall not be disappointed.

Now, you will be expecting me not to weary you with a more detailed exposition than I have already made. But there is just one other point which I should like to emphasise, and it is this. A great number of credit schemes of one sort and another have been propounded since the Armistice, and the only one which has stood the test of criticism, and won its way to official approval, is the Ter Meulen scheme. Now, why is this? It is not, I think, on account of its technical perfection that it has been accepted by the League of Nations, though technically it is more complete and compact than any other proposal I have seen. The real reason why it has survived and why it will be successful when it comes to be applied in practice, is, to my mind, this: that it is designed to foster, not a one-sided trade to the advantage of exporters who would like to be relieved of their stocks, not an artificial trade with countries or individuals who are not likely to make good, but a genuine, continuous flow of trade through the normal channels and for the advantage of everyone who participates. It is not the development of what I call bad trade, not the unloading of stocks at fantastic prices that we are going to secure, but a revolving movement of exports and imports in exchange for one and another, growing continuously in velocity and speeded up, as time goes on, by its own momentum. For that



reason I attach the greatest possible importance to working, so far as may be, with the accepted machinery of trade that already exists. The machinery is all there. It only wants lubricating; and being myself a man of affairs I have the greatest mistrust of all the elaborate innovations and improvisations which may tickle the imagination of theorists and bureaucrats, but are usually found, in practice, to lead to a lot of tiresome, expensive, and futile interference. Some interference there is bound to be. For example, we may have to ask the impoverished nations who are going to benefit by this scheme to surrender to the League of Nations a part, not, indeed, of their sovereignty, but of their unfettered control over assets which belong to them. And we shall have to ask exporters to accommodate themselves, to some extent, to the special conditions of the scheme, to put up with some formalities, some control over the transactions admitted to the privileges we offer, and even some disadvantages due to the special nature of the collateral security that will be made available to them. But you may take it from me that control will be reduced to a minimum, and that, so far as possible, I shall avoid any sort of interference with the methods and procedure which have become traditional because they have been found to be the most effective.

I hope I have satisfied you that in this undertaking I have the support and recognition of the Government, and that I can count on the co-operation of the banks. It only remains for me to obtain the assistance of the business community in Manchester and elsewhere, and the sympathy of public opinion throughout the country. If I may have that I shall feel very confident that by this credit scheme we shall be enabled to make at least a beginning with the great work of reconstruction that lies before European countries to-day.

In the meantime, I am working with the active assistance of a small committee with very wide powers. Mr. Ter Meulen himself is on the committee, Sir Henry Strakosch is chairman, and the only other member is M. Avenol, the Financial Representative of the French Government in London. My offices are at Trafalgar House, Waterloo Place, S.W. 1, in the same building as the offices of the League of Nations itself.

*April, 1921.*



