Canada's Currency Problems

Meaning of the Premium of New York Funds and on Gold — Bank Currency Fully Backed by Dominion Notes, but Latter are No Longer Redeemable in Gold

ARTICLE I.

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Official protestations that the Canadian dollar is sound and abuse of the "Yankees" for their unwillingness to accept it at par do not alter the fact that all is not well with our currency. There is no occasion for hysteria, or even of pessimism, but a condition exists which needs be remedied. That remedy can be applied most effectively if applied consciously and conscientiously by every individual Canadian in his working and his spending.

Canada's currency is depreciated. The Canadian dollar in international trade is not worth the full amount of gold for which it is nominally redeemable. Exportation of gold from Canada is prohibited, except under license of the Department of Finance, but gold producers in the Dominion are allowed to take advantage of the world value of the yellow metal. The gold mining companies have indeed been selling their output to the Dominion Government on the basis of New York funds, which today practically are interchangeable with gold, or marketing it in the United States when the Canadian Treasury was not buying. Dentists and others in Canada requiring gold have been obliged to purchase it in the United States. There is, then, a premium on gold when bought with, or sold for, Canadian paper money. That premium is approximately equivalent to the premium in Canada on New York exchange. Surely payment of such premium by the Ottawa Treasury is an admission of currency depreciation!

Prices not Rising Proportionately.

By forbidding exportation of gold, the Government could arbitrarily have forced a local value of gold below the world value and prevented any agio on gold in terms of Canada's fiat money. Indeed this was about the situation obtaining before the Canadian authorities conceded to the gold producers the right to secure payment on the basis of United States money. Such condition of affairs, however, was discouraging production and the danger was wisely recognized, and the injustice corrected. The result today is about 110 Canadian dollars (paper money) are required to buy 100 United States dollars (paper or gold currency) or 23.22 grains of fine gold—despite the fact that every dollar bill issued by the Canadian Government is a pledge to pay 23.22 grains of fine gold to the bearer on demand. In this sense, Canadian paper money is depreciated to an amount equivalent approximately to the exchange discount on Canadian funds and depreciation of currency is synonymous with depreciation of exchange. The validity of such definition may be challenged; admittedly, it does not necessarily involve that prices will be higher in a country where the currency is depreciated than in one where the currency is not depreciated and higher in exact proportion to the extent of the exchange discount. Currency depreciation is not a measure of domestic price inflation, although there generally is a relationship between them.

Market for Bills of Exchange.

The discount on Canadian money in New York is that discount necessary to attract enough buyers to absorb the supply of Canadian bills of exchange offered for sale. Such bills, upon analysis, will be found to be exchangeable not for gold at par, but for Canadian currency. The demand for Canadian bills may arise out of the purchase with United States money of Canadian goods or securities, out of remittances of money for deposit in Canada, or out of investments abroad in Canadian undertakings. Any development or policy which might be interpreted as reducing the probability of an early return to redemption in gold on demand of Canadian currency would operate to discourage United States buying of our promises to pay and thus to increase the exchange discount on Canadian funds. Likewise, any occurence which enhances public confidence abroad in an early return to an effective gold standard here will tend to improve adverse exchange. Exchange is, therefore, closely related to investment and the exchange rate is determined in part at least by the rate of return, prospective as well as immediate which foreign investors demand as a condition to taking up a surplus of bills of exchange and investing in Canadian securities or undertakings.

But while there is this depreciation of the Canadian dollar so far as concerns its power to purchase gold in the world market or to buy goods in countries whose currency is interchangeable with gold at par, Canadian prices and wages have only partially been adusted to the depreciated paper basis. Powerful frictional elements entering into the situation tend to prevent such exact, or even approximate, adjustment. The German mark for example, which at par is worth 23.8 cents in the United States, is now worth only fractionally more than one cent. The mark will only buy one-twentieth as much in the United States as would the gold equivalent of the mark, namely 5.53 grains of fine gold. Yet neither prices nor wages generally in Germany have been increased twenty times on top of the world increase when measured in terms of gold. By reason of the depreciation of German exchange, United States soldiers in occupied German territory have been receiving 3,000 marks monthly as the equivalent of their $30 in the United States money. It is said that there is not a German official in Coblenz receiving as high a salary as 3,000 marks per month, which fact in itself constitutes convincing evidence that the German mark will buy more at home than abroad and that prices and wages in Germany have not advanced pro rata as the international exchange value of the mark has fallen. During recent months German domestic market prices have been increasing rapidly,—tending, but only tending, towards adjustment to the international value of the mark. Indeed in Germany today there appears to be a wide range of prices and wages, with a striking lack of uniformity in different sections of the country. Among the factors offering partially effective opposition to such price -advances as would conform to the buying power of the mark abroad is the German consumer, with his limited purchasing power. Tradition and custom have much to do with it. Like Germany's much depreciated mark, Canada's slightly depreciated dollar will buy to better advantage at home than abroad. Nevertheless, a return to an effective gold standard would tend to reduce domestic prices as well as the depreciated currency equivalent of foreign prices.

Banks Have Not Inflated.

Inquiries have been made as to whether it is the "intention of the Dominion Government to restore the law making bank notes redeemable in gold." In fairness to the chartered banks it ought to be pointed out that on January 31 they held in their own vaults or on deposit in the Central Gold Reserves Dominion notes to the value of $273,718,036, while their combined note circulation amounted only to $216,691,916. There is no question as to the adequacy of the legal tender reserve behind Canadian bank note issues. By arrangement between the Government and the banks, the latter are still required to settle daily balances between banks in Dominion notes. The trouble is that the banks' tender reserve consists largely, as required by law, of Dominion notes and that the latter have lost temporarily their pre-war character as practically gold certificates. At the end of December, 1913, the Minister of Finance held gold "earmarked" for the redemption of Dominion notes to the amount of 83.76 per cent of the total circulation. The percentage today is only about 35. The banks have not been responsible in any way for such "debasement" of the "cash" reserves. Indeed, it is the situation in regard to Dominion notes which has put all our currency and even our deposits, mortgages, bonds, etc., on a depreciated basis. The development probably was inevitable under war conditions. Canada only followed much the same policy as did the Mother Country and, indeed, all the leading nations of the world. Even the United States, with its great wealth swollen by profits from war sales before that country entered the war, suspended specie payments for a short time, actually although without a fanfare of trumpets.

Canada's Cattle Not Increasing.

Our national stock of cattle today is, compared with population, exactly in the state it was twelve years ago. In simplest form, the number of cattle to inhabitants for three typical years was:

1908	1.12
1911	.90
1919	1.12

That is, the increase in cattle year by year has only kept pace steadily with the growth of domestic population; it has allowed no margin for more export trade.

Yet during those twelve years there has been a tremendous expansion in the overseas markets which might be served by Canada and all means of reaching those markets, transportation, shipping and marketing facilities, have been improved.

According to the returns of the Dominion Bureau of Statistics, the number of cattle was 7,546,000 in 1908, when the population was estimated at 6,650,000. In 1919, the number, including milch cows, was 10,083,000, with the estimated population slightly under 9,000,000.

Pure Gas For The Public

One of the most important improvements in the manufacture of coal gas has been perfected by the engineers of a gas company in London, England. They have contrived to extract from the gas all the carbon bisulphide—a substance which, when burned, has a deleterious effect on health and also on various materials. Throughout most of the nineteenth century, chemists and engineers strove to solve this problem, but success did not come till the year 1914. The war prevented the erection of a plant to carry out the process, but the way is now open for the general adoption of a method which will make a gas flame as harmless to its surroundings as a candle. The process is a catalytic one, the extraction of the impurity being effected by a substance which remains unchanged in spite of its activity. It may be added that British gas companies are now adopting the scientific principle of charging for gas on the basis, not of mere quantity, but of heat-value.