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THE CURRENCY QUESTION.

Mr. W. F. Maclean, M.P., the energetic paper money propagandist, was scarcely happy in his allusion in the House of Commons last week to the German system of financing as one of the best in the world, because it is based on the national credit. Thereby he gave the soundest possible condemnation to his own arguments. What the world thinks of the German system of financing that is so highly esteemed by Mr. Maclean is seen in the depreciation of the mark, now nearly 30 per cent. below par and very possibly destined to go much lower if the war is prolonged. Mr. Maclean, in the speech under notice, was much concerned that Canada should adopt "modern methods of financing." In point of fact, in substance if not in detail, the methods he advocates are, if not exactly "as old as the hills," much more than one century old. They have been tried over and over again, and the results have always been the same, in a depreciation of the paper currency which in many cases has become almost or entirely worthless, a rise in prices and the turning of the exchanges against the country indulging in the practise of this economic heresy.

A TRIFLING OPERATION.

Mr. Maclean, at present it seems, is keen that Canada should borrow a trifle of \$250 millions in New York, import this in gold and use it as the basis for a billion dollars of "national currency" to take the place of the present bank circulation. It does not appear to have occurred to Mr. Maclean that the New York bankers, who have some reputation as men of business, might decline the part which he has allotted to them. The whole proposal is, of course, fantastic and would not be worth a reference were it not for the fact that it has been presented with such assurance and vigor by its sponsor as to make it possible for some who have had no economic training, to consider that the scheme is entirely feasible and desirable. We wish that it were possible for every business man in Canada to read Sir Thomas White's exposition of sound money precepts given in reply to Mr. Maclean—it would be an education in fundamental principles which constitute an important part of the foundation of the whole structure of business.

THE PENALTIES OF PAPER.

Sir Thomas White put the whole paper money case with great clearness in speaking as follows:—

"My honorable friend says: Why not go to New York and borrow \$500,000,000 or \$250,000,000 in gold and then, to the extent of 25 per cent., make that gold a deposit against an issue of \$1,000,000,000 and then we will have plenty of money for the needs of Canada, plenty of money for the Imperial Government, plenty of money to purchase munitions and carry on the war. The idea is so apparently feasible, I might ask him: Why does not the Imperial Government gather up a thousand million dollars of gold and issue four thousand million dollars of paper money? Why does not any Government do that? It is very easy to turn on the printing press, even if you have a 25 per cent. reserve of gold, but nevertheless, to the extent that the notes are not required for the circulation needs of the community, your paper has been watered; to that extent you have made a forced loan without interest; and the inevitable result will be the depreciation of your currency. Let me give an extreme case. Supposing to-morrow the Dominion Government put out an issue of a thousand million dollars of paper. Who would take it? What would happen? The public would get it. They would take it in payment of services or for commodities, and they would deposit it in the banks. It would not be required for the circulation of the community, and the result would be that the banks of Canada would soon have tens of millions of dollars lying idle, not bearing any interest, and what would be the inevitable result? Why, a bank or a financial institution would say: We will take a bond because it bears interest, but we do not want a note, that is not needed for the circulation purposes of the country, lying idle and unremunerative in our vaults. And what would be the result? Gold would go to a premium and your note would go to a discount, and the inevitable result of a large issue of paper money, an issue of paper money beyond the circulation requirements of a community, would be depreciation in your currency, destruction of your credit, and the loss of the gold that your country has. There is no doubt about that whatsoever. To-day the circulation needs of this country are met by the bank circulation and by the Dominion note circulation. Increase it by \$10,000,000 and you get redundancy; increase it by \$50,000,000 and you get a great redundancy, and your notes are at a discount, and your gold at a premium. If there is anything we desire to avoid at this time, if there is anything calculated to damage the credit of the Dominion in New York or anywhere else, it would be to state that we were going to put out an issue of \$1,000,000,000 of paper against \$250,000,000 of gold.

DIFFERENCE BETWEEN BRITISH AND GERMAN METHODS.

In the subsequent debate, the Minister of Finance pointed out the difference between the German method and the British method of note issue since the outbreak of war. The German currency has been inflated, with the result of the depreciation in the German mark on the exchanges of the world. Great Britain, on the other hand, has issued paper for a specific purpose—to replace gold in circulation, in order that the latter might be conserved, and the note issue has not been increased beyond the circulation needs of the community. With regard to the Canadian Government note issue, at the present time, the gold backing against the issues of Dominion notes is just under 65 per cent., it having been modified slightly on the outbreak of war. (The issues of bank notes are secured by the assets of the issuing bank.) As the Minister pointed out, it is always possible to allow a certain margin between issues and the amount of their gold backing owing to a Government being able absolutely to rely on a proportion of currency always being in the hands of the people. But the margin between note issue and gold backing must be small enough to retain confidence in the ability of the Government to redeem the paper on demand—the confidence not merely of its own citizens but of foreign creditors.