

# Canada's Currency Problem

Free Exportation of Gold Would Deplete this Country of Yellow Metal in a Year—Dominion Now Holds 2 p.c. of World's Gold—Cunliffe Committee on British Situation

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## Article III.

The road to sound currency is the straight and narrow path of strict observance of contracts. As a nation we must make good on our pledges. It would, of course, be comparatively simple to announce a return to redemption in gold on demand but under present conditions difficulty would arise in maintaining such redemption. If exportation of gold were free, shipments in payment of our cash obligations abroad would quickly deplete this country's stocks of the yellow metal. On the other hand, it is questionable in how far any effective restraint could be maintained on the exportation of gold if gold were available within this country in exchange for Dominion notes. Hoarding probably would have to be expected; smuggling of gold out of the country could not well be avoided. Moreover, there would be no value in restoring demand redemption of our currency in gold unless the recipients were allowed to use such gold freely in international commerce. In permitting the mining companies to sell their gold to the United States, the Government has practically removed the restriction on the exportation of the metal. But the situation would be serious if exportation of gold were permitted freely and if the yellow metal were obtainable on demand in redemption of our paper currency. Indeed, our entire gold holdings would be gone in a year's time.

In December, 1913, Canada's visible gold stock, i.e., holdings by the Government and the banks, amounted to about \$142,000,000. At the end of 1919, it was higher by \$50,000,000. With a population of less than ten millions, or about one half of one per cent of the population of the world, the Dominion holds approximately 2 per cent of the world's gold. Moreover, gold mining in this country would augment our holdings of the precious metal by \$15,000,000 annually if the leak, resulting from the unfavorable condition of our international cash account, could be stopped. We have our fair share of gold, probably, if we can hold it and pay our obligations abroad with other goods. The real problem is so to order our trade relations that undue drainage of gold will not take place and to ensure that in our foreign relations we do not have aggregate cash obligations exceeding current cash receipts. Solution of that problem involves many considerations. In the large, it means a favorable balance of trade, when all items, invisible as well as visible, are taken into the reckoning. The magnitude of those invisible factors should be appreciated. Annual interest charges due abroad aggregate close to \$200,000,000. Shipping and insurance bills payable to interests outside Canada are costing at the rate of \$60,000,000. Moreover, Canada has been absorbing Canadian securities formerly held abroad and such repurchases have swelled the account against us. Then, too, it must be remembered that a large part of our exports during the war and a not inconsiderable part since have been on credit and, consequently, cannot properly be included in considering our cash position. Indeed they have counted against us, because Canada bought much of the raw materials in the United States for cash and sold the finished products to Europe on credit. Improvement of our export position means a gaining cash export business, if that is practicable under the present world exchange situation. Moreover, it involves greater production in this country in all necessary

lines. Imports must be reduced. The problem cannot be solved or the Canadian situation even materially bettered by shifting our buying from the United States to Great Britain or lower exchange countries. New York is practically the financial centre of the Dominion as well as of the United States, and in paying for imports from Great Britain or any other overseas country we must first buy New York funds. All Canadian purchases abroad add to the balance against us: every Canadian sale abroad contributes towards a reduction of that balance. Nor is there any permanent solution of the difficulty in the offers from United States producers and traders to divide the exchange with Canadian purchasers or, in some cases, to accept Canadian funds at par. The individual purchaser may escape part or all of the burden of exchange on a transaction of this character, which is only a refined form of dumping; nevertheless, his purchase adds to the balance against this country, tends to increase the general exchange discount on Canadian money and to increase the cost to Canadian consumers of absolutely necessary imports such as coal, cotton, oil, etc.

Pending the time when Canada can resume specie payments on demand, it is important that the Dominion should realize the importance of its problem and should make every effort to gain and to hold the confidence of foreign investors. Our national credit must be kept above

reproach. British financiers,—the most expert in the world—have been seized with the importance of this consideration. The Cunliffe Committee in its final report to the British Treasury several months ago made recommendations looking to the early restoration of an effective gold standard, including:

1. That an adequate sinking fund should be provided out of revenue, so that there may be a regular annual reduction of capital liabilities, more especially those which constitute the floating debt, and;

2. That the portion of the currency note issue which is not covered by gold should be restricted each year to the maximum of the preceding year. A Treasury minute issued last November adopted such fiduciary issue to £320,608,000 for the calendar year, 1920. Moreover, steady and substantial diminution of circulation of the Government's currency notes is being effected week by week.

These measures are earnest of good faith and a firm determination so to set Britain's financial house in order as to make possible resumption of specie payments at the earliest possible opportunity. On the other hand, the belief that France is not collecting sufficiently heavy taxation, but depending too much upon borrowing, unquestionably has had an important bearing upon the depreciation of the franc in foreign exchange. The credit of nations, like that of individuals, rests upon and changes with a number of factors. Canada is peculiarly dependent upon foreign capital for development purposes and it is of the utmost importance that our national credit be guarded jealously. Nothing can contribute more effectively to that end than adoption of such programme as will restore the parity between our currency and gold and renew the redemption of our national pledges. That programme must include greater production at home, reduced obligations abroad, thrift in the widest application of that term, and adequate but equitable taxation.

## German Trade Picking Up

The recent advance of the mark has greatly stimulated the demand in the New York market for both German currency and internal bonds. The demand has become so great (running at the rate of \$1,000,000 a day) that most of the larger dealers refused to accept orders for less than 50,000 marks, and a very limited number have placed the minimum at 100,000 marks. The demand for German securities is further increased by the growth of importation of German goods which are considerably in excess of what they were previously. Detailed trade figures have not yet become available but they are expected to show great increases in both German exports and imports. Had Germany's buying of raw materials been less extensive, the mark no doubt would have risen more sharply than it did.

The eagerness on the part of Americans to either speculate in German securities or hold them for investments is easily understood. We must realize that commercial and industrial Germany is in earnest in its efforts to regain stability, and is genuinely desirous of working to recover her pre-war position. This is wonderfully evidenced by the Leipzig Fair, which commenced last October, and which more than 120,000 visitors attended, or about 20 per cent more than at any previous fair. About 11,000 of the fair-goers were foreign buyers, chiefly from Holland, Norway, Sweden, Spain, and North and South America. The most important exhibits were those of the technical section, including many types of new machine tools, mechanical and electrical devices and novelties. The accuracy of the work done by the machinery exhibited, as well as the finish of the machines themselves, left nothing to be desired.

Other sections were toys, porcelain and crockery, aluminum-ware, construction materials for the building trades, musical instruments and jewelry.

## Languages Spoken in Brazil

Foreign languages, states H.M. Commercial Secretary at Rio de Janeiro, are read and spoken in Brazil in the following order: French, Italian, English, German and Spanish, the last-named being a very bad fifth. This language is, of course, understood by all educated classes, but it is neither read nor spoken. The leading bookseller of this city has stated that he did not sell one-hundredth part of the literature in Spanish that he did in German, and sales in the latter language are naturally somewhat restricted.

It is hoped that trading concerns dealing with Brazil, or desiring to do so, will realize that it is the literal truth that Spanish will not serve as the language medium. The bookseller alluded to above added that if the sale of a certain English publication submitted to him had been of interest to him he would sooner have it in English than in Spanish, if it were a choice between these two languages.

Growing conditions in the province of Ontario are reported on all sides as very favorable, fall wheat being in very good shape and preparations for seeding well under way. Fruit growers are optimistic over the season's prospects. Many farms are changing hands and wages of farm help have reached the record of from \$600 to \$750 per year.