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THE EXCHANGE RATE

VI.—What Controls It?

WE have already dealt with the principal Trade factors governing the Exchange Rate, and we now come to the influence of the Inflation of the Currency.

Before the great war, it was universally accepted that a paper currency should have behind it a very substantial gold (or silver) reserve. The purpose of this reserve was to admit of the redemption of paper currency on demand.

One method of war financing adopted by the belligerents was to increase their note issues without a corresponding increase in the reserves of gold. Redemption in full of the paper currency, therefore, became impossible. To retain the gold reserves then existing, these Governments refused, until the return of settled conditions, to redeem in gold any notes which they issued.

Canada made less use of this method than most of the belligerent countries, but the percentage of notes issued against the amount of the gold reserve held has risen considerably.

In the United States, the proportion of notes issued to reserve held did not rise to the same extent, and the comparison is one of the factors in the world valuation of our respective currencies.

Next week in article No. VII. we will deal with a second war measure which has had an important effect on the Exchange Rate, namely, the Restriction on the Export of Gold.

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