# Liquidation of Grain Credits Causes Contraction of Dominion Note Issues

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When, through the operation of the special grain credit of $100,000,000, the issues of Dominion notes against securities reached large proportions in the closing months of 1917, it was pointed out that on liquidation of the special loans in the early months of 1918, the extra issues of Government paper money would be cleared off or reduced. The returns of the Finance Department show that the period of contraction commenced in January, and that already a substantial reduction has been effected. In view of this development it will be interesting to trace the rise and fall of the paper money issues since August, 1917, in which month crop-moving in the western provinces commenced. Taking first the grand totals of bank and Government notes outstanding, as shown in the monthly returns, the record is as follows:

(Thousands omitted.)

| Date. 1917. | Gov't notes out. | Bank notes out. | Total. |
|---|---|---|---|
| August 31 .. .. .. .. | $182,100 | $156,450 | $338,550 |
| September 30 .. .. .. | 192,377 | 177,589 | 369,966 |
| October 31 .. .. .. .. | 229,063 | 189,852 | 418,915 |
| November 30. .. .. .. | 266,172 | 196,135 | 462,307 |
| December 31 .. .. .. | 272,934 | 192,923 | 465,857 |
| 1918. | | | |
| January 31 .. .. .. .. | 271,185 | 171,674 | 442,859 |
| February 28.. .. .. .. | 255,316 | 176,369 | 431,685 |

This statement shows a rise of roundly $127,000,000 in the four months ending December 31st, 1917, followed by a fall of $34,000,000 in the first two months of 1918—the net increase for the six months being $93,000,000. Actually the outstanding currency has been considerably less than the above figures show, for the banks have carried in the Central Gold Reserves during the whole period a varying amount of Dominion notes as security against over-issues of their own notes. Thus the Dominion notes lodged in the Central Reserves appear as Government notes outstanding, while the bank notes to the same amount, for which the legal tenders serve as cover, also appear as bank notes outstanding. The Dominion notes pledged in Central Reserves amounted to $36,610,000 on August 31st, 1917; $77,590,000 on December 31st; and $56,490,000 on February 28, 1918. Therefore, after making this deduction, the amounts outstanding would be $301,940,000 on August 31st; $388,267,000 on December 31st; and $375,195,000 on February 28th. The increase from August to December becomes $86,000,000; the decrease from December to February, $13,000,000; and the net increase for the six months, $73,000,000.

The banks held in their own vaults on August 31st last $120,000,000 of Dominion notes; and on February 28th, 1918, their holdings had increased to $173,000,000. Also between August and February the amount of bank notes held by the banks themselves (by banks other than the issuers of the notes) increased from $17,000,000 to $19,000,000—a matter of $2,000,000. So the amount of paper currency actually in the hands of the public shows a net gain of but $18,000,000 for the six months. With reference to the Dominion notes held directly and indirectly by the banks, which holdings amount to from 80 to 90 per cent. of the total Dominion issue, it should be remembered that they serve a peculiar purpose. In ordinary times these legal tender notes have been regarded by the banks as being practically equivalent to gold certificates. Before the war the law required the Government to hold dollar for dollar in gold against all issues in excess of $30,000,000; and on July 31st, 1914, the gold reserve against the notes represented over 80 per cent. of the issue. In those days whenever the balance of payments ran strongly against Canada in the international markets, the banks could always rectify the situation through presenting a few million dollars worth of Dominion notes to the Receiver General and shipping to New York the gold he turned over in exchange. After the commencement of the war it was obviously impracticable to continue paying gold on demand for all Dominion notes as presented. Canada has been under obligation to pay huge amounts to the United States in various connections; and if we had allowed gold to go out freely whenever exchange was decidedly against us, our store of that metal would have been exhausted long ago.

The special issues of Dominion notes against approved securities, presumably in connection with the grain credits, apparently began in September. In that month there is a record of "notes outstanding against deposits of approved securities under the Finance Act, 1914, $11,450,000." The following table shows the course of the Dominion note issues since that month with the respective monthly holdings of gold and approved securities relating thereto:

**DOMINION NOTES**

(Thousands omitted.)

| 1917. | Outstanding. | Issues Against Gold Reserve. | Issues Against Approved Security. |
|---|---|---|---|
| August .. .. .. .. | $182,100 | $119,978 | ..... |
| September . .. .. .. | 192,377 | 119,877 | $11,450 |
| October .. .. .. .. | 229,063 | 114,616 | 53,620 |
| November .. .. .. | 266,172 | 114,666 | 91,070 |
| December.. .. .. .. | 272,934 | 114,771 | 98,270 |
| 1918. | | | |
| January .. .. .. .. | 271,185 | 114,694 | 92,820 |
| February . .. .. .. .. | 255,316 | 114,749 | 81,070 |

So, while the percentage of gold reserve has dropped from 65 to 45 during the six months, the securities held more than account for the increase of the issues. Between August and February, the net expansion of the note issue is $73,000,000, while the issues against securities amounted to $81,000,000. The securities pledge against the special issues of Dominion notes are understood to be largely British treasury bills which the banks received as collateral to their loans to the Wheat Export Co. However, they may not be exclusively British treasury bills — as the Government accepts other approved securities.

It is understood that the method followed in the fall was for the banks to deposit their securities with the Treasury officials and receive Dominion notes in exchange — the banks paying interest on the loans. The contraction of the total Dominion note issues between December and February, it will be observed, is fully represented by the contraction in the issues against approved securities — the difference in each case being $17,000,000. On turning to the bank returns we find that the decrease in bank holdings of Dominion notes corresponds roughly with this contraction. In their own vaults and in Central Gold Reserves the banks had $245,000,000 of Dominion notes on December 31st, and $230,000,000 on February 28th, 1918. During January and February there is always a movement of small Dominion notes ($1, $2 and $5) from general circulation into the banks; and this movement would easily account for the $2,000,000 difference. Another point is that between December 31st and February 28th, the banks balances and call loans abroad increased roundly $18,000,000. Of course, there would be a variety of movements combining to produce these results, but at the same time it is possible to trace a certain connection between the items. Thus, if the banks received payment in the form of New York funds, of part of the monies advanced to the British Government, this would increase their balances and funds in New York. The next step would be to pay back to the Dominion Treasury the money borrowed there for the purpose of carrying the grain credits. These repayments would be in the form of Dominion notes and they would reduce the bank holdings of these notes as shown in the monthly returns. On receipts of the Dominion notes the Finance Department would surrender the securities held by it against the relative loans, and cancel the Dominion notes that had been turned in. Thus the contraction of Dominion issues would be accounted for. It might conceivably happen that the banks on receiving payment, out of the Victory Loan proceeds, of short date loans made by them to the Dominion Finance Minister, would use these funds in part to retire the loans made to them by the Treasury to help carry the grain credits; but such repayments would not give the banks funds in New York, so the evidence favors the presumption that the grain credits are now in course of liquidation. The whole set of developments illustrates how quickly our currency and exchange situation will be improved when we commence to receive large cash settlements from the Mother Country on current of the credits granted during the past two or three years.

# Home Rule for Ireland

**Conditions of Four Schemes Compared.**

**1886.**

The supremacy of the Imperial Parliament in no way to be diminished.

Creation of an Irish Legislative body, composed of two branches, an Upper and Lower House.

Irish Parliament to have no right to make laws regarding treaties, trade, navy and army, the endowment or establishment of religion, or to interfere with denominational education.

No Irish members to be retained in the British House of Commons, and no Irish representative Peers in the House of Lords.

The Royal Irish Constabulary to remain under control of the Irish Lord Lieutenant.

Customs and Excise duties to remain under control of the Imperial Parliament. All other taxes to be collected by the Irish Parliament.

Irish Parliament to have control of the post office and telegraph service.

**1893.**

Supreme power of the Parliament of the United Kingdom to remain undiminished.

Irish Parliament to be composed of two separate houses (1) a Legislative Council of 48 members; (2) a Legislative Assembly, of 103 members.

Ample guarantees for the protection of the rights and religious liberties of the Protestant minority.

Eighty Irish members, to be elected by constituencies, to remain in the British House of Commons.

Irish Constabulary to remain under control of Lord Lieutenant, but would ultimately cease to exist.

Irish Parliament to collect all taxes excepting customs and excise.

Irish Post Office to remain under British control until Irish contributions to the British Exchequer are revised.

**1912.**

Supremacy of the Imperial Parliament to remain unaffected.

Irish Legislature to be made up of two Houses: (1) a Senate of 40 members, nominated by the Imperial Government for five years, and after that elected by the four provinces of Ireland; (2) a House of Commons of 164 members elected by constituencies.

Irish Parliament unable to legislate on peace, war, foreign treaties, religion, etc.

Forty-two Irish members to be retained in the British House of Commons.

The Royal Irish Constabulary, after six years, to come under Irish control.

Irish Parliament to have control of all taxes except customs, excise and income tax.

Irish Parliament given right to increase rates of excise duties, customs (beer and spirit duties), stamp duties (with certain exceptions), and could reduce any tax except customs, excise and income tax, also the right to levy any new tax, except customs.

Post office to be placed under Irish control, with temporary exception of the post office savings banks.

New loans may be raised by the Irish Parliament, but it cannot interfere with existing loans.

**1918.**

**(Plunkett Report.)**

Imperial Parliament to remain supreme. (This is mere formality to be taken for granted.)

Irish Parliament to be composed of two Houses, Nationalists guaranteeing that 40 per cent. of the Lower House should be Unionists.

Ireland to contribute to the cost of the Imperial service.

Irish representation in the Imperial Parliament to continue; the Irish members at London to be elected by the Irish Parliament.

Complete Irish power over all internal legislation, but, pending a decision concerning customs, imposition of duties and excise to remain with the Imperial Parliament, the proceeds of taxes to be paid into the Irish exchequer.