

## Dominion Note Circulation

The war has introduced numerous complications into the relations of the Banks with the Government

By H. M. P. ECKARDT.

In the fall months of 1917 there occurred a remarkable expansion of the Dominion note circulation. On August 31st the outstanding issues of the Government amounted to \$182,100,000, and on October 31st they were \$229,063,000. The increase for the two months therefore was \$47,000,000—the gold reserve held against the notes being \$119,978,000 on August 31st, and \$114,616,000 on October 31st. There is appended to the Finance Department's statement of October 31st a notation to the effect that the Dominion notes outstanding against approved securities, under the Finance Act, 1914, amounted to \$53,620,000. Although the statement of circulation and specie for November 30th, had not been published in the Canada Gazette at the time of writing this article, the Department had issued its November statement of the Public Debt, and in that exhibit the Treasury's liability in the form of Dominion notes appears as \$263,247,000, indicating that a further expansion of the legal tender issues, presumably against securities as in the case of the September and October issues, had been made in that month.

It will be well to explain by what authority these new paper money issues were made, and to discuss the character of the special security that is behind them. Section 4 of the Finance Act, 1914, empowers the Governor-in-Council, by proclamation published in the Canada Gazette, to "authorize the making of advances to the chartered banks and to the savings banks to which the Quebec Savings Act, 1913 applies, by the issue of Dominion notes upon the pledge of securities, deposited with the Minister, of such kind and amount as may be approved by the Treasury Board; such advances to be repayable at such times as the Board may determine with interest at a rate likewise determined by the Board of not less than 5 per cent per annum. Then, a subsequent clause declares that "the securities deposited with the Minister under this section shall, as respects the Dominion notes issued hereunder, be deemed to be the security required to be held by the Minister under Section 5 of the Dominion Notes Act, 1914." Section 5 of the Dominion Notes Act here referred to is the one requiring the Minister to hold as security for the redemption of Dominion notes, 25 per cent. in gold against the first \$50,000,000. So this constitutes the legal authority for counting, as cover for the special issues of Dominion notes, in lieu of gold, the securities received from the banks in connection with loans.

### COMPLICATIONS.

The war has introduced numerous complications into the relations of the banks with the Government. The man in the street in some cases finds it difficult to understand a situation in which the Government is making large loans of Dominion currency notes to the banks, while the banks on the other hand are making even larger loans to the Government through discounting its promissory notes at three or four months' date. However, the problem admits of a satisfactory explanation. It is necessary to remember the various classes of bank loans to Government. Sir Vincent Meredith told the Bank of Montreal shareholders on Dec. 3, that the banks then had loaned the Imperial Government \$100,000,000 in connection with the special grain credit; that they were also carrying further British Government loans of \$160,000,000 in connection with the purchase of munitions; and finally that their advances to the Dominion Government for war purposes at that date aggregated \$147,000,000. Here is a grand total of \$407,000,000 loaned by the banks to the Dominion and British Governments for war purposes. The fact of the matter is that these loans are too large. Having put such a tremendous aggregate into Government loans, the banks were short of funds for making the ordinary loans and advances to their commercial and industrial customers. Hence the new issues of Dominion notes. The banks deposited with the Minister approved securities—perhaps the British Treasury bills—and he loaned them newly issued Dominion notes. Apparently the amount of such loans on October 31st, was \$53,000,000; and it may have risen to something like \$80,000,000 or November 30th.

It is to be noted that the banks must pay at least 5 per cent. on the money borrowed from Govern-

ment, whereas the Dominion currency notes in which they received the proceeds yield no revenue. Owing to the great demand for currency for crop-moving purposes, the banks were able to utilize a portion of the newly acquired Dominion notes through depositing them in the Central Gold Reserves, and issuing their own notes thereagainst. This virtually meant loaning the legals (in the form of bank notes) to their customers on short date grain drafts and notes. In January the bank notes will come in from the grain fields; the Dominion notes lodged with Central Reserves will be released; legal tender notes will be piled high in the bank vaults; and the obvious thing for the bankers to do will be to pay off the loans they had from the Government through returning the Dominion notes to the Treasury. The Treasury then surrenders the securities and the Dominion note circulation falls.

However, the return of the bank note circulation from the wheat fields in January is not likely to lead to cancellation of all the extra issues of Dominion notes. Contraction of the bank circulation may reach \$25,000,000 or \$30,000,000; while the special loans by Government to the banks on November 30th were apparently about \$80,000,000. Perhaps it would be safe to assume that the remainder of \$5,000,000 or \$55,000,000 of Government loans to the banks, will be represented by the balance due to the banks by the British Government in connection with the grain credit; and it may be the case that the final cancellation of the extra issues of Dominion notes will have to await the liquidation by Britain of its debt to our banks on the grain transaction. For this transaction the banks presumably hold the obligation of the British Government backed up by documents carrying title to the grain. It is conceivable that the Dominion Government, in addition to paying off its own debts to the banks, may out of the Victory Loan proceeds take over a part or all of the dead weight loan of the banks to the Imperial

authorities on grain. If that were done the Victory Loan proceeds would furnish the means of contracting the Dominion note issues to the level of last August. It would be indefensible for the Dominion Government to degrade our admirable currency system through using the printing press to create uncovered legal tender notes to be issued to meet its own expenses. The Government is not doing this—it provides for its own expenditures by means of short date loans at the banks, followed by issues of bonds. So long as the bonds can be marketed that is the safe and proper course. Its issues of notes, as mentioned above, have been for the purpose of making loans to the banks, and the loans are of such a nature that they will liquidate themselves.

### GOLD.

Taking the Dominion note circulation of \$229,000,000 as at October 31st, the security consisted of gold, \$114,600,000; and approved securities, \$53,600,000. The total security therefore was \$168,200,000. The security required by law is 25 per cent. of the first \$50,000,000 issues, \$12,500,000; and dollar for dollar on the remainder, \$179,000,000—or roundly, \$191,500,000. The deficiency of reserve is \$23,200,000, about the same as reported in the spring and summer months since the outbreak of war. If the assumption that the banks have pledged their British Treasury bills as security for the loans procured by them from the Finance Department at Ottawa is correct, the security behind the extra issues of Dominion notes, would be as follows: first the notes are a direct obligation of the Government of Canada; next, the British Treasury bills pledged against the issues make the British Government responsible; thirdly the Finance Department holds the obligations of the Canadian banks, and these obligations give a reversionary right to claim upon the grain and other products into which the banks have put the proceeds, and to which they hold title. Clearly, the security is ample; but nevertheless the excess issues of unconvertible paper should be retired at the earliest opportunity.

The special loans by the Dominion Government to the banks are apparently reported by the latter in the monthly bank return as balances due to Dominion Government. Allowance should be made for these in scanning the bank return. They make it appear that the Government's chequing balances in the banks are greater than is actually the case.

### EGGS AND BUTTER IN STORAGE.

A big decrease in the quantity of eggs and butter in cold storage on December 1, as compared with November 1, is shown in the monthly report of the Acting Commissioner of the Minister of Labor, re cost of living. The term "cold storage" is not used in a technical sense. Practically all the large fish companies of Canada now report their holdings. The quantities on hand on the 1st December, 1917, and the 1st of November, 1917, are as follows:

	Nov. 1.	Dec. 1.
Eggs .. .. .	14,917,224 doz.	6,819,169 doz.
Butter .. .. .	17,023,477 lbs.	13,934,202 lbs.
Beef, fresh and frozen .. .. .	35,999,693 lbs.	47,289,581 lbs.
Cheese .. .. .	13,772,101 lbs.	15,809,639 lbs.
Beef, pickled .. .. .	794,525 lbs.	804,099 lbs.
Beef, total .. .. .	36,794,218 lbs.	48,093,680 lbs.
Pork, fresh and frozen .. .. .	5,916,597 lbs.	6,406,062 lbs.
Pork, pickled .. .. .	14,023,740 lbs.	14,680,159 lbs.
Pork, total .. .. .	19,940,337 lbs.	21,086,221 lbs.
Bacon, ham and smoked meats .. .. .	10,513,846 lbs.	10,971,611 lbs.
Mutton and lamb .. .. .	2,637,786 lbs.	4,610,444 lbs.
Fish .. .. .	17,783,537 lbs.	12,181,275 lbs.
Poultry, all varieties .. .. .	1,716,986 lbs.	2,216,236 lbs.

The above figures for December include the reports of 140 cold storage plants, and cover 99 per cent. of all the cold storage companies of Canada. To estimate the total quantity of any of the commodities in Canada and under control of cold storage companies, add about 10 per cent. to represent goods in transit.

The following statement shows the distribution of the total quantities of each of such commodities in store December 1st, 1917, reported according to established districts:

	Provinces	Maritime.	Quebec.	Ontario.	Toronto.
Eggs .. .. .	396,595	1,613,360	1,548,800	1,017,500	
Butter .. .. .	1366,828	2,812,329	1,202,245	2,987,991	
Cheese .. .. .	198,612	9,513,482	2,716,818	2,191,743	
Beef .. .. .	1,711,574	5,425,902	384,579	12,428,134	

Pickled beef .. .. .	19,400	386,411	34,750	303,929
Pork .. .. .	6,245	490,815	1,303,438	2,185,773
Pickled pork .. .. .	12,533	410,087	2,154,406	5,945,569
Bacon .. .. .	50	831,102	2,327,352	1,476,878
Ham .. .. .	75	236,389	304,139	86,445
Ham and bacon .. .. .	107,332	667,673	295,200	3,829,491
Mutton and lamb .. .. .	1,179,258	495,450	62,092	1,875,718
Poultry .. .. .	34,267	460,104	191,339	438,666
Fish .. .. .	4,242,295	536,600	1,878,885	1,380,097

	Sask. and Yukon and	Manitoba.	Alberta.	B. C.
Eggs .. .. .	1,231,332	657,212		354,280
Butter .. .. .	2,072,255	2,061,036		1,431,518
Cheese .. .. .	348,279	673,287		167,426
Beef .. .. .	14,425,192	11,533,882		1,381,217
Pickled beef .. .. .		59,606		
Pork .. .. .	526,400	1,839,031		54,360
Bacon .. .. .	199,583	105,574		35,932
Ham .. .. .	287,711	77,864		33,718
Ham and Bacon .. .. .	18,908	39,595		10,600
Mutton and lamb .. .. .	426,610	544,858		26,458
Poultry, all varieties .. .. .	436,411	593,193		212,256
Fish .. .. .	535,416	588,190		3,709,792

### ASIATIC EPIGRAMS.

(From the Asia Magazine.)

Cheats never starve in an avaricious country.  
It is hard to chase two hares.  
The eyes are of little use if the mind be blind.  
Stagnant water becomes putrid.  
Live contented and you will be a king.  
A pleasant voice brings a snake out of its hole.  
The breath of the gnat will not put out the sun.  
The stag and the tiger do not stroll together.  
It is not as safe opening the mouth as keeping it shut.  
We do not cook rice by babbling.  
A man's conversation is the mirror of his heart.  
Be the pig white or black it is still a pig.  
One rushing between two camels is kicked by both.  
Who masters his tongue saves his head.