

The Monetary Times

Trade Review and Insurance Chronicle

Vol. 50—No. 14

Toronto, Canada, April 5, 1913

Ten Cents

The Monetary Times OF CANADA

PUBLISHED EVERY SATURDAY BY THE MONETARY TIMES
PRINTING COMPANY OF CANADA, LIMITED

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The Monetary Times was established in 1867, the year of Confederation. It absorbed, in 1869, The Intercolonial Journal of Commerce, of Montreal; in 1870, The Trade Review, of Montreal; and The Toronto Journal of Commerce.

Terms of Subscription, payable in advance:

Postpaid to any address in the Postal Union:

One Year	Six Months	Three Months
\$3.00 (12s.)	\$1.75 (7s.)	\$1.00 (4s.)

Copies Antedating This Issue by More Than One Month, 25 Cents Each.
Copies Antedating This Issue by More Than Six Months, 50 Cents Each.

ADVERTISING RATES ON APPLICATION

HEAD OFFICE—Corner Church and Court Streets, Toronto.

Telephone Main 7404 7405 or 7406. Branch exchange connecting all departments. CABLE ADDRESS—"MONTIMES, TORONTO."
Winnipeg Office—Room 820, Union Bank Building. G. W. Goodall, Western Manager. Telephone Main 2914.

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London Office—Grand Trunk Building, Cockspur Street. T. R. Clougher, Business and Editorial Representative. Telephone 527 Central.

All mailed papers are sent direct to Friday evening trains. Subscribers who receive them late will confer a favor by reporting to the circulation department.

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THE CREDIT SUPERSTRUCTURE AND ITS BASE

In reviewing world conditions during the past year, for the benefit of his stockholders, the chairman of one of the great London banks mentioned that in Canada there had been great prosperity, and the liabilities of the banking institutions showed important increases, but the additions to the stock of gold were comparatively unimportant. Taking our position at the end of the year 1912, the visible amount of gold in the country was \$137,856,879—the Dominion Treasury holding \$104,076,546 and the chartered banks \$33,780,333. At the end of 1911 the banks held \$37,464,226 and the Treasury had \$100,630,792—the total being \$138,095,018. So during the year there was a slight decrease, about \$240,000, in the visible stock of gold in the country; and during the first two months of 1913 a further diminution in the stock of metal held in the Dominion occurred. At the end of February, 1913, the banks held \$37,592,441 and the Treasury held \$98,782,004—the total being \$134,374,445, which is about \$3,500,000 less than the holding of December 31st, 1911.

Now, this gold constitutes the better part of the base or foundation of the mass of credits by which the business of the country is carried on. However, the gold held at home does not represent the whole of the metallic foundation on which Canada's credit structure rests. The banks have a certain command over the cash resources of New York and London. By exercising this command they have it in their power to bring in some gold from abroad for the purpose of strengthening the credit structure at its base if that becomes necessary. Thus at the end of 1911 they had in net bank balances in London, balances in New York, and call loans elsewhere than Canada, about \$134,000,000. The February bank

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statement showed a satisfactory increase over January in these loans and balances; but even after that addition the total amounted to but \$126,000,000, or \$8,000,000 less than the total shown fourteen months earlier.

While this outside fund constitutes a most important part of the reserve against liabilities, it cannot be ranked as equal to the specie held at home, for the simple reason that it could not be converted suddenly into an equal amount of specie for transmission to Canada. Theoretically, the banks can call in their loans abroad, engage gold at the New York sub-treasury, and express it to Canada. In actual practice that process would work all right up to a certain amount; but the New York market would offer resistance when the loss of gold reached certain proportions. In case of a sudden outgo that point would be reached probably long before \$50,000,000 gold had been lost. After that, our banks would have to take payment in other ways.

So we see that the basis of the credit structure in Canada consists of \$134,000,000 gold plus an indeterminate amount of gold realizable from the outside reserve of \$126,000,000. It has also been shown that the basis of the structure underwent a slight shrinkage during the past fourteen months. Now, how about the superstructure? There is no difficulty in discovering that the credit structure above ground was considerably enlarged in this period. Bank liabilities increased from \$1,174,323,431 to \$1,252,269,981—a matter of \$78,000,000. It is certain that liabilities of railway companies, industrial companies, mercantile companies, loan and mortgage companies, trust companies, realty companies, and private individuals, not reflected in the bank figures just given, must have also increased largely during the period. That is indicated by the increased footings of balance sheets issued by the public and semi-public companies. Hence we have to consider an important growth in the size of the superstructure coincident with a shrinkage of the foundation. We also know