

Will Canada Import Gold this Fall?

The indications are that the crop movement will be largely handled by means of excess issues of bank notes; and we may have no acute need of gold.

By H. M. P. ECKARDT.

Although New York exchange has been quoted at a premium in Montreal and Toronto for a number of months, a discount is now in evidence, and the rate quoted at the time of writing this article would probably bring gold to Montreal under normal conditions. Ordinarily in the fall months the balances and funds in New York owned by the Canadian banks increase rapidly as a result of our exports of grain and other produce to Europe—it being the custom of the banks to negotiate in the American market the sterling bills drawn against the produce shipments. Not infrequently this accumulation of funds in New York leads to gold shipments to Montreal or Toronto. As some of the large import movements in past years occurred in November, and as a number of important Canadian banks close their fiscal year on November 30th, our American friends have opined that the gold was wanted by us for window dressing purposes on these occasions. Sometimes exchange would move against us a few weeks later, and perhaps a return movement of gold to New York would then set in. When this happened, the circumstance of course lent support to the window dressing theory; but as a general rule our pre-war gold imports were retained and added definitely to our reserves.

A recent dispatch from Montreal to the Toronto Globe referred to the favorable turn in the American exchange, occurring in the latter part of September, as being due to the working of the special grain credit established by the Canadian banks in favor of the British Government's purchasing agents in this country. Under the terms of that arrangement the British Government pays cash for Canadian grain on its arrival at the Atlantic seaports. Thus, as the Globe's Montreal correspondent explained, there would be an intermediate or preliminary period during which the funds of the banks would be very fully occupied; and apparently some of them have undertaken to finance this period through drawing on their existing balances or funds in New York, with the intention of restoring the external reserves as soon as the payments from the British authorities came in. The process would be to sell New York drafts in Montreal and Toronto, and thus obtain funds through the local clearings. Ordinarily when such sales of exchange sent the discount to around 3-64 per cent, gold would commence to move in our direction, but the arbitrary war measures instituted here and in the United States now prevent a free movement of the metal in either direction.

Until the United States entered the war, the gold imported by that country far exceeded the exports. Between July, 1914, and April, 1917, the net import of gold amounted to \$1,000,000,000. Most of this enormous mass came from Great Britain and France, both of which countries were obliged to ship gold continually to supplement their borrowing operations in the United States and pay for the huge quantities of supplies they drew from America. Since the American declaration of war last April, the Washington Government has been lending the Allies from week to week, the amounts required to settle for their purchases in the United States, and the shipments of British and French gold ceased. Consequently as there was a steady outgo to Japan, Spain and South America, the American exports of gold in the last six months have exceeded the imports. In case of Japan the balance of trade justified gold shipments, but in Spain's case the trade balance was decidedly in favor of the United States. Nevertheless, the exchange with Spain was adverse. The unfavorable state of the Spanish exchange was supposed to be due to the transfer to New York of British and French obligations. However, there was room for suspicion that Germany or German companies benefited in some underhand manner from the movement of American gold to Spain and to South America; and this is supposed to be one of the reasons why the United States Government recently prohibited all exports of gold except under license. It will not seriously hurt the United States or Britain if their exchanges with the small neutral states depreciate, as the great bulk of their trade is with each other. And there is much to be said in favor of keeping the gold resources of the principal Allied nations in their own control until the war is decided.

Now this prohibition of gold exports apparently applies to Canada as well as to other nations. Ac-

cording to a news item of a few days ago, manufacturing jewellers in the Dominion who have been accustomed to get their supplies of gold in the United States are now unable to import, because the necessary export license has been refused. Perhaps the case of the Canadian banks would be given more favorable consideration if they should experience the necessity of bringing in gold. It is conceivable that absolute prohibition of gold shipments to Canada might interfere to a certain extent with the crop financing movement, or in some other way threaten to injure Canada or the Allies. If any serious consequences of this nature appeared to be in prospect, it is to be anticipated that the American order would be modified to suit Canada's peculiar circumstances. The British and American authorities are working financially in closest concert, and our Finance Minister is more or less in continual touch with them.

In connection with international movements of gold, the bankers in London and New York have developed a system of earmarking deposits of the metal. For example, the Indian Government sometimes instructs the Bank of England to debit its current account at the bank with a round amount—say £500,000—and earmark that much of the gold in its vaults as belonging to the Government. In the same way our banks sometimes instruct their New York correspondents to earmark round amounts of gold. Suppose a Canadian bank had \$4,000,000 at its credit in one of the big New York banking institutions, and wished to increase its specie reserve for a short time. The Canadian bank might instruct the New York bank to debit its account with \$2,000,000 and hold the

amount in gold in its vaults earmarked as the property of the Canadian bank. Then, perhaps, within a short time, the necessity for holding the extra specie having passed, the Canadian bank would instruct that the "earmarked" gold be recredited to its account. In this way the Canadian institution could properly report the \$2,000,000 as specie "elsewhere than Canada." There is no need to ship the gold to Montreal and back again. So far as the New York bank is concerned the \$2,000,000 gold passes out of its control just as effectively as if it had been exported. The New York institution must report a decrease of \$2,000,000 in deposits, with a corresponding decrease of its stock. In case of the earmarked gold the New York bank's position would be that of a warehouseman with full responsibility for safe-keeping; whereas, after the gold is replaced to the credit of the depositor's account the New York bank is merely the debtor of the Canadian bank for the amount of the balance.

At first when the Washington prohibition of gold exports was proclaimed, it was thought that it would still be open to the Canadian banks to have gold earmarked for this account as above described; but an item in the New York Journal of Commerce, September 28th, shows that this impression was incorrect. This states that on the preceding day a circular letter was sent by the Federal Reserve Bank of New York "to all financial institutions in the district, as well as private bankers and others, requesting them not to earmark gold in their vaults for foreign account, except with the approval of the Federal Reserve Board. It was pointed out that such earmarking was tantamount to the exportation of gold. The bank also requests them to report for confidential use of the Federal Reserve Board all amounts of gold which they already hold earmarked for foreign account."

The indications are that the crop movement will be largely handled, in the early stages, by means of excess issues of bank notes, much of the increased circulation perhaps being subject to tax; and we may have no acute need of the gold.

BRITISH EMBARGO ON EXPORTS TO NEUTRALS.

The British Official Gazette of Oct. 3, prints a proclamation prohibiting the exportation to Sweden, Norway, Denmark and the Netherlands of all articles except printed matter of all descriptions and personal effects accompanied by their owners.

Great Britain's embargo on the export of all supplies to the Northern European neutral countries, just announced, was declared after every phase of its possible effect was gone over in conferences between American and Allied statesmen.

American officials, it was learned today, initiated the discussions and insisted that the British step be taken to make sure that there be no nullification of the purposes the United States Government had in view in putting into operation its own embargo. The step indicated that the Allies have united in a decision that the neutrals must cut off the shipment of all supplies to Germany. American officials and some of the Allies heretofore have hesitated as just how far to go in demanding cessation of trade between the neutrals and Germany. At one time it appeared they would ask no more than that neither Allied goods nor materials supplanted by Allied commodities be sold in Germany by the neutrals.

The new policy can be accomplished through rigid embargoes applied by all the Allies. The neutrals cannot exist without British and American supplies, and within the next two or three months all of them are expected to declare flat embargoes on the export of their commodities to all countries. This will hit England as well as Germany, but the British, who can draw on the United States, are in a position to do without neutral goods, while Germany, cut off from the rest of the world, cannot exist, officials here say, if neutral shipments cease.

To those familiar with the military and economic situation in Germany, the new policy indicates that the Allied governments have come to the conclusion that by making every use of economic weapons the war will be ended much more quickly than by military supremacy alone.

While the American and British embargoes cut off virtually all supplies to the European neutrals, there still is the chance that some goods will reach them from South America, despite the British blockade. To meet this situation, the United States and Great Britain are prepared to embargo coal shipments to South America if necessary, and are ready to refuse bunker coal to European neutral vessels that may attempt to engage in this trade.

A GERMAN ON GERMAN POLICY.

An eminent New York banker speaks.

Otto H. Kahn, of the New York banking house of Kuhn, Loeb & Co., addressing the Harrison Chamber of Commerce, denounced last week the German governing party. Mr. Kahn said that he had watched the spirit of the Prussian governing class, using every agency for moulding the public mind. He had watched it proceed with relentless persistency and profound cunning to instil into the nation the demoniacal obsession of power-worship and world-dominion, to modify and pervert the mentality, even the very fibre and moral substance of the German people.

"I have hated and loathed that spirit," continued Mr. Kahn, "and hated it all the more as I saw it ruthlessly pulling down a thing which was dear to me—the old Germany to which I was linked by ties of blood, by fond memories and cherished sentiments."

"From each of my visits to Germany for twenty-five years, I came away more appalled by the sinister transmutation Prussianism had wrought amongst the people and by the portentous menace I recognized in it for the entire world."

"And when this war broke out in Europe, I knew that the issue had been joined between the powers of brutal might and insensate ambition on the one side and the forces of humanity and liberty on the other, between darkness and light."

Mr. Kahn then makes a strong plea to foreign-born Americans, concluding with "He who, secretly or overtly, tries to thwart the declared will and aim of the American nation in this holy war, is a traitor and a traitor's fate should be his."

MONTREAL TO BULAWAYO.

At the recent executive meeting membership applications or inquiries were received from brokers or agents resident in places as widely distant as Montreal and Bulawayo. This is largely due to the publicity given to the work of the Corporation by the Insurance Press, and especially to the paragraph which appeared in the last report intimating that we desire to get in touch with brokers and agents throughout the Empire. A special rate of membership has been adopted for members resident outside Europe, and the Corporation will be glad to supply particulars on application to the head office, 59a, London Wall, London, E.C. 2.—Journal of Corporation of Insurance Brokers.