

DOMINION NOTE CIRCULATION

Has Passed the One Hundred Million Dollar Mark for the First Time—Examination of the Position.

By H. M. P. Eckardt.

On July 31st, 1911, the Dominion note circulation passed the \$100,000,000 mark for the first time. According to the figures published in The Canada Gazette the circulation at the end of July was \$100,431,110. This represents an increase of nearly \$10,000,000 during the three months May, June and July. The increase of notes in circulation was accompanied, as provided by law, with an increase of a similar amount in the specie holdings of the Government. In the following table the increase of the various classes of Dominion notes is traced through a number of years:—

Dominion Note Circulation.

	\$1, \$2, \$4, \$5,	\$10, \$20, \$50, \$100, \$5,000, \$1,000,	Total
July, '11	\$663,807	\$20,226,302	\$79,541,000
March '11	648,832	17,668,437	71,677,000
December '10	641,409	19,094,935	70,980,500
September '10	614,928	18,894,067	72,611,000
June '10	605,272	17,357,955	71,322,500
March '10	591,104	15,953,964	70,389,000
December '09	574,664	17,065,078	69,344,500
September '09	546,037	16,858,853	63,051,500
June '09	537,334	15,418,465	63,049,500
March '09	526,307	14,490,773	64,334,000
December '08	513,443	15,900,250	63,021,000
September '08	494,805	15,863,137	60,020,500
June '08	482,522	14,894,603	47,676,000
March '08	478,345	14,486,645	45,491,000
December '07	471,735	16,125,633	46,020,000
September '07	452,997	16,380,660	45,080,500
March '07	437,164	14,906,932	40,456,500
December '06	428,319	15,833,463	40,214,500
September '06	414,071	15,600,862	35,857,500
September '04	364,648	13,218,428	33,034,000
September '03	353,568	12,793,872	27,488,500
September '02	343,121	12,080,688	20,525,000

The figures show that the outstanding note circulation of the Dominion has trebled in amount in less than ten years. However, the increase has been chiefly due to the action of the chartered banks in augmenting their cash reserves. It will be found that in the case of each large increase of the Dominion note circulation the process was as follows:—

Note Circulation Process.

First there would appear in the newspapers reports of shipments of gold from New York to Montreal or Toronto. In the quarter or half-year comprising one of these periods several millions of dollars would arrive in Canada addressed to several of the chartered banks. The banks turn the gold immediately into the Dominion Treasury and get large Dominion notes in exchange. Thus each important import movement results in expansion of the Government note circulation with a corresponding increase of the specie in the Treasury; also there occurs an increase in the amount of Dominion notes held by the banks.

So the steady increase of the Dominion circulation is due to the chartered banks bringing in gold from New York. The business and deposits of the bank increase steadily from year to year. From time to time the executive officers of the bank decide that the growth of the liabilities necessitates an increase of the cash in vault. It may be that an increasing volume of business requires the carrying of more cash to meet balances at the clearing houses; and the bank importing gold may consider that as its liabilities grow larger it must augment its cash reserve. Now the money carried as cash reserve must be convertible at will into gold.

Are Really Gold Certificates.

The Dominion notes possess this qualification. They are in effect gold certificates. The law provides that for every dollar in notes issued by the Government in excess of \$30,000,000, there must be held a dollar in specie in the Treasury vaults. And for the issue up to \$30,000,000 a reserve of 25 per cent., or \$7,500,000, in specie must be held. Consequently it comes to pass that against the issue of \$100,000,000 of Government notes there exists a specie reserve of \$77,500,000. This makes a solid and satisfactory basis for the Government issues and establishes their credit securely against any political or financial convulsion.

Moreover, the bankers have confidence that the Government will not by legislation undermine the position or security of its note issues. Possessing this confidence in the good faith of the Government the banks have increased their holdings of Dominion notes from \$30,941,367 at the end of December, 1903, to \$84,400,035 at the end of July, 1911. In other words, out of an increase of \$59,344,000 in the Dominion note circulation since December, 1903, as much as \$53,459,000 occurred as a result of the banks strengthening their cash reserves.

Gold Reserve and Government Expenditures.

In view of these figures it is interesting to speculate as to what steps the banks might take to protect themselves if it should happen at some time in the future a Finance Minister should arise who would seek to appropriate a portion of the gold reserve now pledged against the Dominion notes for the purpose of meeting the ordinary or extraordinary expenditures of government. When Governments break faith with their creditors by taking a step of this kind it is usually done through putting its own bonds in place of the gold appropriated. Such a step taken by the Canadian Government would have a tendency to weaken the convertibility of its demand notes. Carried to a certain point the policy might largely destroy the convertibility of the notes. The embarking of the Government upon such a policy would cause the bankers to lose, in a measure, their confidence in the Government notes. And it is to be expected that a fall in the Government circulation would ensue. Persistence in the policy would lead to a further sharp decline as the bankers endeavored to convert their Dominion notes into gold. Eventually the policy might lead to the ultimate settlement of differences at the Canadian clearing houses by means of drafts on New York, as the banks might be compelled to carry their gold reserves at that centre.

BRITISH TRADE LAST YEAR.

The second volume of the Blue Book, containing the annual statement for 1910 of the trade of the United Kingdom with foreign countries and British possessions, has just been published. The total exports for the year to foreign countries were £374,742,984, as against £331,653,534 for 1909, while the exports to British possessions increased from £137,871,632 in 1909 to £159,402,833 last year.

The imports totalled £678,258,024 last year, £507,806,758 representing foreign trade and £170,450,266 trade with British possessions, in both of which departments there was a large increase as compared with 1909, when the figures were: Foreign countries, £479,453,108, British possessions £145,251,139. In 1906 British import trade with British colonies was £139,914,333, and with foreign countries £467,974,167. Export trade with the United States rose from £59,254,166 in 1909 to £62,181,886 last year, while imports were slightly less, being £117,607,435, against £118,353,893 in 1909. In 1906 the figure was £331,054,366, rising in 1907 to £134,346,708. In 1909 it dropped to £123,900,831.

Trade with Germany comes next in size—exports being £54,905,383, an increase on the figure for 1909, which was £47,165,686, while imports rose from £57,784,655 to £61,829,590, the highest figure shown for any of the five preceding years. Exports to France amount to £33,455,426, as against £31,073,452 in 1909; imports also rose slightly, the figure being £44,285,020, as against £44,205,650. Exports to Russia amount to £21,220,727, as against £18,325,844 in 1909, while imports rose from £37,970,085 in 1909 to £43,644,648. In 1909 there were only £29,719,249. The Argentine Republic took £19,710,537, an increase on the preceeding year, when the figure was £19,188,387, while our import trade with the Republic declined, being £29,009,738, as against £32,717,295. Exports to Belgium amounted to £17,838,334, as against £16,475,104 in 1909; imports rose from £17,672,418 in 1909 to £19,195,974.

Regarding British trade with the Colonies, India is the largest customer, exports to British India amounting to £47,032,027, as against £44,695,624, imports rising from £35,430,771 in 1909 to £42,763,715. The totals for Australia are: Exports, £31,072,623, as against £27,207,430; and imports, £38,584,370, as against £32,646,415 in 1909. In the case of Canada, the total exports last year amounted to £32,614,972, as compared with £18,074,767 last year. The figures for imports in 1909 were £25,634,686, as against £25,222,963 in the preceding year.

That there should be a fire marshal for the province of Ontario was the opinion freely expressed at the recent convention of Fire Chiefs of Ontario.