

OUR GLITTERING MONETARY STANDARD

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ON July 1st, 1926, Canada celebrated her fifty-ninth birthday by returning to the gold standard. It was doubtless her intention that, from then onwards, her financial affairs should be conducted upon the same safe and conservative lines as before 1914. But the Dominion was deluded, for the Gold Standard was not its old self. Unwittingly we launched our financial barque upon a sea whose general appearance was indeed familiar, but whose stretches and shoals, whose opportunities and dangers, had been changed almost beyond recognition by the terrific earthquake of the Great War.

The years 1926-1931 have not been plain sailing. The charge has been recently made that "Canada temporarily abandoned the gold standard." Our master-mariners have been criticised both for their lack of seamanship and also for the obsolete legislative tackle with which they are trying to sail our financial ship. This article investigates the soundness of such criticism. Since world-wide changes in the circumstances under which the gold standard operates, or tries to operate, form the basis of the arguments presented, it is necessary to examine them in some detail in Section 1. The second section then passes on to survey Canada's position on the gold standard, and to discuss the adequacy of Canada's financial legislation and its execution.

1. THE IMPLICATIONS OF THE GOLD STANDARD

The Gold Standard is a policy. The final object of this policy is to establish fixed (or practically fixed) exchange rates between the currencies of the countries which adopt the standard. The fact that the Bank of England contracts to pay £1 for the same amount of gold that the American mints buy or sell at \$4.866 results in the exchange rate keeping its position at £1=\$4.866. The only variation from that parity must be within the very narrow limits—about 0.5%—which are set by the costs of moving gold between the two countries. It is impossible for the exchange rate to exceed

those limits because no one would pay the excessive price to meet obligations in the foreign centre so long as there was the option of shipping gold thither in order to meet those obligations. Thus, to quote Dr. C. A. Curtis in last winter's *Queen's Quarterly*,¹ "the test of the gold standard... usually comes through the foreign exchanges." The stability of the foreign exchanges, at no time exceeding the "gold points", shows that gold is moving in and out of the country freely and that the standard is being maintained.

But this test, while correct as far as it goes, is superficial. It is important to know also whether the more fundamental mechanisms of the gold standard are at work when exchanges move to gold point, and gold moves from one country to another. If the standard is to operate, gold movements must, in Dr. Curtis's words, "have their influence". By this it is meant that the gold movements should have some appreciable effect upon the terms on which credit is issued, or upon the volume of money available in the countries concerned, or both. Such expansion or contraction of currency and credit is expected to result, in due course, in a tendency for prices, wages, and costs of production to rise in the gold-importing country and to fall in the gold-exporting country. Thus if a country for some reason had an "adverse balance of payments" with the rest of the world (i.e. was importing more goods and services than it could sell, or buy on the strength of loans) it would find its exchange rates moving to the gold export point, because of the necessity of making excessive payments to foreign countries. This would result in a loss of gold, a contraction by the banks, or Central Bank, of currency and credit, and a deflationary movement of prices, wages, and costs of production. Eventually then, the citizens of this country would be able to buy less abroad (owing to their lowered wages) and able to sell more abroad (owing to their lowered costs of production and prices). Opposite tendencies would make themselves felt in the gold-receiving countries. Thus the equilibrium balance of payments would be restored, the original cause of restoration being movements of the foreign exchanges and of gold, the final adjustment only coming by way of gradual adjustments of prices and costs in various countries. The effective working of the standard thus depends not only upon all parties concerned allowing gold to flow freely in and out of their country but, further, upon their *willingness, promptness* and *ability* to give gold gains or losses their full inflationary or deflationary effects upon prices, wages and costs of production.

1. *Queen's Quarterly*: Winter, 1931: Vol XXXVIII, No. 1: p. 104: C. A. Curtis "Canada and the Gold Standard".

In that indeterminate period known as "before the war" it is often suggested that the gold standard worked effectively. We might gather from the pre-war economic theorists that gold was in free circulation in the countries on the standard, and that the volume of paper money and bank credit subject to cheque—means of payment whose importance was growing with rapidity—was closely related to the quantity of gold held in the reserves of banks, central and commercial. The world's trade and the world's prices were supposedly governed on the principles outlined in the preceding paragraph. To repeat, it is suggested that the gold standard worked; and worked in spite of the fact that it depended upon the much questioned truth of the crude Quantity Theory of Money, i.e., that the level of prices and wages in any country depends upon the quantity of money of all types in the hands (or bank deposits) of the public. Actually the standard worked, for any considerable period, in two places only. It worked with no small degree of certainty and success in England. It worked with complete precision and unqualified success in the minds of the great English political economists—Ricardo, John Stuart Mill and their successors. The other nations (not so blest as England) did, indeed, strive during the last thirty years of the century to reach the gold standard; but, in their turn, backslid at one time or another on to bimetallic or "fiat" standards.

The gold standard was not desired because gold itself had any particular virtue, but because the gold standard was the one which England had adopted (fortuitously) at the beginning of the nineteenth century. The advantages of being on the same standard as England lay in the fact that a country's international trade would be facilitated by maintaining stable exchange-rate relations with London. Through that centre, because it had gained the world's confidence, almost all international payments were made. Further, London was the source of most of the world's international loans; and loans might be needed by any country either for internal development or in case of financial emergency. Such advantages as these far outweighed the objections to the gold standard which lie chiefly in the difficulties of adjustment—adjustment of price levels, of wage levels and costs of production, and of the types of industry in which each country specialized. At that time, all these adjustments were comparatively easy because of the comparatively small size of the business unit and the comparative ruthlessness with which the idolized Free Competition was allowed to run the economic system of the world. Further, it was seldom a question, which wages should rise and which be forced down? but usually, in that period of expansion, which should rise the faster?

But all this is changed. The war, which may have made the world "safe" for political freedom, made it highly unsafe for economic freedom and competition. Experience from within and Governments from without are moulding a new economic system in which the Trinity of "Rationalization," "Co-operation" and "Collective Bargaining" have replaced the old individualistic and individual deity of "Free Competition". Gone is the old ease and rapidity of economic adjustment. Governments and individuals, trade unions and employers' associations, and hosts of *ad hoc* organizations expend their time and their money devising ways and means of evading or overriding economic "laws" whose only sanction lay in *Laissez Faire*. The laws under which the gold standard worked are no exception to the new lawlessness. A larger portion of the world than ever before is officially "On the gold standard." But in scarcely any country—perhaps in no country—are gold movements compelled or even allowed to exercise their immediate and full legal effects upon the volume of money and credit available. The gold standard itself is but one of the children of *Laissez Faire*, which still depends upon its mother for nourishment. This source appears to be failing.

It has already been shown how the appearance of disequilibrium, such as excessive imports or exports, was checked and righted under a perfect gold standard, first by a flow of gold, and later by an adjustment of prices, wages and costs of production in the countries concerned. This, however, should have been qualified by the phrase *ceteris paribus*. (That phrase has cloaked more sins than this world dreams of; and the Roman Empire, which coined it, richly deserved to Decline and Fall). But in the disturbed post-war decade a variety of influences have hampered, if not nullified, the action of the standard. Among these are the following:

1. Direct prohibitions by monetary authorities of imports or exports of gold; and other less radical devices which check the flow, such as supplying the wrong kind of coins to exporters (e.g. English sovereigns when American eagles are desired) or gold bullion of a grade of fineness not acceptable in the foreign importing centres.

2. Minimizing or nullifying the effects of gold movements upon the volume of money and credit available. This has been freely practised by all countries which have been in a position sufficiently fortunate to do so. It has been the conscious aim of more than one monetary authority to stabilize the internal conditions of money and credit, and as far as possible the price level,—that is to say to flout, if considered desirable, the workings of the gold standard

mechanism. For instance, Governor Strong of the Federal Reserve Bank of New York said, when officially asked in 1927 whether the Federal Reserve Board could stabilize prices to a greater extent than in the past:—"I personally think that the administration of the Federal Reserve System since 1921 has been just as nearly directed as reasonable human wisdom could direct it towards that very object." That is to say, according to Governor Strong, the Federal Reserve System is willing to avert—perhaps has been averting—price movements upon which the working of the gold standard depends. Unfortunately, perhaps, it is easier to minimize the inflationary effects of gold imports in such countries as U. S. A. than the deflationary effects of gold exports in such countries as England. Thus while U. S. A. managed to maintain some degree of stability from 1924-1929, England suffered continuous deflationary depression with prices continuously falling more rapidly than costs of production, which were held up on account of the fixity of such costs as interest and wage rates. England, who accepted the golden ring in 1925, has remained true to her gold standard although poverty, which entered in the form of unemployment, might well have driven her out at the window.

3. The rigidity of the post war economic system has already been mentioned as a frictional element in the working of the standard. Monopolies, combinations, international trusts, rationalization of industries, strong unionized collective bargaining and resistance to wage reductions, government price fixing,—these and dozens of other factors have resisted gold standard influences.

4. The free flow of goods has been impeded by successive tariff movements. A rise in a country's level of tariffs causes a more "favourable" balance of trade, and may be just as effective in checking a chronic loss of gold as a tax or embargo upon gold exports. Thus, while in the "long run" the world might be theoretically conceived as able to adjust itself to any given level or position of national tariffs, any *changes* in tariffs will upset the workings of the standard.

5. The free flow of capital has also been tampered with. Central authorities in England, Australia and India among others have rationed or otherwise interfered with the flow of capital out or in as the case might be. These measures were consciously taken in order to prevent exchange, and ultimately gold movements which would otherwise have taken place.

Thus since the war, while countries on the gold standard have appeared to maintain that standard, it has not been in the traditional manner. It is, perhaps, desirable to distinguish between the mere fact of "being on the gold standard" (i.e. buying and selling gold

freely at a legally fixed price and thus maintaining stability of the foreign exchanges) and the process of "playing the gold standard game", (i.e. making gold movements effective). Before the war, led and often assisted, with "enlightened self-interest," by the great fair-play nation, the world was learning to play the gold standard game with no code of rules, but with thorough English sportsmanship. Since the war, however, the pernicious influences of other nations, who "play games to win," have become predominant. These Philistines have realized that there are no codified rules. The morals of the players have deteriorated. Each has realized that he can weight his dice in his own favour, e.g. by one of the five methods described in the last paragraph, and has proceeded to do so. The nations have realized that the action of the gold standard entailed inflationary "booms" or, still worse, deflationary "depressions" and, (can we be surprised?) they have taken what steps they could to avoid these disruptions of their national economic life. Further, while many have accepted the inevitability of gradual price and wage adjustments in working of the standard, they have striven to nullify the effects in their own countries of peculiar or sporadic foreign affairs or of purely seasonal pulsations which cause fluctuations in exchange rates and movements of gold. For instance, Canada regularly imports gold in the autumn and exports it in the winter owing to seasonal movements in the balance of payments with the rest of the world: and it is clearly undesirable and unnecessary that such movements should affect the volume of currency or credit available in this country. Can we agree with Dr. Curtis when he says (the italics are not his):—"In the end the *least disturbance of a country's economic welfare* will be effected if gold is allowed to move in and out as economic conditions dictate, and the best interests of the world will be served by allowing the gold movements to have their influence"? The gold standard game, when fairly played, is definitely one in which any possibility of internal stability of prices, wages and costs is consciously sacrificed for external, exchange-rate stability. And there can be no doubt that, in the majority of cases, "a country's economic welfare" will be more disturbed by movements of its wages and costs than by movements of similar proportions of its exchange rates.

In some countries which maintain "money markets," whose interests spread throughout the world and which deal extensively in foreign credit and commercial business, the financial interests may so predominate over the industrial interests as to make exchange rate stability preferable. But of few countries is this at all likely to be true; certainly not of Canada. It is precisely because of the disturbances entailed by putting the old wine of the theoretic-

al, pre-war gold standard into the bottles of the new economic system that nations have, in practice, discarded the former. Few, if any, civilized countries run their monetary systems along the rules implicit in the gold standard game with its rule-of-thumb regulation of currency and credit in accordance with gold movements. Rule-of-thumb regulation has been supplanted by more conscious regulation and management. Whether we like it or not, we live in a world of managed currencies. The "pre-war gold standard" certainly does not exist. The western world is on a different sort of standard which has only the outward appearance of the old pure gold. Its glittering exterior is, perhaps, to be commended for the soothing effect which it imparts to those who believe that, in adopting the gold standard, the world has returned to old-time sound and conservative banking and currency principles. But the post-war gold standard carries with it no such certainty of security. A scientific assay must show that the gold standard has lost much of its fineness since the good old days of "before the war."

2. CANADA'S STANDARD AND THE FINANCE ACT

There are two aspects from which to discuss Canada's present position on the post-war gold standard and its relation to the Finance Act.¹ In the first place, there is the question whether the financial authorities took the wisest steps possible under the existing legal and economic circumstances in the period, 1928-30, which is under discussion. Secondly: it is an open question whether the existing financial machinery of the country is effective and adequate, or whether the Finance Act should be repealed and, perhaps, a Central Bank Act substituted.

Let us first examine the experience of the last three years. This has been so well done by Dr. Curtis that a complete explanation would be mere repetition; and a summary, emphasizing the points of difference, for the benefit of those readers who did not see his article, will prove adequate.

Canada resumed the gold standard—i.e. free purchase, sale, import and export of gold—in 1926. Unlike many other countries, Canada had emerged from the war and post-war chaos without a Central Bank which might exercise some degree of control over national currency and credit. This fact suggests that Canada is really maintaining the old rule-of-thumb relationship between gold reserves and credit policy. But this is precisely what it is not doing because of the Finance Act, first imposed in 1915, under which the banks can borrow Dominion Notes. These notes can be used for reserves or other purposes, and such borrowings are legally unlimited

1. Finance Act. 1914 (2nd Session), c. 1, s. 1; 1923, c. 48, s. 1.

in both duration and amount. Thus, although the banks usually keep certain reserve proportions, chiefly in the form of Dominion Notes, against their liabilities, and determine their credit policies accordingly, nevertheless the amount of the country's credit and currency (for Dominion Notes can also be used as reserves against Bank Notes) is clearly dissociated from the volume of monetary gold in the country. The credit policy is in the hands of the banks; although the Treasury Board, by varying substantially the rate of interest charged upon Finance Act borrowings of Dominion Notes, might exercise some influence. Actually this power has lain practically unused, the rate varying only between $3\frac{3}{4}$ and 5%. This was Canada's peculiar variant of the post-war gold standard.

All went well for two years. Business improved; harvests were good. The country's need for currency and credit, as she emerged from the 1924-5 minor depression, did not outrun the existing resources of the Banking System; and the advances under the Finance Act kept low. But by the middle of 1928 Canada was getting into the boom period; and Finance Act advances rose rapidly as the banks attempted to meet the public's demand for accommodation, which kept on increasing right into 1930. This expansion of credit, here as in U. S. A., did not however result in any tendency towards "inflation" (in the sense in which that term is usually used, denoting a rise in commodity prices). There is no reason to believe that the rough equilibrium between prices, wages and costs in this country as compared with U. S. A. and the rest of the world was appreciably upset by this credit expansion. Nevertheless, the equilibrium of international payments was very definitely upset because a great deal of the newly-created credit flowed across to the States. Now the U. S. stock exchange boom was just the sort of sporadic external affair whose effects on other countries' economic stability should be minimized. Therefore, from Canada's point of view, the problem was, How should stability have been maintained in face of the fact that the portion of our gold reserves which was free for export purposes was insufficient to meet the adverse balance of payments and thereby maintain Canadian exchange within the gold points?

The actual course of events was roughly as follows. The adverse movement of the exchanges which appeared late in 1928 was caused chiefly by Canadians buying securities in New York. When the exchange rate reached gold point, the Canadian banks began to cash in their Dominion Notes (under the Dominion Notes Act)¹ for gold at the Finance Department, and ship this gold to New York in order to meet the increasing demand of their customers for funds in that centre. The high call-loan rates also tempted

1 Dominion Notes Act, 1914 (2nd Session) c. 4, s. 1.

Canadian banks to maintain as large balances as possible in New York; rather than bring the funds back to Canada, causing favourable exchange movement. By the end of 1928 the Government's gold reserve had fallen so low that the banks were unofficially requested to abstain from demanding gold under the Dominion Notes Act. As the banks' reserves in Canada were depleted by this process of gold export, they had replenished them by borrowing Dominion Notes from the Finance Department (under the Finance Act). Thus internal expansion of credit in Canada was not checked; and further borrowing allowed further expansion. If the Treasury Board had refused to allow more advances of notes under the Finance Act, or had raised the rate of interest to a high or prohibitory level, there would have been, to take the extremes between which the truth lies, two possible results. (1) Business might have received its normal amount of credit and continued along its prosperous way, while the speculative loans which went into the U. S. stock market would have been eliminated; or (2) the speculation might have remained, necessarily carrying with it the strained rates of exchange, and legitimate business claims would have suffered accordingly. In an article in the *Monetary Times* some eighteen months ago,¹ Dr. Curtis assumed that the first was the more probable result; and in this he probably has the great mass of expert opinion behind him because it is, in large measure, possible for the Canadian banks to discriminate in their loans as between business and speculative borrowers. Thus loans, apparently for business purposes, would not be so likely to be diverted to speculation as often seems to have occurred in the States where banking is in general more laxly managed, and where the existence of more developed money markets aids such undesirable fluidity of funds. Thus Dr. Curtis's charge of "mal-administration of the Finance Act" has much force; although it is more dubious whether, had there been a Canadian Central Bank, it would have been so aloof from the rising tide of optimism which was shared by the banks as to take a firm stand against their desired credit expansion.

It appears, then, that both the speculative movement and with it the adverse exchange movement might have been checked without materially handicapping Canadian business, had a more firm stand been taken by the Treasury Board. It is difficult to reconcile this with Dr. Curtis's statement, in the *Queen's Quarterly* a year later, that "during 1928 the problem facing the Department of Finance was either to keep the country on a gold basis, restrict rediscounting for the commercial banks, slow down the boom of "business prosperity," or to abandon the gold standard, rediscount

freely for the banks and assist the "upswing" of business." If *this* is the true dilemma which faced the Treasury Board, surely it did happen to do the right thing? Industrial stability and prosperity were maintained in 1928-9 in the face of a foreign disturbance which caused severe deflationary depression in European centres. Canada's Finance Department played the post war gold standard game with a most admirable poker face. That this expression was the blank of ignorance rather than of cunning, is, of course, less to the Department's credit. Nevertheless, Canada unofficially slid, gently off the standard by a gentlemen's agreement that the banks should not exercise their rights under the Dominion Notes Act. Practically no one realized what had occurred. To the ordinary man in the street the "gold standard" (if it means anything at all) simply means that the minimum legal reserve of gold is retained against notes. Thanks to the check to gold exports, this minimum was practically maintained. It is not impossible that the shock to foreign confidence would have been much greater if gold had been continuously exported until the reserve fell far below the proportion legally required by the Dominion Notes Act. The two leading English financial weeklies did, as Dr. Curtis observed, recognize the fact that Canada had "abandoned the gold standard"—or would it be preferable to say had stumbled upon a new trick in the gold standard game? In the light of the growing laxity of gold standard morals it is difficult to feel shocked by Canada's action. Dr. Curtis is surely a little Puritanical in saying that "once a country adopts any standard, it is essential for the convenience and good name of that country that it live up to the customs and conventions of the standard selected." Certainly the London "Economist" has soon forgiven the temporary lapse, and has published (April 4th, 1931) an article in which its readers are assured that Canada is a sound field for investment—there is no suggestion that Canada is a financial weakling. If the Finance Department had been made up of experts in international finance, and had initiated a definite policy instead of merely drifting with the stream, it is quite possible that things would have been managed in much the same way as, in fact, they were.

Incidentally, Dr. Curtis implies that it would in any case have been desirable that Canada should have checked the 1928-9 "business prosperity" in order to avoid the "inevitable reckoning of the financial 'morning after'." Now some "nights before" are well worth their "morning after" in both Bacchanalian and Economic revels. But whether Canada's boom was worth her subsequent depression or not, is beside the point. For, like England, we were destined to feel most of the pangs of the "morning after", whether we did or whether we did not indulge in the inflationary debauch.

This being the case, who will grudge us our crowded year of prosperous life? However, as already suggested, it might have been possible to enjoy business expansion together with restriction of speculation and adherence to strict gold standard morals all at once—the best of all possible worlds.

But we are wandering from the main theme. The question now suggests itself, How far is the Finance Act the best machinery for the centralized control of Canadian Credit? Here Dr. Curtis is clearly on firm ground in advocating that the control should be in more expert and more specialized hands than the Treasury Board, which is really a subcommittee of the Cabinet with the Deputy Minister of Finance as secretary. But the Finance Act has its advantages. It was, indeed, a war-time measure to facilitate the expansion of credit in an emergency. But it was permanently included in Canada's financial machinery in 1923 when its usefulness had been demonstrated, at any rate in the tempestuous eight years of its existence. As it stands, it assures the Canadian banking system, and through it the Canadian public, that their internal credit structure shall grow with the needs of legitimate trade and industry unhampered by legal restrictions regarding gold ratios and without being upset by sporadic foreign disturbances which cause a temporary drain of the precious metal. It is, in short, an instrument capable of being used to very great advantage if entrusted to wise hands.

Unfortunately it has been abused. The difficulty is not, as the House of Commons in a debate last spring seemed to fear, that the banks are offering inadequate security against their Finance Act borrowings. Quantity of discounting, not quality of collateral, is the point of attack. The Treasury Board was either unaware of the importance of the power entrusted to it in the fixation of the rate of interest at which advances of Dominion Notes might be made under the Act, or else it felt that the banks knew their own business best and relied upon them to use the necessary discretion in the amount of their borrowings. The banks, on the other hand, probably did not appreciate this new responsibility which was being thrust upon them; and the control of Finance Act borrowings fell between two stools. This is unfortunate since it leads to criticism of a measure which contains great possibilities for good. And, if a Central Bank were set up and Canada's currency laws were reorganized, it is doubtful whether this desirable element of elasticity would remain. But it is clearly of the utmost importance that *someone* should bear the responsibility which accompanies the privileges afforded by the Finance Act.

Here again we run foul of the orthodox, "pre-war" conception of the gold standard, which allowed of no elasticity. All credit or

currency expansions, it was held, should be backed by a proportionately increased gold reserve. This was because there was always the danger that a certain portion of a panicky public might, in some moment of stress, demand to withdraw their deposits or cash their notes in the banks and take away the actual gold coins. Gold reserves were held chiefly against such "runs on the banks." But nowadays things are different. There is never any fear that the public will storm the banks demanding gold coin. If they had been given to such panics, they would certainly have staged one in October-November 1929. Dominion Notes, or even bank notes (so well are the latter secured under the Bank Act) would always satisfy the public which might get nervous about its deposits in some particular bank. Thus the need for a proportional reserve ratio of gold against Dominion Notes exists no longer *except* so far as Canadian and foreign confidence is reassured (illogically, as it may be) of the stability of the banking and currency system by the fact that the Finance Department publishes statements to the effect that, under the Dominion Notes Act, the requisite reserve proportions are being maintained. Thus a further measure, such as the Finance Act, which leaves this comfortable feeling of security with the public while at the same time ensuring that currency and credit shall, in fact, be conditioned not by the amount of gold, but by the needs of industry, is highly commendable. This may be "intellectually dishonest"; but unfortunately one is not dealing with an "intellectual" public as far as the gold standard is concerned.

It must not be inferred from this that a country, even on the lax post war gold standard, needs no gold reserve. In the first place, as has just been mentioned, it does need to keep a minimum proportional reserve, in order to inspire the confidence of a public, at home and abroad, which is not highly versed in changing monetary conditions. The reserve, in order to maintain that confidence, should be at least 25% to 30%. Apparently, it does not greatly matter *what* the percentage is related to. England's and Canada's reserves are proportioned only to notes, whereas U. S. A. and France proportion their reserves to both notes and deposits. However, gold reserves do inspire confidence. In the second place, gold reserves have to be kept in order that a country on the gold standard can in ordinary times, and if possible at all times, keep the foreign exchange rates within the gold points. This can be done only if the country sells gold for export continuously as long as the exchanges stand at the "gold export point." Now movements of the exchanges from par to the gold export point are caused by adverse balances of payments on the international balance sheet. Gold reserves should, therefore, be sufficient to pay, from time to time,

such adverse balances as may arise. In short, the logical or economic need for reserves bears no direct relationship to the volume of a country's notes or deposits, but only to the variability of her balance of international payments. Thus, for example, from an economic (as opposed to a legal or conventional point of view), there is no reason why U. S. A. "needs" as much gold reserve per head or per dollar of bank deposits as Great Britain. The two countries logically "need" about equal amounts of gold, since the volume and variability of their foreign balance sheet is about the same size. Canada's balance sheet is perhaps less than one-fifth of U. S. A's, but, being dependent so largely upon such highly variable factors as wheat prices, Canada requires a reserve of more than $1/5$ of that of the larger country.

In this connection the authority of the Second Interim Report of the League of Nations Gold Delegation (1931) may be invoked. "The traditional belief that gold is in a peculiar sense representative of wealth remains and cannot be ignored. Gold reserves serve to some extent, therefore, to maintain that confidence in the whole credit structure which springs from the knowledge that a certain quantity of gold is physically held by the Central (Authority). Now that gold coin is no longer in circulation and an internal drain cannot take place, the reserves are required to meet possible deficits in the international balance of payments." Only permanent tendencies for gold to flow in or out, caused by fundamental disequilibria between the prices, wages and costs of production in this country and elsewhere, should be allowed to affect the credit and currency available to the Canadian public.

Perhaps we need a Central Bank to carry out that policy. Unfortunately, the Central Banks already in existence have not measured up to the standards of enlightenment and co-operation which are desirable in the present international financial system. Surely it is only if we are assured that our Central Bank would be guided upon such standards that we should advocate its foundation. In the meanwhile, if only one of the parties concerned—either the banks or the Treasury Board (reconstituted if necessary)—can be persuaded to accept the responsibilities as well as the privileges of the Finance Act, then we can face our financial future with as reasonable equanimity as most other countries. Undoubtedly, also, we should try to build up a larger gold reserve, on the average, than we have maintained in the recent past in order to meet sporadic drains of gold. But, given these two things, we should be playing the gold standard game according to our lights and our capabilities, and maintaining if not a pure gold standard, at least one which glitters respectably.