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## Economist Does Not See Any Danger of a Gold Shortage

Gold Production More Stabilized Than Ever Before. Secondary Uses of Gold in Industrial Processes Gives Leeway in Case of Unusual Conditions Arising from Future Apparent Shortages of the Precious Metal.

In this district there will always be more than passing interest in such questions as "Is There Danger of a Gold Shortage?" While the Porcupine looks forward to a continued and in-

creased production of gold it is recognized that the Porcupine produces only a comparatively small percentage of the world's gold supply. While Canada is third in the world's output of gold, and while the Porcupine is responsible for the greater part of the gold produced in Canada, still the amount of gold output here is not large in proportion to the total for the world. In 1916, for instance the world's gold production was \$388,500,000.00, while Porcupine's quota was \$23,810,626.00, or a little more than one-sixteenth of the world's total.

At the same time it is realized that if there is actual danger of a gold shortage, any increased production in the Porcupine will not materially affect the situation for a time. Some suggest other monetary standards than gold as a remedy for the supposed condition. This would not be favourable to gold-producing countries, so it is easy to see that the question of possible gold shortage is one that should hold especial interest here. Any able discussion of the question should be welcomed, irrespective of the source of the discussion.

"Gold is one of the most widespread of metals, although not one of the most abundant," Dr. Herman Lufft, of Berlin, states in an article "Is There Danger of a Gold Scarcity?" He discusses at length the rather pessimistic conclusion of J. Hayes Hammond of the National City Bank of New York. The conclusion of Mr. Hammond is that general experience proves that gold is most easily mined in large quantities in new districts, but that this phase of gold production is practically over. One district after another in the United States and Australia shows a rapidly declining production, and discoveries of new fields are becoming very rare. The gold of the world that could be produced comparatively easily has already been produced, and the greater part of future gold production will be from low grade ore deposits or from comparatively great depths. This indicates that gold in future will be won

with greater efforts and more slowly than in past years. A sufficiency of gold in the future as a basis of international exchange is therefore a matter for serious regard. To this, Dr. Lufft advances the following argument:

Primary rocks are nearly always gold-bearing; the sea-water also carries gold. The potential gold reserves are thus practically inexhaustible, even more so than many more abundant metals whose occurrences are much more localized. The question of gold production is a question of the relation between production costs and the value of the gold recovered. Production costs comprise the local labour cost; the obtaining of energy from water-power or from coal or oil, the local cost of living, the necessary transport, the obtaining of necessary capital. For great industrial plant units which here only are considered, situate usually in sterile and mostly high-lying primary rock districts, the cost of installation may mean many millions of dollars.

The question of gold production under modern conditions by great technical skill, extensively mechanized and rationalized operations is essentially a question of the labour cost and the relations between demand and supply in the labour market. About 40 per cent. of the Rand mining labour comes from the Portuguese colony of Mozambique. Eventually a diminution in the black labour might be counteracted by extensive rationalization and mechanizing the operations, as it is probable that on the Rand, as elsewhere where labour is cheap, mechanization has not been introduced to any great extent. Nevertheless the operations involving the breaking, moving, crushing, and treating as well as the final disposal of the treated material must always call for a large number of manual workers. It is interesting speculation as to what extent the world production of gold could be increased yearly if Canada, Alaska, California, British Columbia and Australia had black labour at their disposal on similar conditions to those in South Africa.

The question of the future production of gold in the world is relative and not absolute. It is a question of the functioning of many different economic factors. It is not a question of the substance, of the existence or non-existence of gold principally. For this reason it serves no useful purpose to go far beyond the immediate present to form conclusions, because the conditions are in a state of continuous flux. For the immediate present the difficulties in South Africa in regard to native labour seems to be most likely cause of a gold scarcity.

Gold production is not an end in itself, but is intimately connected with the consumption of gold. In regard to the question of gold consumption, views as to the future prospects are divergent. Consumption of gold falls into three principal categories—the requirements of gold for exchange purposes; the requirements of gold in industry; and finally, the requirements for gold for hoarding. Contrary to the opinions of many Americans and Europeans, the gold required for hoarding is still greater than for all other purposes.

India alone takes each year about half the current gold production, and this gold disappears out of the world market. It does not find its way into the building up of central gold reserves, nor is it employed to support economic development or the needed credit. It was hoped, and optimists still hope, that with the aid of the new Indian exchange and bank laws the Indian population would gradually acquire a productive conception and would place their fallow-lying gold stores at the disposal of the banks

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and thus finally in the hands of the central bank. However, the peculiar Indian psychology and logic are still vaguely understood by the European. How far further India and China at present, or in future, will incline to a similar hoarding of gold is not known to the author, nor does he know of anyone at present who can form a definite judgement thereon. In China, silver has always been the exchange metal; the transition to gold has not yet entered into the psychology of the Chinese people.

Discussing the making of high grade jewellery, he points out that this as a permanent form of property has become more or less obsolete. "This kind of gold expenditure belongs not so much to gold hoarding as to industrial work, but this industrial use of gold is probably quite considerable. According to the estimates prepared by the United States Mint Department, which for a long time past has been considered the most reliable source of information on gold consumption, the consumption of gold for industrial purposes in the five years 1922-26 amounted to 748.2 million dollars. The question is what part of this use can be regarded as destruction of gold. A great part of this gold is applied in the making of cheap so-called gold wares, or for gilding, for the manufacture of gold leaf or for purposes like the gold-covered mouthpieces of cigarettes, in which the gold is used up and does not again appear as secondary gold. A part also, which is probably the largest industrial use, goes to make wedding, seal, and dress rings, and for dentures. There is no doubt that a considerable proportion of this potentially recoverable gold is irretrievably lost.

"The withdrawal of gold from the money circulation and its concentration in the vaults of the central note institutes has affected a great saving in the consumption through wear of coinage," he states regarding the gold requirements for exchange purposes. "Apart from loss by shipwreck of vessels carrying gold bullion which is very seldom, there is practically no loss of gold substance.

The employment of gold coinage for private hoarding has ceased. The lower purchasing value of money, to be sure, requires that a larger quantity of money be put in circulation and a corresponding increase in gold cover for such money, but this factor is more or less balanced by the withdrawal of the gold from currency circulation and through greater elasticity in regard to the proportion of the gold covering in relation to the circulating paper money.

Taking a practical view of the considerations affecting the question of gold scarcity, he argues, "Glance over the business results of the different non-ferrous metal producing companies for the year 1927, according to information supplied in "Engineering and Mining Journal" for May 16, 1928, it is seen that gold producing companies made a good average profit only excelled by the companies producing lead; the average net earnings of the gold producing companies was 16.7 per cent. and, including the Hollinger company, 15.4 per cent. which is more than double the earnings of the copper companies of 7.7 per cent. Under present economic relations, therefore, an essential increase in gold production is not outside the range of present possibilities. Also, it will have been observed that the Soviet Govern-

ment, which for a number of years neglected the Russian gold industry, have now taken it up very actively; the existing seven or nine trusts now concerned with Russian gold mining will during this year be merged into one central trust. The gold production of the Lena region is to be greatly intensified.

Meanwhile the gravity point of the world's gold production lies in South Africa, the relations of which have already been discussed. A sudden decline of the South African gold production would make the task of replacing the deficiency by the remaining production spheres too great for a time, although substantial increases on current production might be possible. It is always a danger when a large proportion of the total production is centralized, as in the case of the Rand gold production. The possibility of avoiding the serious consequences of such a shortage must be sought on the consumption side. By far the most important use of gold is for meeting the requirements of the central note banks, but these requirements are not very great and likewise not acute. Even the extraordinarily great stabilizing requirements of 1927 required no very large sum to be added to the central reserves. That the central gold position will require periodical strengthening is naturally to be anticipated. The responsibility for this, however, lies in the hands of men who have a wide view over the position and who can take the necessary measures for security without great difficulty.

All other employment spheres for gold are relatively secondary. So far as the industrial employment of gold is concerned, the dentistry industry has in rustless steel a much cheaper and a much more suitable material than gold for its purposes, possessing less weight and much greater strength. For the remaining uses the proposal has been made that gold should be taxed. The carrying out of such a proposal should not occasion any great difficulty, as gold production and gold stocks are concentrated in few places. Taxation also might be limited to uses which are destructive of gold. The taxation of gold for private hoarding could only be carried out by international co-operation.

It can be concluded, therefore, that the fears that a gold scarcity would result in the shattering of the basis of the world economy in a few years are not justified. Certain relations exist which still prevent a permanent and certainly desirable stabilizing of the situation, but no reason appears to exist why even important fluctuations of the world's gold production should be taken too seriously if only financial circles, and particularly leading bankers, keep their heads cool and do not become hysterical. Likewise, if gold production is not stabilized, it is more stable than in any previous time of the world's history, and the employment of gold for exchange purposes is also more rational than ever before. Should, however, future disturbances in gold production, for any reason whatever, prove more serious than at present seems probable, it must be met by a suppression of the secondary uses of gold, such as industrial uses and the private hoarding of the metal.

The balancing of the payment obligations of the different countries through shipments from the central gold stocks can be adjusted through the central banks themselves. The increases in the quantities of gold considered necessary for this purpose will need only a relatively small proportion of the total yearly productions so long as the world generally does not follow an inflation policy, and will bring an increasing tendency to a return to the gold standard.

Arkansas Gazette:—Philadelphia's main trouble seems to have been too much brotherly love between the bootleggers and cops.

Midland Free Press:—Whether the municipal election arena be large or small, the contests deserve the attention of all the voters. Municipal councils and school boards deal with questions that closely touch the daily lives of the people. The men elected to those councils formulate policies and authorize expenditures of public money the taxpayer must supply, and exacting and thankless as the duties are, some persons must assume them.

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