Effect on North of Present Gold Standard Situation

How and Why the Gold Mines of Northern Ontario and Quebec Will Benefit Through Temporary Suspension by Great Britain of the Gold Standard. Lucid Explanation of What the Gold Standard is, and Other Facts in the Case.

So many people find difficulty in understanding the present situation, so far as the gold standard and other features are concerned, that any lucid explanation will be welcomed. Such an explanation is given in the current issue of Public Service, the magazine issued by the Canada Northern Power Corporation in the interests of its customers and friends. In view of the great interest aroused throughout Northern Ontario in Great Britain's temporary suspension of the gold standard and its possible effects on the gold mines of Northern Ontario and Northwestern Quebec, Public Service had the following article prepared by an outstanding Canadian authority on economics. The Advance urges all to read it carefully. It gives a remarkably clear understanding of the whole situation and is written in plain language and without the technical terms that so often are used to confuse the issue. Public Service has conferred a general benefit by the publication of this article:—

The article in full is as follows:—

What the Gold Standard Is

Any country is said to be on the "gold standard" when the "currency" of that country, (usually paper money) is redeemable at all times, and upon demand, in gold, on a basis of so much gold for a dollar, or a pound, or whatever the name of the currency may be. It is to be noted that there are two requisites, and that both must exist at the same time in order to have a true gold standard:

1. The amount of gold obtainable for the dollar, or other unit of currency must always be the same.

2. The right to demand gold in exchange for a currency unit must exist at all times.

It is sometimes said that the gold standard depends upon the right of any person or organization in a country to export gold from that country freely, for any purpose and at any time. This is undoubtedly true, but this requisite is really linked up with, and subsidiary to Number 2, cited above. This is easily understood, because if you can't demand and receive gold for ordinary currency (i.e. paper money) it is obvious that you cannot export it freely.

When a country has more than one kind of "currency" in circulation at the same time (like Canada, and the United States for example) the additional currencies in circulation must ultimately answer the two requirements stipulated above, if that country is to continue on the gold standard, though a number of intervening steps may be necessary to securing of gold for this currency. This statement will be made clearer by an easy example. In Canada there are two kinds of currencies in circulation.

1. Dominion Notes ($0.25 (shin plasters), $1, $2, and $1,000, and larger notes for use only by banks.

2. Bank Notes—$5, $10, $20 bills, etc., issued by each of our chartered banks.

Dominion Notes (and gold, of course), are strictly speaking the only "legal tender" in Canada. They are the only form of money with which taxes and judgments may be paid, and, which, when Canada is on the gold standard, are convertible on demand into gold on the fixed basis.

But for all practical purposes, Bank Notes (which are protected by deposits of gold, and other securities, in the Dominion Treasury) are just as good. The Bank Act requires Canadian Banks at all times to exchange their notes for Dominion Notes,—so that, with the necessity of an additional step, gold can be secured for Bank Notes when the country is on the gold standard.

In the United States there are five kinds of money:

1. Gold Certificates
2. Silver Certificates
3. Treasury Notes
4. Federal Reserve Notes
5. Bank Notes

Strictly speaking, only the first is redeemable directly in gold, but just as in Canada, the others are as well, though an additional step is technically necessary to accomplish this.

Gold is used only to an insignificant extent as a circulation medium in Canada, but 5-dollar and 10-dollar gold pieces have been coined. These coins, which were first minted in 1912, weigh respectively 129 and 258 grains, 9-10ths pure gold by weight. This means that when Canada is on the gold standard the Canadian dollar is redeemable for 23.22 grains of pure gold. In England, the pound sterling was redeemable for 113 grains of fine gold before that country went off the gold standard.

Why Great Britain Temporarily Abandoned the Gold Standard

There are a number of reasons, both economic and psychological, why Great Britain has abandoned the gold standard for a six month period, but among them all, one is pre-eminent. It is this. Great Britain is at the same time an important creditor and debtor nation. She owes a very large sum to the United States, and such countries as Germany and Austria owe her large sums. The sums which Great Britain has lent to Germany she has borrowed from the United States and to a lesser extent from France. This state of affairs came about in this way. Great Britain's "credit" being good, she was able to borrow money at low rates of interest. This money she re-lent to countries whose credit was not so good at higher rates of interest. During the last few months, conditions in Germany and Austria became so bad that it appeared that they might become bankrupt, or at any rate, that they would not be able to pay their debts until long after they were due. Now if this were to come about, the credit of England (who had lent Germany and Austria the money) would in turn be impaired. Therefore, those countries who had lent England money, (in one form or another), pressed for payment of their debts, with the result that large quantities of gold were being drained from the vaults of the Bank of England. This drain of gold was becoming so severe, that in order to protect its position, the Bank of England advised the Government that it was necessary to suspend, for the time being the Gold Standard Act. This means that you can't get 113 grains of gold for a pound note on demand, and consequently that gold cannot be exported from the country. This explains also why the pound has fallen in value—nobody knows what it is or is likely to be worth in gold—so it is being bought and sold on the market just like any other commodity—for the best price that the seller can get.

The Consequences of Great Britain's Abandonment of the Gold Standard

For these purposes, we may divide this subject into two parts:

(a) The effects upon Great Britain and International Commerce.

(b) The effects upon the mines of Northern Ontario.

The effects upon Great Britain and International Commerce may briefly be summarized as follows:

1. It will give the British producer an added preference in world markets.

As the pound falls, his goods will fall with it. They will do this without affecting the labour costs of production at home as long as wages remain the same. Only imported raw materials will go up, necessarily. This means that the British manufacturer should be able to offer his wares for sale in other countries at something like the previous price in British currency. This will equa: a considerable reduction in terms of American currency; and it is with American goods, priced in American currency, that he must compete.

2. It may increase the purchase of some British and Canadian Goods in the United States.

A universal lowering of the cost of Canadian and British goods is equivalent to a reduction in the American tariff. A tariff impost on an imported article is really as much a part of its cost are are the transportation charges. They all lump in together when the article comes to be sold over the counter. So a reduction in cost in the country of production has precisely the same effect as a lowering of the duty. Thus the Americans are in the position of having lowered their duties on British and Canadian goods.

3. It will reduce wages for the purpose of export trade.

Wages in Great Britain will still buy as much in the way of domestic goods, except as they are raised by various factors, such as foreign ingredients. But they will not cost the manufacturer for export purposes so much in terms of his foreign markets. This will give the exporting manufacturer the advantages he has seen and sought in lowered wages, without materially affecting the wage-earner.

Beneficial Effect on Gold Mines

The effect upon the mines of Northern Ontario will be slight, but beneficial rather than harmful. Let us see what happened the last time Great Britain temporarily abandoned the gold standard. Shortly after the outbreak of the war, and until April, 1925, Great Britain was "off" the gold standard. Until 1919, however, the pound sterling was "pegged"; that is to say, by virtue of an agreement between the principal allied nations, and by passing a number of laws, the pound was prevented from falling below a certain value in dollars. We have a similar example today in the "pegging" of securities listed on the Montreal Stock Exchange. This is done to prevent undue speculation and consequent panic.

In 1919, however, the artificial supports were removed and the pound sterling fell rapidly till at one time it was worth just a little over $3.00 in terms of American money.

How did the gold mine operators fare while all this was going on? In the first place, we must remember that in those acute times, the export of gold from Canada was prohibited. But although Great Britain was off the gold standard at the time, she was importing gold from countries that were at liberty to export it. This in fact, was going on to such an extent that the price of gold, which had been $20.63 a fine ounce in 1918, rose to $27.48 in 1920. After this, prices fell slightly, but it was not till 1925 that the $20 level was again reached.

Conditions today are but slightly different. There are two reasons why the mines of Northern Ontario cannot suffer as a result of Great Britain's temporary abandonment of the gold standard.

In the first place, though for the time being she will not give on demand 113 grains of fine gold for a one pound note, England is determined not to let sterling go the way of the old German mark—which through inflation (printing of marks without any gold reserve at all) became practically valueless.

At the present time, the ratio of gold reserves in the Bank of England to currency outstanding is just slightly over 40 per cent. That means that there are only 40 pounds worth of gold for every 100 pound note outstanding. Even if Great Britain decides to deflate the pound, when it returns to the gold standard, that is, if it decides to make the pound worth, say, only $4.00 instead of $4.86 2-3, she will need a far greater gold reserve than she has at present to insure the stability of sterling. This is easy to understand, for even if Great Britain determines that the pound should be redeemable by law in four dollars worth of gold, people will be disinclined to believe it if they know that the Bank of England gold reserves were not nearly sufficient to pay out gold for every pound note outstanding. What it all boils down to is this, if any country, whether on the gold standard or not, wants to keep its currency from falling so low that, like the old German mark it becomes practically worthless, it must keep substantial gold reserves in its vaults.

A second point of great importance at the present time is the statement of Prime Minister Bennett that Canada will not abandon the gold standard. He has put this statement into practical effect by paying Canadian gold producers in terms of American dollars, which on the money exchanges are today worth about eight cents more than the Canadian dollar. This willingness to pay a premium for gold is further evidence of its necessity to any country that desires to keep its money from falling in value.

The Future of the Gold Standard

Although, as a result of present economic conditions, and the tangled state of the international debt situation, a number of countries have temporarily abandoned the gold standard, it is absolutely safe to say that as far as the important countries of the world are concerned, gold will always be the basis of currency and the medium of international trade. The gold standard was started by Great Britain 115 years ago, but it is not sentiment that will keep it as the standard in the future, but cold hard fact. Let us see why—what is there about gold that makes it so desirable. To answer this question we must ask ourselves another—what qualities must a commodity possess in order that it may serve as a basis for the exchange of other commodities, i.e., as money. It is very obvious that it must be:

(1) Durable—able to withstand climate and general wear and tear.

(2) Portable—easy to carry and ship from one place to another.

(3) Recognizable—easily told from another commodity of possibly inferior value.

(4) Available—in sufficiently large quantities to serve as money, but not in too large quantities to deprive it of its intrinsic value.

The commodities answering these requirements are indeed few—in fact, the list soon narrows down to the metals—then to the precious metals. Platinum is out of the question because there isn't enough of it to act as money. That leaves gold and silver. For a number of years, certain countries were on a silver standard (like India and China, for example), and some, like the United States had both standards—what is known as bimetalism. But the rate at which silver was being mined was increasing altogether out of proportion to the growth of the gold mining operations, and the consequent confusion was so great, that finally, every country of importance adopted the gold standard.

If the nations of the world decided to abandon the gold standard, the only thing they could adopt as a substitute would be the silver standard. Look over the list of requisites for good money as given above. Silver does not possess one single advantage over gold, and so great would be the confusion and chaos among the nations of the world resultant upon any attempt to change over to the silver standard, as to preclude any possibility of nations attempting to do so.

The Situation in a Nut Shell

Q.—What is the Gold Standard?

A.—The gold standard is an arrangement by which a country undertakes to redeem its currency at all times, and upon demand for a fixed quantity of gold and to allow gold to be freely exported from that country. In Canada the dollar is redeemable for 23.22 grains of pure gold.

Q.—Why did Great Britain temporarily abandon the gold standard?

A.—Great Britain abandoned the gold standard (i.e., prohibited the export of gold) because she wished to protect her gold reserves. Nations to whom she owes money were pressing for payment, and in order to stop the flow of gold she refused to exchange the pound note for 113 ounces of fine gold.

Q.—Does a nation that is not on the gold standard require gold?

A—.Yes, unless she wants her money to become valueless, like the old German mark. A nation must keep substantial reserves in its vaults. This gives other nations confidence in the money of the country that is not on the gold standard. The importance of gold to any country is well illustrated by Prime Minister Bennett's offer to pay for Canadian gold in American money—a ten percent premium.

Q.—How will Great Britain's temporary abandonment of the gold standard affect the mines of Northern Ontario?

A.—If there is any effect it will be good. Great Britain requires more gold than she has now to give people confidence in the pound. She must therefore, continue to buy it. Last time Britain was off the gold standard, her demands for gold were so great that the price rose from $20. a fine ounce to $27.00.

Q.—Are the United States and other important countries likely to abandon the gold standard.

A.—No. because gold is the only commodity that has all the requirements of good money. It is durable, it is easy to ship from one place to another, it is easy to recognize and it is available in sufficiently large quantities to be used as money, but not in too large quantities to deprive it of its value. After a test of 115 years it has proved more satisfactory than silver, the price of which fluctuates too much. In order to prevent chaos in world commerce the medium of exchange must be stable in price, like gold, therefore gold will continue to be a standard for money in all important countries.