

(November 13, 1933)

## The Depression, Its Monetary Problems

BY HON. C. H. CAHAN, K.C.

MR. ARSCOTT:—Before proceeding with the usual formalities I should like to say that it was with extreme regret we learned of the illness of our President, Mr. Harry Sifton. As many of you are aware, he was taken suddenly ill while attending a function at Hart House last Wednesday. I am glad to say the report we have received on his condition is reassuring and we earnestly hope it will not be long before he is back with us.

We have as our guest of honor today the Hon. C. H. Cahan, Secretary of State for Canada. He visited us some three years ago and we are very glad to have him with us again today. As you all know he has been very prominent in public affairs and he achieved marked distinction, being appointed Secretary of State in August, 1930. Among his other services to the country he represented Canada at the last Assembly of the League of Nations. He has had very wide experience, has very intimate knowledge of affairs and conditions in Canada. He has chosen as the subject of his address today, "The Depression, Its Monetary Problems." This is a very live subject with all of us at the present time and we shall listen to his remarks with great interest.

I have much pleasure in asking him to address you.

HON. MR. CAHAN:—Mr. Chairman and gentlemen, I ask the tolerance of this large assembly because the views which I am expressing today are not the views of an expert on monetary problems, but rather the views of one who through life has had many experiences and who wishes to

present to this large audience in Toronto some idea of the problems with respect to monetary policy with which this country is now faced.

September, 1929, witnessed the climax of a cycle of world-wide economic development, which was followed by a general depression that has seriously affected almost every industrial and commercial activity throughout Canada. On September 4th, 1929, or the nearest day to this date on which the securities were traded on the stock and curb exchanges of Canada, the aggregate selling value of Canadian securities amounted to \$6,600,000,000. In December, 1930, these same securities had a selling value of \$3,135,000,000, showing a depreciation or what I may term an evaporation in the aggregate value of these securities to the amount of \$3,465,000,000. By December, 1931, there was an additional reduction in the same selling values of \$1,268,200,000. The depreciation of these values between September 4th, 1929, and December 31st, 1931, amounted to the amazing sum of \$4,733,200,000.

As the values which had depreciated were formerly good security for bank loans or advances to at least one-fourth of this sum, it is not surprising that the credit facilities of Canada became considerably restricted; and it stands to the credit of Canadian chartered banks that the average of bank loans outstanding in 1929, amounting to \$2,279,000,000 in 1929, was only reduced in 1931 to an average of \$1,764,000,000, showing a net average reduction of \$515,000,000. On September 30th, 1933, the bank loans outstanding amounted to \$1,426,000,000, indicating a further reduction of \$338,000,000, or a total reduction from the average of loans outstanding in 1929 of \$853,000,000. Such an unprecedented reduction in bank credits indicates a serious depression throughout Canada in every field of human activity. It is obvious that Canada has not escaped the tidal wave of uncertainty and fear which swept over European States and finally submerged democratic institutions in the neighboring Republic. In fact, no country in the wide world has escaped serious financial loss and embarrassment.

Lack of confidence makes for economic instability.

Fears became magnified from day to day. Bankers suspect the stability of borrowers and hesitate to advance credits for business operations. Current loans are restricted or called in. The cumulative effect of prevalent pessimism paralyzes wholly or partially every form of industrial and commercial activity. In normal times redundant and obsolete concerns reduce their capacity or disappear, but from time to time new industries take their place and absorb the surplus workers. But in time of general financial and economic depression the efficient often suffer with the inefficient.

Manufacturers and traders throughout Canada have experienced a fall and even complete loss of their profits, and in many cases to avoid bankruptcy they have necessarily curtailed their operations. Wage earners have had to accept lower wages, and in many cases to suffer complete loss of employment. Farmers have faced a rapid fall in the prices of all agricultural products, and are left in doubt whether they should reduce farming operations in the hope of increasing prices, or increasing farming operations in the hope of spreading their costs over a larger production while selling at lower prices. In the meantime, though the demands for the relief of distress were becoming more insistent, the receipts from taxation were decreasing. Taxes were necessarily increased, and public expenditures were inevitably decreased. Private citizens, with reduced salaries, wages or other forms of income, were compelled to reduce their purchases, and the profits of industrialists and traders were curtailed because of the inability of consumers to purchase.

The consumption of both domestic and foreign products has decreased by reason of the decreasing ability of consumers to purchase, but, in order to protect domestic employment, it has been deemed absolutely necessary to favor the consumption in Canada of domestic goods rather than the consumption of foreign goods, by restricting the competition of foreign products with domestic products in the home market.

Moreover, we have, in past times, borrowed heavily from abroad for the construction of public works and

for our domestic industrial development. An expanding country, such as Canada, could, in normal times, justify considerable capital expenditure of borrowed funds upon public improvements. Our continuous foreign borrowings, however, could only be justified by a rapidly increasing population in Canada and a corresponding increase in the taxable capacity of our people. There is no doubt that in times past successive governments, dominion, provincial and municipal, have over-borrowed.

The borrowing of money by a private company increases the annual interest charge against the profits of that particular company. If profits cease, the undertaking fails, and its debts are wiped out. But borrowing directly by governments, or by companies on government guarantees for the payment of principal and interest, are not merely charges against the profits of these undertakings which may be wiped out by failure and bankruptcy, but they are charges against the taxable capacity of the whole people, and, when revenues from such undertakings cease, the government is, nevertheless, obliged to pay the annual interest due or accruing due on such borrowings.

The burden of excessive private indebtedness is reduced in some cases by compromises between creditors and debtors, and more frequently by foreclosures of existing mortgages, liens and charges, or by ordered liquidations under the supervision of the courts. Though the limits of taxable capacity of the people may be reached, nevertheless the burden of governmental indebtedness continue to roll up, gathering size and weight as would a rolling snowball on a winter's day until it attains incredible dimensions. Fresh debts are created to provide for accruing interest obligations on existing indebtedness, and the future of the country becomes yet more heavily mortgaged for non-productive purposes. As taxation is necessarily increased to provide funds for the service of public debts, costs of production rise, wages are inevitably reduced, and profits diminish or entirely disappear. New investments, upon which the economic progress of the country largely depends, practically cease. Some savings are nevertheless accumulated, but the cessation of investments of such savings in

capital developments entails a cessation of employment in constructive work.

Under these circumstances it is persistently contended that Parliament should make substantial reductions in taxation in the expectation that funds otherwise payable in taxes would be released for private productive enterprises which would tend to create increased employment; but it is clear that any reduction in taxation, which involves a budgetary deficit of a size sufficient to create the belief that the government is unable to meet its ordinary expenditures, also tends to impair public confidence and retard investments in new productive enterprise.

There is no international court for bankrupt states, and the burden of national indebtedness, which cannot be carried by taxation, may only be relieved by repudiation, which all sane governments deprecate and, if possible, avoid, or by artificially raising prices and profits so that by taxation the state may obtain larger revenues, or by other measures of inflation such as reduction of the gold content of the pound sterling, the French Franc or the dollar, which also serve to reduce in the same proportion the burden of all public and private indebtedness, or, as a last resort, by the issue of irredeemable paper money. I have referred to methods for artificially raising prices and profits as a possible remedy, but I wish to note that there is a decided difference between rising prices accompanied by confidence and rising prices induced by hysteria and fear.

Governmental debts to our own people are more easily carried than debts to the people of foreign countries. Our indebtedness to foreign countries can only be paid for ultimately in goods exported and services rendered. Foreign markets are always precarious, and especially so when they are restricted by the imposition of prohibitions or limited quotas. If our foreign creditors decline to purchase our products in sufficient quantities, then we are forced to increase our borrowings from such foreign countries to pay for our excess purchases in borrowed funds. It is my personal opinion that our recent tragic experiences have fully disclosed that so long as the cost of our borrowing and of buying abroad exceeds the aggregate returns from

our sales of Canadian products to purchasers abroad, we cannot maintain in Canada either stable tariff rates or a stabilized monetary policy.

One source of our existing financial embarrassment in Canada is that governments, companies and persons have continuously and persistently borrowed from the people of the neighboring Republic funds wherewith to pay the costs of the excess of commodities and services which we have annually procured from that country. If the people of Canada persist in buying abroad in excess of the amount which we sell abroad, we must borrow to pay such excess or else make default in payment, and such defaults, as I have already stated, have very serious and wide-spread reactions upon the financial credit of our country both at home and abroad. Since April last we have been slowly yet surely emerging from the prevailing financial depression. Many fantastic remedies for depression have been suggested on public platforms and in the public press of this country; but all effective remedies for relieving depression must be judged not merely as immediate palliatives, but in the light of their probable long term effects. The Government of Canada, therefore, announced early in this year that advantage would be taken of the early revision of the Bank Act to appoint a Royal Commission to consider all matters relating to Canadian monetary policy, and to make its report a basis for legislative action during the ensuing session of Parliament.

The British North America Act, 1867, which constituted the Dominion of Canada, provided that the Parliament of Canada should have exclusive legislative authority with respect to banking, incorporation of banks and the issue of paper money, and also exclusive legislative authority with respect to currency and coinage. Temporary legislative measures were enacted by Parliament in 1867, and 1870, but the first general and comprehensive Bank Act was enacted in 1871. Revisions of the Act have been made by Parliament at the close of successive periods of approximately ten years each. The fifth revision took place in 1923. The sixth revision will be made at the ensuing session of Parliament.

In the earlier days of Canadian banking banks' loans

to their customers were restricted to their bank notes and their banking capital. The customer usually received from the bank the amount of the loan in bank notes or metallic currency and therewith made his payments to his creditors. As late as 1840 the note issues of the Canadian banks constituted more than one-half of their liabilities. Since then banking practice has radically changed. On September 30th last the notes in circulation of all the Canadian chartered banks amounted to \$141,000,000, and their total liabilities aggregated \$2,849,000,000 or over twenty times the amount of their note issues.

The prevalent conception that bank deposits may only be created by actual deposits of specie, or its equivalent in Dominion notes or foreign exchange, is quite erroneous. The bank returns for September 30th last disclose that the banks held only \$49,000,000 in specie and \$127,200,000 in Dominion notes, or a total of approximately \$176,000,000 in specie and notes, while their current loans and discounts were \$1,428,000,000, which was a reduction of \$932,000,000 in the amount of current loans and discounts on September 30th, 1929. Such a large reduction in outstanding current credits would seem to indicate that the industrial and commercial activities of Canada have been reduced or restricted by nearly forty per cent. since September, 1929. The aggregate of these loans, by which the bulk of all deposits is created, largely represents advances of credit made by the banks to their customers. The capital and reserves of all the banks of Canada amounted on September 30th to \$306,500,000, which was at least partially represented by fixed investments. The credit extended by the Canadian banks is secured in less than one-fourth part by the capital and surplus of the banks, but largely by the good faith, property, administrative efficiency and business capacity of the customers to whom such loans are made.

The creation and issue of money was in former times the prerogative of the sovereign. In a more primitive society money consisted exclusively of metallic coins. Later governments began the issue of paper notes, redeemable in metallic currency, and these notes were declared by

decree or by statute law to be legal tender in payment of all liabilities. In more modern times the invention and adoption of the cheque system has effected a radical revolution in monetary policy. The cheque has now largely usurped the function of metallic coins and government notes as currency.

Under the modern banking practice a bank customer, instead of withdrawing his loan in bank notes and metallic currency, receives a credit entry in the books of the bank for the amount of the bank's loan, as if it were a deposit made by him in his account with the bank. Against this credit in the bank's books of account the customer draws his cheques. The customer's cheque, which is an order on the bank for the payment of money to the payee of the cheque, merely results in the transference of the credit, which has previously been granted by the bank, from this customer's name to the name of another customer in the same or another bank's books of account. In case the payee of the cheque so drawn keeps his banking account in another bank, the two banks, in the larger cities and towns, daily adjust their balances through the clearing house.

The result is that, in modern practice, eighty to fifty per cent. of the aggregate of all deposits, shown in the Canadian bank returns, represent in reality the amount of loans made by the banks and then outstanding. In consequence bank deposits consist largely of credit money which has been created by the banks. When a loan is repaid by the customer to the bank which made the loan, the deposit created by the loan is wiped out and the aggregate of all bank deposits is thereby reduced by the sum so paid.

On September 30th last the Canadian chartered banks held deposits by the public, payable on demand in Canada .....	\$ 491,783,798
Deposits payable after notice or on a fixed day in Canada .....	1,372,184,120
Deposits elsewhere than in Canada .....	296,878,318
Balances due Dominion and Provincial Governments .....	99,406,094
<b>TOTAL DEPOSITS in the chartered banks of Canada .....</b>	<b>\$2,260,252,330</b>

This aggregate of deposits on September 30th last was \$436,500,000 less than the average amount of deposits during the year 1929.

Since the cheque system has been adopted, the difference between the amount of cheques paid into a customer's account at his bank and the cheques drawn by the customer and paid out by the bank represents a sum of money which the customer owns, nevertheless this money does not exist except in the accounts of the customer's bank. What is paid out of one bank account is paid into another bank account by entries in books of account. A relatively small quantity of metallic coins or paper currency suffices for owners who require cash for their petty expenses. The cheque system, which has been developed, enables the banks to create money without the issue of their printed notes. On September 30th last all the Canadian banks had \$141,000,000 of their own notes in circulation, while the aggregate of bank deposits was \$2,260,000,000. It is convenient for the banks, with their numerous and wide-spread branches, to have available a limited quantity of their own notes, which suffice, in part, for the cash requirements of their customers; and therefore, to avoid the expense of holding in reserve and transferring currency as required, it has hitherto been deemed expedient that Parliament should grant to banks the privilege of issuing their own notes in limited quantities as required, not only at Head Office but at all their branch offices throughout Canada. This privilege is now being criticised, and Parliament must decide at the ensuing session whether or to what extent it shall be withdrawn.

But the cheque system, which now prevails, enables the banks, as I have stated, to create credit money at will for many hundreds of millions of dollars in excess of their note issues. \$1,428,000,000 of such credit money was issued and outstanding on September 30th last. In comparison with this bank credit money, the amount of all other money in circulation is quite insignificant.

As the decennial revision of the Bank Act is now approaching, a very considerable propaganda has been instituted throughout Canada against the banks and exist-

ing banking methods. It is claimed that the banks have usurped the prerogative right of the government to create and issue money; that their issues of "credit" money have reduced government money to a trivial proportion of the whole; that the loans or advances by which such credit money is created bear variable but usually high rates of interest, although no money is actually advanced by the banks to their customers; that the money loaned by the banks has no physical existence, since what is really loaned is the credit of the bank. There is sometimes heard the further extreme contention that hereafter the banks' credit should be deemed of secondary importance, and that all loans or advances made by the banks should be covered, in whole or in part, by metallic reserves or by the banks holding government notes which represent the credit of the whole country.

But in fact the banks have not an unlimited power of creating credit in the form of bank loans, which may be drawn upon by their customers' cheques. Their dependence upon public confidence is so vital to their solvency that in actual practice they invite disaster whenever they make loans which are not accompanied by satisfactory guarantees for their repayment. If the banks are to maintain their solvency, they dare not make loans or advances unless they have reasonable confidence that they will be repaid in due time. The fact remains, however, that the banks now have an almost complete monopoly of the credit facilities of the country. They may restrict or extend credit at will within the limitations which I have mentioned; and the question has arisen whether the control of credit should continue to be exercised in the sole discretion of the directors and officials of the banks.

On a recent occasion I had the temerity to suggest to the officials of our Canadian banks that, in these democratic days, they should devote some of their time to the useful work of informing assemblies such as this of the merits of their banking practice, which can only survive by popular appeal and public support.

The first Currency Act of the Dominion of Canada, which was enacted and came into force on July 14th, 1871,

established one uniform currency for the Provinces of Canada.

A second Currency Act was enacted on May 4th, 1910, by the Parliament of Canada, and thereby Canada adopted the same gold standard as was then established in Great Britain and practically the same as had been fixed in the United States of America by its Gold Standard Act of 1900.

The Currency Act, which is now in force in Canada, provides that the standard for gold coins of the currency of Canada shall be nine-tenths pure gold and one-tenth alloy, and that the \$20 gold piece shall have a standard weight of 516 troy grains. This Act, therefore, prescribes 25.8 troy grains as the standard weight of the dollar, and, deducting therefrom one-tenth as the weight of alloy, provides that the Canadian dollar shall represent 23.22 troy grains of pure gold to the dollar. The legal value of an ounce troy of pure gold was thereby fixed by statute at \$20.67. By comparing this legal value of an ounce of pure gold with the prices daily quoted in London and New York, ranging from \$31 to \$33 per ounce, you may easily ascertain the current depreciation in Canadian or United States currency.

A similar provision that the value of one dollar in the currency of Canada represents 23.22 grains of fine gold content is contained in the Dominion Notes Act, which was first enacted by the Parliament of Canada in 1914. This Act provides for the issue of notes of the Dominion of Canada, which are to be called Dominion notes. These Dominion notes are declared by the Parliament of Canada to be legal tender in every part of Canada, and they may be issued by the Government to any amount provided that the Government shall hold, for the redemption of Dominion notes up to and including \$50,000,000, issued and outstanding at any one time, an amount not less than 25 per cent. of the amount of such notes in gold, and provided that for notes outstanding in excess of \$50,000,000, the Government shall hold an amount in gold equal to such excess. The Dominion notes issued on September 30th last under this Act amounted to \$106,400,000.

But the Parliament of Canada has not strictly adhered to this provision respecting gold reserves. By Chapter 4 of the Acts of 1915 Parliament authorized the issue, without a gold reserve, of \$26,000,000 of Dominion notes in payment of certain obligations assumed by the Dominion of Canada. In addition the Finance Department, under the provisions of the Finance Act, had issued on September 30th last to the banks of Canada, upon securities pledged by the banks, Dominion notes to the amount of \$40,744,000. In September 30th there were outstanding an aggregate of \$173,148,000 of Dominion notes against which the gold held in reserve amounted to \$69,610,000 or about 40 per cent. The delegates at the recent World Economic Conference were of opinion that a gold reserve of 25 per cent. against government notes should prove sufficient in practice. On this basis the gold reserve held on September 30th would permit an issue of \$278,440,000 of Dominion notes, or approximately \$100,000,000 of notes in excess of its actual issue of \$173,148,000 on September 30th last.

There is a strong propaganda in favor of the Dominion Government increasing its present note issue of about \$100,000,000 and using the extra issue of about \$100,000,000 of notes in payment of current government indebtedness, instead of issuing and selling to the public Dominion bonds for that purpose. That issue will, undoubtedly, be raised at the ensuing session of Parliament, and it is a matter for your serious consideration in the meantime.

There are others who make further demands. Following the abandonment of the gold standard by the United Kingdom on September 21st, 1931, the increasing demands for gold, which were made upon the Dominion Government's Central Gold Reserves, compelled the Government of Canada to abandon the gold standard by providing that exports of gold from Canada should only be made under government licenses, and later, in April of this year, the redemption in gold of Dominion notes was temporarily suspended. More recently the Government of the United States has taken similar action. The result has been that the value of the Canadian dollar of 100 cents has recently

represented a value in the legal gold standard varying from 61 cents to 66 cents. In other words, the gold value of the Canadian dollar has depreciated from 34 to 39 per cent. The Government of the United States has deliberately effected a similar depreciation in the gold value of the United States dollar. The Canadian dollar, therefore, instead of representing 23.22 troy grains of pure gold, as provided by the Statutes of Canada, now represents less than 15 grains of pure gold.

The pure gold content of the dollar, which was prescribed by an Act of the Parliament of Canada, may be changed in the discretion of Parliament. There is now an agitation in favor of Parliament fixing a new gold standard of, say, 14 grains or 15 grains of pure gold to the dollar, so that the nominal value of the dollar may more closely correspond to its legal value expressed in gold, or in the currency of countries, such as France, which still adhere to a gold standard. The adoption by statute of such a lower gold content for the Canadian dollar would, undoubtedly, have wide-spread reaction. It would, in due time, reduce by one-third the burden of all indebtedness payable in Canadian currency, and would tend to increase prices of commodities in the domestic trade of Canada in a similar proportion.

As the major portion of Canada's external trade is carried on with the United States and the United Kingdom, there are wide-spread demands from exporters as well as importers for the early stabilization of our fluctuating exchange with those countries, but there are also strong arguments against prematurely reducing by Act of Parliament the gold content of our Canadian dollar until the gold content of the pound sterling and of the United States dollar are stabilized in the same proportion by similar statutory enactments. On the other hand, it is alleged that the Government of the United Kingdom cannot undertake to stabilize the pound sterling on a new gold basis until Great Britain's liabilities to the United States arising out of its war debts are satisfactorily adjusted.

We have before us the examples of other countries, France, Italy and Belgium have all stabilized their curren-

cies at a fraction of their former value in gold. France reduced by four-fifths the gold content of her franc, and thus lightened not only her war debts but all public and private debts in a corresponding proportion. Russia, Austria and Germany debased their old currencies to zero, wiped out all existing indebtedness of every kind, and then started afresh with new currencies.

I cannot predict the course that the Parliament of Canada will ultimately adopt. I am merely seeking to state the issue for your consideration, for ultimately the people of Canada must render the final decision. I am convinced, nevertheless, that Parliament will not approve of the unlimited issue of Dominion notes for the purpose of defraying the expenses of government. That kind of inflation would inevitably lead to national insolvency. It is true that anything is currency which the parliament or government of a country chooses to make legal tender, or that the people of a country are willing to accept as currency, such as bank notes, cheques or bills of exchange. But when currency is known to be increasing in volume every day, people are prone to mistrust it. Then they rush to get rid of it, to spend it on something—anything they can buy. Up goes the rate of circulation, and prices rise by an amount corresponding both to the increase in the volume of currency and the increase in its rate of circulation. The value of the currency depreciates in the proportion that prices of commodities increase. As the mark depreciated in Germany, sellers refused to accept marks. Retail traders closed their businesses at particular hours of the day, then on particular days of the week and then closed entirely. The catastrophe of the currency developed into a catastrophe of the food and other supplies, which was worse than in the worst periods of the war.

Thrift becomes an act of monumental improvidence when the currency is rapidly depreciating every day, and the spendthrift is recognized as the one prudent man of the family. Of Germany an eminent writer says that "one son could invest his inheritance in gilt-edged stock "and lose his all, while his brother could squander his "share on champagne, and sell the empty bottles for more

"marks than his original inheritance. Interest meant nothing. What was the use of earning ten per cent. or even fifty per cent. per annum on your money, when the purchasing power of your capital could fall by ninety per cent. in a single month." Extreme inflation means a fool's paradise for the rich, and grinding poverty and hardship for all other classes of society. When everyone rushes off to spend his money as soon as he receives it, when every manufacturer knows that bricks, mortar, machinery and goods are the one safe repository for his profits, and when every investor finds that ordinary shares alone are comparatively safe, a false volume of business and a false scale of values are inevitably created. The manufacturer soon finds that factories and machinery are no good to him without working capital and credit, when there is no money or credit left. The investor finds that the ordinary shares, which he thought safe, are of no value to him without dividends, and the working-man finds that no liquid capital means for him no possibility of obtaining work at any wage.

The catastrophe culminated in Germany in 1924 when its currency was converted and stabilized on the basis of one trillion of inflated Rentenmarks into one gold Reichmark. I may say I was in Berlin adjusting the liabilities between Canada and the German government, arising out of the war, and they told me at the foreign office that the Government had supplies of paper for printing, but the currency depreciated so, they could not procure competent men to print the notes; and so they arranged that the government would supply the paper and the ink and the engraving materials, and they would print throughout the week and at the end of the week, the workmen took one half of the product as their wages for the production. In the meantime all public and private indebtedness had been completely liquidated by payments made in inflated marks and thus forever obliterated. I am convinced that the people of Canada will never decide to pursue the same rapid descent to the hades of social, industrial and commercial ruin.

From time to time since the Great War the expediency

of establishing in Canada a Central Banking institution has been more or less casually discussed. At the outbreak of the war, the enactment by Parliament of the Finance Act made a fundamental change in the monetary system and in the banking practice of Canada, which proved to be of great utility during the stress and strain of war and during the period of reconstruction that thereafter ensued. This Act is now administered by the Finance Minister and four other Ministers of the Crown, who constitute the Treasury Board, of which the Deputy Minister of Finance is Secretary.

The Finance Act provides for a reserve of legal tender currency, which may be utilized by the chartered banks in times when there are exceptional demands for credit, or when other emergent conditions arise. But the recent financial depression has induced many to believe that the provisions of that Act are not adequate for certain national needs. An agitation has arisen in favor of creating a Central Banking institution in which shall be vested the functions now exercised under the provisions of that Act by a Committee of the Government. It is also suggested that this proposed new central institution should be vested with adequate authority to centralize in itself the gold reserve of the country, to control the issue and disposition of Dominion notes, the coinage and issue of metallic currency; and also to take such measures as may from time to time be deemed expedient to supervise and to advise the Government with respect to the general monetary policy of the country.

It is also suggested that it should be one of the functions of such a central institution to obviate extreme fluctuations in the exchange value of Canadian currency and to maintain such a stabilization in monetary policies as will create more stable and, therefore, more reliable and more favorable conditions for the conduct of our foreign import and export trade; and, with that end in view, to facilitate international agreement and co-operation in respect of monetary policies, particularly with countries such as the United Kingdom and the United States of America, with which a large proportion of our foreign trade is carried on.

The Macmillan Commission has had all these matters under consideration, and its report will, I trust, prove persuasive and convincing.\*

If it is decided by Parliament that a Central Banking institution shall be created, its attainment of complete success in the work for which it is designed will depend in no slight measure upon the extent to which it obtains the confidence and voluntary co-operation of the Canadian chartered banks.

But in a democratic country such as Canada the final success of all fundamental policies depends upon the whole-hearted support of educated public opinion, and on that account I shall be gratified indeed if my hasty review of these pressing public problems serves to enlist your attention and provoke your careful study of, and intelligent decision with respect to, these problems, the wise solution of which is of such vital importance to all the people of Canada.

MR. ARSCOTT:—It is the practice of the Club for the chairman to extend the thanks of the meeting to the guest speaker but, since we are fortunate today in having with us Rt. Hon. Mr. Meighen, I am going to ask him to perform that duty.

RT. HON. ARTHUR MEIGHEN:—Mr. Chairman, I presume it is not inappropriate for one who was undoubtedly the least of all the colleagues of Mr. Cahan's in the administration to express some gratitude to him once in a while because he is one who emphatically is of those who do the most. I am afraid, though, Mr. Arscott, in asking someone to serve for him, had another motive in his mind. I do not think he felt like saying very much today on the coming central bank.

Mr. Cahan has delivered an address demonstrating that intense application to toil which has been his characteristic throughout life and which has carried him so far. His period of membership in the House of Commons was not coincident with mine, he being a younger man who came on the scene after I was through, or rather after notice to quit. But association from a higher level in the upper

\* The report was published on the morning of Mr. Cahan's address.

house has taught me some of his merits; and I take the opportunity to state to you that conclusion of policy is one thing, administration is another. Each member of a government assumes full responsibility with his colleagues in all matters of public policy. Frequently a man may be of value who is not a good business executive and therefore a poor administrator. I want to give you the conclusion which I foreshadow; it is this, that we have with us today a man who has never been excelled as an efficient administrator of his department in the long history of Canada. I was, and you all were, intensely interested in his address on the very difficult topic of today. In common with all of you I enjoyed it immensely, although I was suspicious that there had been one or two of my speeches which Mr. Cahan had not heard. One thing we are certain of, when the Bank Act is before us for revision next session there will be, among those taking part in those deliberations, a man who has conscientiously studied the problem and who will do all that can be expected of any public man to bring to bear upon it that concentration of interest, that thoroughness of preparation, and that high intelligence which such a subject and its proper solution absolutely demands. What the outcome will be, none of us can tell, but I know there never was a time and there never was an age when problems commercial, industrial and especially monetary, received that degree of attention at the hands of public men that they have in these last few years.

On behalf of the membership of the Canadian Club I thank you warmly for an intensely interesting address.