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THE GOLD RESERVE FOR DOMINION NOTES.

It is well known that the bills circulated by the banks of Canada have always in theory rested on a basis of redemption in gold. At one time, and up to a certain period, the obligations of our banks were invariably redeemed in actual specie, and the reserves they held against their liabilities were in gold coin.

It is now nearly twenty years since the first innovation in this system of gold redemption began by the issue of the notes of the Government, which notes, like the notes of the banks, were payable in gold. They had, however, this feature imposed upon them by Act of Parliament, viz: that they were what is technically called a 'legal tender.' This means that when the notes or deposits of a bank are presented for redemption, the bank can tender in payment Government notes instead of gold.

Now, gold is a heavy and cumbersome thing, while notes are light and easily handled; it was certain, therefore, that the banks would keep some Government notes on hand as a substitute for unwieldy and troublesome bags of specie that formerly filled their vaults. But, mere convenience apart, it is known that the substitution of paper bills for gold, as a part of their reserve, was viewed with suspicion and distrust by conservative bankers. They knew perfectly well what they could do with gold. That is a commodity which has a purchasing power in any financial centre of the world. And they could always regulate their holding of British or American gold so as to suit the requirements of their business. But paper bills are a very different sort of commodity.

If, indeed, every legal tender bill issued by the Government had been represented by an equal amount of gold in the Treasury at all times, the uneasiness and suspicion before referred to would have been entirely dissipated. They would then have been of the same character as the gold certificates of the American Treasury. These certificates are represented absolutely by the same amount of coin in the vaults of the United States Government But, as is well known, the Government of Canada did not propose to keep dollar for dollar in coin for the bills that were issued. It took authority to keep only a reserve of coin in the same manner that banks are accustomed to do. But the Government, which undertakes to pay gold at all times for legal tenders which the banks hold in reserve, ought to be in the position of either the American Treasury or the Bank of England.

Conservative bankers foresaw that in the practical working of the Act, the Government would sometimes find its gold drained away to an amount far below what it ever contemplated. In easy times, this of course was not likely to happen. And it did not happen for a considerable time. The Government guarded itself against a demand for gold by a most arbitrary enactment, which compelled the banks to hold Government paper bills in reserve, whether they—the banks—thought it desirable or not. But guarded as it was, the system brought the Government into difficulty some years ago. The exigencies of trade and finance compelled specie to be sent out of the country. And bankers when they presented Government notes for redemption found obstacles placed in their way. They could not get the gold readily when they wanted it; though they wanted it for the purposes of their business. The Government at that time said, and it was said since, that if the banks demanded gold, it would in turn demand gold for deposits. It treated the banks as if they were conspiring to do the country an injury, when in fact they were simply taking measures to carry on its lawful business. In the end, we believe, the leading bank was appealed to, and by the credit and resources of this bank, the Government was enabled to put itself into a proper position. This, however, demonstrated that the the whole system finally had to rest on a banking foundation.

Financial events repeat themselves. Times of difficulty and stringency recur, and the same symptoms re-appear. On this continent the first signs of disturbance are invariably in the great monetary centre of America. So it has happened before, and so it has happened recently. A great disturbance broke out in New York. A drain of specie then set in from Canada. The notes of the Government, as before, were again presented for redemption in larger quantities than usual. The demand was met for a time. But before long the Government found that its reserve of gold was fast draining away. The Government, it is said, then found it necessary to appeal to the banks to replenish its stock of gold. And it talked, it is said, of putting in force the same kind of retaliation which was employed on a former occasion. Thus, for the second time, has been demonstrated the inadequacy of the system of reserves as established by law, and the necessity, when a real pinch comes, of a humiliating appeal by the Government of this country to those very institutions whose gold has been taken from them by Act of Parliament.

It is an absurdity for the Government to complain of the banks. Each bank, no doubt, is following its own business, and meeting the requirements thereof. It is an absurdity to suppose that the banks demanded gold when they did not want it. And if they wanted it, the Government, as a pure and simple matter of business, should have met the requirement. Bankers, too, say that it is unreasonable of the Government to put obstacles in the way of the banks by keeping such gold as is not in current use on this continent. What they contend for is that the gold of the Government in great part should be of the denomination of so many *dollars*, and thereby correspond to our currency. The Bank of England, they say, might just as reasonably pay its notes in $20 gold pieces, as our Treasury pay its obligations in sovereigns. The Government has forced the banks to part with their specie. The ultimate coin reserve of the country is on a far more slender basis than formerly. The basis, in fact, is much too slender. The Government should hold more gold than it does. The reserve authorized by Act of Parliament has been demonstrated to be insufficient. Nothing less, in our opinion, will be sufficient basis but this. Putting aside the small notes, which are in general circulation, some contend that the Government is bound to hold dollar for dollar in gold of all the denominations held by the banks as a reserve against their liabilities. By this means we should have a return to the safe and solid gold basis of former years. Apart from this, as men of experience insist, we shall certainly have a recurrence of the late unpleasant experience, if not of graver complications.

GOVERNMENT NOTES AND THE BANKS.

Ever since the Legislature authorized the issue by Government of legal tender notes, the banks have looked with jealousy upon this encroachment on what they consider their domain. By means of these notes, the Government gets a loan of more than $17,000,000 at the minimum cost. But if this note issue is to last, nothing must be allowed to occur which will cast a doubt on its prompt convertibility; a vital point, in which the Government has already been more or less remiss. The trouble has arisen in that part of the legal-tender circulation which is forced, which the banks are obliged to keep as part of their reserves. Various remedies have been suggested. Some bankers favor the abrogation of the obligation which banks are under to keep part of their reserve in gold. There can be no question that this requirement is an inconvenience to the banks. When they were allowed to keep their whole reserve in gold, they experienced no difficulty in making remittances to New York, and the wide fluctuations in the rates of exchange on that city were unknown. The option which the government has of paying in sovereigns is, a banker would say, the right to pay in what on this side of the water, is an inferior currency, sovereigns being worth only about 8½ in New York. The result is that New York drafts some times go up practically to one per cent. premium. This is a banker's question; and the fact mentioned is the result of accident. From an economic point of view, it is sufficient that payment is made in gold of proper weight and fineness. When the banks had their entire reserves in species they kept little else that $20 gold pieces, and the rate of exchange never went above ¼ of one per cent. The express charges were only one tenth of one per cent. and if a bank did not wish to lose gold, it would arrange with another bank for a draft on New York at one sixteenth to one eighth.