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THE DOMINION NOTE RESERVE.

When promising in our last issue to reply to the article in the Montreal *Gazette* in which a new mode of redeeming Dominion notes was recommended to the Government, we ventured to express a hope that it did not express the views of the banks. On the 30th September the Banks held rather over fourteen millions of dollars in deposit from the Dominion Government, of which nearly seven millions was on call and of course not bearing interest. Of this amount about $4,660,000 was held by the Bank which keeps the Government account. Such being the financial position of the Government, the *Gazette* has suggested that it would be expedient that it should place upon the London market a portion of the debentures which it holds against the Dominion note issue, or, to put the advice more plainly, that the Government should pay interest upon a new loan merely to relieve the banks from the inconvenience of paying their deposits. It would doubtless be a most convenient and profitable arrangement for the banks, but we confess that we can hardly imagine how a Finance Minister would be able to justify it to Parliament.

The *Gazette* states that in the months of February and March, 1875, the Canadian banks "found themselves short of exchange, and unable with the specie reserve then held to meet the demand of importers for sterling bills. In that predicament the Government was looked to to supply the deficiency, and the Dominion notes held by the banks in excess of the amount required by law were presented at the office of the Receiver General for redemption. Did the banks find that the Dominion note reserve was equivalent to specie? So far from that being the case the moment the banks demanded gold from the Government, in redemption of the Dominion notes, the Government demanded gold from the banks in payment of deposits. In other words, the banks were shown to practically hold the specie reserve of the country, and the idea that the Dominion notes were equivalent to gold, and held merely as a convenient substitute, was proved to be fallacious." It would be difficult to hit on a more unfortunate illustration. It is not alleged that the Government applied to the banks for loans, but simply that by calling for its own money held in deposit on call, it gave the banks to understand that they must rely on their own resources to supply their customers with exchange. At the period referred to by the *Gazette* the usage was entirely different from what it is at present. At that time a portion of the Dominion note reserve consisted of bank deposits, and it is certainly not surprising that when called on to redeem its circulating notes, the Government should have checked on deposits held expressly to meet them.

The *Gazette* has selected a certain period, viz., February and March, 1875, to illustrate the inconvenience which may be felt by the banks and the public when there is an abnormal demand for foreign exchange, such we may remark *en passant*, as seems impending on us just now owing to the failure to move the late crops. Now we have examined very carefully the bank returns for January, February, March and April, 1875, in order to discover whether there really was any just ground of complaint. We find that in January, 1875, the bank deposits on call were $3,666,751; in February, $4,219,949; in March, $4,376,394, and in April, $3,502,746. These figures do not justify the assertion that the banks were unduly pressed by the Government. We shall now direct attention to the available assets. In January, 1875, the Dominion notes were $7,924,091; in February, $7,593,902; in March, $7,793.480, and in April, $8,002,523. The gold did not vary more than from $300,000 to $400,000 during the four months. The balances in the hands of foreign agents in New York were, in January, $7,290,708; in February, $5,899,807; in March, $6,203,963, and in April, $5,745,527. The call loans on stocks in Canada were, in January, $4,879,328; in February, $4,391,693; in March, $3,917,815, and in April, $3,951,082. The figures established very clearly, first that there was no very serious demand on the resources of the banks; secondly, that a very moderate call on their loans on collaterals in New York and Canada was sufficient to meet it, and, thirdly, that the reduction in deposits was trifling. The difference between January and April is little over $150,000, and although probably the banks would have preferred that the Government should have allowed them to retain their deposits and keep their call loans afloat, it will not be pretended by any reasonable banker that such would have been an equitable mode of dealing with the matter.

The consideration of this subject has reminded us of a crisis in the Montreal money market early in September, 1871, when a leading bank, doubtless for reasons satisfactory to itself, suddenly called up its loans on collaterals, the consequence of which was the sudden shrinkage in stocks of from 5 to 10 per cent. We sincerely hope that there will be no occasion to resort to similar measures, but we admit that although as regards the banks call loans on good collaterals are as available in Montreal or Toronto as in New York, it would be a very serious matter for Canada that there should be a large demand for the payment of call loans here, whereas such a call in New York would probably have very little significance. We have no idea of the probable requirements of the Government in regard to exchange, but they have an enormous amount at present on deposit, and when a demand comes those who are carrying stocks on borrowed money will have to meet it to a great extent. On the 30th September last the twenty-three banks in Ontario and Quebec, exclusive of the Bank of Montreal, held Government deposits payable on demand aggregating $1,261,266, or on an average $55,000 each, while the same banks held in Dominion notes $5,655,896, or an average of $245,000 each. It is obvious, therefore, that if it should be necessary to send gold to New York, the trifling deposits of the Government would be no obstacle, even if, under the altered mode of holding the Dominion note reserve, a demand for gold should lead to a withdrawal of deposits. In point of fact the present arrangements regarding the reserves are such as to render it improbable that any call for gold would have the least effect on the deposits.

We should be glad if the *Gazette* would refer to some recent instance of the Government drawing on its deposits owing to a demand for gold on its reserves. That it has done so to pay for exchange is quite probable, but has no bearing on the question at issue. The *Gazette's* advice we shall quote in its own words: "If instead of looking to the banks for gold when a shortage of exchange is discovered, and the Dominion notes are presented for redemption, the Government would place on the London market the reserve of debentures, and so furnish the exchange that is required, then the Dominion notes would actually form the equivalent of a specie reserve, but not otherwise." Place debentures on the market with over fourteen millions of deposits lying idle ! ! !

GAS.

The progress made in electric lighting, although not so effective as anticipated, has drawn more of general attention to