

THE CITIZENS' INSURANCE COMPANY
(OF CANADA.)

Authorized Capital.....\$2,000,000
Subscribed Capital.....1,000,000

HEAD OFFICE—MONTREAL.

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THIS Company—formed by the association of nearly 100 of the wealthiest citizens of Montreal—is prepared to transact every description of LIFE ASSURANCE; also, to grant Bonds of FIDELITY GUARANTEE, for Employees holding positions of trust.
Applications can be made through any of the Company's Agents, or direct to

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W. T. MASONAgent for Hamilton:
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The Canadian Monetary Times.

THURSDAY, APRIL 22, 1869.

THE BANK CHARTER QUESTION.

GOVERNMENT PAPER AND GOVERNMENT CREDIT.

VIII.

The issue of state notes, intended to circulate as currency, is generally the last desperate financial resource of a government. The existence of such paper is proof of embarrassment, of deranged finances, is redolent of deficiencies: it is the worst form of a floating debt which it is impossible to wipe out, and difficult, if not impracticable, to fund. Instead of representing the results of labour, it fills the gap of inordinate, and, almost always, unproductive consumption. The issuer, unlike a bank, possesses no capital as a guarantee for the redemption of the paper; the notes are not issued in exchange for commercial bills, which, drawn by solvent persons, would themselves be sufficient to redeem the notes. But, it will be said, the government has the resource of taxation, and the whole property of the country is pledged for the

payment of its debts. Such terms as these, though in constant use, are really without meaning. The issue of the notes was proof that the resource of present taxation had been exhausted; and as there is no way in which the property of the nation can be made to answer for the debts of the state, except through taxation, it is evident that the payment of the notes must be postponed until additional taxes, which it is now impossible to levy, can be raised. As for selling the whole property of the nation, or any portion of it, to satisfy the demands of public creditors, the operation is manifestly impossible. If all the property of the nation were offered for sale, there could be no buyers; and if the property of particular individuals were arbitrarily selected for sacrifice, a feeling of common danger would prevent any one from purchasing. We have the proof in an applied test, in at least one municipal corporation of Ontario.

If the state notes be issued to a bank, instead of being issued to the general public, the obligation to redeem them is the same; and if a reserve of specie, equal to one-fifth of the amount, be held for their redemption, it follows that no provision is made for the remaining four-fifths. We say no provision, because, as we have seen, there is no capital in the transaction, and the maker of the notes parted with them to fill the void of a contracted debt, and not in exchange for commercial paper representing valuable commodities, which, in due time, would suffice to cancel the notes. The bank will not part with them without an equivalent; but that is its own affair, and will not enable the government to provide a guarantee for the redemption of the notes.

The conjunction of the credit of a bank and a government has before now given rise to the worst delusions of over-confidence. The case of Laws' Bank may be cited in proof; there the original shares went up to many hundred times the figure at which they were originally issued. But the recoil, when it comes, corresponds in depression to the original outburst of enthusiasm, and the effects of the catastrophe are universally felt. All legislative attempts to arrest the downward course are always ineffectual for that purpose, and often accelerate the descent. The consideration that a government cannot be sued like an individual without its consent, or be made amenable to laws which oblige individuals and corporations to pay their debts, is, at this stage, felt with its utmost force.

Sometimes the credit of the government takes another shape, and is largely substituted for the capital of the bank. This complexity is traceable in the National Bank system of the United States, with a modified but dangerous copy of which, there is reason

to believe, the country is now threatened. The notes issued under such circumstances must partake of the nature of their origin. Credit, like a great many other things, is excellent when used in moderation and with discretion; but it presents nothing but danger when pushed to excess. The substituting of government indebtedness for the capital of a bank is an inevitable cause of discredit. Whenever the credit of the paper circulation depends upon the government, it will follow the latter in all its varying fortunes. When, from any cause whatever, the credit of the government sinks, the paper will fall along with it, to the general derangement and confusion of all private and business transactions in the country. Such paper is, of all possible kinds, most ill adapted for the purposes of currency.

ELASTICITY A REQUISITE OF CURRENCY.

IX.

In every country the amount of currency fluctuates at different periods to accommodate itself to the volume of transactions in which its instrumentality is requisite. In England, the periodical payment of the interest on the public debt causes a temporary expansion of the currency, which is, however, short-lived. In Ireland, the currency reaches its lowest point just before harvest, and attains its greatest volume in January. In Scotland, the two great periods of expansion are in May and November, when the interest on mortgages and annuities is chiefly payable. It is in evidence before a committee of the House of Commons, that these fluctuations are in the proportion of three to seven: that the minimum circulation is three and the maximum circulation seven millions sterling. In other words, that it requires a currency of seven millions to maintain a circulation which, for the whole year, averages only three millions. Coming to our own country, we find that the circulation reaches its lowest point in July or August—just before the grain crops begin to come to market—and that it attains its highest point in October, when the bulk of the harvest is passing from the producers to the consumers. Between these two periods in 1865, the expansion was, in round numbers, six millions; in 1866, four millions; in 1867, two millions; and in 1868, three and a quarter millions. These facts show the necessity of the currency being sufficiently elastic to meet the varying demands of commerce. That element is not to be found in government notes, and almost as little need it be looked for in any system copied from the National Banks of the United States. Government notes admit of a fatal expansion, though of scarcely any contraction through redemption. National Bank notes, on the contrary, have a pre-