

note issue, the other half being represented by government securities. If others are of opinion that it is better to keep gold, I can have no objection, but I shall retain my opinion that there is no necessity for doing so. In this connection I must point out a serious error into which you have fallen, which is that you seem to imagine that the payment of these certificates of deposit in Dominion notes would not answer the same purpose, as those payments in gold. In the one case the Receiver General has to pay gold for the notes, in the other he gets from the banks the notes, which alone enable them to draw gold. The effect is precisely the same. A certain circulation, according to the theory on which the whole system is based, must be maintained. And if all beyond that limit is held either in gold or certificates of deposit, no possible inconvenience can arise. Although the Dominion Notes are legally on the same footing, yet there are practically two essentially distinct issues, viz., the large notes of \$1,000, \$500, and \$100, which rarely find their way into the hands of the public, and are never in circulation to any extent, and the very small notes which are scattered throughout the Dominion, from Halifax to Winnipeg. I proceed to another branch of your remarks; you assert that there are three points of difference between our own Act, and that under which the Bank of England works. I have replied to your objection under one head, and shall be very brief in my answer to the second part. I shall answer it by your own words. You assert that "there is a fundamental difference between the issue and redemption of Notes by a Government and a banker," and elsewhere you have supported this view, by a reference to the rate of interest, foreign exchanges, &c., &c. Now a few lines only above those that I have quoted, you say "the issue department was to act as a simple machine, giving gold for notes or notes for gold, and having nothing whatever to do, but to hold and not to lend either the one or the other." Your definition is strictly accurate as to the functions of the Bank of Issue, but it is wholly at variance with your numerous assertions elsewhere, that such issues and redemptions could only be performed by a Bank. In a very recent work "Lombard St., by Walter Bagehot," one of the highest living authorities on the subject, and which I would venture to commend to the perusal of your anonymous correspondent, as well as of yourself, it is said that for more than 50 years from 1793 to 1844, "there was a keen controversy as to the public duties of the Bank. It was said to be the manager of the paper currency, and on that account many expected much good from it; others said it did great harm; others again, that it could do neither good nor harm. But for the whole period there was an incessant and fierce discussion. That discussion was terminated by the Act of 1844. By that Act the currency manages itself; the entire working is automatic. The Bank of England plainly does not manage—it cannot even be said to manage—the currency any more." I might strengthen my case by other convenient authorities, but you have yourself in the passage describing the issue department as a mere machine, completely refuted your own arguments, and those of your correspondent 'G.' Your next objection is, that "no such long and varied experience exists as a guide to the minimum amount which it would be safe to have uncovered." And we say without hesitation, that no experience short of 20 years at least, would be a safe guide in such a country as this." I own that I fail to comprehend the meaning of the words that I have italicized. The minimum amount, which to-day it is safe to have uncovered, is certainly far greater than it would have been 20 years ago, and probably much less than it will be safe to have in 20 years from

this. This is a country in which rapid progress in population and wealth is being made, and every year of progress renders the established minimum safer. But you are quite in error in supposing that there were no data on which to base an opinion, nay, I venture to assert, a sound opinion. One feature of the government proposition was that the Banks should be required to hold one-half of their reserves in Dominion notes. Now the Bank returns enable every one to judge approximately what amount of Dominion notes they would have to hold in ordinary times. Nothing is easier than to make objections to any measure, but experience so far has confirmed my opinion at the time, that the limit fixed on was perfectly safe in 1870, and there are many circumstances that should remove uneasiness from the minds of the most timid. In the Maritime Provinces old charters are expiring, and under all new ones the same liability as to reserves will be incurred as by the Ontario and Quebec Banks. New charters have been granted in all the Provinces, and Prince Edward Island, Manitoba, and British Columbia will in a few years absorb a considerable amount. In your last article you attribute to me "a want of thought" in my remarks on the subject of the bearing of the rate of interest, and of the foreign exchanges on the issue and redemption of notes. I will illustrate by figures how completely you and your correspondent are mistaken. I will take two periods one that of the greatest panic which has occurred since 1844, viz., May, 1866, immediately after the failure of Overland, Gurney & Co., which occurred on 11th May of that year, when the Bank rate of interest was 10 per cent. and consols 86, and the Bank issues under 27 millions; the other in July 1871 when the Bank rate of interest was 2 per cent. consols 93, and the Bank issues above 41 millions. Now the returns show that during the panic of 1866 the circulation in the hands of the public was 26 millions, while in July 1871 it was little above 25 millions, this difference being caused by the fact that in May 1866 the notes held as a reserve by the banking department were under a million, while in 1871 the reserve of notes was upwards of 16 millions. If the Bank of Discount had kept its reserves in gold instead of notes the bullion in the issue department and the notes in the hands of the public could not have materially varied at these periods of extreme panic and of unusual ease. You assert that I have made "a very dangerous and damaging admission" in stating that in a few cases Banks presenting notes for redemption had their deposits withdrawn. Your remarks on this head seem to me so extraordinary that I can scarcely believe that you comprehend the nature of the transaction which I shall explain more clearly. A. B. a Bank applies to the Receiver General for \$100,000 of Dominion notes for which it gives a certificate of deposit payable at call and with a clear understanding that all such deposits may be required in the event of the outstanding notes coming in for redemption. In a week or so, more or less, this Bank, A. B. sends in Dominion notes for \$100,000 for gold, thereby diminishing the Government reserve possibly to an extent that absolutely requires a reduction of the circulation. The Government must obtain payment of some of its certificates of deposit, and whatever your opinion may be, I should unquestionably call upon the Bank which had sent its notes for gold to pay its debt to the Government in preference to a Bank C. B. which had made no such demand. And this simple transaction you characterize as "a high handed proceeding," "a violation in spirit of the act" "an entire forgetfulness of the fact that the Government exists only for the public good." I will only add that your argument on this head is incomprehensible to me as a man of business. Under what circumstances would you think the Government justified in requiring payment of the certificates

of deposits given in exchange for their notes? Are the Banks which send for gold to have special privileges and to be permitted to keep their deposits, while those who make no demand are to be required to pay? Your correspondent G. has so much to learn on a subject which it is evident he has not studied, that I shall not encroach much on your space in reply. He should learn that the issue department of the Bank of England is not regulated by the same Court of Directors who manage the Bank department, but by an Act of Parliament which to use your own language renders it a mere "machine." He should learn that Bank of England notes have been for many years a legal tender everywhere but at the Bank counter, that he is wholly mistaken in imagining that when the Bank Act was suspended during three different panics, the consequence was "at once putting an end to their redemption for the time being." All his remarks in the paragraph referred to afford evidence that he has a very limited knowledge of the subject. His reference to Scotch issues is irrelevant. Scotch Banks like English Banks which are not Banks of Issue, and like the Discount and Deposit Branch of the Bank of England, hold Government securities as assets which can be easily realized, but the issues of Scotch Banks are not based on Government securities and gold. I need not discuss further the suppositions of your correspondent and of yourself, editorially, of a possible collapse of all credit. Even in that event the sufferers would not be the holders of Dominion notes, but the banks and their customers. I have given you my views on this most important subject at considerable length, believing that the tendency of your articles is to create dissatisfaction with a system which in my opinion as a banker is most advantageous to the Banks, and a source of large profit to the public. Of course I could have no objection to the restoration to the banks of their right to issue small notes if unaccompanied by the imposition of the bank note tax, and the liability to hold 10 per cent. of their capital in Dominion securities. Neither would I object to the repeal of the Act of 1872, permitting deposits in chartered banks, although I believe it quite harmless, and a source of some profit to the banks, and advantage to the public. In conclusion permit me to thank you for having afforded me a fair opportunity of placing views before your readers, which are in your opinion so erroneous.

F. HINCKS.

Montreal, 2nd February, 1873.

#### OUR IRON MINES—INTERESTING FACTS.

To the Editor of the Monetary Times.

SIR,—Under the heading of "an opening to enterprise" in last week's number of your ably conducted journal, you remark as to the value the iron industry, which, together with the letter of "Philos" on Protection plainly sets forth not only the duty of our Government, but the backwardness of our capitalists and lack of enterprise in those having the means but really wanting the will to put matters fairly before the public. As one who has paid considerable attention to both subjects from personal interest, and having control of very extensive iron deposits in the vicinity of Montreal, I have been led to investigate the cost of manufacture, as well as the markets to be supplied. After satisfying myself that our home consumption alone could for some years at least consume a large supply, I naturally enquired into the history of those establishments that had already collapsed in the Dominion with the following results:

First—The Hull Company, with a large subscribed capital and almost inexhaustible supply of raw materials, spent \$70,000 in constructing a road of about three miles in length to their