

capital of the real estate by an issue is not at all surprising; but it certainly does not follow that there never could be a wise suggestion upon the subject,—one justified by sound principles of trade and economy. Although mortgages designate the capital in the property, the discounting of them by an issue payable in gold or otherwise would of necessity prove a failure, where no margin of capital was pledged to make good the losses. That was the error of all previous attempts to utilize mortgages in the circulation. The authors of the project named did not understand banking, nor did they explain the principles of trade; hence their scheme did not survive the ridicule. My labors, I trust, will have a very different issue. If I have not explained the principles of trade clearly, and applied them to a bank of issue dealing in mortgages in as correct and scientific a manner as they ever were applied to banks dealing in promissory notes, then I may deserve equal treatment. The more this subject is studied the more extraordinary it will appear that commercial principles and banking have never had an adequate explanation. It is pointed out that not even mortgages can be successfully dealt in with an issue, without an adequate margin of capital; but it is the first time it has been shown that the capital is to be found in the mortgages themselves. The bank buys A's mortgage with its issue, and B's mortgage with its stock at par. That is the secret which enables one to explain not only commercial principles, but Political Economy.

In fact, the suggestion is identical with the unlimited liability banking of Scotland, rejecting the barbarous device *unlimited*, and promissory notes; but dealing only in the better property. There are already a sufficiency of credit banks in Canada; the bank dealing in mortgages only is wanted to supply funds to the real estate interest; and let the two systems meet each other at the clearing house and pay over balances in gold. That is the only way you can give credit its due, and capital its due. Then all industrial interests will have their due.

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## INFERENCES AND AXIOMS.

Submit the principles of Political Economy to a scientific test and you necessarily infer that:—

1. A law to discount promissory notes by bank issues will convert the capital and assets into "credit pledges," and force the available capital abroad.
2. If a bank deals in assets which cannot be rediscounted in case of necessity, the debtor class will be forced into bankruptcy whenever exports fall short.
3. When banks fail to purchase exchange on exports, they have to suspend, till money comes into the country at high rates on mortgage, and till the loan societies sell the exchange.
4. Redeemability is better maintained by assets in mortgage, than in credit pledges.
5. A high rate of interest taxes industry, limits exports and runs the country into debt.
6. The cause of high average interest is the scarcity of capital employed in banking—the less capital the more credit, and of course hazard.