

THE PRACTICAL OPERATION OF MR. GALT'S BILL.

WHAT the operation of this bill will be, in its modified state, coupled, as it is, with a simultaneous issue of short currency debentures, bearing 7 per cent. interest, is the question, of all others, requiring the attention of our commercial community. The Government, it seems, will put out \$5,000,000 of debentures for sale, and the advertisements are now in the papers.

They have taken power at the same time to issue, through the medium of a bank or banks, \$8,000,000 of circulating notes, which notes are to take the place of the notes of such bank or banks as arrange to issue Government Bills instead of their own. It was clearly stated during the debate that, to the extent by which the debentures are taken up, the legal tender issue would be lessened.

Afterwards, in reply to a formal question on the subject, the Government declined to pledge themselves in any way whatever. The position, then, is this: The Government are endeavouring to borrow \$5,000,000 in Canada by means of 7 per cent debentures. If they sell the whole, they will obtain all the money required to pay off the floating debt, in which case the scheme of issuing circulating notes may not be put in operation at all.

But they retain power to issue such notes as well as to sell debentures, and it is probable that both may be in operation at the same time. This is much to be regretted; for the limitation of the issue of circulation to \$8,000,000 would have made it possible only for the Bank of Montreal to enter into it (supposing that institution ready to do so), in which case the deposits and circulation of the rest of the banks would have been left undisturbed. The wants of the Government would have been fully supplied, while the community and the wants of the commercial community as a whole, would have received the same accommodation they do at present. At any rate, the means of the banks for granting such accommodation would not have been reduced, as they certainly will be, by the withdrawal of their deposits for investment, if the sale of debentures proceeds.

Supposing the Bank of Montreal surrenders its power of issuing circulating notes, and adopts the system of Legal Tenders, the effect will be to absorb a considerable portion of the eight millions for its own use. The bank, if its circulation this fall corresponds with that of last year, will have nearly five millions of notes out. It will certainly require to reserve a million of notes as a stock-in-trade—so to speak—for the bank would never pay out the last dollar from any of its numerous offices. There would thus be required, by the Bank of Montreal alone, six millions out of the eight which that institution would pay for, partly in specie, partly by bills on England, and partly by cancelling the debt of the Government. The Government would thus obtain the means of paying off its floating debt through the operation of the issuing scheme, if simply adopted by this institution. It is evident, then, that if the scheme be adopted by the Bank of Montreal, and, at the same time, the Government go on with the sale of Debentures, more money will be raised than is required.

Either scheme, considered by itself, would have been sufficient to raise what was necessary, and neither the one nor the other would have had any perceptible effect on the business of the country. But if they go into operation simultaneously, the result is to be feared, indeed.

A good deal of misapprehension has arisen since the proposal to issue government notes was first broached, from the idea that the whole amount issued by the Government would go into circulation. There could not be a greater mistake. The scheme is to be worked through a bank or banks, and, as we have said, any bank that adopts it, in order to provide itself with funds to carry on business, must obtain, from the Government, notes to represent its highest expansion; and, in addition, a sum representing the minimum stock of bills in its possession. This last sum will, therefore, never be in circulation at all; and of the former, a considerable amount will only be in circulation during certain periods of the year.

It must be borne in mind, too, that the government notes, being a legal tender, will be a very convenient medium of settlement between the banks. A portion of them may, therefore, probably be retained by all the banks; and if so, a sum of one or two millions may thus be absorbed, releasing for the use of Government so much specie.

Under this supposition, the working of the scheme will probably be somewhat as indicated in the following table. The Bank of Montreal is supposed to have ceased issuing its own notes, and to have replaced them by the bills of the Government. (The lowest circulation of that bank, this year, has been about \$3,000,000, and it may have an expansion of \$2,000,000 this fall and winter.)

	In hands of Gov't.	In Bank of Mont'l.	In hands of other banks.	In circulation.
First month.....	\$8,000,000	none	none	none
Fourth.....	2,000,000	2,000,000	500,000	3,000,000
Fifth.....	1,000,000	1,000,000	1,000,000	5,000,000
Sixth.....	2,000,000	1,000,000	1,000,000	4,000,000
Seventh.....	2,000,000	1,000,000	1,000,000	4,000,000
Tenth.....	3,000,000	1,000,000	1,000,000	3,000,000

What the precise volume of contraction and expansion may be, it is, of course, impossible to say; but the above estimate will give a fair idea of the general character of the movement. Three facts are certainly patent:—

It is certain that the Government will always have more or less of notes on hand:

It is also certain that the issuing bank will always have notes on hand:

It is certain, therefore, that the whole eight millions can never be in circulation at one time; and it is probable that the amount in circulation will be precisely the amount which would have been in circulation of Bank of Montreal bills, had that institution continued issuing its own as before.

Those who are experienced in banking may see, in the above figures, indications that a much larger reserve of specie will be requisite to make the Government safe, than is required by the Act.

Between the fifth and the tenth month, it will be observed, there is a difference of \$2,000,000. That represents the amount of notes estimated to be redeemed between the highest and the lowest points of circulation, and, of course, \$2,000,000 of specie will be wanted to effect it. Under the requirements of the Act, however, only \$1,250,000 will be held.

The true principle, in regard to reserves, in such a case, as this government issue is to fix a point somewhat below the minimum circulation of the banks adopting the scheme, and to keep dollar for dollar for the whole volume of expansion above it. That is the rule on which the issue department of the Bank of England is founded, and it is the only one which will be found safe in practice here. There are other practical questions that will arise as the scheme goes into operation, which we may discuss in a future issue; but at present we can only express our regret that so mixed and complicated an affair as a simultaneous issue of circulating bills and debentures, for permanent investment, is contemplated.

DIRECT TRADE WITH EUROPE.

THE experiment of direct trade between Europe and the Upper Lakes has proved so successful that it is now being constantly repeated, and, did our Provincial canals admit of it, would be carried on on a much more extensive scale by vessels of the largest tonnage. The mineral regions along the shores of Lakes Huron and Superior are even yet but partially known and tested; and we are satisfied that their full development in the process of time will give rise to an immense trade, much of which will be direct with Europe. Already we observe that the proprietor of the Bruce and Wellington Mines, on the north shore of Lake Huron, has decided on having a large share of the copper shipped directly from the mines to England. A Mr. Taylor, of London, England, who is, we believe, proprietor of the Bruce and Wellington Mines, has been working them with such vigor of late, that the ordinary means of sending the copper from them to Europe via the Northern Railway steamers and road to Toronto proves altogether insufficient. The steamer *Algoma* has been making regular trips all season (three times a month) between Collingwood and the principal points on Lakes Huron and Superior; and another steamer, the *Wabano*, has also partially traversed the same route, but limiting her trips to the Sault Ste. Marie; and these two boats have, we are informed, had a very successful season, being loaded down with freight and passengers. The *Algoma*, which only accommodates some fifty passengers properly, has had to carry as many as ninety; and her freight, particularly on the return trips, is altogether more than she is able for, even with the aid of the *Wabano*. The Bruce Mines alone could frequently, we are told, load her with eight times the quantity she

takes. This state of things has induced Mr. Taylor to open up direct trade with England. He has, we are informed, despatched three vessels from London to the mines, the first of which arrived there last week after a very successful run. She carried some iron to Chicago and some coals as ballast, which latter she discharged at the mines, where she was, at last accounts, being rapidly loaded with her copper cargo for England.

This is one of the many evidences which come to hand of the growing magnitude of this Upper Lake trade, and it gives us great pleasure to chronicle the extension—gradual though it be—of the commerce of this great mineral and lumber region. Successive explorers have, time and again, repeated the story of the almost inexhaustible mineral wealth of this section, and we are glad to note each increased effort to develop its riches. In the export of breadstuffs and all the *etceteras* of housekeeping to the mineral and lumbering districts hereabouts, as well as the carriage of passengers to and from the mines, several American steamers and sailing vessels now find remunerative employment, and there is room for more.

With its immense mineral, fishing, and lumbering interests, this upper country possesses a mine of wealth which has been hardly touched, and the richness of which, when fully developed, can scarcely be over-estimated.

MORE TINKERING!

WE notice, by Western journals, that the United States Treasury Department is again tinkering away at the trade between the two countries. It appears that orders have recently been given, that when an American vessel brings grain to Port Colborne, and it is shipped over the Welland Railway, a Canadian vessel shall not take it from Port Dalhousie. The order even prohibits grain to be taken by Canadian vessels from the last named place to an American port, which has been brought to Port Colborne by a Canadian vessel. These new regulations went into force on the 6th August, and are exceedingly arbitrary. Anything more narrow, illiberal, and, we may add, selfish, than the present commercial policy of the United States, it would be impossible to conceive. So intensely selfish is it, that, in many cases, it actually injures themselves more than it does their neighbours! If, in their treatment of the seceded States, Morrill & Co. are as contracted and illiberal as in their commercial policy, the former are greatly to be pitied!

BRITISH TRADE.

THE trade of Great Britain seems to be ever expanding. Whilst the trade of most other nations in Europe is either stationary or retrograding, that of the Mother Country keeps steadily and rapidly augmenting. When Sir Robert Peel gave the death-blow to Protection, there were those who predicted the most serious results to the foreign trade of the country,—contending, as they did, that it would certainly contract and languish. So far from these fears being realized, since that time Great Britain has entered upon a career of prosperity unequalled in her previous history. Her commerce far exceeds that of any other country in the world, and still each year witnesses an increase over the preceding one. Liverpool is the principal shipping point, and we are glad to see by recent returns that a great increase has taken place in the trade of this year. During the first six months of the year the Goods shipped from Liverpool alone amounted to no less than \$11,500,000 more than during the same six months of the preceding year. The following figures, showing the value of British and Irish Goods shipped from Liverpool during June, 1885, and June, 1886, with the places shipped to, will be read with interest:—

	In 357 Ships, June, 1885.	In 379 Ships, June, 1886.
Asia and Africa.....	£1,068,823	£1,476,897
Australia and New Zealand	146,868	189,794
North of Europe and the Baltic.....	24,485	28,546
France, South of Europe, Mediterranean, and the Western Islands.....	1,816,844	1,865,848
North America and the West Indies.....	546,528	676,987
United States.....	1,158,870	1,824,081
South America.....	1,076,494	1,814,767
	£5,822,902	£8,871,870

Increase, June, 1886.....£1,548,468