

every respect preferable to the foregoing. It would still be open, however, to the grave objection, that its substitution for the present system would inevitably produce a financial revolution; and when in operation, it would be without any facility of expansion required by the incidents of our seasons; it would be far more difficult to work; be exposed to greater risk of inconvertibility; give less security to depositors; and provide no better ultimate security to note holders. If it led to the establishment of small local banks, these would be exposed to all the evils previously referred to. If the experience of the National Banks of the United States is pointed at in this connection, I may observe—and it is a fundamental point in the question—that the currency of that country is not now on a specie basis, and has not been since the National Bank Act was passed. No argument can, therefore, be drawn which is applicable to the circumstances of Canada.

"After a careful study of the causes which have led to the failure of our banking institutions and of the course of action which those failures suggest, both for the public interest and the safety of creditors and stockholders, I have come to the conclusion that, while it would be most inexpedient to introduce any radical and fundamental changes in our banking system, it would be highly desirable were improvements and modifications introduced in the following important particulars, to which I humbly crave the attention of the Honorable Senate:

"First—As to the qualification of Directors. I begin with this, because it is in the directorate that the essential power and character of the Corporation consists. It is obvious that it is a matter of fundamental importance to secure for the governing body of the corporation those who have a large pecuniary interest in its prosperity. It is I think, further obvious that the qualification for the control and government of a corporation with large capital should be greater than that required for the government and control of a corporation with a small capital. I respectfully suggest, therefore, as the first measure of amendment, that to remedy the evils which have been found to arise from a weak directorate, the future qualification for a director of a chartered bank be the possession in his own name and right, of at least one per cent. of the capital stock.

"Secondly—I conceive it to be a point of fundamental importance in the management of a joint stock bank to accumulate and maintain a considerable reserve or guarantee fund. The Banks of Canada, until recent years, all fell into the serious mistake of various modes of dividing nearly the whole of their reserve fund amongst the shareholders, in the shape of bonuses. Calculation will show that, had the various sums which were thus injudiciously and improperly divided in the case of the two banks which have failed, been retained and invested, a sufficient sum would have accumulated to have saved them both from suspension. I recommend, therefore, that a bank be prohibited from distributing to its stockholders in any one year more than 8 per cent. of its profits, until its reserve fund reaches 25 per cent. of its paid-up capital, after all bad and doubtful debts have been provided for; and that should this reserve be infringed on for the purpose of keeping up the dividend, the amount be again made good.

"Third—I would prohibit the reduction of the capital of a bank under any circumstances. The reduction of the capital of the banks in Canada has been proved to be productive of great evil. Instead, therefore, of allowing such a measure, when the capital has been impaired by losses, I would give powers to the Directors, and make it imperative to call upon the stockholders for a sufficient amount to restore the capital to the original amount. One effect of a provision of this kind in all probability would be, that stockholders would take a deeper interest in the affairs of their corporations than they appear generally to have done, at all events, when affairs seemed prosperous.

"Fourth—The returns required from the banks have undoubtedly exercised, to a certain degree, a corrective and restraining influence. This might, I conceive, be considerably increased, and it would be of great benefit to the public and to the customers and stockholders of the banks if it were so. The returns of the Bank of France, I submit, might be adopted with advantage as a model upon which to frame the returns of the Banks of Canada. I make no further suggestion in detail, but submit that had the banks for the past ten years been required to state separately the amount of their loans to merchants, and men of business; their loans to railway or other corporations; their loans on security of railway bonds; debentures, stock, &c. and their loan to the Government; distinguishing such as were due and over due; and such as were secured by real estate. If, in addition, the banks had been required to show what they owed the Government, as distinguished from other depositors, and what their foreign accounts, as distinguished from other bankers, it is certain that much mischief would have been checked in its beginning, and more would have been prevented (through fear of the returns) altogether.

"Fifthly—The privilege of circulation ought certainly to be continued, but it might be an advantage to restrict it to the amount of capital and government securities.

"Sixthly—The banks should be required to hold 20 per cent. of their demand liabilities in specie or legal tenders, and so long as the law does this to prevent public interests suffering by any bank delinquencies or hostilities, they should be bound to receive all current notes on deposit, provided the same were daily redeemed.

"Seventhly—In case of its becoming necessary to wind up the affairs of a bank, the interests of creditors should be paramount, and the stockholders be called on to make good any deficiency to the extent of their liability without delay. The above amendments are all I would suggest with regard to existing corporations; but as respects any to be created in future, I submit that the following regulations as to capital might be adopted in addition. Let no bank be char-

tered in the cities of Montreal, Quebec, Toronto, St. John or Halifax, having a smaller capital than one million dollars, and let the maximum capital for any such bank at no time exceed four million dollars. Any bank located at any other town or city in the Dominion, should have a capital of not less than one million dollars, but this should be the maximum as well as the minimum. But if the population of any such town or city increase to 40,000, the maximum might be enlarged. No new bank to commence business until 20 per cent. of its capital is actually paid up and deposited in some chartered bank, to be approved by the Government. I do not suggest that the power of circulation should be bestowed on any new bank at once, as no vested interest would be disturbed by withholding it for a time, and circulation does not necessarily expand with the progress of the country. A new bank could without difficulty make arrangements with an older one, whereby its issues could be used to mutual advantage, in the same manner that many country banks in England, now warrange with the Bank of England. After its stability was proved, the privilege of circulation might be granted.

"If the foregoing suggestions were carried out, any circulation, other than that of the banks, will be unnecessary, as the country will possess a well secured system of issues, perfectly adapted to its circumstances, and a banking system as carefully guarded against abuse as it is possible to compass."

Mr. Dallas considers that banks should retain a certain proportion of their circulation in specie or equivalent, as a security to note holders; and that they should publish so explicit an analysis of their assets and liabilities, as shall clearly indicate the general soundness or unsoundness of their position from time to time. He objects to the adoption by the banks of a Government circulation, either in the form of a simple legal tender note, or a bank note based upon Government bonds, firstly, that, in order to obtain the money to pay in the one case for the circulation, and in the other for the Government securities, it would be necessary for the banks so to contract their loans to the public, as to produce a result little short of ruin to the manufacturing and commercial community; and secondly, that a Government circulation would lack the power of periodical expansion necessary in this country.

Mr. Woodside states that for the requirements of the country the present system works well, perhaps better than any other would have done, and looks upon it as a dangerous thing to experiment with what has answered such a good purpose, and run the risk of getting something not so good. He is opposed to a Government circulation, and quotes George Walker, Alexander Hamilton, and Sir Robert Peel, to prove the dangers and evils incident to any scheme involving such circulation.

Mr. Cassels does not believe that legislation can avert the ill consequences of reckless or unsuccessful banking, but thinks as regards the currency, it is the especial province of the Legislature to place it upon a sure and sound basis. He states that the opinion is gaining ground that the currency should be secured by the resources of the Dominion. He suggests the attainment of this object by restricting the circulation, and compelling the banks to invest a large amount—say one-half—of their capital in Government debentures, to be loaned with the Government as security for the note holders. He acknowledges, however, the serious objection to the adoption of such a plan that it would compel the banks to reduce their business, which could not be done without inflicting injury upon the commerce of the country.

Mr. Morton considers the present laws regulating banking and currency defective, and suggests the following amendments, viz.: To place all the banks on an equal footing, by abrogating the Provincial Note Act; to abolish the "Circulation Tax," and cancel the rule which compels banks to hold ten per cent. of their paid-up capital stock in Government securities; to compel all banks issuing notes to hold Government securities (say for a convenient name, "Exchequer Bills,") not bearing interest, equal at all times to say one half of their circulation, to make the circulation a first charge against the bank's estate in case of suspension, and the exchequer bills to be applied at once to its redemption, care being taken to prevent a conversion of deposits into circulation during the period of suspension; to enforce the double liability of shareholders within a certain limited period; to renew all existing bank charters for eight or ten years on these conditions, new charters to be subject to the same provisions; to make the exchequer bills payable to the bank buying the same, not to be transferable, and to be repayable in specie at such points as may be deemed advisable, the Minister of Finance to hold Government debentures and specie in certain proportions for the redemption of these exchequer bills; to give the Governor in Council power to lend

Government debentures to any chartered bank, in any sudden or unexpected emergency, to the extent of a certain per centage of their paid-up capital, on securities of an undoubted character, the amount so loaned to be published weekly in the *Canada Gazette* until repaid; and to make certain alterations in the "statement of banks" published monthly in the *Gazette*, as that each should be required to furnish a balance sheet on a given day of the month, that sterling bills should appear among "bills discounted" until paid, instead of being charged at once to their English correspondents; that the item of "notes and bills discounted," should be amplified to a certain extent so as to render the position of the banks somewhat intelligible, instead of including as now over due bills, bills in suit, judgments, cash credits, and debts considered irrecoverable, as well as current mercantile bills, and that especially should loans effected and maturing in Canada, be distinguished from those maturing in the United States and England, that balances due to and by banks should show Canadian and foreign balances separately, and if the Provincial note act be extended or continued that the Provincial notes in the hands of banks be distinguished from the specie.

Mr. Stevenson writes in favour of the present Canadian system, under which all the banks except the Bank of Montreal are conducted, inasmuch as it has been tested by many generations, and experience has proved that it has not been found wanting in adaptations to the requirements of trade and commerce.

Mr. Vezina writes that it is very difficult to prevent regular or irregular crisis, which must necessarily take place in consequence either of the contraction or displacement of circulation, or owing to political causes, and that the Government, in its wisdom, will never be able to stop a crisis like that created by the suspension of the Bank of Upper Canada and the Commercial Bank, when institutions of the same kind shall exceed in a similar manner the limits prescribed to them by law, and disregard its requirements enacted for their protection. To avoid the repetition of such crisis, however, he suggests legislation requiring *bona fide* subscription of not less than a million of dollars, and solvency on the part of shareholders, so that their double liability might readily be enforced in case of need; that directors, especially, be solvent, and their qualifications be in proportion to the importance of the affairs of the institution they represent; a reserve fund in due proportion to the capital, one-tenth to be invested in Government Debentures; a specie reserve equal to about one-fourth the notes in circulation, and one-seventh of deposits; a periodical inspection either of the organization of the banks or of their daily action, or of the preparation and publication of their financial statements; as equal a distribution as possible of the public funds between the monetary institutions of the different localities, in order that the means of accommodation to trade be not lessened at any time by the collection of duties; and, lastly, an arrangement of the currency so as to facilitate the redemption of notes in circulation and the re-payment of deposits.

Mr. Paton does not think any legislation can prevent the recurrence of such events as the failure of the Commercial Bank and the Bank of Upper Canada, but he is of opinion that Government may aid greatly in giving the country a sound system of banking, and one adapted to its trade and commerce, by granting charters only to banks with sufficient paid-up capital, say not less than \$1,000,000 by taking measures to ascertain that the capital has been paid up before the bank commences business, by limiting the number of branches in proportion to the paid-up capital, by restricting the amount of liabilities in proportion to paid-up capital, the specie and Government Securities held, and by requiring the specie reserves to be maintained in prudent proportion to the liabilities of each bank.

UNITED STATES COIN.—Dr. H. R. Lindermann, the Director of the United States Mint, reports in his statement for the month of March, deposits of gold to the amount of \$92,564.84, and of silver to the amount of \$23,986.81, in all, \$116,490.15. The gold coinage was \$199,000, all in double eagles, and \$5,650.16 in fine bars, making a total gold coinage of \$205,650.16. The silver coinage was \$24,521.71, nearly all in dollars and half dollars. The nickel-copper coinage of one, two, three, and five cent pieces, was \$123,520, making a total coinage for the month of all kinds of \$361,691.87. The whole number of pieces coined is 3,475,366.