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The Canadian Monetary Times.

THURSDAY, APRIL 1, 1869.

THE BANK CHARTER QUESTION.

EMBARRASSMENT DURING THE TRANSITION PERIOD.

V.

In every country there is a certain relation between the business to be done and the amount of money necessary to do it with. What that amount ought to be, experience alone can determine. For if we could arrive at the transactions of a community in which money plays a part—which is impossible—it would form no guide to the amount of money required, since so much depends upon the rapidity of circulation, and the number of transactions which any given number of pieces of metal money or bank bills may be used to consummate. But where there is a mixed currency, of specie and bank notes, and where there is no great variation in the aggregate amount at a given season of the year, it is fair to assume that that amount represents a normal condition of the currency. The circulation of the various banks in the Dominion, at the end of January last, may be taken as the average circulation. At that period there had been neither speculation on the one hand, nor on the other depression—nothing to give undue inflation or enforced contraction to the currency.

In view of the impending legislation for the renewal of the bank charters, and on the subject of the currency, the bank returns made up to the 31st January may be studied to advantage. They may be presented under three different aspects: we may take the entire return, or we may take the returns for the Banks of Ontario proper by themselves, or we may take the latter with an addition of two banks, which, though they are not Ontario banks, are, nevertheless, doing considerable business in this Province: the Bank of British North America and the Merchants Bank.

The enquiry will be more exhaustive, and present the question in a fuller light, if we view the returns in these various aspects; and we shall do so for the purpose of showing what would be the effect on the circulation of a compulsory extension of the Provincial notes, so as to supersede the existing circulation of bank notes, or by the adoption in this country, substantially, of the national banking system of the United States. In either case the banks would have to make an advance to the government, which would really be in the nature of a forced loan, of an amount of capital equivalent to their future circulation. It is obvious that so long as the requirement of specie payment was kept up, so radical a change in the constitution of our banks would press heavily on their resources, and greatly curtail their general usefulness. In what way, and to what possible extent, this could be done, we now propose to consider, taking the bank returns for our guide.

At present the banks are required to hold a limited amount of government securities. In either of the alternative schemes above named they would be required to deposit with the government, securities to the full amount of their circulation. Let us see what the difference would be between the amount of securities they now hold and what they would then be required to deposit. The circulation of the banks on the 31st January was $9,720,253, and they held government securities to the amount of $3,352,016. To enable them to maintain their present circulation they would have to extend their purchase of securities by $7,340,262. Those securities would have to be purchased with gold, bills of exchange, or something else equivalent in value to gold. But it is obvious that the banks could not bear so great a strain on their resources as this enforced loan, wrapt up in another and less odious name, would demand. They would not find it convenient to buy between seven and eight millions of additional government securities, and they would have to content themselves with a much less amount. As the amount of the securities they deposited would, with those they already possess, be the measure of their future circulation, it is evident that an unnatural contraction of the currency would take place, from which the business of the country would seriously suffer.

From this general view let us descend to the Provincial aspect of the question. By far the largest part of the circulation of the Dominion is to be found in Ontario. The Ontario banks alone circulate over five millions of notes (5,018,607). These banks hold among them $692,639 in government securities. The difference between their circulation and the securities they hold is therefore $4,325,968. That is the amount they would, under either of the schemes in question, have to advance to the government for the privilege of maintaining a circulation equal to that which they now sustain. Their present investment in government securities is but slightly over the requirement of ten per cent. of their paid-up capital; while under either of the alternative schemes we are discussing they would be obliged to loan to the government considerably over four-sixths of their entire capital. Whatever amount they fell short of that point would be deducted from their future circulation. It would probably not be too much to say that such a requirement would reduce their circulation by one-half: a circulation which rests on a specie basis, and in which the notes are maintained at par with gold for which they can any day be exchanged.

There are no means of arriving precisely at the circulation, in Ontario, of the Merchants' Bank, and the Bank of British North America, but it is considerable, and this Province would suffer through them, as well as our own local banks, if the changes in question were made.

The contraction of currency thus artificially superinduced, would, by an inevitable law, produce a fall in prices. Every producer would get less for the results of his labor; industry would be discouraged and production would suffer a diminution. There being less to sell, and lower prices for what was sold, foreign bills of exchange—unless importations were correspondingly diminished—would be scarce and dear; thus while we got less for our produce we should have to buy imported articles at a dearer rate. The country would lose at both ends by the unnatural contraction of the currency operating through a forced loan which would have been made under false pretences.

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