

Montreal, during the recent panic, availed itself of the vantage ground thus obtained; its ability to do so, if disposed, must be admitted by all bankers in Ontario to be an element of anxiety, and as such prejudicial to the interests of our banks. Considering the very extended and intimate relations which the Banks of Ontario sustain to the general interests of the country, I consider that the effect of the Provincial Note Act upon those interests must be in almost direct proportion to its effect upon the banks, which I have stated above to have been prejudicial. A further injury I consider that the general interests of the country have sustained, is the very serious depletion of specie which has undoubtedly resulted from the operation of the Act. The present Monthly Bank Returns required by the Government do not afford any information as to the amount of specie held, as distinguished from Provincial notes; but I confidently hazard the opinion, that this amount is not more than one-half of the amount held by them previous to the enactment of the Provincial Note Act. In one manner alone there is reason to suppose that these notes have taken the place of gold to the extent of fully one million dollars. The comparatively independent position, already referred to, as having been attained by the Bank of Montreal, enabled that institution to urge upon the banks of Ontario the holding of a certain amount of Provincial notes, on terms which precluded their being employed as cash, until notice had been given for a fixed time. Of course specie was given by these banks to the Bank of Montreal in exchange for the Provincial notes so held, and the amount of specie so paid, I believe to have been fully \$1,000,000. Had the banks refused to comply with the proposal of the Government Bank, it is impossible to say whether the latter might not have resorted to the expedient of refusing the notes of all banks declining to comply with its proposition. I am, of course, not prepared to say that this course would have been followed; but the fact of the Government Bank having been in a position to adopt such a measure, in my opinion, influenced several banks to comply with their request, in regard to the holding of Provincial notes. The course of settlement of balances between the Bank of Montreal and the other banks, subsequent to the passing of the Provincial Note Act, must also have inevitably tended to withdraw specie from the country. In the ordinary course of business, the daily balances between the banks are constantly fluctuating, and in this way the Bank of Montreal will doubtless owe other banks one day, while the next it may be a large creditor of other banks. Now, when the Bank of Montreal owes other banks, it will invariably (except when some special and rare interest affects its policy) pay in legal tender notes, but when any other bank owes the bank of Bank of Montreal, it must pay the latter in legal tenders or gold, and it must be apparent that for some time subsequent to the passing of the Legal Tender Act the other Banks could have had no legal tenders to pay with, and as a consequence must have paid the Bank of Montreal in gold, which gold, however, could never have been regained from the Bank of Montreal except at its own option. If it is urged that the position attained by the Bank of Montreal, by its adoption of the Legal Tender Act, could easily have been secured by any or all of the other banks, I reply that while theoretically this is true, practically it would have been impossible of attainment. At the period of the adoption of the Legal Tender System by the Bank of Montreal, the Government of Canada was indebted to that institution in one way or another, to an amount about equal to its circulation, and consequently no curtailment of loans to the public was required to be made by the Bank, to enable it to provide gold to pay the Government for their Legal Tender notes. But it is to be remarked that in order to enable that Bank to make the advances to the Government now referred to, it had previously curtailed very largely its loans to the public in the present Province of Ontario. Had the other Banks attempted to adopt the Legal Tender system, the curtailment of their loans to the public which it would have been necessary to effect in order to procure the gold to pay the Government for these notes, would, in my opinion,

have induced very general ruin upon the Province of Ontario. I consider that, while no legislation can be devised to prevent entirely the recurrence, under a combination of unfavourable circumstances, of what is known as a commercial crisis, still the security of the holders of bank notes can be rendered sufficiently valid, if not absolutely perfect, by requiring the banks to retain a certain proportion of their circulation in specie or its equivalent; and by further requiring them to 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. I consider that such an improved return would have saved the late Commercial Bank from suspension, and in the case of the Bank of Upper Canada, if the same result had not been attained, the stoppage of that bank would have been effected at an earlier date, and before its assets had been so seriously impaired as they were at the date of its stoppage. My objections to the adoption by the banks of a Government circulation—whether in the form of a simple Legal Tender note, or a bank note based upon Government bonds, which the Banks would be compelled to hold to an amount at least equal to their circulation, are two: First,—That in order to obtain the money to pay the Government, in the one case for their Legal Tender notes, or in the other for their bonds or debentures, it would be necessary to contract the loans of the Banks of Ontario to the public, to an extent equivalent to the amount required to be paid to the Government for such notes or debentures. This amount I estimate at about seven millions of dollars for Ontario, and I consider the withdrawal of this amount of cash capital from this Province would be productive of little short of universal ruin to the manufacturing and commercial community; while the prices of produce would certainly be materially reduced. And secondly—Suppose the change from a Bank to a Government circulation once effected, the latter would unavoidably lack that power of periodical expansion which the industries of this country demand, while the only mode of providing for such expansion of a Government circulation—namely, by periodical credits from the Government, or the Government Bank, I consider in the highest degree objectionable, as placing the interests of the banks, and through them, of the business community, at the disposal of the Government of the day, and in all probability, practically of one man.

By Mr. Morton, Secretary to the Trustees of the Bank of Upper Canada.—I believe the causes of the derangement were these:—The suspension of the Commercial Bank; the imputations cast upon the Royal Canadian; and a feeling of uncertainty in the public mind as to the policy the Bank of Montreal was likely to pursue. The alarm was very much aggravated by various flying rumors of harsh intentions on the part of the last named institution. In so far as public confidence in the stability of the banks was impaired, it has been restored. The confidence which business men lost was not with regard to their stability, however, but with regard to their power to sustain mercantile credit as well as their own in case of need. In this respect, public confidence has not been completely restored; and, in my judgment, it cannot be until the future banking policy of the Dominion is fully and permanently ascertained. Attempts have occasionally been made by bankers to follow rigid rules that a certain fixed proportion of specie should be held against circulation and deposits at all times and under all circumstances; but so far as I am aware, such rigid rules have not been found to mark successful banking administration in Canada. The amount to be held invariably resolves itself into a question of prudence and foresight on the part of a good banker, having in view the profit as well as the safety of his bank.

I believe the Provincial Note Act has been highly prejudicial to the true interests of the country. Any profits derived by Government, from the circulation of these notes, has, in my opinion, been far more than counterbalanced by the injury the Act has caused to the trade and general banking interests of the country, more especially of the Province of Ontario. Amongst other evils, its operation places one

bank in antagonism with the others by a difference of interests, responsibilities, and position. These differences are so great as to intensify the danger of crises in all periods of financial depression.

I consider the present laws affecting Banking and the Currency defective in several important elements. 1. Inasmuch as the banks are allowed to create currency practically without restriction, and are not required to give any security whatsoever to the noteholder; the various safeguards introduced into the Bank Charters for the protection of noteholders are utterly unavailing for any such purpose. 2. In that the banks derive all or almost all the profits of the circulating medium used by taxpayers; which profits legitimately belong to the taxpayers themselves, or in other words, to the Government. 3. Because of exceptional legislation touching the currency, regarding which but one invariable rule should, as far as possible, prevail; the exceptional legislation being that which places "legal tenders" in competition with bank notes.

Having due regard (a) to the position of the banks, (and especially the western banks) and what may be called their "vested rights;" (b) the securing of the noteholder, who cannot be expected to exercise judgment as to the stability of the banks, but must take as currency that which is the only representative of currency; (c) the requirements of trade in a young country, where a certain expansive power in the circulation seems necessary for its development; and (d) the necessities of Government, which demand an economical administration of all the public affairs for the proper protection of the taxpayer; I believe the following amendments in the present laws might be made with much advantage to the banks and to the Government, without interfering with the general trade and banking of the country, either abruptly or to any serious extent. 1. Place all the banks on an equal footing by abrogating the Provincial Note Act. 2. Abolish the "Circulation Tax," and cancel the rule which compels Banks to hold 10 per cent of their paid-up capital stock in Government securities. 3. Compel all banks issuing notes to hold Government securities (say for a convenient name, "Exchequer Bills") not bearing interest, equal in amount at all times to say one-half their circulation. 4. The circulation to be 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. 5. The double liability of shareholders to be enforced within a certain limited period. 6. All existing bank charters to be removed for eight or ten years on these conditions. New charters to be subject to the same provisions. 7. The exchequer bills to be made payable to the bank applying for and buying the same. These documents not being transferable, and to be made repayable in specie at such points as may be deemed advisable. 8. The cash received by Government for these exchequer bills to be applied in paying off the floating debt, and in redeeming interest bearing debentures. 9. The Minister of Finance to hold the following available for the redemption of these exchequer bills, viz:—(a.) Say for the first \$5,000,000 Government debentures redeemed, including the floating transformed into that shape. (b.) For the next \$1,000,000, not less than one fourth in specie; the balance not held in specie to be held in Government debentures to be redeemed. (c.) For all over \$6,000,000 not less than one-half in specie, the balance in Government debentures to be redeemed. 10. The Minister of Finance to sell Government debentures so redeemed for the purpose of keeping up the quota of specie or of meeting probable demands, when such a course shall be advisable by the Governor in Council. 11. The Governor in Council, in case of any sudden or unexpected emergency, to be authorized to lend Government debentures to any of the chartered banks to an extent not exceeding — per cent of their paid up capital on certain specified securities of an un doubted character; the amount so loaned to be published weekly in the *Canada Gazette* until repaid.

(To be continued.)