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TO MONTREAL.

The Journal of Commerce

FINANCE AND INSURANCE REVIEW.

MONTREAL, JUNE 11, 1880

**THE LONDON ECONOMIST ON THE
DOMINION NOTE ACT.**

The Dominion Note Act of last session has attracted the attention of the London Economist, which we need scarcely observe is a commercial paper of world-wide reputation. The opinion formed by the Economist is, that "the security for the Dominion note issues has been distinctly impaired," and that opinion cannot be gainsayed. Sir A. T. Galt must have felt keenly that the expression of such an opinion, by so high an authority as the Economist, would be damaging to Canadian credit, and he felt it his duty to defend the Government measure. Unfortunately he made a mistake in representing that, under the old Act, the Government was only obliged to hold a gold reserve of 25 per cent. up to \$12,000,000, and that for all issues above that amount dollar for dollar must be held in gold. The Economist, in criticising Sir A. T. Galt's letter, reminded him that 50 per cent in gold had to be held for the issues between 9 and 12 million, but by accepting Sir A. T. Galt's statement, that 25 per cent was the gold reserve, was itself led into an error, as up to \$9,000,000, the reserve is only 20 per cent. The cause of the error on the part of Sir A. T. Galt is that the Act provides for a reserve of 25 per cent. on the debentures, which is equivalent to 20 per cent. on the circulation. Sir A. T. Galt's main point in defending the new Act was that an increase of currency was required, owing to the new provinces and territories added to the Dominion, and likewise owing to the reduction of bank issues

caused by several banks having gone into liquidation. It seems most extraordinary that neither Sir Alexander Galt nor the Economist adverted to the fact, that the bulk of the Dominion note issue consists of the reserves of the chartered banks, which may be required at any moment. Of \$12,604,729, which were the aggregate issues on 30th April, \$8,398,500 consisted of \$500 and \$1,000 notes, which are most assuredly not in the hands of the public. Of \$50 and \$100, the issue was \$732,600. On the other hand, the returns for six months shew a decrease in the circulation of 1s and 2s, which are the notes in public demand. On 31st October, the small notes amounted to \$3,426,539, on 31st January to \$3,334,395, and on 30th April to \$3,269,100. Sir A. T. Galt's point is that, as the Government was issuing on gold, there was evidence of increased public demand, but even on that assumption the Economist objected to the scheme, and especially when he found that the chief unofficial speaker on the Government side had vindicated the alteration on the ground that "it is better that the Government should make its money than that it should borrow abroad." It was, of course, unfortunate that the Government measure was defended by advocates of fiat money. If the Economist had been fully acquainted with facts, his objections would have been much more cogent than they were. Sir Alexander Galt can adduce no reason for his assumption, that Dominion notes are likely to displace those of the chartered banks, which have opened branches in the new Provinces of the Dominion. However, in our criticisms of the Dominion Note Act we have admitted that the proposed reserve would not be inadequate for supporting a circulation *bona fide* in the hands of the public, and we shall be rejoiced if the expectations of a considerable increase in that branch of the circulation shall be realized. This, however, is a wholly different question from the issues which are held by the chartered banks as reserves instead of gold, and which, though constituting about three-fourths of the entire issue, were never adverted to by either Sir A. T. Galt or the Economist. There is another point of the greatest importance which has not been raised at all. Under the Dominion Note Act of 1870, authority was given to hold \$7,200,000 of debentures as security for the issues of \$9,000,000, together with \$1,800,000 in gold, being 20 per cent. No power to increase that \$7,200,000 has ever been given until the Act of last session, which authorizes the holding of Dominion debentures to the

extent of 75 per cent. of the issue. The original Act required gold to be held for all issues in excess of \$9,000,000, but subsequent Acts limited the amount of gold, the intention having been to keep the remainder of the reserve in deposit in the banks, in the hope that this would be an inducement to them to circulate the Dominion small notes. Now deposits in chartered banks are very different as an available asset from Dominion debentures. The demands on the Government have generally been made by the banks directly or indirectly, and were met to a considerable extent by cheques against the deposits. In an article in our last number we gave a *pro forma* statement of the Dominion note issue, and of the assets held to meet it, which shews that, while Sir Alexander Galt placed the gold at \$3,400,000, and the Economist at \$4,150,000, there must have been actually in gold \$3,700,000, and \$1,500,000 in deposits in bank, making an available asset of \$5,200,000. Under the new Act there would be gold, \$1,860,000, and guaranteed debentures, \$1,240,000, total, \$3,100,000. Whatever views may be taken of the merits of the question, it is desirable that there should be no misconception as to facts, which there certainly has been in the statements which have led us to offer the foregoing remarks.

Since writing the above, we have had our attention directed to an article in the Guelph Herald, in which the writer falls into a very grave error, in assuming that the views expressed in this journal on the subject of the currency are either "in a greater or lesser degree the opinions of bank directors," or, we may add, managers. We know nothing whatever of the views of the parties referred to, and it would be most unjust to hold them in any degree responsible for our independent opinions. We do not believe that there is "a most inconvenient scarcity of small notes"; on the contrary, considering that the aggregate bank circulation is about \$20,000,000, and that one or two millions of this are held by the banks themselves, we think that the proportion of ones and twos is about what might be expected. Of course the Herald is right on one point, viz., that the Government cannot have a large circulation in the hands of the public so long as the banks are permitted to issue notes, but we must add that the most formidable enemies of a sound Dominion note issue are the advocates of fiat money, who are therefore the best friends of the banks. They have taught the public to identify to a great degree fiat money with Dominion notes, and the Act of last session has had a ten-