

(No. 203.)

COPY of a DESPATCH from Lord *Glenelg* to Major-General Sir *George Arthur*, K.C.H.

Sir,

Downing-street, 31 January 1839.

I HAVE received and have laid before my colleagues your despatch of the 20th November last, No. 91, explaining the present financial state of Upper Canada, and offering various suggestions, by which the existing difficulties may in your opinion be overcome. The importance of this subject, and the manner in which you have brought it under our notice, have commanded our most serious attention.

You propose, in the first place, that under existing circumstances, you should be permitted so far to depart from my Circular Instructions of 31st August 1836, as to assent to any Bill which may be presented to you, "having for its object to allow the Receiver-general to issue, on the credit of the Government, bills or notes, payable in Toronto at 12 months after date, to the extent of 100,000 *l.*, to be used as a circulating medium, and made chargeable on the prospective revenue of the Province."

This, however, you describe as a mere temporary expedient, and you express your opinion that the issue of Government paper, not convertible into specie, is detrimental to the credit of the Province, and that unless there were a prospect of financial relief, founded on a sound and simple basis, no good result could be looked for from it. That "sound and simple basis" you subsequently explain to be the development of the resources of the country, by an emigration on a large scale, "directly facilitated as a great national measure," with the consequent influx of British capital, and the restoration of confidence in the security of the connexion between the Province and Great Britain; the annexation to Upper Canada of a sea-port, and the increase of the import duties; and lastly, the raising of a loan in this country, on the guarantee of the Imperial revenues, to pay off the provincial debt. By the immediate adoption of such measures, you consider that the difficulties in which the Province is now involved may be effectually removed. With respect to your first proposition, I must observe, that the restriction imposed on the Lieutenant-governor of Upper Canada, in regard to money Bills, by my circular despatch of 31st August 1836, was conditionally withdrawn by my despatch to yourself of the 28th December 1837. So far as that instruction is concerned, you are therefore free to act on your own discretion, in accepting or reserving any Bill which may be presented to you by the Legislature for the issue of paper money. But before Her Majesty's Government could give their express previous sanction to a measure such as you contemplate, they would require much more detailed information respecting it than is contained in your present despatch. I proceed to notice the points on which that information is peculiarly defective.

You suggest that the contemplated notes should be used as a "circulating medium;" you do not, however, state in what sums they are to be issued, in what manner the issue is to be made, whether in payment for provincial engagements and disbursements, or upon securities, or through the banks; nor whether it is designed to constitute them a legal tender for debts. I need not point out the essential difference between a loan made on public security, by the issue of State bonds, and a creation of paper money, inconvertible into coin, but which is to be forced into circulation with paper convertible into silver. The first plan only gives to capitalists a means of investment, temporary or permanent, and at the same time affords to the State the use of the capital lent. The second plan increases the whole circulation, by an issue which cannot possibly circulate at par with paper bearing an intrinsic value, and must therefore, if made a legal tender, drive out of the Province a certain amount of the silver now there, either in circulation, in the banks, or in the military chest. The temporary relief, therefore, which such a measure might afford, would be purchased by an eventual increase of the embarrassments of the Province.

Your report is also defective on another point. You state that the existing debt of Upper Canada has been principally incurred in the construction of public works; but you do not state to what purpose the money to be raised by the proposed notes is to be applied. If the public income is insufficient to meet the expenditure essentially public, the balance must in some way be provided for. But if this balance is wanted solely for public works or local improvements, every