

Canada a provincial bank of issue, and he outlined a scheme under which he proposed to cancel the right of issue by the chartered banks, remunerating them therefor; and by giving it to this institution, which was not to do a general banking business, he hoped to make a large profit for the Government. He proposed a gold reserve of one-fourth of the issue, with Government bonds for the balance, and a fixed maximum for the issue, and he claimed that such a system would ensure ready convertibility. But the Canadian people were intelligent enough to see the defects of such a system, and, apart from other faults, the lack of elasticity alone condemned it. It was opposed, of course, by the banks, but also, on many grounds, by the general public, and did not become law. The Legislature, however, took advantage of the opportunity to impose a tax on bank-notes of one per cent. per annum on the average amount in circulation.

The union of the two Provinces emphasized the importance of uniformity in banking, and a committee on banking and currency, after considering the recommendations of the Home Government contained in the dispatch of Lord Russell of May 4, 1840, already referred to, reported in favour of certain principles, the only new and important point of which was the restriction of the note issues to an amount not greater than the paid-up capital.

I have now sketched briefly the principles which eventually formed the foundation of the banking legislation at the time of Confederation in 1867. There were, however, two aberrations from sound principles at a later time to which I must refer, one of short duration, the other still existing, but, while bad in principle, not mischievous at the moment.

The first was the so-called "Free Banking Act" of 1850. We were then, as now, carrying on banking through a few institutions, with large capital, with branches and a bank-note issue not specially secured. In the near-by State of New York the opposite policy of banks with small capital, no branches, and a specially secured note circulation was on trial, the special security being canal and railway bonds, municipal securities, etc. We had come through trying