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THE BANKING AND CURRENCY MEASURES.

In devising his bank and currency measures, Sir Leonard Tilley had uppermost in his mind, as a principal object, the idea of effecting a government loan. This is apparent from two features which it is understood will be found in these measures: the provision for the extension of the Dominion note circulation and the requirement that the banks shall hold a larger proportion of these notes than heretofore. The minimum proportion, as between gold and Dominion notes which the banks are now required to hold, as reserves, is one third; it is in future to be increased to 40 per cent. The banks, as we stated last week, are to surrender the circulation of their four dollar notes, and issue nothing below fives.

It is one thing for the government to get the power to extend the Dominion note circulation, and another thing to get the additional notes in circulation and keep them there. In requiring the banks to keep a larger proportion of the Dominion notes, to that extent an increase of these notes is secured. The increase of the Dominion notes, and the requirement that the banks should hold a larger proportion of them, are the two points on which the Minister of Finance took his stand. Almost everything else he was ready to yield; it was the borrowing power that he was determined to exercise.

The tendency of this measure is in the wrong direction. It bears towards an irredeemable currency; and the question is whether it will stop short of that point. Sir Leonard no doubt intends, at present, not to go further than this measure carries him; but the power of stopping short becomes feebler as he proceeds. Once make the currency the means of effecting government loans, by an exercise of authority, and the temptation becomes strong to get more and more in this way. At first, a comparatively small amount of Dominion notes was issued; then the right to issue more was obtained; a second increase is now on the point of taking place. The banks were at first compelled to hold a certain proportion of these notes; in future they will be obliged to hold a larger proportion. At the same time, it is believed that the gold reserve of the government will be decreased. The substitution of legal tenders for gold as part of the reserves of the banks is a weakening of the whole system. It is making credit do duty for gold. Gold is displaced from the vaults of the banks and government paper put in its place; and the proportion of gold on which the convertibility of these notes rests, is diminished. It is obvious that we are about to take two steps in the direction of an irredeemable currency. The tendency has already become historical. How far will it go? Will it be possible to stop short of an irredeemable currency, and if so, at what point is the movement to be arrested? It is not a bit too soon to ask these questions; though they will only be answered in the future.

There is to be, it is believed, an end to the practice of banks making loans on the security of bank stocks. If a bank could not lend on its own stock, each lending on the stock of the others come to the same thing in the end. The stock is a liability of the banks; not to the public, but to the stockholders. The stock is the basis of of large credit transactions; and when all the banks are taken together, a deposit of bank stock adds nothing to the aggregate security. It is therefore not without reason that the practice is to be abolished. In the place of bank stocks, other stocks may be taken as security for loans. In this case, the stock will be an additional security; and the only question will be as to the value of the stock. The lending upon other stocks than those of banks, was once extensively practiced, in the United States; and it was not always unattended with disaster. The Girard Bank, which, under its founder was well conducted, made money, and stood high in public estimation, was led through disaster to bankruptcy, in the hands of his sucessors; one of the principal causes of its failure being the extensive loans which it made on the security of stocks, other than those of banks, which proved to be worthless. Many other banks suffered from the same cause. But these accidents do not prove that the practice is vicious; they only show that due caution was not observed in the kind of stocks taken. When a new departure of this kind is to be made, it is as well to note, from previous experience, the dangers to be avoided.

The more we think of the proposal to make the bank note circulation a first charge in the assets, the more do we see reason to conclude that small or comparatively weak banks will be liable to suffer from the change. If this provision were in force, and the stock were to go down not lower than that of some banks fell during the year, depositors would be pretty certain to look after themselves. But though this contingency might happen, it does not follow that the provision is objectionable, from a public point of view. Note-holders are entitled to some sort of special protection. Though bank notes are not a legal tender, it would be very inconvenient to refuse to accept them. So long as they form a large part of the currency of the country, they are in a measure forced on the public. It is this semi-compulsion, along with the consideration that what performs the function of a national currency should be safe for every one to take, on which the obligation to give special security rests. This is a security which costs the banks nothing directly; but it lessens the security of other creditors, including depositors; the indirect cost to any bank would be in a weakening of confidence, at a time when the addition of another straw might break the camel's back. If any special security is to be given, this is the one which the banks would feel to be least onerous, and to which they would perhaps more readily consent than any other.

All things considered, the banks, which are to get their charters renewed on what must on the whole be considered favorable terms, would have no great right to complain of an increase of the government note issue, provided the concommitants of that measure were not otherwise objectionable. But they are objectionable. The reduction of the specie basis of the government notes and the compulsion of the banks to hold an increased amount of legal tenders are both objectionable. It is not unreasonable that the public treasury should derive some benefit from the note circulation the issue of which forms an exceptional privilege; and some such arrangement, in the case of the banks, would be preferable to government notes of which the amount shows a constant tendency to increase and the security on which they rest to diminish. The banks might have done worse than to offer some compromise of this kind; but it would probably not have been accepted. Any thing that would have curtailed the Finance Minister's power of borrowing, would have been almost certain to be rejected.