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(OF CANADA.)

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The Canadian Monetary Times.

THURSDAY, MARCH 25, 1869.

THE BANK CHARTER QUESTION.

SCHEMES INCOMPATIBLE WITH CONVERTIBILITY.

III.

When a government takes security for the entire issue of bank notes, and insists that the security shall consist of its own evidences of debt, as under the National Bank system of the United States, the banks are in effect obliged to make a loan of a large part of their capital to the government. When this loan is made a condition of continuing the business of banking, it partakes of the nature of a forced loan. Capital is displaced—it changes hands—through the instrumentality of credit, and this capital is not kept by the government to be made available for emergencies in which the banks may be placed. It is dissipated; perhaps it is thrown into the open gulf of an already created debt. The United States National Bank system is non-specie paying, and while it lasts, redemption is admittedly impossible. The capital necessary for the re-

demption of the notes has been handed over to the government; and its restoration is the only road to a resumption of specie payments. This capital cannot at the same time be made to serve two different purposes. The banks in loaning it to the government—for that is the true way to describe the operation—put it out of their power to use it again, on a specie basis, for any other purpose whatever. The paper currency which the government issues to the banks is not based on the capital which the banks have transferred; but on the evidence of government debt for which it has been exchanged. Credit is substituted for capital, and that portion of the capital of the banks comprised in the advance to say nothing of the impossibility of maintaining specie payments, is made to share the fluctuations and partake of the hazards of the government credit.

The limits within which a bank can safely make loans to a government are very restricted. It may occasionally make loans at short dates, to anticipate a revenue which is sure to come in; provided the amount advanced does not exceed the revenue that will have accrued when the advance becomes repayable. And this is the full extent to which it can, as a rule, safely go. There are plenty of instances to show that when this limit is not observed, disaster will follow. In the latter part of the last century, the Bank of England made advances to the government, in amounts so large, and for periods so long, that a suspension of specie payments had to be resorted to. The Bank of France pursued a like course, under the old government, with a like result. The Bank of Stockholm, founded in 1657, flourished as long as it confined itself to what was then its legitimate business—borrowing at one rate and lending to the public at another—but when it changed its policy, after becoming a bank of circulation, and made loans to the government and the aristocracy, it paid the usual penalty of being obliged to suspend specie payments. Its ruin was so complete that it finally paid its creditors but twenty-six per cent. of their claims.

The loans exacted from banks by governments, under the guise of exercising a paternal care for the interests of note-holders, are in the worst of all forms. They are perpetual. There is no date fixed for their repayment; and it is not intended that they should ever be repaid so long as the banks remain solvent. And even when the banks fail, the capital which they had loaned to the government is not forthcoming. In its place have been substituted government evidences of debt. These "securities," as they are called, must be thrown on the market, and sold for what they will bring. Their market

value will depend entirely upon the state of the government credit at the moment; and, in the case of this country, it might easily happen that they would not be saleable at all. A foreign war, with England for one of the combatants, or even a small Fenian raid, would give such a shock to Canadian credit that government securities would not be saleable at all.

A bank lending money to a government to cover deficiencies from ordinary expenditure, or to meet demands arising out of any unproductive expenditure, has nearly the same effect as would be produced by lending to a spendthrift. Capital is displaced through the agency of credit, and it is devoted to non-productive purposes. Somebody else is deprived of the opportunity of borrowing it; it does not go where it could be employed to the best advantage, and the nation is the poorer for the operation. When it is used to cover a deficiency between the ordinary revenue and the ordinary expenditure, there is something wrong. The equilibrium ought to have been maintained between the revenue and the expenditure, in one of two ways: either the expenditure ought to have been reduced or the revenue increased. But when a state of things does arise that renders a loan indispensable, it ought to be contracted in the open market, and not by borrowing from banks, whose means are destined for totally different purposes. In that case, it will often be an advantage to borrow abroad; for then the capital required to conduct the commerce and business of the country is not treasured upon.

Greenbacks, if we may generalize a term now sufficiently understood, differ from assignats, in having for their basis evidences of government debt, which bears an annual interest; while the assignat was receivable in payment of purchases of public domain. The assignat, in general terms, entitled the holder to its value in public lands; the greenback is based on an obligation which confers on the holder the right to receive annually a portion of the public revenue, in the shape of interest. This obligation is a mortgage on the future; and it is obvious that these claims to a share of the revenue may be increased to an amount beyond the capacity of the revenue to meet them. As a substitute for capital, in banking, it is a miserable expedient.

The structure of the national system is strictly logical: the only result which it could be productive of is paper money—paper not redeemable in specie—and accordingly it dispenses with specie, for that purpose. The banks being deprived of the greater part of their capital, and the government having put it to a purpose in no way connected with banking, there remains nothing but to substitute paper