

A GOVERNMENT CURRENCY THE BEST?

It has been stated very confidently, and accepted without much inquiry, that the function of issuing circulating notes properly belongs to the Government, and that it would be much better for the country if they were to exercise it. This security, it is said, would be perfect, and the profit realized would be so considerable, that a sensible relief from taxation would result. These statements are so plausible that they are generally accepted without dispute, but when it is considered that the system of redeemable government circulation has never been adopted in Europe, and that it has never existed in America, there is surely sufficient to make us pause before finally accepting the conclusion that there is any inherent superiority in the system, and that it would be beneficial for the country to adopt it.

There is this fundamental difference between the redeemable currency of a government, and that of a bank—that to the bank, the prompt redemption of its notes is a matter on which its very existence is staked. Failure to redeem is ruin, to a bank, and nothing remains for it but closing its doors. The strongest conceivable pressure is, therefore, put upon it, to keep at all times in such a position as to be able to redeem in gold whatever notes may be presented. It is the business of a banker to watch his circulation from day to day, and to take measures from day to day in accordance with the demands on him for redemption. Neglect on this point would be fatal; and, therefore, vigilance is never relaxed. It is an absolute necessity of the business, and, being so, becomes habitual.

The Government, on the other hand, is under no such stringent obligation. Failure to redeem would not imperil its existence. It could, and would carry out its functions unimpaired, even if its notes became irredeemable. No such contingency as closing its doors is possible; and, therefore, no finance minister would be stimulated to vigilance by the fear of it. It must be remembered that circulating notes will not have currency beyond the limits of the country; and, therefore, there is not the pressure to maintain their credit which exists in the case of debentures, which are largely held abroad. There is the same stimulus to maintain these in full credit that exists in the case of the circulating notes of a banker; for failure to pay a foreign creditor would be fatal. Holders of debentures, therefore, though nominally on the same footing as the holder of a government note, have in reality a far stronger security. Failure to pay their demands would be ruinous to the credit of the country, but failure to redeem circulating notes would be a purely internal difficulty, to be got over by political arrangements.

It is not to be supposed that a government department could or would exercise such constant vigilance as is necessary to keep the supply of specie always conformable to the demand for it. The contractions of the currency, so often attributed to the voluntary action of bankers, are in reality the result of a natural cause operating in a thousand channels, which are beyond the control of any man, or any set of men. The reserve of specie proposed by the Act is quite inadequate to meet the contractions which will certainly take place when the season comes round, and it is not at all an improbable contingency that the Government may have notes poured in upon them for redemption at some particular season far beyond their power to meet.

What, in such a contingency, would the Government do? The reply, of course, will be, that the reserve of debentures must be used, and money raised on them to meet the emergency. But it need not be said that such debentures are not always to be relied on for that purpose. In a time of commercial pressure, even if there were no more than such as prevail at present, debentures could neither be sold nor hypothecated, in which case the simple course open to the Government would be to suspend, by an order in Council, payment of the circulating notes in specie.

With this possibility ever before the holders of such notes, it is not to be supposed that they will command the unquestioned confidence which the notes of chartered banks do. It is a question, under the influence of the same possibility, if the banks will be found willing to hold any considerable portion of them as a reserve. They will certainly not be willing, unless a larger reserve of specie is held by the Government than is required by the Act: in fact, unless they can see that the Government, in addition to the reserve held on account of notes in circulation, holds dollar for dollar in specie for the notes in their vaults. For it may be at any time necessary or convenient to send

gold out of the country, in which case the natural course would be to exchange Government notes for gold.

A consideration of the whole subject tends to raise the gravest doubts whether the Government can work it. The redemption of circulating notes is a difficult and delicate business, and is so intimately connected with other monetary operations that it is questionable whether it is possible to carry it on independently of them. It is not unlikely that the burden and care of redemption, after all, would fall upon the Government Bank, and the whole scheme may end, if redemption is kept up at all, in a mere falling back upon the old circulation of the Bank of Montreal. We say, if redemption is kept up at all; but there are those well-informed on the subject who are convinced that the scheme, if persevered in, must end in an irredeemable currency.

Such considerations as these have doubtless had weight with the statesmen of Europe, and prevented the establishment in their respective countries of a system such as has been lately inaugurated. The advantages to be found by it are apparently so great, that we may be sure it would, before this, have been put into operation if feasible, and the fact that it has not, should be sufficient to warn us that inherent difficulties, if not insurmountable embarrassments, have been perceived to attend it.

Now that the Act is passed, we suppose the experiment, to some extent, will be tried, but we earnestly trust that it may be carried no further than the limits already imposed. Let no bank be foolish enough to covet the honour of issuing Government notes. Let the issues of the country, apart from those of one institution, go on as before, and it is possible that the Act in time may become a dead letter.

FREE TRADE vs. PROTECTION.

A CORRESPONDENT sends us a letter, advocating a protective policy for Canada, which, at his request, we publish. We cannot, however, allow it to appear without endeavouring to expose a few of the errors into which our correspondent has allowed himself to be led.

In the first place, we deny that the "grand maxim of the free traders" is refuted, as he says, by the course of trade on the frontier. Taking the article of butter to which he refers; all that the United States imports is either consumed in that country, or exported to foreign markets. If exported, then it might just as well be sent direct from Canada, thereby saving to the farmer the duty paid for the honour of sending it via Boston. If needed and consumed by the New England mechanic, then we unhesitatingly assert that the price of butter all through New England, and in every part of the United States where the price of butter is affected by its value in the manufacturing districts, has been increased to the consumer by the amount of duty imposed on what imported from Canada. Were the duty to be abolished to-day, Canada butter would not advance one cent, whereas there would be an immediate decline in the price of butter in the markets of the United States. It is evident that the price of any article, in a country which does not produce a sufficient quantity of that article to meet the wants of consumers, must advance to the point at which the same article can be imported from other countries. It makes little difference what the deficiency may be, that deficiency must be made good and at the cost only of the consumer.

In the second place, our farmers would not get one cent a bushel more for their grain, were the surplus for export reduced to a few hundred thousand bushels, instead of the millions of bushels now grown above the needs of the country, for the price obtained for the surplus of any commodity, must regulate the home price of that commodity alike whether the surplus be great or small. And it is idle to talk of the saving that might be effected to the country by bringing the consumer and the producer side by side. By increasing the cost of labor, and of every single commodity which the farmer has to buy, his profits are reduced, and the protected manufacturer grows wealthy at the expense of the class to which Canada, essentially an agricultural country, must always look for its prosperity.

Furthermore, our correspondent points, as a proof of the soundness of the policy he advocates, to the fact that in the United States there has been, as a general thing for the last fifteen or twenty years, a protection tariff, and that with it the country has prospered beyond all precedent. We admit the facts, but deny the conclusions drawn therefrom. The United States

has grown wealthy through the multitude of its natural resources almost in spite of legislative interference with trade, and the enormous rapidly with which the stream of population has set towards the Western farming lands, and away from the manufacturing centres, is, we take it, hardly to be considered the best reason in the world for taking from the agricultural population, whose hard labour creates the wealth of the country, the wherewithal to enable rich manufacturing corporations to pay enormous dividends to the stockholders, and to give them, by means of their wealth, such an influence in the Government of the country as to bid defiance to all who would wish for a juster apportionment of the burdens of taxation.

LETTERS FROM ENGLAND.
COMMERCIAL REVIEW.

(Special Correspondence of the Trade Review.)

PER "CUBA."

THE maintenance of the Bank of England discount rate at 10 per cent., while it has disappointed many traders, is undoubtedly to be ascribed to the determination of the other banks to strengthen their reserves of gold and Bank of England notes. That they are right in so doing cannot be denied. For many years past the trade of the country has been carried on with too small a reserve, and we are now paying the penalty. It will be well for our future if the banks continue to act on this prudent principle, and resist the temptation which the Bank Act of 1844 undoubtedly offers to trust almost exclusively to the Bank of England in times of panic. It is remarkable that, in spite of all this pressure, the trade of the country keeps up so well. The fact that for so far this year the trade is the largest on record is an abundant proof that the recent panic was a money and credit one, and not a commercial one. Of course, this large trade requires a large capital to carry it on, and prevents any great reduction in the value of money, such as was experienced after the crisis of 1847 and 1857. I give the declared value of the exports for the month of June, and also for the first six months of the three last years:

	June	Six Months.
1858	£14,629,000	£92,588,000
1857	13,227,000	74,129,000
1856	13,978,000	78,048,000

I give also the computed real value of the imports for the month of June, and for the five first months of these years:

	June.	Five Months.
1858	£23,225,000	£92,630,000
1857	14,655,000	69,583,000
1856	22,333,000	77,112,000

The most important items in this great increase are furnished by the cotton trade, and I give first of all the exports of cotton-yarn and of manufactured cotton for yarn, and for the six first months of these years:

	June.	Six Months.
1858	£5,002,000	£37,050,000
1857	4,423,000	25,589,000
1856	4,811,000	26,999,000

I next give the computed real values of the raw cotton imported in June and in the five first months of the last three years:

	June.	Five Months.
1858	£9,153,000	£8,898,000
1857	8,215,000	17,183,000
1856	10,899,000	29,341,000

The following table gives the declared value of the exports to British North America:

	June.	Six Months.
1858	£534,000	£2,423,000
1857	220,000	1,392,000
1856	424,000	1,946,000

The returns from the Bank of England for this week are as follows:

	Am't.	Incrs.	Decrse.
	31s	31s	31s
The Public Deposits	3,190	672	808
The Other Deposits	17,789		
The Government Securities	10,128	300	
The Other Securities	25,567		175
The Notes in Circulation	25,529	257	
The Bullion	13,703		77
The Reserve	3,273		180

These returns are of a negative character, and indicate that there has really been very little change since last week.

The returns from the Bank of France are more favourable, and there is again a further addition to the very large stock of gold in the Bank. As compared with last week, the figures are as follows:

	Increase.	Decrease.
	Mill. Francs.	Mill. Francs.
The Treasury Balance		5 3-8ths
Current Accounts		1 1-5th
The Advances		14
The Commercial Bills		
The Notes	15	
The Cash	17 1/2	