

THE MONEY MARKET.

The promissory notes of the sixteen Provincial Banks comprise the currency of the country. The operations of these banks are so guided by the extent and healthiness of the trade, and their profits so dependent on its success, that no better indication of the state of business throughout the country can be found than in their expansion or contraction.

The year has been a very unusual one for the banks. Their circulation, which is one of the leading sources of profit, has been largely contracted, especially during the latter part of the year. This contraction has been more rapid and to a larger extent than ever before within the past ten years. It reveals a condition of things in the country that cannot fail to produce anxiety and embarrassment to all who have obligations to liquidate. The amount of notes afloat in December of 1861 was slightly over thirteen and a half millions; in December of 1862 it had fallen to nine and a half millions—a decline of four millions of dollars. The shortness of the crop of grain, together with its slow movement, the low price which was paid for what was bought, have been the main causes of this great contraction. The almost total stoppage of lumber operations, and the general restriction of mercantile business, have both had an important effect. But the loss in circulation will not affect Canadian interests in a degree so great as might be supposed. In the time of peace, and even in the early part of the war, our banks had a considerable business in the United States. The dangerous system of banking which had been pursued in the West, had inspired such a suspicion of their own currency among the people themselves, that bills of our banks, whose strength and prudence were beyond suspicion, were freely taken and held in estimation next only to gold. Large amounts of produce were yearly bought on Canadian account and paid for in Canadian bills, and we presume that in October of 1861—when the circulation of our banks was upwards of fifteen millions—there were at least one and a half to two millions afloat in the United States, and the average circulation of our banks in that country for 1860-61 could not have fallen far short of one million. As soon, however, as the Government of the United States had begun to create a paper currency of its own, and gold had advanced to a premium of over five per cent,

our bills were sent home for redemption. For a few months in the early part of the year, the circulation returned very rapidly, and many persons on both sides of the lakes looked for signs of weakness in the banks, called upon as they suddenly were to redeem in gold a considerable portion of their issues. But, foreseeing the storm, they had wisely prepared themselves for it. In December of last year they held in specie over seven millions of dollars—a larger amount than ever before—with securities and debentures in abundance, easy of conversion within a very short time. They met promptly every demand upon them, and within a very few weeks the whole or very nearly all their bills on the United States were redeemed. This, however, was not to be the only drain upon their specie reserve during the year. The high premium to which gold attained during the summer in the United States, and the active demand for hoarding which it created, made the distinction between it and the value of silver very marked, the difference varying from three to five per cent. As there was not a superabundance of silver in Canada, it was soon found that large amounts could be readily sold here at par in return for our bills, which, when presented at the bank drew gold, so that speculators got in return for their American silver British gold at par, the difference being only the cost of transportation and commission charges, slight in comparison to the gain. For months the importation of silver from New York was excessive, and the country became deluged with American quarters and half-dollars, the circulation of the banks declined, and their specie reserve lessened in a like proportion. The effect, at first imperceptible, was very soon apparent. The banks could receive it only to the extent of ten dollars at a time, and it is not a legal tender above that amount. Glad as people are generally to get payments of money, a remittance of three or four hundred dollars of silver was regarded more as an injury than as a benefit, and not a little embarrassment and annoyance was experienced. Large sums paid out for produce soon found a centre in the dries, and the accumulations in Montreal, Toronto and Hamilton, speedily called for action on the part of the commercial community. In Toronto, in accordance with a resolution of the Board of Trade, a discount of four per cent. was exacted on all transactions, either small or great, and very soon the excess of silver disappeared from the city. Other localities were not so unanimous, and for the most part the rate continued at par in the country. But the action of the community in Toronto, and the difficulty that was experienced in getting it into circulation, soon checked the importation, and for the last couple of months the amount brought in has been insignificant. The only good effect was that small accounts were much more readily collected than when at par, and that the small internal indebtedness was a good deal reduced. As to the