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The Canadian Monetary Times.

THURSDAY, MARCH 18, 1869.

THE BANK CHARTER QUESTION— THE PARAMOUNT NECESSITY OF CONVERTIBILITY.

ARTICLE II.

The wisdom of man has not invented and never can invent, a system of banking that shall be so absolutely perfect as to be free from the consequences of human weakness and human error. To look after absolute perfection, would only be to chase a will-o'-the-wisp with the usual result of being landed in a quagmire. The best scheme of banking that can be devised will be insufficient to guard against occasional losses and disasters. To

reduce these evils to the minimum is all that it is possible to accomplish. Occasions will sometimes occur when the temptation to forget these inevitable facts is strong; when, neglecting the possible, we shall be in danger of arriving at the impossible. Of this nature is the desire, which now has partial possession of the public mind, to see provided some absolute security for bill-holders. Nothing is more natural than such a desire. The whole community are virtually, if not legally, obliged to take bank notes, and few things are more desirable than that some positive material security should be given for their redemption. But here there is much more to be lost than gained by attempting too much. If banks are required to deposit with some third party, as security for their note circulation, a value equal to the whole amount of their notes, they will, by that fact, be deprived of the means of maintaining their convertibility. The first great essential of a sound and uniform currency will be gone. Ultimate security, or what is supposed to be such, will have been purchased at the frightful cost of present convertibility.

The necessity of providing for the redemption of the paper currency, whatever form it may assume, in specie on demand, is so paramount, and so well understood, that we do not expect to see it now denied. Whatever scheme of currency and banking may be presented to the Dominion Parliament, we may be sure that it will set out with the pretence of providing for the convertibility of the paper circulation. Any other course would, at the present time, be fatal to it. But there is great danger that, while professing to secure this great essential, it will, by its nature, render the continued maintenance of convertibility impossible. What will be necessary to see to will be that the scheme be such as not to be incompatible with continuous convertibility, but shall contain all reasonable guarantees for its maintainance. Mere professions on this point must go for nothing.—Even Law, whose "system" ran into the wildest and most extravagant excesses, set out with the declaration, in which he was joined by the Regent, that a banker who issued notes beyond his means of redemption, deserved death. But the moment Law's bank was made a Royal Institution, it began to do what was incompatible with continued redemption. The issues were at once increased from sixty to a thousand millions of livres. Law soon began to think, and the general insanity favored the idea, that paper could take the place of coin. Notes were issued on the deposit of shares. A run for specie gave birth to a decree declaring the notes to be worth five per cent more than coin. All transactions which would bring more than a

hundred francs were compulsorily obliged to be effected in notes. But no sooner had merchants taken the notes than they flew to the bank to have them cashed. At last the notes were made a legal tender. A further reduction in the value of gold and silver was decreed.

Here, it will be seen, the notes were by no means made a legal tender, at first. Step by step the downward progress to bankruptcy and ruin went. The lesson is not without its uses to us. It teaches us to watch narrowly and strenuously to guard against the first steps towards the rejection of the convertibility of the note circulation. Already the government notes have been put to an use for which they are, by their nature, unfitted. Certain amounts of them have been forced on the banks to be held in lieu of specie. This is, in plain terms, a substitution of credit for capital, and it is the first step on the road to ruin. It is the first blow to convertibility. In other respects we have gone as far as it took Law some time to go. We made the Government note a legal tender, at the start; but that does not qualify it to take the place of specie. Confessedly there is only a small amount of specie at the back of it—only what is necessary to meet casual demands.

The main question which Parliament will have to decide is so broad that we need not waste time on nice distinctions, which sometimes enter into the discussion of economical questions elsewhere. We need not dally with the doubt whether a convertible currency can ever sink below the value of the coin into which it is exchangeable at the will of the holder. It will be safe to assume that its depreciation can never be greater than the fractional percentage chargeable, in the way of exchange, to cover the cost of its carriage from the point where it is found in circulation to the designated place of redemption. This is seldom more than a quarter of one per cent.; and if the issuers were uniformly debarred from issuing at one point notes payable at another, for the purpose of obstructing convertibility, even this fraction would hardly ever be payable. Indeed the cases in which it has to be paid now are very rare. Not one man out of a thousand, who receives notes, requires to have them converted into gold. In receiving a bank note which can be exchanged for gold, at the option of the receiver, every one knows what he is getting. It is not a thing to which one value is attached to-day and another to-morrow, and a third next week. It partakes of the stability of the gold on which it is based. If a man agrees to pay or to receive, three months, six months, or a year hence, a given sum of money, he knows precisely what he has to count on. This certainty