THE MONETARY TIMES, AND TRADE REVIEW.

TORONTO, CAN., FRIDAY MAR. 12, 1875


## THE DOMINION NOTE ACT.

We observe that the Finance Minister's amendment to the Dominion Note Act has passed the House of Commons. The bill is a step in the right direction, inasmuch as it strengthens the specie basis for these issues.

But the prime mischief in the Act is left untouched; viz., the power to hold bank deposits as part of the Reserve. Till that is abolished the country will always be subject to the worry and anxiety caused by sharp contraction on the part of bankers, who are called upon to pay government deposits suddenly. The clause is unsound in theory and mischievous in operation. It ought to be abolished, and we hope some member of the Senate will move to amend it in that direction.

While speaking of the Act we may as well say, that though opposed to such issues, on principle—if we are to have them, we may suggest that the Reserve should be arranged as follows:—

1. For the Small Notes.

These are part of the circulating medium and their total amount can never fluctuate much. A reserve of $500,000 would be ample to hold against them.

2. For the large Notes.

These are fundamentally different from the others, being almost wholly held by banks. There is no calculating how many of such notes may be sent in for redemption, for all above one-third of their cash reserves (which banks are bound to hold by law) they may send in for gold any day.

Now for some time back, this third would have amounted to about four million dollars. The difference between this and and what has been actually held has been from two to four millions, which represents the amount actually hanging over the government, and liable to be presented. A reserve of $4,000,000 would not be too much to provide against them.

The best method of working would be like the automatic action of the issue department of the Bank of England. A certain minimum is fixed to be covered by Government securities, and for every other note issued the coin must be held. Now if a minimum of $3,000,000 for the small notes and $4,000,000 for the large ones were held in Government securities, and dollar for dollar in coin for all beyond, every difficulty would be got rid of—and especially the interminable difficulty of keeping up proper proportions as at present.

## THE FINANCIAL POSITION.

There are symptoms which lead to the supposition that the spasm which has so suddenly passed over the money market has to some extent passed off. At any rate, the apprehension of a far greater evil has been mitigated if not dispelled.

A week ago, considering the position of things in Montreal as well as here, it seemed not at all impossible that one might have a general revulsion like that of 1857. The pressure would only need to have been a little more severe, and a general and universal refusal of banking accommodation would have been inevitable. What would be the consequence of this our readers may imagine. There are firms amongst us that are in such an independent position that they could outride any storm that blew, but by far the larger part of our men of business are so dependent on borrowed facilities that a few weeks' suspension of them would bring numbers to the ground.

As it is, amidst the uneasiness and anxiety of the last few weeks our banks have shown a true appreciation of the position. They have made the weight of the pressure to fall on a class whose transactions are apart and alone. Stock speculators borrow largely in times of ease and though they offer the most undeniable security, bankers have lately turned them away in order to afford facilities to merchants and men of business. They have of course charged higher rates. And for this they have been assailed by persons who do not appreciate the real bearing of the position. Respecting this we have now to say a few words, following out the observations we began last week.

It is universally conceded by those who have paid attention to the subject that the enormous increase in the loans and discounts of the banks during the last few years was an unhealthy and dangerous symtom in our financial position. Every great crisis in monetary affairs has been preceded by such an expansion. This is a necessary antecedent. Undue borrowing and incautious and excessive lending are at the root of all commercial revulsion. These things operate in a circle, and while inflation lasts there is a general stimulus all round. Bank deposits, circulation, and capital, generally all increase together at such times. And many bankers on means which they themselves borrow from the public are carried away with the stream of inflation and go on augmenting their loans month after month. Every bank failure is preceded by this course of action. The managers of some institutions are more enterprising than cautious, and altogether forget that they are not lending their own money. They go on stretching and expanding, oblivious of the certain return demand for payment of their deposits and circulation. And this has one very bad indirect effect, viz., that more prudent bankers, in order to retain their customers, are often driven against their inclination to consent to a class of transactions against which their better judgment protests. Thus the whole mass of discounts and loans is lowered in its tone. The effect of all this is that a number of weak houses are bolstered up by means of this too-easily borrowed capital, and encouraged to stretch out far beyond the bounds of prudence. Young firms, who have their position to make, are always found at such a time of expansion enlarging their operations, forcing business, employing travellers, and carrying on a mode of business suited only to houses that have ten times their capital. Thus banker and customer alike are carried on, the inflation proceeds at an augmenting ratio, until some circumstance or other brings the whole circle of mischief to a stand.

These are general symptoms that precede every commercial revulsion, and there have not been wanting many who have judged that we have been passing through such a period of inflation for the last two or three years in Canada. The symptoms are alike, no matter what part of the world may be affected by them. Before 1866 there was precisely the same enormous expansion of borrowing and lending in England, and there, men who a few years before were unknown rose to be great commercial magnates; everybody supposed them to be rich, while the circle of expansion went on widening, but when the crash came it was