as the chief producing province of the Dominion, will be the real sufferer.

It has already been shown in these columns that, if securities have to be purchased by the banks, an unnatural contraction of the currency will take place. If five millions be taken as the circulation of the Ontario banks, and the government securities they now hold be subtracted, they would have to advance to the government, for the privilege of maintaining a circulation equal to that which they now enjoy, a little less than four millions and a half. The contraction thus induced would, by an inevitable law, cause a fall in prices. Every producer would get less for the results of his labor, and while getting less for our produce, we should have to buy imported articles at a dearer rate. The country would thus lose at both ends.

The present system can be easily amended so as to give the note holder security which is nearly perfect. Take the case of one bank, say, for example, the Bank of Commerce. According to the returns for March, that bank held coin, etc., $1,059,306, and government securities, $104,385, while its circulation was $1,149,844. Under the new scheme it might reduce its gold to $229,968, and would increase its government securities to $1,149,844. Or take all the banks. They held $9,924,769 coin, etc., and $3,118,206 government securities, against $9,905,410 of circulation. Under the new scheme they could reduce their gold to $1,931,082, while they would increase their government securities to $9,905,410. This is a singular feature; it lessens the amount of gold necessary to be held, and increases the amount of government securities. Before Sir Robert Peel's act was passed, it was found that a necessity existed to curtail by law the amount of government securities which the Bank of England may hold. In September, 1839, the bullion in its vaults was below £3,000,000, while it held securities to the amount of nearly £26,000,000. Sir Robert Peel's act provided that notes should not be issued against securities to a greater amount than £14,000-000. Our Finance Minister wishes to reverse this process.

It cannot be said that this substitution of Government promises to pay for gold is an additional safeguard to the currency. The substitution of Government indebtedness for the capital of a bank is an inevitable cause of discredit. The loans forced under the guise of protecting note holders are perpetual. When the banks fail they are not forthcoming. The securities 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 one of the combatants, or a Fenian raid, would give a shock to Canadian credit that Government securities would scarcely be saleable.

But the proposed scheme will not necessarily save the *bonâ fide* note-holders from loss. When a bank suspends, its legal tenders cease to be such. If it is necessary to realize the securities, what becomes of the note holders in the meantime? Would they, as a body, await the process of winding up? The great bulk of circulation is to be found in the hands of laborers, mechanics, and others of the poorer classes of the community. Their circumstances would compel them to sell at the moment of the greatest depression, and they would have to submit to whatever shave a moment of panic might enable speculative purchasers to extort. So that even the certainty of ultimate redemption will not prevent loss to individuals. On this Mr. McCulloch says, "The taking of security for notes is not of itself capable of placing the currency on a proper footing. It would not prevent the stoppage of banks and the serious loss that might result to the holders of notes from their not being negotiable except at a discount, during the period required to realize the securities on which they have been issued."

The conjunction of Government credit and bank credit and the withdrawal of so much gold, may lead as it has often hitherto done in other countries to a suspension of specie payments. In the last century the Bank of England made such large advances to Government, that a suspension of specie payments had to be resorted to. The Bank of France did the same with a like result. The Banks of the United States did so virtually, but the result was anticipated by making the currency irredeemable. The descent to inconvertibility is easy. We have already learned the first lesson. Our Provincial notes were made a legal tender and forced on the banks to be held in lieu of specie. Difficulties were thrown in the way of their redemption by issuing in Toronto notes payable at Montreal and *vice versâ*. It costs a fourth of one per cent to transport notes from one city to another. Such a contrivance shows how irresistible the inclination is to exempt these notes from all demands of convertibility when occasion arises. The same plan is offered as a bait to to the banks. Under the new scheme they would be at liberty to issue in Halifax or Fort Garry legal tenders redeemable in gold only at their head office, wherever it might be.

A specie reserve of twenty per cent. is seemingly relied upon as the great preservative of convertibility. There have been periods when the Bank of England and the Bank of France required for the maintenance of convertibility about half as much gold as they had issued notes. The banks of New York were at one time obliged to suspend specie payment with a reserve of bullion in their vaults equal to half their note circulation. At present, as we have shown, our banks hold nearly one hundred per cent. of their circulation in gold and legal tender, and we may rest assured that they do not hold it unnecessarily.

The Finance Minister takes it for granted that the increase of deposits will go on at a rapid rate. It must be remembered, however, that the new scheme lessens somewhat the security of the depositor by making the circulation a first mortgage. Why there should be a distinction between the deposit on call and the deposit bearing interest, in the matter of specie reserve, we fail to see. A specie reserve of one-seventh is to be held against deposits at call, while the other deposits are left to take care of themselves. It has never before been pretended that it is any part of the duty of Government to inquire into the security given by the borrowers to the lenders of money any more than into the security given by the borrowers to the lenders of anything else. This is a mat-matter as to which individuals are fully competent to judge for themselves, and there is not nor can be any reason why a lender or depositor of gold, silver or notes should be protected more than a lender or depositor of wood or coal. If A trusts a sum of money in the hands of B, it is the affair of the parties, and of none else. The fact it is the deposit at interest, which should be protected if any protection be given for the deposit at call is generally the consideration, either direct or indirect, for a line of discounts, and may be withdrawn at once in time of danger, while the deposit at interest draws a more nominal rate of interest, and must bide its time before it can be withdrawn.

Why is the proportion one-seventh fixed the reserve against deposits at call? It was considered sufficient to keep one-fifth specie against the Provincial note circulation.

The new scheme, therefore, does not furnish that absolute security which is claimed for it: it is unsuited to the circumstances of this country by reason of the absence of the element of elasticity; it is calculated to injure the country, by curtailing discounts, by narrowing the resources of the banks, in rendering bank stocks a less desirable investment than at present, and in reducing the deposits at interest, by transferring from the banks to the government a large amount of money which will, in all likelihood, be dissipated by endangering the convertibility of the bank note, and by paving the way for that curse to any community, an irredeemable paper currency.