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The Canadian Monetary Times.

FRIDAY, JANUARY 14, 1870.

THE DOMINION GOVERNMENT AND THE BANK OF MONTREAL.

Seldom has the public conviction been more unanimous on any point than on this; that the connection between the Dominion Government and the Bank of Montreal is of evil tendency, and ought to cease. Let us examine the nature of that connection and the effect it produces, and see whether the public feeling rests on solid reasons, or is one of mere prejudice. No clear or full statement of the arrangement that exists between the Government and the Bank has ever been made public, and though we do not pretend fully to supply this omission, it will not be difficult to give the leading features of the connection.

The Bank of Montreal is the fiscal agent of the government, for all purposes within its own sphere. It is the depository or receiver and the disburser of the public revenue; it issues and redeems the government notes, on commission, and it generally has the privilege of selling exchange to the Government, at its own price. But on this latter point it seems the Government is not actually under compulsion to deal with the Bank of Montreal; for in a recent instance that Bank has been set aside and exchange purchased by tender, at the lowest market price. If the Bank of Montreal had looked on such a thing as possible, it would most likely have taken care that the item of exchange should have been included in the bond.

The Government, in an evil hour, obliged itself to keep on deposit in the Banks of Montreal, the sum of half-a-million of dollars, at all times, without interest. But as the Government is frequently a borrower; how can it contrive to have on deposit money which it does not own? If it has nothing of its own to deposit, it must borrow that amount—borrow half-a-million from the Bank of Montreal; pay interest to the Bank of Montreal on half-a-million, and let that half million remain in the Bank of Montreal. It cannot touch the money or use it for the most pressing purpose. Suppose the Government coffers are empty, and half-a-million is required for some purpose in connection with the public service; that half-million the Bank of Montreal is bound to advance; but the Government, which must always keep half-a-million on deposit without interest, must borrow a million—twice as much as it wants—and pay interest on a million, while it has the use of only half that sum. Thus, an agreement to pay seven per cent. on half-a-million, means an obligation to pay seven per cent. on a million—fourteen per cent. on the amount actually received! Hard terms these, which attest the need of the Government at the time they were submitted to, not less than the rapacity of the bank; unwise rapacity, we venture to predict it will prove, for it is evident that an arrangement of this kind can subsist no longer than till it can be exchanged for one more equitable.

Nor is this all. The bank has another source of profit on loans to the Government. A million dollars advanced for six months to pay the July or January interest begins to be repaid the very day it is received. The bank is the recipient of the public revenue, which comes in regularly till it swells to the necessary amount to repay the loan. But the bank continues to receive interest on the whole amount of the loan, no matter how large a part of it has been virtually repaid. This, added to the uniform half-million of government deposits on which no interest is paid, makes a nice thing of the Government account to the bank.

Then there has been, as things have generally gone, the furnishing of exchange at the bank's own rates—at rates which, as one trial proved, are above what competition would have made them; often, very likely, far above that point.

The circumstance of the bank of Montreal being the fiscal agent of the government, invests it with a power injurious to the other banks and to the public; a power which, the whole world is witness, it has not scrupled to abuse. All the public revenue going into its coffers, gives it a perpetual advantage in the exchanges of balances; a circumstance which it has used to compel the other banks to take a large amount of government notes to be held in readiness to answer the unfavorable exchange.

And it has done much more, that is more properly a subject of complaint. It has, more than once, for its own selfish purposes, and without any adequate public cause, produced a violent action on the currency, creating an artificial scarcity of money by the sudden and arbitrary stoppage of discounts, and by the power which the possession of the public deposits gave it over them, compelling the other banks to follow its example to a great extent. In this way the government, through the revenue coming from the industry of the people, was in an indirect and involuntary manner, made an instrument of injustice.

This sort of action has been carried to an extent which nothing can justify. A bank charter creates a public trust, which, like every other trust, is capable of being abused, and there is a degree of abuse which would call for a public remedy. The privileges granted to a corporation are not to be capriciously exercised to the detriment of the public; when they are so exercised a wrong is done, and it depends on the magnitude and extent of the wrong whether it should work forfeiture. There has, in the case of the bank of Montreal, been too much caprice and too little consideration of what may be called the public requirements of its charter.

But short of the extreme remedy, there will probably be found a sufficient cure for the principal evils arising out of the connection between the Dominion Government and the Bank of Montreal. That connection must, once for all, absolutely cease. On this point there is no longer room for doubt or argument. The conclusion is admitted by all; and the sooner the government gives the requisite notice, after its plans for the future are formed, the better. We cannot learn that it has yet been given, and there may be reasons for the delay.

Mere exchange of the public deposits, or of the fiscal agency of the government from one bank to another would probably only