

## Insurance.

**FIRE RECORD.**—Sackville, N. F., Oct. 11.—The large steam saw-mill, owned by Hon. Senator Muirhead, of Chatham, N. F., was entirely destroyed by fire this evening. No insurance.

Mount Forest, Oct. 14.—A dwelling house occupied by Charles Bissel and John Knowles, was destroyed by fire. The building was owned by Mr. Bissel. Loss about \$500; insured for \$400.

Roche's Point, Oct. 15.—David Willoughby's residence, in Keswick, was and was completely consumed. Loss about \$1,700; no insurance.

Arthur, Oct. 15.—A fire broke out in E. J. O'Callaghan's saw and grist-mill, resulting in the total destruction of the buildings and lumber. Insurance \$2,500. Cause not known.

St. Catharines, Oct. 15.—A barn owned by J. P. Merrit, with a considerable quantity of grain, hay, and farming utensils were destroyed. Loss about \$1,000, partially covered by insurance.

Quebec, Oct. 11.—The paper mills of Mr. Webb, on the Portneuf River, were destroyed; partially insured.

Cambray, Ont., Oct. 10.—A barn occupied by L. Scott, was burned, with its contents, half a mile west of this village. Loss about \$1,500, insurance on the crop of \$700.

Dunnville, Oct. 22.—A fire was discovered in Mr. A. Smith's steam saw mill, which was totally destroyed. Loss about \$5,000. Insurance \$1,000 in the Provincial.

## THE LESSONS OF THE AMERICAN MONETARY CRISIS.

The events of the present monetary crisis in America, incomplete as they are, and imperfectly as they are known to us, are yet fraught with most instructive lessons. The crisis is one of the most singular which has ever occurred, because the monetary conditions in which it has happened are extremely peculiar. The American money laws are very remarkable, and there is much to be learnt from them by way of warning, if not of imitation.

As is well known, the existing legal tender currency now in America is one of "greenbacks," that is to say, of inconvertible paper notes issued by the Government. They were first issued in 1862, by the Government of Mr. Lincoln, as a measure of war finance, and they have existed ever since, as it has been impossible to get rid of them. This is the ultimate currency, the only one which an unwilling person can in any manner be forced to accept. And in these greenbacks (or in specie, as to which we will speak presently), the law requires that banks in ordinary places shall hold 15 per cent. of their liabilities, and in certain principal cities, of which New York is the most important, as much as 25 per cent. The liabilities for this purpose include not only the note circulation of the banks, but the banking deposits also. The note circulation has, indeed, in another respect, an advantage over the deposits; a specific security of Government stock is lodged for them, but not for the deposits, but as respects the proportion of legal tenders which it is incumbent on the bank to keep, the two are on a footing strictly equal.

In England we are now well aware how a proper proportion of reserve to liabilities is to be maintained. A country which has a currency of gold or silver, needs only sufficiently to raise the rate of interest to attract those metals from the whole world. There is always enough for those who will pay the market price for them. But in the case of a currency of inconvertible paper all this is reversed. Its nature is artificial, and its quantity is strictly

limited. That which the Government issues is all which there can be. Raising the rate of interest will procure no aid from abroad, for foreign nations have not, and cannot have, any supply to send. The Government of the United States, we believe, because it is anxious to raise the currency to a specie level, has for a time past consistently refused to augment the amount of greenbacks in circulation. The legal amount that can be issued is, exclusive of a sum of \$44,000,000, of which it is not necessary to speak now, \$356,000,000, or £65,265,000, and that is the sum in actual circulation. Probably, indeed, the United States Government did not see the entire effect of their policy. Congress was very anxious that the country should not be straitened for currency. It was more ready to bear the evils of depreciated currency than to make the effort necessary to cause the currency to appreciate. In fact, we may assume that it shrank from the prospect of that effort. Before 1868 a certain reduction in the amount of the paper currency had been made by the Executive Government, but in February of that year Congress made a law prohibiting any such contraction. They feared that there might be a reduction of prices and a deficiency of money. But they did not perceive that the mere maintenance of the existing amount of paper would produce that effect as certainly though not so rapidly. But such has certainly been the fact. The price of gold in greenbacks fell from 141 in February, 1868, to 111 in April, 1870, and would doubtless have fallen still further if it had not been hindered by the larger European demand for gold for German purposes. We showed at the time, in an elaborate article, that the fall in general prices had steadily kept pace with the decline in the gold premium. (*Economist*, March 26, 1870.) Nothing else in such circumstances could have happened consistently with established monetary laws. The trade and transactions of the United States are very rapidly augmenting, and they require an augmenting currency. Every "fall," for example—that is, every harvest—the amount of corn to be "moved" becomes greater and greater, and the amount of currency requisite for the necessary transactions steadily augments. In consequence prices fall, and that of gold among the rest.

All this is quite right and as it should be. A country which depreciates its currency seems for a long time to be unusually prosperous, and has all the feeling of being so. Everybody seems to be getting richer because prices rise; money is easily obtained because the rate of interest is low. But that seeming prosperity is purchased at a great price; as soon as it becomes necessary to raise again the paper currency to the specie level the precisely opposite state of things occurs. Low prices, scarce money, and depressed trade are the proper punishment of artificial inflation and excessive paper money.

But what is not as it should be is that there should be a deficiency in the cash basis of credit. No doubt under such circumstances that deficiency is exceedingly natural. The liabilities, both on deposits and on notes, if the banks are allowed to issue them, are naturally augmenting, and they ought to contain a continually augmenting reserve of cash as a guarantee of credit and a means of liquidating those liabilities if required. Under a metallic currency this augmenting reserve can be replenished from the store of precious metals in the whole world. But under a system of inconvertible paper of limited amount there is no such comprehensive field in which to seek the sources of replenishment. The means of augmentation are strictly confined to a single country, and to the amount of currency issued by the Government. The difficulty of sound

banking, therefore, is extreme in a country where a paper currency of fixed volume is the sole legal tender, while trade is quickly extending and transactions rapidly multiplying. How are the banks to maintain their reserve of "legal tender" paper? They must bid for it against the trading community; they must raise the rate of interest both for the money which is lodged with them and for that which they lend. They must get in as much as possible, and let out as little as possible. But this is not easy in a community which is already straitened for currency, and where many transactions, which would ordinarily be profitable, are hindered or prevented by the want of it. And still less is it agreeable to the banks, for it means that they are to lessen their profits on both sides at once—that they are to pay more interest for the money they receive and lend less, and so receive interest on a smaller sum. In part this diminution of banking profit will be counterbalanced by an increase in the rate which the banks charge for their loans. But it will seldom, in an extreme case, be counterbalanced completely, because the amount of the loans on which the banks charge is always less than that of the deposits on which they pay. The process is one of torture to the customers of the bank, and of disputable profit, possibly even of loss, to the bank itself, and therefore it is a process very rarely set into full action. A time of rapidly appreciating currency is always likely to be one of deficient bank reserves, and, therefore, of unsteady credit; and it is more likely to be so when the currency so appreciating is an artificial currency peculiar to the particular country where the depreciation happens, and not a natural currency used by and capable of being supplied from the whole world. The American law, which prescribes the amount of banking reserve which particular banks are to keep, attempts to solve this difficulty. If it could be maintained and acted on, banks would always be obliged to begin this process, however difficult, and their customers would be obliged to endure it, however painful. In that case there would always be an ample reserve. But, in fact, it cannot be observed. We showed in December last year that the reserve then held by the New York banks was not as much as the law required. The deficiency was not great, but the principle was important, it showed the difficulty of maintaining the law. By the last account which has reached Europe in detail, the comparison of liabilities and reserve was as follows:—

LIABILITIES.		
Deposits . . . . .	\$212,772,000	£39,008,000*
Circulation . . . .	27,355,000	5,015,000
Total . . . . .	\$240,127,000	£44,023,000
Against a reserve of—		
Specie . . . . .	\$21,767,000	£3,991,000
Legal Tenders . .	38,679,000	7,091,000
Total . . . . .	\$60,446,000	£11,082,000

\* Converting the dollar at 3s. 8d.

—which is just within the mark. But there is this unfortunate peculiarity about it, "Specie" is more than one-third of the reserve, and specie is of no use in time of panic. Gold has a high and fluctuating premium as compared with paper; if a bank were to begin to pay its liabilities in specie, it would be drained of its specie immediately. If for a £100 debt contracted, and by law required to be repaid only in paper, the bank were to pay £100 in gold—gold being at a premium fluctuating from 10 to 16—the bank would be giving a bonus of from 10 to 16 per cent. as a favor to those of its customers who joined in a run upon it. It would not be repaying its debts, it would be overpaying them; and any bank or system of banks which, in so