

Appendix
(Z. Z.)

28th July.

would be practicable, if the circulation consisted solely of the coin which is represented by the notes, and beyond therefore the amount at which it could be maintained without depreciation. It was after repeated proofs of the revulsions which ensued from such practices, that the circulation of Great Britain was established on the system laid down in the Act of 1844. The principle on which that Act was founded, was that of restricting the amount of Promissory Notes in the United Kingdom, which might be at any time issued on credit, considerably within the lowest amount of the previous circulation of the country; and that all issues of notes exceeding that amount should be made only on the deposit of specie in the Bank of England. The effect of the measure gives all the advantage which can legitimately and safely be obtained from the use of a cheap medium of exchange, combined with the most complete security against over issue.

My Lords refer to the principles by which the circulation of this country is governed; because they learn, from the Inspector General's memorandum, that the adoption of a similar measure for founding a single Bank of Issue (saving the rights of existing Banks) was at one time in contemplation by the Canadian Government. My Lords are not aware of the grounds upon which that project was abandoned; but, although the establishment of a Bank in connection with the Government appears to have been considered impracticable or inexpedient, it does not follow that some modification of the scheme adopted in the United Kingdom, with respect to the circulation, the leading feature of which is a limitation of the amount of notes issued on the credit of securities, and the maintenance of a deposit of specie equal to all issues exceeding that amount, might not still be attainable in Canada.

The scheme of the Canadian Act appears to my Lords to be defective on this point. The deposit of public securities, equal in amount to the notes authorized to be issued, would indeed afford to the holders the undoubted advantage of protecting them against loss from failure on the part of the Banks to pay their notes in specie, to the extent of the value which those securities may bear at the time when it may be necessary to sell them, and would obviate many of the evils arising from unrestricted credit; but it would establish no guarantee for the immediate convertibility of the notes on demand; and the very confidence, arising from the feeling of ultimate security, might facilitate the undue expansion of the circulation, when called for by a speculative demand.

The credit of the Government of this Country stands higher than that of the Government of Canada; yet during the Commercial Crisis of 1847, Exchequer bills, though bearing an unusually high rate of interest, fell to 3 s. discount. During the fever of the Railway speculation of the preceding year, the expediency of an enactment for extending circulation, by the issue of notes on the credit of securities of this description, had been urged upon the Government with the view of facilitating the completion of the works then in progress; but it is now abundantly evident, that, if at the time of the crisis the circulation of this country had rested on no sounder basis, an utter derangement of the monetary concerns of the kingdom must have ensued, and the disasters of that calamitous year would have been fearfully aggravated.

It may be that there is no reason to apprehend at present any such speculative demands for the expansion of the circulation in Canada, as those which have arisen in past times in the United Kingdom. But the Government of that Province should bear in mind that they are legislating for a country of great though imperfectly developed resources, and

that, while it may be expedient to foster the legitimate impulse to improvement arising from the increase of its trade and capital, by adopting a cheap circulating medium, it would be a fatal mistake to expose its progress to the reverses which invariably follow too great an extension of the facilities which may be afforded by the use of paper money.

The Canadian scheme no doubt offers the collateral advantage referred to by the Inspector General, of enhancing the value of the Government debentures by creating a new demand for them; but the price thus raised by a fictitious demand would be dependent on the maintenance of the circulation based on the deposit of the securities, and the credit of the Government debentures would be affected by changes in the state of the monetary concerns of the Province, to an extent far exceeding the fluctuations which arise from the varying demands for investment. In proportion as those securities might derive increased though temporary value from expansion of the circulation in times of prosperity, they would be exposed to the risk of depreciation in the event of the necessity arising for bringing them into the market to provide funds for the payment of bank-notes. The prices of public securities must indeed, under all circumstances, be subject to impressions from the state of trade and circulation; but, not only would this effect be increased by making such securities the basis of the circulation, but the public credit of the Province might be injured by partial and incautious operations of the Banks, though the general trade might be in a healthy state, and the ability of the Government to meet its engagements unquestioned. Even in this limited view of the case, therefore, it would be desirable to provide some security against an excess of issues on the credit of a deposit of these debentures.

My Lords are not insensible to the difficulty of prescribing, under the present circumstances of the circulation in Canada, a fixed amount of notes to be issued on the credit of securities. They are, however, of opinion that the main object of obtaining protection against over issues might be, in a great measure, secured by providing for the constant maintenance of a proportionate reserve of specie against the amount of issues, under the supervision and controul of the Government, and the frequent publication of the assets and liabilities of the Banks.

It appears to my Lords that facilities for the indefinite extension of Banks of Issue cannot safely be conceded without some precautions of this nature.

The right of inspection conferred on the Government by the Act will be of little real avail if unaccompanied by any power to controul the proceedings of the Banks in regard to the circulation, and the annual accounts to be laid before the Legislature will not afford the check on the proceedings of the Banks, which is obtained by frequent publicity of the state of their transactions, especially of those which relate to the issues of notes and the reserve of specie. The arrangements which have been adopted of late years in this country for the publication of the assets and liabilities of the Bank of England, and of the returns relating to the circulation of the Country Banks, have been attended with the most beneficial effect, and there can be little doubt that the confidence which was generally reposed in the Banks at a time of great Commercial difficulty, was mainly owing to the knowledge possessed by the public of the sound state of the circulation.

With regard to the amount of the reserve of specie which it may be proper to require, my Lords are aware that in the management of a Bank of Issue, the proportion of bullion which it may be expedient to retain to meet the notes in circulation, must vary

Appendix
(Z. Z.)

28th July.