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THE MONETARY TIMES,
AND TRADE REVIEW.

TORONTO, CAN. FRIDAY, MAR. 6, 1874

SIR F. HINCKS ON THE DOMINION
NOTE ACT.

Resuming the consideration of this subject, we have now to notice Sir F. Hincks' reference to our own statement, that the issue department of the Bank of England was to act as a mere machine, on which he bases an argument that the issue and redemption of Bank of England notes was carried on independently of the Bank. No inference could be farther from the mark. Sir Robert Peel doubtless expected the issue department of the Bank to act as a machine; and he expected many other things from the passage of the Act of 1844 which never came to pass: for example, that England would never again be troubled by any great panic. But Sir R. Peel forgot, and Sir F. Hincks seems to forget too, that no machine will work without superintendence. The steam engine is the most perfect machine ever invented, but what would become of the engine without the engineer? Every machine requires a directing mind to watch it. In the case of the steam engine, there are contrivances attached for testing the pressure of steam, the supply of water and what not, and it is the business of the engineer to notice these indications and see what is required from time to time.

Now, granting for the purpose of argument that the issue department of the Bank acts as a machine, we must then pursue the analogy and ask, Who superintends it? Who is responsible for it? Who

keeps it in order? Who sees that the supplies required for the performance of its functions are kept up? To these questions there is but one answer: The Directors of the Bank—not the Government—not the Chancellor of the Exchequer—but the Governor and Directors of the Bank of England are responsible for the management of their issue department. In this they are governed by an Act of Parliament; but in the issuing and redeeming of notes all the Banks of Great Britain are governed by Acts of Parliament. So are all the Banks of Canada; but, as the notes of our Banks, though issued in conformity with an Act of Parliament, are not the notes of the Government, so the notes of the Bank of England are not notes of the Government. These notes bear on their face whose obligation they are; and it is a significant fact that, though an Act of Parliament was passed constituting a separate issue department within the Bank, the holders of notes have no preferential claim to the securities held by that department. When, then, there is a large drain of gold from the issue department, it is the Directors of the Bank who feel the responsibility of the position, and who can act in accordance therewith by raising the rate of discount.

The reference made by our critic to the returns of the Bank at two periods of ease and panic respectively, conclusively proves the soundness of our position. These returns show that the amount of Bank of England notes in the hands of the public were nearly the same after the panic of 1866 as they were in the year 1871, when money was extremely easy. But Sir F. Hincks, had he looked a little further, would have noticed an enormous difference in the amount of gold held at these two periods, respectively. In 1871, the Bank held £26,900,000 of specie. In 1866, the Bank only held £11,800,000! Here is the real key to the condition of the Bank and the country, in the fact that £15,000,000 less gold was on hand at the former period. And it is equally significant to compare the notes held by the banking department at these two dates. In May, 1866, the banking department had only \$800,000 of notes left. In July, 1871, that department had \$16,000,000. The difference is \$15,000,000—precisely the difference in the amount of gold held by the issue department at the two periods.

Nothing could show more clearly how closely the two departments of the Bank are connected; and nothing could prove more conclusively the position we have taken, that persons can only draw gold from the issue department by first having dealings bringing them into connection

with the banking department. They discount paper or draw down deposits at the banking department of the Bank of England, or they do one or the other with banks keeping an account at the Bank of England. Either operation will give them the power of drawing Bank of England notes, and, with these in hand, of obtaining gold from the issue department. Exactly as we pointed out some weeks ago.

Let us further illustrate our point by comparing the deposits and discounts of the Bank at the two periods. In May, 1866, the Bank stood thus:—

Deposits.....	£24,600,000
Discounts	£31,000,000

In July, 1871—

Deposits.....	£32,000,000
Discounts	£18,000,000

These figures are surely enough. The farther we examine the more clearly does it appear that the issue department of the Bank is inextricably associated with all the other operations carried on within the walls of the building.

One word more as to the principle of an issue of Government notes, viz.: the danger of an over-issue by a Finance Minister in a time of deficient revenue. Sir F. Hincks has doubted whether such a thing would be possible. We take leave to say, in reply, that had he been in Canada from 1860 to 1864, he would not now doubt it at all. When the revenue was regularly deficient, when the credit of the country was steadily going down, when successive finance ministers were driven to their wits end and harassed beyond measure to meet current obligations, and when the London agents of Canada could write to Sir A. T. Galt pretty much as a Bank addresses a defaulting debtor, we say the temptation to meet the case by passing an Order in Council, authorising a further issue of notes than was contemplated by Parliament, would have been irresistible. In proof, let us ask how many times a Finance Minister has expended moneys without Parliamentary authority, and obtained concurrence afterwards. It is as certain as the tides that this course would be taken if once the pressure were strong enough. And this course once taken, we should be in the most imminent danger of an irredeemable currency.

On the second branch of our subject, viz., the manner in which the Act has been administered, our observations will be as brief as possible.

1. Sir F. Hincks admits that to hold bank balances as part of the government reserve is not of the essence of the scheme, and may be given up.

We are convinced that the public interest