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AND INSURANCE CHRONICLE.

DEVOTED TO FINANCE, COMMERCE, INSURANCE, BANKS, RAILWAYS, NAVIGATION, MINES, INVESTMENT,
PUBLIC COMPANIES, AND JOINT STOCK ENTERPRISE.

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SUBSCRIPTION,
\$2 YEAR.

Mercantile.

Gundry and Langley.
ARCHITECTS AND CIVIL ENGINEERS, Building Sur-
veyors and Valuers. Office corner of King and Jordan
Streets, Toronto.
THOMAS GUNDRY. HENRY LANGLEY.

J. B. Boustead.
PROVISION and Commission Merchant. Hops bought
and sold on Commission. 82 Front St., Toronto.

John Boyd & Co.
WHOLESALE Grocers and Commission Merchants,
Front St., Toronto.

Childs & Hamilton.
MANUFACTURERS and Wholesale Dealers in Boots
and Shoes, No. 7 Wellington Street East, Toronto,
Ontario. 28

L. Coffee & Co.
PRODUCE and Commission Merchants, No. 2 Manning's
Block, Front St., Toronto, Ont. Advances made on
consignments of Produce.

J. & A. Clark,
PRODUCE Commission Merchants, Wellington Street
East, Toronto, Ont.

D. Crawford & Co.,
MANUFACTURERS of Soaps, Candles, etc., and dealers
in Petroleum, Lard and Lubricating Oils, Palace St.,
Toronto, Ont.

John Fiskin & Co.
ROCK OIL and Commission Merchants, Yonge St.,
Toronto, Ont.

W. & R. Griffith.
IMPORTERS of Teas, Wines, etc. Ontario Chambers,
cor. Church and Front Sts., Toronto.

H. Nerlich & Co.,
IMPORTERS of French, German, English and American
Fancy Goods, Cigars, and Leaf Tobaccos, No. 2 Adelaide
Street, West, Toronto. 15

Hurd, Leigh & Co.
GILDERS and Enamellers of China and Earthenware,
72 Yonge St., Toronto, Ont. [See advt.]

Lyman & McNab.
WHOLESALE Hardware Merchants, Toronto, Ontario.

W. D. Matthews & Co.
PRODUCE Commission Merchants, Old Corn Exchange,
16 Front St. East, Toronto Ont.

R. C. Hamilton & Co.
PRODUCE Commission Merchants, 119 Lower Water
St., Halifax, Nova Scotia.

Parson Bros.,
PETROLEUM Refiners, and Wholesale dealers in Lamps,
Candles, etc. Waterrooms 51 Front St. Refinery cor.
River and Don Sts., Toronto.

C. P. Reid & Co.
IMPORTERS and Dealers in Wines, Liquors, Cigars and
Leaf Tobacco, Wellington Street, Toronto. 28.

W. Rowland & Co.,
PRODUCE BROKERS and General Commission Mer-
chants. Advances made on Consignments. Corner
Church and Front Streets, Toronto.

Reford & Dillon.
IMPORTERS of Groceries, Wellington Street, Toronto,
Ontario.

Sessions, Turner & Co.,
MANUFACTURERS, Importers and Wholesale Dealer
in Boots and Shoes, Leather Findings, etc., 8 Wel-
lington St. West, Toronto, Ont

Financial.

PRINCIPLES OF BANKING.

A paper on this subject which appeared in the
May number of the *Bankers' Magazine*, disposes
of many prevailing misconceptions respecting a
state currency. The treatment of the subject is
exhaustive, and although the paper is long we
shall endeavour to find room for the most useful
portions of it. The attention of all interested in
Banking is called to its careful perusal.

The writer, after referring to the necessity for a
common medium of exchange of property, and
the naturalness of gold and silver as mediums of
exchange, shews that all convertible paper curren-
cies are simply representatives, and entitle their
possessor to a corresponding amount of loanable
capital, either in the form of coin or merchandise—
which is the equivalent of coin—and are the
instruments by which such capital is loaned or
transferred from hand to hand; and further, as
notes and credits of a Bank issued in excess
of its nominal and actual capital serve as the in-
struments of payment equally with specie, their
use therefore, in such capacity allows the whole
amount of the loanable capital of a community to
remain—constantly and in equal volume—in the
hands of producers and new industries to be en-
tered upon in anticipation of the closing up of old
ones. The writer then proceeds:

"Banks are the lenders of capital, not the in-
vestors of it: the moment they invest, they so far
cease to be banks in the ordinary acceptation of
the word. They may possess abundant property,
but not a dollar of loanable funds. The only way
in which they can remain banks—that is, preserve
their capital in a loanable form—is to make their
loans to such parties *only* as will be able to repay
them *in kind*—either in their own notes and cre-
dits, or in default of these, in coin. Now the
ability of borrowers to make payment in such man-
ner, will depend entirely upon the character of
the property for which their bills were given.
Bills given for merchandise entering into constant
and general use, such as food, clothing and the
like, are almost certain to be paid, as the purchase
and consumption of the property they represent
is not a matter of choice, but of a necessity.
What is daily consumed must be daily paid for.
There is, on the other hand, no such certainty
whatever, that other articles, even of indispensa-
ble nature—such as houses and lands, to take a
familiar illustration—can, within a given period
be sold for ready money. The purchaser of such
property may have to wait for months, or years
even, if he would avoid sacrificing it, before being
able to find a party who will take it off his hands;
and consequently, unless he has other means more
easily convertible, may be utterly unable to
pay the bills given as purchase-money. On the
other hand, the daily and uniform purchase of
food and clothing does not depend upon fancy or
caprice, but upon means of consumers, which on
an average always exceed their immediate wants.
Banks, therefore, in discounting such bills run
hardly any other risk than the integrity and ca-
pacity of their makers. It is the office of the lat-
ter to distribute such merchandise to consumers,
and to collect and pay over the proceeds of the
same. The proper office of the bank—in fact, its

only legitimate function—is to make the producer
an advance, so that he may not be obliged to sus-
pend operations to await the slow process of the
distribution and sale of his merchandise to the
consumer. It is only when it confines itself to
such transactions—that is, when it confines its
loans to business paper—that it is conducting its
operations in a manner that can, by any possibil-
ity, return its capital to it in the original loanable
form.

It is for the reason stated that banks, whose
capital has consisted of real estate, or in fact, of
any other kind of property than gold and silver,
or of the promises, speedily to mature, of solvent
parties to pay them, and given for merchandise of
equivalent value, entering into constant consump-
tion, have all proved disastrous failures. Neither
real estate, nor public securities can be eaten,
drunk or worn; nor exported to foreign countries,
(except the latter to a limited extent), and conse-
quently cannot be relied upon, with any degree of
certainty, to pay a debt presently maturing at
home or abroad. The means of a bank must be
in such form as to be convertible, on demand, into
the universal currency of nations—into that which
will, by direct exchange, purchase tea in China,
coffee in Brazil, sugar in Cuba, iron in England,
and wines and silks in France, as well as articles
of domestic production. Such conversion can be
seasonably made, only when the notes and credits
issued represent property of a kind that will be
speedily consumed, or exchanged for coin, by
the laws of trade, and the necessity to support
existence; or when, by being saleable in foreign as
well as domestic markets, it can supply bills
wherewith to meet any foreign indebtedness that
may have been created.

*Loanable capital, therefore, must consist of coin,
or of articles of consumption, the equivalents of
coin in value.*

Time is another important element to be con-
sidered, if a bank would preserve its capital in a
loanable form. The borrower should be always
compelled, by the early maturity of his bills, to
keep *pay-day* constantly in view, otherwise, he
will be liable to misapply or squander the proceeds
of his loan. Suppose a loan be made to a manu-
facturer for twelve months, to enable him to pur-
chase material to be used in his business. The
chances would be that he would employ the greater
portion of the intermediate time in pushing his
enterprise, without sufficient reference to what
other manufacturers were doing, or to the wants
or tastes of the public; so that when the day of
payment came round, his means would consist of
a large amount of unsaleable merchandise to repre-
sent the capital borrowed. On the other hand,
loans made on short time compel the borrower to
shape his industries and enterprises, so that his
products will be suited to the market, and find a
ready sale. Short loans enforce industry and
thrift and competent management; while long
ones are almost certain to involve the bank in
loss, or convert its loanable capital into fixed and
often unsaleable property.

It follows from what has been demonstrated,
*that any person possessing loanable capital is com-
petent to issue a convertible currency; and, by ne-
cessary consequence, that only those parties who
possess such capital are competent to supply such
currency; and that currencies which are not evi-
dences of loanable capital are, by their very nature,*