

## MR. GALT'S RESOLUTIONS.

THE "resolutions" submitted by the Hon. Mr. Galt in Committee of Ways and Means proposing the issue of Government legal tender notes, and submitting an offer to the banks for the surrender of their power to issue notes, comprehend a measure of very great importance, and one which seems to be unnecessary in the present condition of this Province. The extraordinary change it would produce in the financial and monetary affairs of Canada, is of a character not to be advocated or introduced without mature consideration, and not to be adopted by hasty legislation. The second draught of these resolutions being modified in some respects differs from the first, yet a deficiency exists in the want of provisions to govern a multitude of conditions that might arise in the practical working of the proposed scheme with the banks. The "resolutions" are altogether too loose and undefined in their character for legislative purposes, dealing with, and governing a matter of such vast importance. They give indefinite authority to the Governor in Council to make arrangements with the banks; and although reference is made to making arrangements with any, or all the chartered banks, it is evident that for the present, at least, only one or two banks will accept them.

Resolution No. 1 proposes the issue of "an amount not exceeding five millions." No. 2 declares:—

"It shall be lawful, over and above the five millions, and the amount necessary to redeem the debentures held by the Banks surrendering their circulation, to cause Provincial notes to be issued to any chartered bank of the Province from time to time, upon its requisition, and upon payment for the same."

It is we perceive that the issuing power is unrestricted. Except that after the mode of credit for debentures held by the Banks, which is provided, the notes beyond that point must be bought with coin. The Government might be placed at a disadvantage in being obliged to receive funds which it may not at the time require.

It does not appear, from any serious efforts made by the Finance Minister, that he was reduced to the experiment contemplated in these resolutions, to obtain what must be regarded as a small amount when considered in connection with the resources of the Province.

The total amount required to be provided for during the year, as stated by the Finance Minister, is \$6,117,100, in which are included \$1,500,000 debentures due the Bank of Montreal, and \$3,152,000 floating debt due to England 1st July, and come Wexland Canal debentures. Now this is not a sum, we take it, to frighten a gentleman of the great resources of mind which are acknowledged to belong to the present Finance Minister of this Province, and we have therefore to look in another direction for the chief objects of the scheme. The question at once arises, is it safe and profitable for the Province to surrender into the hands of the Government the control of the financial and monetary affairs of the country, which these resolutions would give to it? As far as this view involves the political consideration of the matter, we shall leave it to the common sense of the people to decide whether the power which the resolutions would give might not be abused. We have even in that Conservative country, England, in the history of the Bank of England, an example to show that specie payments may be suspended by an order in Council, and we find that the power to issue notes has been greatly abused under those orders. The abuse of the same privilege by the Bank of Ireland led to widespread bankruptcy and individual ruin. The temptation to this kind of abuse is incident to all Government legal tender paper, and is a very strong objection to the scheme.

If the Bank of Montreal became the fiscal agent of the Government under the new scheme, with her large paid-up capital, the power it would give to her over the other banks would be objectionable. She would have complete control in monetary affairs, and could at pleasure, by contracting or expanding her accommodations, cripple the usefulness of the smaller institutions, obliging them to keep at all times an unnecessarily large reserve on hand against deposits, and in this way she would probably obtain the business of their most valuable customers, rendering it impossible for them to declare satisfactory dividends to their stockholders. The banks requiring notes for circulation, would have to deposit gold with the Bank of Montreal, so that this institution would soon become in possession of nearly all the specie in the country in

spite of the efforts of other banks to prevent it. This result would take place from its being the deposit bank of the Government, and the usefulness of the other institutions would be curtailed, and their circulation greatly lessened.

The scheme is objectionable, inasmuch as it contemplates the payment, not only of the \$5,000,000 due this year, but also \$2,250,000 bonds now held by the banks, which the law obliges them to hold in the requirement that one-tenth of their paid-up capital shall be held in Government bonds. The loss to the country on these bonds, by redeeming them at present with legal tender notes, would be quite large, as they draw only 5 or 6 per cent interest, and can remain as they are at the pleasure of the Government. Now, in the redemption of these notes under the "Resolutions," there will have to be paid 5 per cent. commission on the amount, and one per cent. on the circulation of the paper given to redeem them. This is equivalent to paying six per cent. for the privilege of redeeming bonds not due, or which there is no necessity to redeem, which amounts to the same thing.

It will be seen that the Government proposes to pay this amount, \$2,250,000, or as much of it as is held by the banks entering into the contemplated arrangement, and 1,500,000 due the Bank of Montreal by legal tender notes, and also to issue sufficient notes for which she is to obtain cash to pay the floating debt of \$3,152,000 due in England.

Now, assuming that all the Banks had entered into Mr. Galt's plan, and he had redeemed the \$2,250,000 bonds they held in accordance with the provisions of their respective charters, that they had furnished \$3,152,000 due in England, and that \$1,500,000 were paid to the Bank of Montreal, there would then be in circulation \$7,002,000 to take the place of the circulation of the banks which had been surrendered. If the Government desired to put more in circulation, she might do so to the extent the banks could afford to pay, for it must be remembered they have their own notes to redeem, and thus the reduction of the circulation would be enormous. Would the Government be justified in putting in circulation more notes than the amount of its necessities demanded as the demands became due, paying a commission of six per cent. on what they did not presently require.

We cannot see, after redeeming their own paper, that the banks would have much surplus left to buy Government notes with. It may be said the average would be as now. It is never so under any new change in the currency of the country. We may certainly estimate that \$2,000,000 of specie will be hoarded for some time, a great deal of which may find its way out of the Province, and never again return to the vaults of the banks. Therefore we may estimate, (a large estimate,) that six millions would be the utmost purchasing power of all the banks, which, added to the \$2,000,000 paid for debentures referred to above, would give under nine millions of a circulation. Under all circumstances, we think if this scheme should go into operation, the banks will have as much as they can attend to in providing for deposits, by working up all the exchanges and credits at their command. The contracted circulation will produce a high money market, and specie will flow to New York for exchange on England.

In whatever light we look upon this measure of the Finance Minister, it appears fraught with danger.

It is a very dangerous business to connect the affairs of the Government with that of the Banking interests of a country. No bank was ever established with more caution, nor its affairs conducted with more laudable skill, than the Bank of France, yet, in consequence of the interference of the Provisional Government of 1848, which decreed that the Bank should make certain advances to the Government and to the city of Paris, she was obliged to suspend payment, and the suspension was legalized by the Government; and all the departmental banks, by a decree, became branches of the Bank of France.

If all these risks, which are only the financial view of the question, be taken merely for the purpose of raising the amount stated by Mr. Galt, there is no equivalent to offset the cost and risk of the scheme. There is nothing to be seen in the scheme beneficial to the Government. On the contrary, a great loss is seen to begin with; and inasmuch as it is not the purpose of the Government to become a discounting institution and a dealer in exchange, there is no hope of recovering the first loss. A bank would never be established if it had to depend on its own capital, it makes no profit in its capacity of bank until it employs the

capital of others in discounting and exchange operations, which are made gradually and safely, predicated upon the average deposit balances remaining on hand belonging to customers.

The diminution in the circulation which the new arrangement will produce may cause great trouble. The facilities offered to the commercial and financial condition of a country by means of the establishment of banks is equal to four times the amount of actual coin on hand. With eight millions of coin in the country, the facilities afforded would reach to twenty four millions more than would be possible were there no banks, and specie the only currency in existence. The ever changing surplus is made available in agriculture, commerce, and manufactures; and all departments of industry derive a benefit. With the changes about to be inaugurated, the banks cannot put into circulation an amount of bills beyond what the requirements of the Government should demand; and at harvest time, when it might be necessary to have fifteen millions' circulation for the movement of crops, the matter would be impossible, in the very nature of the arrangement, if it is to be carried out as represented in the resolutions; and if not, it is highly important that the country have a more thorough understanding of the measure. The resolutions would have the effect of forming a stated circulation of nine millions, instead of eleven to fifteen millions as heretofore. To the unpractised mind in financial affairs, the difference here apparent will only seem to be that which exists between the amount of the average circulation of the banks as formerly up to the present time, and the amount of the circulation of Government paper; but we can assure them that, estimating all the ramifications of trade and exchange of money from one person to another amongst the whole people, the true estimate would be equal to four times that amount, and would be just so much taken away from the facilities now afforded to agriculture, commerce, and manufactures.

Leaving the political tendency which might arise out of the Government having control of the financial and monetary affairs of the country to be considered by the people, we must regard the scheme financially and commercially as unsafe and impolitic.

However strong the arguments may be with regard to the necessities of the Government, the vital interests of the country at large, in its present and future, must be considered also. Capital would be prevented from coming into any country where such monetary regulations exist as are contemplated under Mr. Galt's scheme. With Government legal tender notes the only paper in circulation, the payment of which, by an order in Council, might at any time be suspended, the risk attending the investment of capital would be deemed an obstacle presenting unknown consequences in the future, which would deter capitalists having money to invest. Canada is a new country, where the fields for enterprise and the investment of capital are almost unoccupied. Money is the chief thing that is wanted for the opening of farms, the erection of manufactories, and the extension of commerce; and capital, like any other commodity, will flow to a country where it is needed, and it will recede from a country where its investment is attended with uncertainty or danger.

If an emergency should arise when the Government should think it expedient to suspend their specie payments, and issue notes to the amount of its wants, they, being the sole judge of that exigency, can do so by an order in Council without consulting the people. Those having capital to invest in this country will regard this dangerous power with fear, and may remember the example before them in the neighboring republic.

Whilst engaged in writing the foregoing, the news of Mr. Galt's resignation was received. We have also his speech in Parliament on Tuesday night, the 7th inst., in which he remarks:

"The Government had instructed him to state that they had considered two objections to the scheme which alone appeared to them to have any weight. The first was the lack of elasticity should the whole currency become that of the Government. To meet that they proposed to limit the issue to eight million dollars, leaving the rest to be the usual bank circulation. They further proposed to alter the conditions of the debentures to be issued, so as, if possible, to secure the necessary sum through them. They would be two years' debentures, bearing 7 per cent. interest, payable half-yearly, and would be sold by the Government up to \$5,000,000 in local money. The market would absorb so much, and no commission would be allowed to the banks on their sale. But he was also authorized to state that Government still persisted in