

mand than usual. This surplus is held entirely in the ten Western States, viz: Michigan, Minnesota, Wisconsin, Ohio, Indiana, Illinois, Iowa, Tennessee, Missouri, and Kansas."

The *Tribune* advises farmers to hold on. We persist in our advice to sell. The great surplus crop in Canada, which the *Tribune* seems to ignore, will more than supply the demand arising from any deficiency in other quarters. Those who are late in selling will likely seek in vain for better prices.

—A notice has been issued by the Public Works Department, that, to enable the work on the Welland Canal to be prosecuted during the winter, all the water power will be stopped from early in December till 3 May, 1878.

—A by-law has been passed in Ottawa ordering that in the construction of all houses in the future the shingles must be laid in mortar.

BANKERS' CONVENTION.

THE AMERICAN BANKERS' ASSOCIATION, NO. 217 BROADWAY,

New York, September 7th, 1877.

SIR FRANCIS HINCKS,

DEAR SIR:—

This Association holds its Annual Convention on the 12th, 13th, and 14th inst. in this city, at the hall of the Young Men's Christian Association, corner 23rd Street and 4th Avenue. We shall be glad if you will attend and take part in our discussions. On Wednesday, the first day of the Convention, the subject of resumption will be discussed, and it will gratify our Association very much if you will favor us with a paper on that subject. As was suggested to you last night by our Assistant Secretary, Dr. Marshall, a brief historical sketch of the Canadian banking system, with the arrangements for note issues, and of other similar points connected with the monetary system of the Dominion, would be very instructive and acceptable to the members of the Convention, and would very appropriately precede any suggestions in regard to resumption in the United States with which you might favor us.

Yours truly,

JAMES BUELL,

Secretary.

MR. PRESIDENT AND GENTLEMEN:—When I left Montreal a few days ago on a short tour, I had no idea that I should have an opportunity of attending your Convention, and of taking part in the discussion of questions in which for upwards of forty years I have taken a deep interest, and to the study of which I have devoted much time and thought. Permit me to thank you most sincerely for your courteous invitation, and to assure you that I highly appreciate it. In accordance with the suggestion of your Secretary, that I should preface the few observations that, with your permission, I shall make on the subject immediately under discussion with some account of our Canadian monetary institutions, I shall endeavor as far as possible, within the limits to which I am necessarily confined, to touch on those points which seem to me worthy of notice. Our Canadian banking system was modelled on that which formerly prevailed very generally in the United States. Banks were chartered by the

Legislature, with paid up capitals and authority to issue notes redeemable in specie on demand. The charters contained what was known as the double liability clause, each shareholder being liable to the creditors of the chartered banks to an amount equal to his paid up stock. There was a small tax on bank issues, and the banks were required to hold ten per cent. of their capital in government securities. A short time prior to the Confederation of the British Provinces into the Dominion of Canada in 1867 an attempt was made by the government to substitute a government paper currency for that of the banks, and inducements were held out to the chartered banks to surrender their right of issue and to use the government notes, which were legal tenders. The Bank of Montreal alone accepted the terms proposed by the government. In the year 1869 the bank charters expired, and a renewed attempt was made to compel the banks to base their issues on government securities very much on the plan under which the National Bank issues of the United States are regulated. When the government proposition was submitted to Parliament it was found that the opposition to it, especially from the Province of Ontario, was so strong that it would be impossible to carry the bill, which was therefore withdrawn for the time and the charters were all renewed for a year. It was during the recess of Parliament in 1869 that I returned to Canada, after an absence of about fourteen years in the West Indies in the service of the Crown. The Minister of Finance, Sir John Rose, had only a few weeks previously intimated his intention of withdrawing from public life and leaving Canada to reside permanently in London. Other vacancies in the government occurred about the same time, and a few weeks after my return to Canada I was invited to join the government. When I consented to do so I was in hopes that the Finance Department would be filled by a gentleman well qualified to deal with the banking question, the settlement of which could not be postponed. When, however, the arrangements were completed I became Minister of Finance, an office which I had previously filled during a period of seven years, terminating about fifteen years before the time of my resuming it. I gave immediate attention to the bank question, and after conferring frankly with the representatives of the principal banks I was able to mature measures which, having been sanctioned by the First Minister and my other colleagues in the government, were approved of by Parliament and became law.

HISTORY OF THE NOTE SYSTEM.

The Dominion note system is so connected with the Banking Act, which is a general measure applicable to all the chartered banks, that it will be convenient to notice them together. Prior to 1869 the government had full authority to issue notes of all denominations, but it had no means of circulating them other than under the then subsisting arrangement with the Bank of Montreal, which it was desirable to terminate, as the other banks were unwilling to concur in it. I proposed to the banks that they should consent to give up their issues of small notes under \$4, which should in future consist exclusively of

Dominion notes. I further proposed that instead of holding their reserves exclusively in gold they should hold one-half, or never less than one-third, in Dominion notes, it being understood that the government would not issue the denominations between \$50 and \$4. The government on its part agreed to abandon the tax on bank issues, and also the requirement that the banks should hold government securities to the extent of one-tenth of their capital. I may observe here that the tax on bank notes was the only one imposed upon the banks by the Dominion Parliament, which never entertained for a moment the idea of taxing bank deposits or bank capital, nor, indeed, am I aware that such taxes are imposed in any other country but the United States. It must be borne in mind that the Canadian banks are not required to hold any special percentage of their circulation and deposits as a reserve. Statements are made monthly to the government, and published without delay, but the amount of reserve is left to the discretion of each bank. The Dominion legal tenders are redeemable in gold by the assistant receivers general at Montreal, Toronto, Halifax and St. John, N.B. It may be supposed that such an arrangement would be found inconvenient, as the Toronto notes are a legal tender at Montreal, Halifax and St. John, though only redeemable in Toronto. In practice no inconvenience has been felt, and though I think a single office of redemption has much in its favor, there seems no probability of the present arrangement being disturbed. The Dominion \$1 and \$2 notes are circulated to the extent of about three millions of dollars, but the larger notes are kept by the banks exclusively as reserves. The aggregate circulation of Dominion notes is about \$11,200,000. \$7,200,000 are based on government securities, and for all the issues exceeding that amount, the government is required to hold either gold or bank deposit receipts, the latter being only permitted when the gold is in excess of the percentage required by law, which varies from 25 per cent. upwards, increasing as the circulation increases. There is not the slightest tendency to inflation in the government circulation. The banks naturally issue their own \$5s and \$4s in preference to the Dominion small notes, which only circulate to the extent of the public demand. The large notes are not kept in excess of the requirements of the banks. The chief point of difference in our system from yours is that the banks are allowed to circulate notes to the extent of their paid up capital, at their discretion, and you will observe that the assets held against that liability, in excess of the reserve, consist of "bills discounted." The National Bank assets held against their bank note liability, consist of government bonds deposited with the treasury. This will explain the objection entertained both by the banks and the public, to the various propositions made from time to time to substitute government securities for commercial paper. Another important difference in our system from yours is that nearly all our banks have a large number of branches and agencies: while your practice is to have no agencies. I note this difference in our system from yours without attempting to discuss the merits of the two systems. The agency system necessitates vigilant inspection, and certainly has its weak