

reasonably hope that the rate will be still further reduced.

There are one or two remarks unavoidably suggested by these figures and facts. In the first place, the pressure has been of much longer duration than on any former occasion, and probably the very low average of the public deposits has had some little effect in increasing this. The circulation is keeping up very high, and, as we have often explained, a high circulation indicates a general distrust. It shows that bankers and others are hoarding notes to provide for any possible contingency. It is also worthy of note that neither in 1847 nor 1866 was it necessary for the bank actually to transgress the Act of 1844. The bank only acted in each of these years as if no such Act was in existence. In 1867 the Act was transgressed for eight days.

The returns from the Bank of England for this week, when compared with those for last week, present the following results:—

	Amount.	Increase.	Decr'se.
Public deposits.....	£ 3,364,000	£ 193,000	.....
Private deposits.....	18,126,000	465,000	.....
Government securities.....	10,712,000	634,000	.....
Other securities.....	25,224,000	.....	£932,000
Notes in circulation.....	24,540,000	.....	502,000
Bullion.....	14,151,000	529,000	.....
Reserve.....	.....	1,031,000	.....

It will be seen that whilst the deposits have increased £660,000, the securities have decreased £300,000, and the result has been an increase in reserve of upwards of £1,000,000.

The following are the Bank of France returns:—

	Increase.	Decrease.
	Francs.	Francs.
The Treasury Balance.....	.....	1,400,000
The Current Accounts.....	.....	1,500,000
The Advances.....	.....	800,000
The Commercial Bills.....	.....	27,000,000
The Notes.....	.....	11,126,000
The Cash.....	5,334,000	.....

This week is again favourable, and the cash on hand is now some £29,300,000, or more than double the amount held the Bank of England.

There has been a larger business done this week in Liverpool than last week, and the sales have amounted to 85,200 bales, of which the trade has taken 57,300 bales. The stock is reduced 16,200 bales, and is now estimated at 892,300, against 470,800 last year. A report has been published to-day by a Commissioner appointed by the Indian Government to examine into the prospect of the cotton in America. This report is much the most unfavourable that has yet appeared, and, indeed, he does not estimate the yield at so much as one-half of what has been stated. Estimates such as these always, however, require to be used with great care, and if not so used, are even more dangerous than mere guess work. As yet, no effect has been produced on the Liverpool market, which was dull to-day. Manchester trade has been little, if at all influenced by the reduction in the bank rate of discount, and prices yesterday were, if anything, a little easier.

The funds during the week have been steady, but there has been less improvement in price than had been expected. Railway stocks are generally firm, with an upward tendency. Canadian shares are also firm.

Aug. 18, 1866.

[PER SCOTIA.]

The Bank of England has again reduced its rate of discount to 7 per cent.; and the improvement of nearly £1,000,000 in the reserve not merely amply justifies this reduction, but clearly points to a further movement in the same direction. Some of the best informed commercial journals seem to think that the discount rates will go down, as it did after former panics, to 2½ or 3 per cent. But there are two considerations to which we think sufficient attention has not been paid by the persons who advocate this opinion. The first is that although the trade of the country has suffered, and is suffering from the injury to credit, still there is not anything like the stagnation which prevailed after the former panics of 1847 and 1857. There are, indeed, now symptoms of a greater contraction of trade than seemed probable a month or two ago, but it is most likely that the subsidence of the panic which was scarcely at all a mercantile one, and which did not break up the ordinary channels of business, will be followed by a speedy recovery of trade, and a consequent demand for accommodation to carry on that trade. The other consideration is that we are now entering upon that period of the year when the trade is at its fullest development, and when the discount rate rules highest. The former panics occurred

about six months later in the year, and the very low price of money then was coincident with the period when it is always at its cheapest. This point was recently urged in a very able article in the *Economist*, and to any person who has been accustomed to watch the periodical fluctuations in trade, its importance will be very apparent.

It has been the custom to speak of the recent panic as a credit one, and not a mercantile one, and it may be worth while to point out what are the chief causes which have produced this panic. It will be of especial interest to Canadians, as it will show them how secure they are from the dangers which beset English Banking, and how good and safe their system is.

The first broad fact which would attract the attention of any enquirer into the English system, is the enormous dividends, 20 and 30 per cent., paid by some of the banks, coupled with the heavy failures and losses among others. In England, banking is either very good or very bad. The Banks either pay enormous dividends, or they help to ruin whole districts of country. It would be out of place here to go into any lengthened discussion of the remote causes of this. It will be sufficient for our purpose to find out the immediate causes. 1st. Their capital is very small when compared with their liabilities; and, 2nd. They keep very small specie reserves. And now a word or two upon each of these topics.

1st. Their capital is very small when compared with their liabilities. Taking the position of the 15 joint stock Banks, which did business in London, just before the panic broke out; we find that whilst their paid up capital was £9,766,000, and their guarantee fund £2,467,000, their liabilities amounted to £99,762,000—in other words, their liabilities were more than 10 times their paid-up capital, and more than 8 times the amount of their paid-up capital and guarantee funds combined. The danger of this will be more apparent when it is considered that a banker's liabilities are mainly composed of deposits repayable, either on demand or at very short notice, whilst his assets may largely consist of bills of exchange, discounted for his customers, and which bills it would injure his credit very much, either to discount or to obtain advances upon. In such circumstances, one of a banker's main resources, in case of pressure, must be the repayment which he receives day by day, of the bills which he holds, and the larger the amount of these bills which have been discounted out of capital, (so to speak) the easier will his position be; the more readily will he be able to meet any demand upon him, and the more willing will he be to continue to make advances to his solvent customers. It is the distrust, which, under the present system, the banker feels of his own position, which makes him refuse the customary accommodation to parties who are quite undoubted, and thus spreads a feeling of insecurity and panic over the entire mercantile community.

The other point to which we have referred, is the small amount of cash, that is coin, or its equivalent, under the Act of 1844, Bank of England notes, which the banks keep as a reserve. It is obvious that as a banker's liabilities are all payable in cash, he must keep an amount of cash, sufficient to enable him to meet any demand which is at all likely to arise upon him. And it would seem almost equally obvious, that each bank should provide for its own liabilities. Unfortunately, owing to various causes, the banks do not recognize this necessity, and it is not too much to say, that leaving out the Bank of England, there is not a bank in London, which keeps in its till more than what is sufficient for the current wants of the day. It is not possible to say how much gold or Bank of England notes they keep, as this is never published separately in their returns; but one little incident will illustrate the utter want of self-reliance displayed by the banks. The day of the settlements of the bets on the Derby, requires that a somewhat larger amount of money than usual, should be in circulation. The extra amount so required is, however, after all, only a very limited matter, and yet it is well known that the banks in the West-end of London, have to make special preparation, by bringing from the bank of England, a supply of gold and notes. It would not be an exaggeration to say that all the banks lean upon the Bank of England for assistance, and the Bank of England leans upon the Government. The whole system is in fact, astray, and the first stock and private bankers who should each provide for his own wants, go on in the vague hope that when the evil day comes, the Bank of England will in

some way be able to provide for their liabilities, liabilities of which it neither knows the amount nor the probable urgency of the claim. How different all this is from the Canadian system, I need not stop to show, and I do not think that any disinterested observer can doubt, that with a system such as yours, panics would be impossible.

During the recent crisis there were two features very noticeable. The first was that in nearly every case one main cause of difficulty originated in discount houses and banks having money repayable on demand, embarking directly or indirectly in railway and other public works. Even when these investments were not bad, they caused a lock-up of capital which embarrassed and sometimes ruined the establishments guilty of such indiscretion. No rule can be more certain than the necessity of persons holding deposits keeping clear of any lock-up. A uniform experience shews that such a blunder must end in serious loss, if not ruin.

Another cause of the panic was that many persons took shares in limited companies when only a very small proportion of the nominal capital was paid up. They suddenly found that in reality their liability was practically unlimited, and this very much added to the general fear. It would scarcely be too much to say that, so far from the limited liability principle having caused the panic or aggravated it, it was the unlimited liability system. Nearly every concern which failed was either nominally or really unlimited.

The returns from the Bank of England for this week, compared with those for last week, present the following results:—

	Am't.	Incr'se.	Decr'se.
Public deposits.....	£ 3,412,000	£ 68,000	.....
Private deposits.....	18,763,000	638,000	.....
Government securities.....	10,712,000	No change.	.....
Other securities.....	24,888,000	.....	336,000
Notes in circulation.....	24,182,000	.....	368,000
Bullion.....	14,772,000	621,000	.....
Reserve.....	.....	979,000	.....

These returns are again favourable. The deposits have increased £700,000, and the securities have decreased £336,000—the result being an increase in reserve of £979,000. It would have been more satisfactory if the private deposits had shown a tendency to return to their normal position of some £13,000,000.

The following are the Bank of France returns.

	Increase.	Decrease.
	Francs.	Francs.
The Treasury Balance.....	£ 9,500,000	.....
The Current Accounts.....	.....	15,500,000
The Advances.....	.....	No change.
The Commercial Bills.....	.....	17,500,000
The Cash.....	15,833,000	.....

The cash has again increased, and is now £30,000,000. Money in Paris is very abundant, and is seeking employment at 1½ per cent.

The reduction in the bank rate has not had much effect upon the cotton market, which has been dull during the week. The sales in Liverpool have amounted to 60,500 bales, of which the trade has taken 37,600. The estimated stock is now 865,700 bales. Manchester market has also been without animation; and, yesterday, to effect sales of some descriptions of goods, rather low prices would have had to be submitted to.

The share markets during the week have been very sensitive; but with the prospect of cheaper money the tendency is rather upward. The funds have been well maintained, and close at an advance of ½ on the week. Railways are also better; and the fear of diminished trade and diminished receipts is passing away. In Canadian shares there is but little change. Great Western's are, however, lower, owing to unfavorable traffic returns.

Aug. 25th, 1866.

H.

LETTER FROM A PROTECTIONIST.

[No. 3.]

(To the Editor of the Trade Review.)

THE next country to which I wish to refer for proof of the value and absolute necessity of protection to its infant manufactures in order to enable any country to achieve that true independence which, in the present state of society, is so desirable and necessary, is Russia.

H. Storch, an eminent writer and theorizer on Political Economy, published in St. Petersburg in 1815 his work in favour of free trade—"Cours d'Economie, &c." Alexander I., being fascinated by his plausible theories, adopted his plan, and a fair trial of seven or eight years' duration was made of the free trade policy by that great nation. What was the result? To sum it up in one word, it was disastrous. Foreign manu-