Mr. Morton says:—

"The causes of the derangement were these:—The suspension of the Commercial Bank; the imputations cast upon the Royal Canadian; and a feeling of uncertainty in the public mind as to the policy the Bank of Montreal was likely to pursue. The alarm was very much aggravated by various flying rumours of harsh intensions on the part of the last named institution."

Mr. Stevenson says:—

"The causes that produced the monetary panic were— * * * Second. The apprehension that if the public lost confidence the Government Bank would become exigent, and thus increase the panic."

Mr. Arnold says:—

"Aggravated by the course rumoured as having been pursued by the Bank of Montreal, in refusing to receive the notes of banks in good repute except on collection, which rumour, whether founded on truth or not, obtained credence in Ontario."

Here then we have the joint opinions of no less than six gentlemen, all conversant with the true state of the case, most of them residing in Ontario, each thoroughly independent of the other, and the opinions they have formed confirmed by various expressions used by all the others, except Mr. Paton; and all agreeing that the financial derangement, although originating with the failure of the Commercial, would have been tided over but for the anomalous position held by the Bank of Montreal The interest of that bank did not lie in the maintenance of the general credit at all hazards, and its policy seemed to indicate a full knowledge of the powers it wielded and a determination to use its position unsparingly. The only material exception to this view, as we have said, is on the part of Mr. Paton, but even his dissent is rather an inference than a positive statement. It is hard to suppose that he, having weighed the whole question and stated so minutely the causes which aggravated that crisis, should unintentionally omit that which all the others agree to have been the chief aggravation of the prevailing distress. It is harder still to believe that Mr. Paton should have blinded himself to the influence which the fear of the Bank of Montreal exercised over the other banks, as well as over the public mind, when that influence was so patent to all the others.

The contrast between Mr. Paton's replies and those of the other bankers is remarkable throughout. Let us examine whether the conclusions generally expressed that the Provincial Note Act of 1866 has been a bane and not a boon, is or is not corrrect. And inasmuch as Mr. Paton has taken one view and the other bankers another, we shall first consider his statement, and then treat all the others, for the sake of perspicuity, as a whole.

There is one important point to be considered, and it is this. What proportion of specie was considered sufficient to be held against circulation and deposits in former years, and what amount is considered necessary now? The importance of this question is palpable at a glance when we consider that on the reply hinges the great consideration, whether the banks in Ontario were imprudently weak in their specie reserves considering the general state of trade at the period under consideration. Mr. Paton had already said :—"The effects produced upon the banks of Ontario have been salutary. Larger reserves are now deemed necessary," implying, of course, that formerly the banks held insufficient reserves. When asked to explain what was considered a sufficient reserve, he says :—

"Not less than one third of immediate liabilities ought to be held in specie and legal tender notes. This is the proportion of specie returned against circulation and current deposit accounts by the Bank of British North America, in addition to a large reserve in New York, available at any time when required."

Mention is here specially made of circulation and current deposit accounts, leaving it to be inferred that that other liability to the public, technically called "deposit receipts," comes under the same rule of one third. No inference could, by any possibility, be wider of the mark, or more unwarrantable. It is true that legally a bank can demand a week or ten days notice before it can be required to repay these interest bearing deposits. Practically, however, a bank demanding such notice during the time of panic would increase the chances of a continued run. Yet the Bank of British North America has no less than $2,250,000 in this shape, which Mr. Paton declines to look upon as a demand liability. In 1859 Mr. Paton considered it necessary to hold one third of the circulation, and one sixth of the deposits in specie. England and New York are the great centres for supply of the precious metals to Canada. Since the year 1859 communications have wonderfully improved, yet Mr. Paton apparently considers it necessary to hold twice the specie he did then. We say apparently, for an examination of the facts shows the idea to be a mere delusion. The British Bank had on 30th Sept. last about $1,200,000 of circulation, $1,300,000 of current deposit accounts, and $2,300,000 of deposits bearing interest. According to Mr. Paton's present estimate, it is necessary to hold $800,000 in specie against this—which was the amount actually held in September last. According to his estimate in 1859, however, $1,000,000 would have been necessary. So that Mr. Paton considers it necessary to hold less specie now, than one-third of the circulation and one-sixth of the deposits. In other words, his alarmingly large estimate of one-third of the immediate liabilities sinks to the comparative insignificance of a specie reserve equal to about one-fourth of the circulation, and one-seventh of the whole deposits. This fact is of great importance, and we draw the particular attention of our readers to it, because, as we shall presently see, there is not such an extraordinary difference of opinion between Mr. Paton and the other bankers on this vital point as appears on the surface. In fact he and they are agreed as to the amount which prudential reasons would dictate as the reserve to be held in specie against probable demands.

Mr. Paton then thus states the case :—Trade generally was not satisfactory between the 1st September and 15th October. "Importations, especially of dry goods, were in excess, and a serious fall in the price of dry goods had taken place. Speculators in breadstuffs had lost heavily, and the demand for manufactured lumber from the United States had almost ceased, leaving a large stock of that article in the manufacturers' hands, or stored in the United States. The farmers were on the whole prosperous, the high prices obtained by them for wheat and barley, and the superior quality of the grain compensating them for the unexpected shortcoming in the yield, which in many districts was not an average one. From the 15th October to the middle of November there was much depression in trade, and in some quarters considerable financial embarrassment."

The causes of the financial embarrassment were the failure of the Commercial Bank aggravated by those other circumstances to which attention has already been fully given.

"The effect produced upon the banks in Ontario have been salutary. Larger reserves are now deemed necessary, and greater discretion is exercised in making loans. The discounts of the Banks between 31st October and 30th November were considerably reduced."

Their circulation was also reduced. Exchange on England maintained an equable rate during all that period, and so far as the money market was concerned,—"No changes took place in the ordinary advances of the Bank of British North America, and the usual rate of seven per cent was charged."

It is true, "There is a great depression in nearly every department of trade, but I do not think this ought to be altogether attributed to the failure of the Commercial Bank. The principal causes are excessive importations and depression in one of the principal branches of trade, viz., that of manufactured lumber. The effect of the so-called crisis may not be altogether injurious, as it will check importations for 1868, induce greater caution in business transactions and probably greater circumspection in the management of the Banking institutions of the Province."

As to the reserve which a bank should hold in specie against circulation and deposits, I say they should hold one-third of their immediate liabil.ties, by which I mean they should hold one-fourth of their circulation, and one-seventh of *all* money deposited with them on short call. Immediately after the failure of the Commercial Bank, I considered it necessary to increase this reserve. The bank of British North America holds $200,000 of legal tender notes as part of its specie reserve, although these are not specie, "because it was agreeable to Government, because it facilitates the settlement of balances throughout Canada, with the financial agents of the Government, and because it was neither an inconvenience nor a loss to the bank." And with regard to the Provincial Note Act, "I do not consider that the Legal Tender Act of last session has had any other effect on the banking and general interest of the country than that of replacing the circulation of the Bank of Montreal, which is being withdrawn, by a like amount of Legal Tender Notes, and of giving the Government the use of four-fifths of the amount of the