

Appendix
(Z. Z.)

28th July.

which has been received in this Department [11th June, 1851] from the assistant Secretary to their Lordships, upon the subject.

I concur in the views which their Lordships have expressed in this letter with respect to both of these Acts, and I shall accordingly postpone submitting either of them to Her Majesty, until the Government and Parliament of Canada shall have had an opportunity of again considering them, with the remarks which they have suggested to the Lords Commissioners of the Treasury.

I have therefore to instruct your Lordship to take the earliest opportunity of laying this despatch, with the enclosed letter, before both Houses of the Provincial Legislature, and in doing so, you will invite their serious attention to the remarks of the Lords Commissioners of the Treasury upon the Acts adverted to, and especially the Act for establishing freedom of Banking. I trust that the Parliament of Canada will recognize the expediency of amending the latter Act in the manner suggested by their Lordships, bearing in mind that, judging from past experience, the legislation of the United States can by no means be regarded as affording a safe example for imitation on matters of Currency and Banking, since few countries have suffered so severely from errors committed on such questions; and also that any apparent and temporary advantage which the Province might derive from facilitating the operation of the Banks, would be dearly purchased by the danger which must be incurred from allowing the Currency to rest on a basis, not calculated to meet the pressure of those periods of commercial difficulty, to which even the most prosperous countries must from time to time be exposed.

I am, &c.

(Signed.) GREY.

Right Honourable
The Earl of Elgin,
&c. &c. &c.

*Enclosure in Earl Grey's Despatch, No. 610,
24th June, 1851.*

(Copy)

TREASURY CHAMBERS,
11th June, 1851.

SIR.—I am commanded by the Lords Commissioners of Her Majesty's Treasury to acquaint you, for the information of Earl Grey, that the two Canada Acts, viz:

No. 787, "An Act to alter the rate at which certain silver coins shall be a legal tender;" and No. 798, "An Act to establish freedom of Banking in this Province, and for other purposes relative to Banks and Banking;" have been brought under the notice of my Lords by the Board of Trade, together with his Lordship's Minute thereon.

I am to request you will observe to his Lordship, with regard to the first of these Acts, that, as it affects the currency of the Province, it would have been more regular if it had been reserved for the signification of Her Majesty's pleasure thereon, before it was allowed to come into operation; and that it would have been satisfactory to my Lords if some information regarding the intrinsic value of the Coins affected by it had been afforded, in order that Her Majesty's Government might have had the means of forming a judgment upon the propriety of the rates assigned to them.

My Lords are led to infer, from the circumstance

Appendix
(Z. Z.)

28th July.

of the rates fixed by the Act being so much below the nominal value of the Coins, that the quantity of pure silver contained in them is considerably less than the amount which would be necessary to give them intrinsically that value; and as inconvenience might arise from suspending the operation of the Act, their Lordships are unwilling to recommend any measure which would have that effect. They would otherwise have been disposed to suggest the disallowance of the Act, in order that the question of assigning rates to the Coins of the North American States, representing quarter and smaller fractional denominations of the dollar, should be considered in connection with the general subject of the currency of the Province.

Under the view above stated, however, my Lords recommend that no decision should be taken by Her Majesty's Government respecting this Act, until information has been obtained from the Governor General regarding the intrinsic value of the Coins in question, and the grounds on which the proposed rates have been assigned to them.

I am also to request you will inform Earl Grey that the other Act, No. 798, "to establish Freedom of Banking, &c.," has received the attentive consideration of this Board; and that my Lords are anxious that the result of that consideration should be brought under the notice of the Canadian Government, before the Act is submitted to Her Majesty.

The principle on which this enactment is founded, is explained in the Memorandum of the Inspector General which accompanies it; and my Lords observe that that Officer attributes the freedom of Canada from those evils which have attended the system of banking followed in the United States, to the small number of Banks which have hitherto been incorporated in the Province, and to the prudent manner in which they have been conducted. He appears, however, to be of opinion that it would be difficult to refuse the grant of similar Charters to other Banks if the law remained unaltered, and that the Province would thence be exposed to the risks attending an uncontrolled increase of the note circulation by competing Banks. In order to obviate this difficulty, the Bill now before my Lords has been passed by the Local Legislature—the most important provisions of which are those which restrict the privilege of issuing promissory notes, payable on demand, to Joint Stock Banks with a certain amount of subscribed Capital, and on the deposit of Government debentures equal to the amount of the notes which they are authorized to issue.

The Inspector General, in the views which he has stated, appears to recognize the importance of a limitation in the issue of Promissory Notes; and in that principle my Lords entirely concur.

It must, indeed, be obvious to those who have attentively considered the question of a note circulation, that, besides the precautions desirable for securing the ultimate solvency of Banks of Issue, the great difficulty of legislating on the subject arises from the risk that, in giving the facilities to commerce which are afforded by the use of Bank Notes, the Country may be exposed to a derangement of its monetary concerns from speculative issues exceeding the legitimate demands of trade.

Experience has fully proved, not only in this country, and many of the colonies, but, as my Lords apprehend, in the United States also, that the obligation to pay in specie, on demand, has not been sufficient to guard against this evil; and that competing Banks, with an unrestricted power of issue, are too often disposed, at times when speculation is rife, to extend their issues beyond the amount which