

Now, when the banks draw specie from the government, even if they get American gold, they send it to New York, whence the government to supply the waste has to import gold through its agents, the Bank of Montreal, at a cost of $\frac{1}{2}$ per cent., including express charges.

The inconvenience to the banks of being obliged to keep forty per cent of their reserves in legal tenders, is one that subjects them to some loss. And if the question of abolishing this requirement stood alone, and was not part of a general arrangement, there would be absolutely nothing to be said against and everything in favor of abolition. Some bankers would rather continue to submit to the inconvenience than break up the general system of currency. The banks cannot demand payment of legal tenders to an amount that would reduce the proportion of these notes below the forty per cent. limit. When a bank holds more than forty per cent. of legal tenders, it can demand and is entitled to get specie for the excess. Of the rest it cannot make a demand for payment in specie. But it could reduce its gold reserve to a point which makes the relative proportion of legal tenders more than forty per cent.; it could continue this reduction till it had reduced its stock of gold to a nominal amount, and in this way could demand payment of nearly all the legal tenders in its possession. But what is legally possible is practically impossible, for a bank could not retain public confidence if it parted with its resources in this way.

The amount of gold which has been demanded from the government is stated at \$1,250,000, not in all cases has one half the amount asked been paid. It is not a new thing for the government to say to a bank in possession of public deposits that if you insist on drawing gold from us, we must insist on demanding gold for our deposits. The contra-account must of course be adjusted, if the depositor insists on it; though it is not usual for depositors, unless there is a run on the bank, to demand gold. If the banks keep more than the legal proportion of legal tenders, it may be assumed that they have a reason for the option; but the fact can furnish no excuse for the government not being, at all times, prepared to pay this excess of legal tenders. A bank that is obliged to keep forty per cent. of legal tenders, at all times, can never be safe unless it has a larger amount; because something might occur any day to reduce this part of the reserve below the legal limit. This fact will probably go far towards explaining why the banks of Ontario and Quebec, at the end of April, had not less than sixty-four per cent. of legal tenders. The allegation that legal tenders are more profitable for the banks to hold than gold cannot be correct, since a hundred dollars in gold will not buy more than a hundred dollars in legal tenders.

Before the recent excitement in Wall street occurred, the Canadian government on the 31st April, had its specie reserve so low that there was no margin left. Against \$17,196,649 of legal tenders, it was required to hold \$2,579,497 in specie, and all it had was \$2,589,151. It had, therefore, at the commencement of May, no means of meeting a draft of \$1,250,000 in gold, without losing more than half its legal reserve. And its

deposits on notice in the banks, which often run into the millions, was only about \$300,000. The deposits on current account, the banks of course hold themselves ready to pay, at any time. The banks having government deposits on notice have, at any time within the last few years, been liable to be told that if they drew specie for legal tenders, they would lose their deposits. Time deposits were not unfrequently distributed from political motives; and the banks obtaining them paid higher rates than the Bank of Montreal would give. The political influence would be exerted, in the other direction, if these banks demanded specie from the government. In this way government deposits have become a doubtful means of strengthening a bank; and in future they are not likely to be sought after by banks doing a solid general business.

The government reserves have been clearly proved to be insufficient. It is not creditable to the government to find itself under the necessity of asking the banks, which had a right to draw specie, to refrain from doing so. If the demand had been made by the public, it would have had to be met, or a suspension of specie payment must have occurred. A state of trade may exist which would make a drain on the government for specie and the appeals which have been made to the banks with success would not then suffice.

A million dollars in gold—sovereigns—is now on the way from England for the Canadian government. When these sovereigns arrive, they will be used in redemption, but the banks will not be able to use them, in New York, and on that account may not pass for gold; and drafts on New York must go up in price till an export demand for sovereigns from New York arises. Latterly, the government, not being possessed of sovereigns, has been redeeming in American gold, which could of course be used in New York to advantage. It is obvious that if the convertibility of the Legal Tender is to be maintained, the government reserve must be increased.

TAX ON INSURANCE COMPANIES.

Judge Jette has decided in favor of the legality of the tax on insurance companies, imposed by the legislature of Quebec. The government brought actions against no less than forty companies. This judgment was given in a test case and applies to all the companies. The decisions, on similar questions, are conflicting. Judge Mathieu, in a case in which commercial companies were interested, gave a decision similar to that of Judge Jette. Judge Rainville, however, decided the other way, in a suit against the banks. In this state of matters, no decision is likely to be accepted as final till the judicial committee of the Privy Council has said the last word. One objection taken by the insurance companies was that corporations which owed their creation to another legislative authority could not be taxed by a provincial legislature; an objection, which, if allowed, would have impaired the power of taxation specifically vested in the provincial legislatures. The powers of the local legislatures are supreme, within the limits assigned

to them, and cannot be impaired by accidental circumstances of this nature.

The real question was whether the tax on insurance companies was direct or indirect; a question which has, in previous cases, been settled by the definitions of political economists. Each corporation is regarded as a single body, and the fact that it is composed of many members does not destroy its unity. The assumption that each member would have to bear his share of the tax would make the tax indirect, would not hold good, since the corporation is a unit. But whether the companies finally pay the tax, or whether they merely advance it, and recoup themselves by collecting the amount from insurers, is the question to be decided. It has been contended that the tax is incapable of such infinite subdivision as would be necessary, if each insurer were to pay his share. But the tax is one of a great many items which go to make up the cost of insurance. And this cost varies in different cases. The company may or may not pay a commission; and it makes a great deal of difference whether it does or does not pay a commission, in any particular case. The whole expenditure of an insurance company has to be placed against its total receipts; and if the tax were taken into account, with other outlay, in fixing the rate of premiums, it cannot be said that it would not be paid by the purchaser of insurance. The Privy Council decided that a stamp on insurance papers was an indirect tax; and the Quebec government found itself under the necessity of refunding. In that case, the insured became possessed of the stamps; and it is difficult to see how this could happen unless they had paid for them. If a tax on insurance companies be a part of the necessary cost of insurance, the insured must pay it along with other charges including whatever profit the companies make.

But if this view should finally prevail, there is a question of policy behind, which it would not be well to ignore. It is quite evident that the taxing powers of the provinces are too limited for the necessities of some of them, and it is probable that the restriction to direct taxes will have to be removed. If there be no means by which the taxing powers can reach commercial corporations, at present, prudence would suggest whether this is likely always to continue. It is very undesirable that the provincial legislature should have even the smallest ground for the objection that there are powerful interests which seek to avoid their share of the burden of taxation, or even to aid, as importers are obliged to do, in its collection. We may take it for granted that we have nearly seen the end of the quibble—for such, as argued, it often is—about the dividing line between direct and indirect taxation; for the present restriction is not likely to be long maintained. If the local legislatures, meanwhile, be unduly irritated by objections to every form of tax which they can devise, in the actual state of public feeling, without setting the great body of the constituencies against them, they may, when they get the power, treat commercial corporations with less consideration that they otherwise would. This contingency is not wholly unworthy of consideration. If the tax on insurance companies be indirect, it is illegal; but in that