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DOMINION NOTES.

Believing, as we do most implicitly, that there is no intention whatever, on the part of the Government, to resort to an issue of inconvertible paper money, we, nevertheless, cannot view without great alarm, the proposal that such an increase to the present maximum issue as eight millions of dollars should be left to the discretion of the Government. Our alarm is increased by the proposal to diminish the gold reserve, and by the provision that such reserve should be regulated by a percentage on the amount issued. It must be constantly borne in mind that the bulk of the Dominion note issues are of a very different character from those of the chartered banks. The Dominion notes are a legal tender, and are chiefly held by the banks as reserves to meet the demands of depositors and note holders, which circumstances beyond the control of either the Government or the banks, may at any moment lead the creditors of the latter to make. The demand liabilities of the banks may be stated in round figures at $62,000,000, and the reserves in gold and legal tenders at something over $16,000,000. The Dominion note circulation is rather over $12,000,000, of which $7,957,000 are in notes of the denominations of $500 and $1,000 and $703,850 in those of $50 and $100. Few of these notes are in the hands of the public, as must be obvious from the fact that of the aggregate circulation of $12,310,836, $9,484,927 is held by the banks. To prevent misconception, we may remark that the Dominion note statement is not of the same date as the Bank statement, which latter we have taken from the return of 29th February, while the latest Dominion note statement is of date 13th February, but continued in the Official Gazette of the 10th April. There can be no material difference in the figures, but we think it proper to state that they are to be looked on as only approximate. With this large amount of notes held by the banks, and liable to be called for by their creditors at any moment, the gold reserve was $3,693,739.92. According to the new proposal of the Finance Minister, this reserve would be reduced to $3,097,631, of which only $1,958,578 would be held in gold and $1,239,052 in guaranteed bonds. Let us now enquire what the Government is liable for.

BANK RESERVES.

The Bank reserves on the 29th February were $16,190,826, of which $9,484,927 were in Dominion notes. It is understood that the Government intend to require the Banks to hold in future a minimum reserve of 40 per cent. in Dominion notes instead of 33⅓ as at present. This is a most extraordinary proposition under existing circumstances. The banks are actually required by law to hold 50 per cent. of their reserves in Dominion notes, but, to provide for sudden calls, a margin was allowed, and they were to certify in their statements that they had held on all occasions not less than 33⅓. Had the banks evinced any disposition to evade the law, there might be some excuse for the advance in the minimum, but, as a matter of fact, they are holding far more than they are required to do, indeed it is doubtful whether they have not held too large an amount of Dominion notes. On the 29th February the banks in the Dominion held about 58½ per cent. of their reserves in Dominion notes, while Quebec held 59⅓, Ontario 56, Nova Scotia 54½, and New Brunswick 65. The banks have therefore given no ground whatever for complaint. The Finance Minister proposes that in future they shall be compelled to hold 40 per cent. instead of 33⅓. Let us see how this would work, if the banks were to take the Minister at his word, and reduce their reserves to his own proposal of 40 per cent. We have stated that on 29th February the aggregate reserves were $16,190,826, 40 per cent. on which would be $6,476,330, leaving a surplus of $3,008,597. Let us suppose that the banks sent these notes for gold, and under the new 15 per cent. reserve there would be less than $2,000,000 to meet them, and the Government would have to stop payment. We admit that this is a mere supposition, and feel assured that the banks would act to the Finance Minister in a very different spirit from what he evinces towards them. We shall put the case differently: Let us suppose a heavy demand for exchange, requiring an export of gold to purchase it. The banks might find it absolutely necessary to reduce their surplus holding of Dominion notes by calling on the Government for gold. There is yet another contingency: The creditors of the Banks, whether depositors or noteholders, or both, might make the calls for which reserves are kept, and, as a probable result, the notes would be presented for gold. We admit that our fiat money friends will ridicule all our suggestions; nothing would please them more than that the Government should be reduced to a condition of insolvency. Such, however, would be a most mortifying position for the Finance Minister to be placed in, and we do him the justice to express our conviction that he does not desire to be compelled to refuse payment of the Dominion notes. There is nothing more certain than that, in the case of such an issue as that of the Dominion notes, it is a complete delusion to rely on a percentage of gold. The circulation of small notes is tolerably reliable. It amounts to a little over $3,000,000. For that issue a reserve of 15 per cent. would be amply sufficient. But would any man of ordinary intelligence maintain that a gold reserve of 25 per cent., which would be sufficient for a circulation of large notes held by the banks to the extent of 5 or 6 millions, would be adequate if the banks thought proper to hold 9 millions? The true principle is that adopted in the Imperial Act of 1844, viz., to fix a safe amount to be issued on securities, and to let all beyond that amount be represented by gold. That principle has never been interfered with by successive Governments, whether Whig or Tory; it has stood the test of 36 years experience, and yet we find a Canadian Conservative Government rushing off to Washington and proposing to introduce a system which was adopted during a civil war when the national credit stood so low that foreign loans could not be negotiated, and when it was found necessary to obtain a forced loan by means of the National Bank system. The Finance Minister's policy is simply inexplicable. Is it, in his opinion, desirable to have a paper currency issued by