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UPPER CANADA.

COPIES of DESPATCHES from Sir *George Arthur*
and Lord *Glencels*, dated 20 November 1838,
and 31 January 1839, relating to the Financial
State of the Province of UPPER CANADA.

(*Mr. Charles Butler.*)

Ordered, by the House of Commons, to be Printed,

12 July 1839.

UPPER CANADA.

RETURN to an ADDRESS of the Honourable The House of Commons,
dated 14 June 1839;—for,

COPIES of DESPATCHES from Sir *George Arthur*, and Lord *Glenelg*, dated
20 November 1838, and 31 January 1839, relating to the Financial State
of the Province of UPPER CANADA.

(No. 91.)

COPY of a DESPATCH from Major-General Sir *George Arthur*, K.C.H.; to
Lord *Glenelg*.

Government House, Toronto,
20 November 1838.

My Lord,

In my despatch to your Lordship, No. 56, of the 11th of August last, I had the honour to transmit, for your Lordship's perusal, a copy of a communication which I had addressed to the Earl of Durham on the 30th of June preceding, on the subject of Crown Lands and Emigration, wherein, in connexion with it, I took occasion to advert to the causes which had tended to produce derangement in the finances of this Province, and stated that its resources had been anticipated to an extent that was felt to be embarrassing.

Occupied as I am upon matters of the most urgent nature, it is of the greatest importance that I should without delay bring this matter under your Lordship's notice in a more special manner, as, in the ensuing meeting of the Provincial Legislature, the question of how the pressing pecuniary demands of the Province shall be satisfied, will require to be discussed; and, in anticipation of such discussion, I would wish to receive your Lordship's instructions on the point which I beg leave to submit to your consideration.

In your Lordship's circular despatch to Sir Francis Head, of the 31st of August 1836, your Lordship states, after some preliminary observations, "With this view, I have to desire that you will not permit any Act or Ordinance, or Proclamation or Regulation to come into operation in the colony under your government, relating to the local currency and circulating medium, or to the rates at which coins shall pass current or be a legal tender, or to the circulation of promissory notes or other paper, either by the local government or by any corporate bodies or individuals, without having first received His Majesty's sanction, conveyed to you by the Secretary of State."

This despatch, having been submitted to the House of Assembly by my predecessor, formed the subject of an Address to him from that body, inquiring "if he would be prevented from giving the Royal Assent to any Bank Bill in future;" which Address, together with his reply to it, Sir Francis Head transmitted to your Lordship, in his despatch, No. 10, of the 5th of February 1837, the receipt thereof being acknowledged in terms of approbation in your Lordship's despatch, No. 162, of the 19th of April following.

6 January 1837.
16 January 1837.

Fully concurring in the view taken by Sir Francis Head respecting your Lordship's instructions, as stated in his reply to the Address referred to, I am desirous of adhering to them as strictly as I am able; but, as the very peculiar circumstances of the Province may render unavoidable some departure from them, I wish to be prepared to meet possible contingencies.

I venture, therefore, to suggest to your Lordship, that in the event of such a measure being proposed in the Legislature, I should be provisionally authorized to give the Royal Assent to any provincial enactment, having for its object to allow the Receiver-general to issue on the credit of the Government bills or notes payable in Toronto, at 12 months after date, to the extent of 100,000*l.*, to be used as a circulating medium, and made chargeable on the prospective revenue of the Province.

That such, or a similar measure, may be rendered necessary by events, I consider highly probable; and it appears to me, as far as I can judge at this moment,
that

that no other so well calculated by its simplicity to effect the desired object could be conveniently resorted to.

Though the cases are not exactly parallel, yet in illustration of the principle, and as affording a precedent for such a course of proceeding, I would instance the circumstance, that during the last war in these colonies, bills of the description I have mentioned were issued by the Provincial Government, and were found, as a temporary resource, of the utmost value to the public service.

Debentures payable in the Province are altogether unsaleable from the want of local capital, and debentures payable in London, where alone they are negotiable, have been already issued to a larger amount than has yet found purchasers.

With reference to these debentures, the accompanying letters from the Receiver-general (enclosing others addressed to him by Messrs. Baring), and report of the Executive Council on the subject of their contents, will put your Lordship in possession of every necessary information respecting the circumstances under which they were issued; and your Lordship will at once perceive, that however powerful, and certainly they are very forcible, may be the arguments used by Messrs. Baring against the mode of their negotiation, yet that they could only have been made available for the immediate and urgent wants of the Province through the medium of the local banks, in the manner which was practised.

In drawing the attention of your Lordship to the measure here suggested, I would wish to impress upon your Lordship, that, viewed as a continued system, I consider the issue of Government paper, not convertible into specie, to be detrimental to the credit of the Province, and calculated to displace the more wholesome convertible currency. Unless, therefore, I could see before me a prospect of financial relief, founded upon a sound and simple basis, I should not look for any good result from mere temporary expedient.

Though large in proportion to its actual revenue, the debt of this Province has been mainly incurred through incidental causes, namely, the construction of public works, the outlay on which is commensurate less with the country's present productive wealth, than with the development of which its vast natural resources are susceptible. Hence, the investment not being immediately profitable, the burden of the interest payable on the public loan is thrown on the ordinary revenue raised by means of taxes intended to meet only the current public expenditure.

As compared, however, with similar public debts incurred by different States of the neighbouring Republic for the promotion of national objects, the debt of this Province is but small, while future resources, and the wants of an increasing population, have been here anticipated to a far less extent.

The Americans have also borrowed money on more disadvantageous terms than those obtained by this Province, the existing laws of which only permit the Government to negotiate in London loans at par, bearing five per cent. interest; whereas the Americans have not hesitated to raise money on the best terms that could be obtained, and which latterly have been productive of a loss varying from five to ten per cent. on the amount of the borrowed capital.

The unhappy troubles with which this Province has been visited, the doubts that have been raised as to the permanency of its political institutions, assisted by the expression of opinions in quarters whence the colonies justly looked for support, and the threats of armed interference in our affairs by the American citizens, with the attempts made to carry them into execution on various occasions, are circumstances which have naturally tended to induce a feeling of insecurity, and a consequent depreciation in the value of property, which is beginning to be most severely felt.

The present inconvertibility of property leaves without the means of meeting their engagements those who have become indebted on its security, and comparatively trifling liabilities are thus found sufficient to work the ruin of individuals hitherto believing themselves opulent, and who would actually be so, could they realize what they own.

By the same unhappy causes the ordinary influx of immigration and British capital has been suspended, so that anticipated revenue from public works has not been forthcoming, from the want of means to complete them.

Your Lordship may give me full credit when I assure you that it is this state of things, more than any theoretic differences in regard to politics, which renders the Government of this country, to the satisfaction of the community, so difficult as to be almost impossible; and I cannot blame, or be surprised at, the discontents of a people who, though connected with the most powerful empire on the earth, are nevertheless

No. 1.

31 July 1838.

No. 2.

8 August 1838.

No. 3.

29 September 1838.

No. 4.

9 August 1838.

nevertheless enduring evils usually attendant only on the prostration of national strength.

It is not in my power, my Lord, to retrieve the almost withered hopes of Upper Canada; nor will the suffering inhabitants be able of themselves to sustain their fortitude in the immediate neighbourhood of a powerful hostile population, and in the rear of a rebellious province. I see very clearly that if the present state of things be suffered to continue for a much longer period, there must be a general wreck of property; and although eventually public prosperity may be restored, and may give to the young, the ardent, and the unencumbered, an opportunity of growing rich, yet it will not restore to those who have been prosperous the well-earned fruits of former industry, nor replace the present holder of property in the possessions which will have passed from him.

The effects of the moral deterioration which, it is to be feared, all this is working in the people will finally make these provinces indeed untenable and worthless, since the energies of their inhabitants, which can alone render them of sufficient value to be worth retaining, will be unavailable, unless supported by the feeling that the protection and security which the governed naturally look for from their Government, are afforded to their full extent.

The means, my Lord, of averting these impending evils, are not to be sought for in the Province, but in the mother country; and all will depend upon the opinion of the British Government as to the desire and power of England to retain the country in the face of all opposition.

The present friendly professions of the Government of America may be sincere, however contradicted by the outrageous conduct of her border citizens; but there is no real security for their continuance; and the question is not whether Canada can be held during a time of peace, but whether in peace or war it is to be protected, or contended for, with the power of the empire.

Assuming that your Lordship holds an affirmative opinion in this matter, the bright side of the prospect presents itself, and I see little difficulty in producing the most desirable results from the bold and decided measures that must follow.

It will be obvious to your Lordship, that the prosperity of the colony must mainly hinge upon the progressive development of its resources, by the united agencies of immigration and British capital.

The preliminaries to the efficient employment of these great means will be comprised in placing the Province in a state of complete defence, and in raising the credit of the colony in the British markets. This will attract capital seeking a profitable investment, that will inspire confidence as well to the borrower as the lender; for, my Lord, it must be remembered that capital is diverted from this country to other channels, merely because a doubt has been engendered as to the permanency of its political institutions. To induce emigration on a scale commensurate with the importance of the object which it is intended to promote, I would respectfully suggest to your Lordship, that it should be directly facilitated as a great national measure, and considered as that best calculated to preserve, at perhaps the least expense, the connexion of the colony with the parent state.

Your Lordship is aware to how narrow an extent the resources of this Province have hitherto been tried, in the way of taxation levied on the trade of the country. Were the imposts increased to even one-half of the amount, in proportion to property, raised throughout the American Union, the provincial revenue, provided that tranquillity and confidence were restored, would be in a flourishing condition, and the interest on the public debt could be met with facility; but, unfortunately, the want of a sea-port places it beyond the power of the local Government and Legislature to make any addition to the import duties; and even could this be effected, the want of confidence that is at present felt would prevent the measure from being attended with an immediate beneficial effect upon the public credit.

Without now discussing in what manner Upper Canada is to be permitted to have a port of her own, I trust I am not wrong in supposing that the giving her access to the sea will form a prominent feature in any remedial measures that may be proposed in her behalf in the British Parliament.

When this is accomplished, the revenue may be at once materially increased, without the slightest injury to trade, without anticipating future resources, and without producing any discontent. The very best security would, at the same time, be available to the public creditor, as a certain portion of such revenue might be inalienably set aside for the liquidation of the public debt.

CORRESPONDENCE RESPECTING THE

I look, my Lord, upon this prospect as a substantial foundation for the measure I am about to propose. The preservation of this Province as a colony is essentially in the hands of England: let England, then, assume the pecuniary responsibility, and offer the security which the Province cannot furnish, of the permanency of its government. Let it not rest as a mere matter of opinion amongst money lenders, but upon the broad basis of British guarantee. The sum which would be required to liquidate the whole public debt of the Province, is small, in comparison with the interests which would be secured and promoted by that liquidation; and the British Treasury might negotiate a loan upon its own security in London at little more than half the rate paid at present by the Province.

The benefits accruing to the Province from such a measure would be incalculable. The public works in progress might be completed and made productive; all doubts respecting the intentions of the mother country would be removed; and, when peace was restored, the immigration of men of property to Upper Canada would re-commence, instead of contribute to swell the resources of a foreign, and an unfriendly country. Nor should we then see, as now, the labouring population of the Province drawn into the United States, to be there employed with money raised in England.

My Lord, I have good reason to know that many thousands of Her Majesty's subjects have merely passed through this Province, and crossed into the United States, because English capital, which was to afford them the means of profitable employment, was to be found there instead of here. While such is the case, it is unjust to eulogise the United States as being so excellent a market for British manufactures; for, were the facts reversed, in proportion as we had British capital so should we employ it profitably to ourselves and to the advantage of those investing it.

By means such as these, this country would rapidly increase in value and importance to England; and perhaps, at some future period, would prevent the loss of the American trade from being felt, when by the employment of British capital and British artisans, the United States shall have been enabled to establish rival manufactories within their own territory.

To be effectual, such a measure of relief as is here suggested, should, in my opinion, be immediate; for if it be delayed until the general settlement of other matters relating to the colonies, the time I fear will be gone by when its application would prove most salutary.

The payment of one or two years' interest from the capital advanced, would not, I trust, be considered sufficiently objectionable to warrant the rejection of a plan whereby so much good may be accomplished; and I can assure your Lordship, that by causing it to be promptly and decidedly carried into effect, Her Majesty's Government would acquire the lasting gratitude of a whole people, whose happiness and prosperity they would have been, in such case, so instrumental in promoting.

I have been the more induced to enter into these details in proportion as I have become sensible of the importance of the matter to which they have reference.

Anticipating a stormy and an unsatisfactory session, scarcely anything could give me greater satisfaction when I meet the Legislature, than the power to offer from Her Majesty's Government the great boon to Upper Canada which I have here ventured to solicit on her behalf.

By granting it, many of my difficulties would be materially overcome; and, whilst thus affording to the community so great an earnest of the desire of Her Majesty's Government to promote as well their present as their future welfare, I should look forward with confidence to the speedy restoration of public tranquillity and security.

I have, &c.

(signed) *George Arthur.*

FINANCIAL STATE OF UPPER CANADA.

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Enclosures in Sir G. Arthur's Despatch of 20 November 1838.

— No. 1. —

Receiver General's Office,
Toronto, 31 July 1838.

Enclosures in
Sir G. Arthur's
Despatch,
20 November 1838.

Sir,

I HAVE the honour to enclose to you a letter, dated 14th June, from Messrs. Baring Brothers & Co., just received by me, for the particular information of his Excellency the Lieutenant-governor, and beg leave to state that their communication, dated the 20th October last, was transmitted by me to the Government here on its receipt.

I have, &c.

(signed) John H. Dunn, R. G.

The Hon. John Macaulay, Private Secretary,
&c. &c. &c.

(Original per St. James.)

Sir,

London, 20 October 1837.

THE preceding is copy of the letter we had the honour to address you on the 14th instant, which we confirm, and would now beg further to remark, in respect of the unsigned dividend-warrants therein mentioned, that as the bonds have not passed through our hands, and we have received no particulars from you, by which we could determine the genuineness of the coupons, we cannot consider ourselves liable for the amount of any forged ones we may pay. We shall, of course, use our best discretion in paying the dividends; still, as the warrants have no mark on them to serve as a guide to us, it will be impossible for us to discover those of a fictitious character. We hope that no loss will result in consequence of the irregularity above mentioned; but should the case prove otherwise, we feel that it cannot proceed from any inattention on our part, and we have therefore thought it right, to prevent any misunderstanding between us, to trouble you with these observations on the subject.

We have, &c.

P.S.—Since writing what precedes, we have received a letter from Messrs. Bosanquet & Co., of which the annexed is a copy, and we likewise annex a copy of our reply for your Government. You will perceive that much difficulty will be experienced in the disposal of the bonds in our market, in consequence of their not having, as is usual in such cases, passed through our hands, or any information furnished by you, to enable us to answer inquiries from the holders of the bonds as to the authenticity of the signatures attached to them. We regret the irregularity which has arisen on your side in the issuing of said bonds, and we hope you will be enabled, on receipt of this, to devise some plan regarding them, as will have the effect of removing the feeling which exists against them at this moment among our stock dealers. It has heretofore been our custom to have the negotiation of loans, when the dividends on which are made payable at our counting-house; and as this is the system generally pursued in this country, we must beg respectfully to decline paying any of the dividends on any future issues on debentures, unless they are passed through our hands in the usual way.

The Hon. H. Dunn,
Her Majesty's Receiver-General.

Sir,

London, 14 June 1838.

WE have been duly favoured with your esteemed letters of 7th, 20th March, 3d April, and 1st ult., the former advising your drafts, together 10,000 *l.*, Nos. 199 to 204, on account of the Government, which we enter accordingly. By the two last, you inform us of a fresh issue of debentures, to the amount of 5,000 *l.* and 10,000 *l.*, the numbers, &c. of which are duly noted.

In referring you to what we had the honour of communicating to you in our letter of 20th October last (of which we enclose copy as you do not seem to have acknowledged receipt), with regard to the sale of bonds with you which do not pass through our hands, but have the dividend-warrants made payable at our counting-house, we must again repeat our objections to that course, which we believe to be as prejudicial to the interests and credit of the Colonial Government, as it is contrary to our system and European usage. On our part, we object to having our names inserted on stock, the issue of which has not had our previous knowledge and consent. We have every confidence in the resources and good government of the Province of Upper Canada, but we do not wish our names to be connected with loans, of which neither the amount nor the periods of negotiation are previously communicated to us.

On the other hand, the credit of the Government is injured by parcels of bonds finding their way to this market (where they must all ultimately come), through different channels, and being offered by different parties, whilst the public is not officially informed whether any and what limit is to be put to this irregular system of borrowing. The interests of the Province are likewise injured, because the sale of these casual parcels interferes with the realization of what we hold for the Government, depresses the price, and discourages buyers.

We are convinced, that by adopting a more regular system for these operations, the finances of the Province would be materially benefited; but should you, Sir, and the Government continue to think differently, we must most respectfully repeat, that we beg the name of our house may not be inserted in the dividend-warrants of any bonds that are not sold to us or through us.

The Hon. J. H. Dunn,
H.M. Receiver-General, Toronto, Upper Canada.

We have, &c.
(signed) *Baring Brothers & Co.*

— No. 2. —

Receiver-General's Office,
Toronto, 8 August 1838.

Sir,

In reply to your communication of the 6th instant, I have the honour to report to you, for the information of his Excellency the Lieutenant-governor, that during my absence in England last year, his Excellency Sir Francis Head directed the gentleman performing my duty to dispose of to each of the Banks the undermentioned sums in debentures, amounting together to 138,650 *l.* sterling, and to make them payable, together with the interest, at Messrs. Baring Brothers & Co. of London. This was a departure from the usual course which had been adopted by me, and it appears to be objected to by Messrs. Baring & Co. I suppose that Messrs. Barings, who contracted with the Government, through me, for the sum of 200,000 *l.* sterling, at the rate of 10 *s.* premium for each 100 *l.* sterling, hold (or their friends hold) a large portion of these debentures, and may desire to dispose of them; and as long as debentures are sold here to parties and transmitted to England to various agents, who have no interest in the transaction but to realize the sale of the debentures, and expose them to sale, and perhaps at improper periods of the money market, will have the natural effect of depreciating such stock.

When contracts for loans of money are made in the City of London, the purchaser with whom the contract is made feels interested in keeping up and supporting the credit of such stock, but when sold in this Province, and fallen into promiscuous hands in London, to be realized for as much as it will bring in that metropolis, it will, and must have an injurious tendency on the credit of the Province. Messrs. Baring Brothers & Co. are made the agents for paying dividends on the debentures without their sanction, and whilst their house appears on the face of these debentures, I am not surprised that they should feel anxiety on the subject, not having any certainty as to the extent of the issue of debentures which may take place here.

On my return to this Province I induced his Excellency not to sell any more debentures within the Province, but to send them to London. Accordingly I was desired to transmit 60,000 *l.* to Messrs. Baring & Co., which I accordingly did, but the Debenture Acts confined the sale to five per cent. in London, and Messrs. Baring could not, nor have they yet been able to make sale of them at par, and they remain in their hands.

The pressure for want of monies to keep some of the public works from going into ruin, and the necessity of prosecuting others this season, left no alternative but to sell debentures in this Province to such parties as would give par value for them, although it would have been a saving to the Province to have sold them in London under par; the difference would have been made up by the premium on exchange. This would not have been according to the law, and by selling them for the value of 100 *l.* sterling here, the law has not been violated.

The present state of the public debt to this day stands thus:

Issued in Upper Canada, interest and principal paid here, 195,830 *l.* currency.

Issued in London, interest and principal paid there, 929,650 *l.* sterling.

There remains a debt due by Messrs. Thomas Wilson & Co. of about 83,000 *l.* sterling.

Messrs. Glynn, Halifax & Co. have paid dividends on the 400,000 *l.* sterling, contracted for by Messrs. Thomas Wilson & Co. from January 1837, making now three half-yearly periods of interest, which will amount to about upwards of 30,000 *l.*, and which is contemplated to be repaid to these gentlemen by dividends arising out of the debt of 83,000 *l.*

The Committee of Finance of the last session of the Legislature has made a long and full statement of the public finances of the Province, which is now printed, and to which I beg most respectfully to refer.

I have, &c.

(signed) *John H. Dunn, R. G.*

Sums in debentures issued to the following banks during the Receiver-general's absence, under the direction of Sir Francis Head, viz.:

	£.
To the Bank of Upper Canada	44,100
— Commercial Bank	44,050
— Gore Bank	49,500
— Agricultural Bank	1,000

£. 138,650 sterling.

— No. 3. —

Receiver-General's Office,
Toronto, 29 September 1838.

Sir,

IN reply to your letter of the 28th instant, with its enclosures, I have the honour to state, for the information of his Excellency the Lieutenant-governor, in relation to the means of raising money for the various public improvements now in progress,

The debentures at 6 per cent., authorized to be raised in this country, are unsaleable. I have advertised and made myself satisfied that, under existing circumstances, these debentures cannot be sold. The debentures payable in London, at five per cent. per annum, I think can be disposed of here at about par. These debentures must, of course, be made payable on the face of them, at some house or firm in the City of London; and I am not aware, or am I authorized by any offer of their services to the Government of Upper Canada, for such an undertaking. It appears by Messrs. Baring Brothers & Co's. letter, under date the 4th June last, that they decline being made agents for debentures sold in Upper Canada under these circumstances; and it appears to me that the Government cannot issue any more until Messrs. Baring's permission be obtained, or some arrangement can be made with some other house in London to act as agents in these transactions, which will require a full and complete investigation into the finances of the Province before I could expect to obtain the consent of an agent.

I lament to observe, that I can see no way by which money can be procured for the public works until Messrs. Barings either consent to permit their house to be the agents, or some other agent be appointed, which will take time; and, as it is now late in the season, perhaps the Legislature will devise other resources for meeting the demands of the province.

I have, &c.

(signed) *John H. Dunn*, H. M. R. G.The Hon. John Macaulay, Civil Secretary,
&c. &c. &c.

— No. 4 —

Executive Council-chamber at Toronto,
Thursday, 9 August 1838.

Present:—The Hon. Robert Baldwin Sullivan, Presiding Councillor.

The Hon. William Allan.

The Hon. John Elmsley.

— Augustus Baldwin.

— William Henry Draper.

To His Excellency Sir *George Arthur*, K. C. H., Lieutenant-Governor of the Province of Upper Canada, and Major-General commanding Her Majesty's Forces therein, &c. &c. &c.

May it please Your Excellency,

THE Executive Council have perused with much concern the report of the Receiver-general on the subject of loans negotiated in this Province, payable in London.

The Council are not disposed to dispute in any particular the statements and arguments used by the Receiver-general, and by the house of Messrs. Baring Brothers & Co., in the letters accompanying that officer's report, as to the injurious tendency of forcing a negotiation of loans, under unfavourable circumstances in the money market, and of negotiating these loans without the knowledge of the agents by whom the interest had to be paid; or of the negotiation of loans at any depreciation, to the injury of the holders of debentures formerly issued.

The Executive Council feel bound, however, to state circumstances which appeared of paramount necessity, and which will, it is hoped, excuse the measure adopted by this Government in your Excellency's mind, as well as the house of Messrs. Baring Brothers & Co., whose complaints appear not to be without foundation.

Upon the commencement of the crisis in the mercantile affairs of the United States, reports injurious to the credit of the London houses connected with American trade found their way into this Province, and serious apprehensions were entertained by this Government as to the safety of balances belonging to the Province in the hands of the London houses.

These reports induced his Excellency Sir Francis B. Head to direct Mr. Draper to proceed to England, to cause the adoption of some measure of security, and to prevent the dishonour of bills of exchange drawn upon London by Government.

The Receiver-general applied for leave of absence, and proceeded to England at the same time.

Debentures payable in the Province were found unsaleable, in consequence of the scarcity of money throughout America.

The greatest distress in the mercantile affairs of the Province arose, and there was every prospect of its being aggravated to a great and dangerous extent by the stoppage of the public works, undertaken under Acts of Parliament previously passed.

Advices from England continued to be discouraging; and from these it appeared that there was no prospect of the immediate sale of debentures in the London market, where American securities appeared to be peculiarly unacceptable.

The house of Thomas Wilson & Company suspended.

It was represented to the Government that extensive losses would accrue from the decay of the works undertaken, and from the breach of contracts with undertakers of public works and delay in their accomplishment.

The Provincial Parliament was specially summoned to devise measures to meet the crisis which had arrived.

One of the measures of relief adopted, was giving authority to the Government to issue debentures payable in London, in lieu of those payable in the Province found to be unsaleable.

The House of Assembly adopted this measure in anticipation of the debentures being purchased by the banks in this Province, who might use them in raising funds in London, either by way of sale, or by adding their own credit to that of the Government, and thus obtaining advances.

The Act was so drawn as not to leave it in the power of the Government to sell debentures under par; this was in conformity with all the other Acts authorizing the negotiation of loans.

The balances in the hands of Messrs. Wilson & Co. appeared to be in jeopardy, and the Government could not take the responsibility of sending large amounts of public securities to agents in London.

If they were so sent, it did not appear probable that they could be sold at par, and therefore the sending them as a means of immediate relief, would not have the desired effect of giving immediately available funds.

By a sale to the banks in the Province, these funds became immediately available.

It was necessary to name some house in London at which the dividends on the debentures should be made payable.

Under the pressure of these circumstances, the Council most reluctantly assented to the sale of debentures in the Province, and at the time, it did not appear that the banks entered into the transaction without considerable risk; as if depreciation in American securities had continued to increase, they must have been severe losers, notwithstanding their gain by the exchange.

The Council were under the full impression that the transaction would have been immediately explained to Messrs. Baring & Co., and their approval under the circumstances obtained, which they regret extremely was, however, not promptly done.

After the return of the Receiver-general to the Province, upon his reporting favourably of the perfect stability of the house of Messrs. Baring, and upon his statement that he was so well assured of the debentures being saleable in London, a further sum of 60,000 *l.* was transmitted to that house for sale.

It appears, however, that to this day they are not saleable at par, according to law.

The expenditure which these debentures were expected to cover was in consequence obliged to be borne partly out of the sum raised in the Province, though this appropriation was certainly not strictly legal, and partly by a renewal of the measure of disposal of debentures in the Province, adopted with the approval of the Receiver-general.

Had the debentures first negotiated by the banks been sent to London in the usual manner, as the sum of 60,000 *l.* was afterwards sent, and had they been drawn against at once, which was the only way of meeting public exigencies, and had they proved unsaleable, the bills must have been protested, and the credit of the Province would have been ruined. This was a risk which the Council could not incur, from any considerations of expediency or advantage in the transaction.

The Council, in their own justification, beg to state, that the measures for the negotiation of the extensive loans authorized by Parliament were in no wise Government measures; they originated altogether in the House of Assembly, and their adoption was not witnessed by the Council without serious fears of consequent embarrassment.

The Council have made this general statement of the principles upon which they felt themselves compelled to act, and they humbly conceive that subsequent events have not proved the want of judgment in the measures advised by them; they endeavoured to proceed with safety, and if profit was in any degree sacrificed thereto, the Council hope that the state of public affairs will prove a sufficient excuse for their proceedings.

While the Council admit the principle, that the interests of holders of public securities should be most tenderly guarded in the negotiations of new loans, these interests cannot be held as superseding all considerations of public welfare and convenience. The history of the National Debt of England shows frequent and extreme depreciation of public securities, in consequence of new and extensive loans; and this has been too often the case to admit of the recognition of the principle, that the interests of the old holders of debentures should be so exclusively considered as to prevent the negotiation of new loans in the best practicable manner, should the necessities of the Province or the public interests require such a measure.

It is due to the Hon. Messrs. Allan and Draper to say, that they were absent when the first sum of debentures were sold to the banks, and that therefore they cannot be held liable to any censure which may be held to attach to the transaction.

All which is respectfully submitted.

(signed) *R. B. Sullivan, P.C.*

(No. 203.)

COPY of a DESPATCH from Lord *Glenelg* to Major-General Sir *George Arthur*, K.C.H.

Sir,

Downing-street, 31 January 1839.

I HAVE received and have laid before my colleagues your despatch of the 20th November last, No. 91, explaining the present financial state of Upper Canada, and offering various suggestions, by which the existing difficulties may in your opinion be overcome. The importance of this subject, and the manner in which you have brought it under our notice, have commanded our most serious attention.

You propose, in the first place, that under existing circumstances, you should be permitted so far to depart from my Circular Instructions of 31st August 1836, as to assent to any Bill which may be presented to you, "having for its object to allow the Receiver-general to issue, on the credit of the Government, bills or notes, payable in Toronto at 12 months after date, to the extent of 100,000 *l.*, to be used as a circulating medium, and made chargeable on the prospective revenue of the Province."

This, however, you describe as a mere temporary expedient, and you express your opinion that the issue of Government paper, not convertible into specie, is detrimental to the credit of the Province, and that unless there were a prospect of financial relief, founded on a sound and simple basis, no good result could be looked for from it. That "sound and simple basis" you subsequently explain to be the development of the resources of the country, by an emigration on a large scale, "directly facilitated as a great national measure," with the consequent influx of British capital, and the restoration of confidence in the security of the connexion between the Province and Great Britain; the annexation to Upper Canada of a sea-port, and the increase of the import duties; and lastly, the raising of a loan in this country, on the guarantee of the Imperial revenues, to pay off the provincial debt. By the immediate adoption of such measures, you consider that the difficulties in which the Province is now involved may be effectually removed. With respect to your first proposition, I must observe, that the restriction imposed on the Lieutenant-governor of Upper Canada, in regard to money Bills, by my circular despatch of 31st August 1836, was conditionally withdrawn by my despatch to yourself of the 28th December 1837. So far as that instruction is concerned, you are therefore free to act on your own discretion, in accepting or reserving any Bill which may be presented to you by the Legislature for the issue of paper money. But before Her Majesty's Government could give their express previous sanction to a measure such as you contemplate, they would require much more detailed information respecting it than is contained in your present despatch. I proceed to notice the points on which that information is peculiarly defective.

You suggest that the contemplated notes should be used as a "circulating medium;" you do not, however, state in what sums they are to be issued, in what manner the issue is to be made, whether in payment for provincial engagements and disbursements, or upon securities, or through the banks; nor whether it is designed to constitute them a legal tender for debts. I need not point out the essential difference between a loan made on public security, by the issue of State bonds, and a creation of paper money, inconvertible into coin, but which is to be forced into circulation with paper convertible into silver. The first plan only gives to capitalists a means of investment, temporary or permanent, and at the same time affords to the State the use of the capital lent. The second plan increases the whole circulation, by an issue which cannot possibly circulate at par with paper bearing an intrinsic value, and must therefore, if made a legal tender, drive out of the Province a certain amount of the silver now there, either in circulation, in the banks, or in the military chest. The temporary relief, therefore, which such a measure might afford, would be purchased by an eventual increase of the embarrassments of the Province.

Your report is also defective on another point. You state that the existing debt of Upper Canada has been principally incurred in the construction of public works; but you do not state to what purpose the money to be raised by the proposed notes is to be applied. If the public income is insufficient to meet the expenditure essentially public, the balance must in some way be provided for. But if this balance is wanted solely for public works or local improvements, every

general principle is opposed to the raising it by an issue of inconvertible Government notes, unless there be a surplus revenue, or a state of public credit that justifies the expenditure. Under these circumstances, it appears to Her Majesty's Government that the proper course would be, after ascertaining the existing deficit in the revenue, to procure an enactment, revoking, in the first place, the law which prohibits the raising of loans in London on less favourable terms than at par, bearing five per cent. interest, and authorizing the negotiation of a loan in London to the amount of the deficit in the revenue, and no further, on the most favourable terms which can be procured, under the sanction and with the assistance of Her Majesty's Government, but secured on the revenues of the Province. If such a measure should be adopted, you would, in reporting it to me, transmit for the information of Her Majesty's Government, a statement showing the exact amount of the revenues and expenditure of Upper Canada, with such explanations as might appear to you necessary.

In respect to your proposal for the direct encouragement of emigration to Upper Canada, and the annexation to the Province of a sea-port, I refrain at present from entering into any detailed explanation. The latter of those propositions could of course only be effected through the intervention of Parliament, and until the plan of Her Majesty's Ministers for the future government of Canada shall have been laid before Parliament, it would be obviously inconvenient to enter into a discussion on isolated portions of it. But I beg to assure you that neither of those subjects have escaped our attentive consideration.

Lastly, you propose that Her Majesty's Government should, on the security of the British Treasury, raise a loan in England to pay off the whole debt of Upper Canada. The amount of this debt is not less than 1,125,000 *l.*, of which the greater part has been incurred, not at the suggestion of the Local Government, nor with the knowledge of the Secretary of State, or the Lords Commissioners of the Treasury, but by the authority of the Colonial Legislature for public works and local improvements. Her Majesty's Government can discover no ground on which they could propose to Parliament to throw on this country the burthen thus incurred by Upper Canada; at all events, they would feel it impossible to hold out any prospect of this nature at the present moment, when the general affairs of both the Canadas are engaging their serious deliberation, and must shortly be submitted for the consideration of Parliament.

I have, &c.

(signed) *Glenelg.*
