Technical Notes / Notes techniques

The Institute has attempted to obtain the best original copy available for filming. Physical features of this copy which may alter any of the images in the reproduction are checked below.

- [x] Coloured covers/
  Couvertures de couleur
- [ ] Coloured maps/
  Cartes géographiques en couleur
- [ ] Pages discoloured, stained or foxed/
  Pages décolorées, tachetées ou piquées
- [ ] Tight binding (may cause shadows or distortion along interior margin)/
  Reliure serré (peut causer de l'ombre ou de la distortion le long de la marge intérieure)
- [ ] Additional comments/
  Commentaires supplémentaires

L'Institut a microfilmé le meilleur exemplaire qu'il lui a été possible de se procurer. Certains défauts susceptibles de nuire à la qualité de la reproduction sont notés ci-dessous.

- [ ] Coloured pages/
  Pages de couleur
- [ ] Coloured plates/
  Planches en couleur
- [x] Show through/
  Transparence
- [ ] Pages damaged/
  Pages endommagées

Bibliographic Notes / Notes bibliographiques

- [ ] Only edition available/
  Seule édition disponible
- [ ] Bound with other material/
  Relié avec d'autres documents
- [ ] Cover title missing/
  Le titre de couverture manque
- [ ] Plates missing/
  Des planches manquent
- [ ] Additional comments/
  Commentaires supplémentaires

- [ ] Pagination incorrect/
  Erreurs de pagination
- [ ] Pages missing/
  Des pages manquent
- [ ] Maps missing/
  Des cartes géographiques manquent

Th
po
of
film

Th
co
or
ap

Th
film
ins

Ma
in
up
bo
fol

The images appearing here are the best quality possible considering the condition and legibility of the original copy and in keeping with the filming contract specifications.

The last recorded frame on each microfiche shall contain the symbol → (meaning "CONTINUED"), or the symbol ▽ (meaning "END"), whichever applies.

The original copy was borrowed from, and filmed with, the kind consent of the following institution:

National Library of Canada

Maps or plates too large to be entirely included in one exposure are filmed beginning in the upper left hand corner, left to right and top to bottom, as many frames as required. The following diagrams illustrate the method:

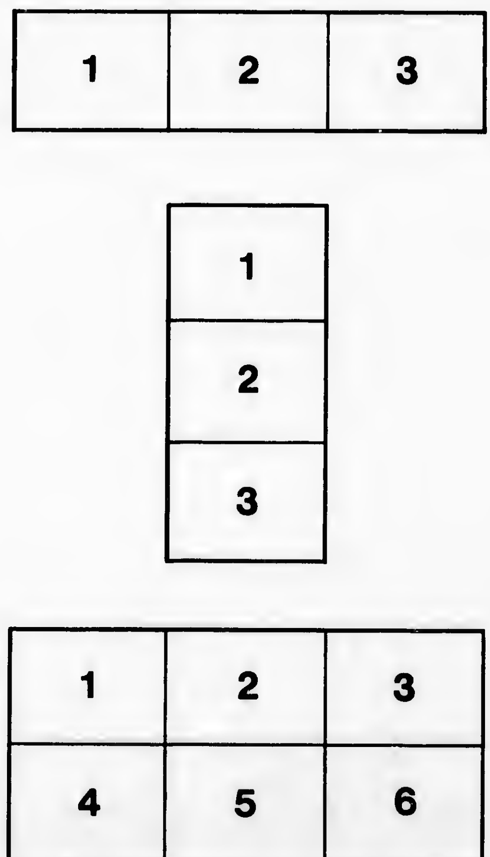
Les images suivantes ont été reproduites avec le plus grand soin, compte tenu de la condition et de la netteté de l'exemplaire filmé, et en conformité avec les conditions du contrat de filmage.

Un des symboles suivants apparaîtra sur la dernière image de chaque microfiche, selon le cas: le symbole → signifie "A SUIVRE", le symbole ▽ signifie "FIN".

L'exemplaire filmé fut reproduit grâce à la générosité de l'établissement prêteur suivant :

Bibliothèque nationale du Canada

Les cartes ou les planches trop grandes pour être reproduites en un seul cliché sont filmées à partir de l'angle supérieure gauche, de gauche à droite et de haut en bas, en prenant le nombre d'images nécessaire. Le diagramme suivant illustre la méthode :



A NEW CHAPTER

ADDED TO

POLITICAL ECONOMY:

POINTING OUT A

100 MILLION DOLLARS CAPITAL

THAT MAY BE MADE AVAILABLE TO CANADIAN INDUSTRIES BY THE ESTABLISHMENT OF A

MORTGAGE BANK OF ISSUE.

T. GALBRAITH, PORT HOPE.

TORONTO:
PRINTED BY HUNTER, ROSE & COMPANY.
1882.

Price 25 Cents.

A NEW CHAPTER

ADDED TO

POLITICAL ECONOMY:

POINTING OUT A

100 MILLION DOLLARS CAPITAL

THAT MAY BE MADE AVAILABLE TO CANADIAN INDUSTRIES BY THE ESTABLISHMENT OF A

MORTGAGE BANK OF ISSUE.

T. GALBRAITH, Port Hope.

TORONTO:
PRINTED BY HUNTER, ROSE & COMPANY.
1882.

Price 25 Cents.

INTRODUCTORY.

THE reputation of Smith's "Wealth of Nations" is something phenomenal. After a hundred years it is considered preposterous to question its doctrines. Writers that have followed have only served to add lustre to the name of Adam Smith. He is the only figure on the canvas that attracts attention. He is the Shakspeare of Political Economy; having absorbed the knowledge of his own and preceding times, and expressed it in an interesting, methodical and convincing manner. But no one man was ever made to do all the thinking for the race. The highest authorities must pass the ordeal of a common experience which is the final test of truth; and it is now suspected that the pen dropped from the fingers of that great author before he had completed his contract. He appears to have left an unfinished building—an arch without the key-stone—a column without its capital! Hence another chapter must be added to give unity and significance to the principles of Political Economy. But if I should undertake the task you will relieve me, in this limited space, of the necessity of again defining the well-known terms in use; and of repeating all about the cowry shells, leather money, and all that sort of thing; have they not been reiterated a thousand times in the A B C of Political Economy?

Perhaps no passage of the "Wealth of Nations" has been the occasion of so much discussion as the chapter on "Stock Lent at Interest." Smith did not concede what was generally believed that the influx of gold from the Spanish American mines was the cause of the reduction of the rate of interest from that of ten per cent. previous to their discovery, to five, four, and even to three per cent per annum, in the countries favored with the money. The facts are well attested by all writers on the subject; and Smith himself did not doubt the facts, but contended "that an increase of money taking place while the quantity of commodities to be circulated by it remained the same would only have the effect of lowering the value of money, and with it the value of the interest; but would not reduce the *rate* of interest." It is obvious the immediate effect would be, as he said, to inflate prices; but the quantity of commodities could not long remain the same; for either by purchase or production they would very quickly be increased. His conditions were th -fore an impossibility in a country having foreign trade relations.

When gold was first discovered in California the prices of provisions and other necessaries went up with a bound; the cost of board, clothing, tools, &c., was enormous, but that only stimulated imports and productions to fill the void. The value of the money was gradually increased, and as a certain writer remarks, "It is a historical fact that since 1848 California has produced $1,000,000,000 in gold; astonishing as this statement may appear it is none the less true; Australia, that island continent has produced £200,000,000 in gold; and the grand ' tal of bullion from all sources since 1848, amounts to $5,862,000,000." Yet in that short period have prices declined lower than ever in the countries benefited by these discoveries; and interest as well.

The effect of the influx of the precious metals from all these sources was simply equivalent to so much *fixed* capital made active. It stimulated productive and manufacturing enterprise and levelled prices; and as the annual revenue increased beyond the powers of consumption, the loanable capitals increased; and their competition for employment reduced the rate of interest. The influx of gold to Europe performed a similar service before the eighteenth century to what banks of issue did afterwards, in furnishing an equivalent for so much fixed capital set free for the purposes of commerce. No nation has done more to increase the circulation than Great Britain, especially Scotland. There, the circulation is more than double that of Canada, yet a dollar will purchase more commodities than in almost any other country, and the rate of interest is lower. The explanation is, that increased circulation stimulates industry; and in the long run increases loanable capitals, raises wages, and reduces interest, as well as the cost of living.

One does not readily catch the Scottish philosopher napping over any point upon which his attention has been thoroughly aroused; but the utility of the fixed capital appears to furnish an exception in this respect. In the chapter "On the Division of Stock," he defines capital to be that part of the stock which is in excess of immediate consumption, and from which a revenue is expected, and divides it into fixed and circulating capital. That part of the capital of the farmer, for example, vested in the implements and land, is the fixed capital, and that which is employed in wages and maintenance is a circulating capital. The capital vested in the tools of the manufacturer is fixed, and the goods he buys and sells, wages paid, &c., is the circulating capital. The capital of the merchant is almost entirely circulating. The intention of the fixed capital he affirms to be the increase of the productive powers of labor—a farm well improved will yield a better return on that account. Again, he says that every saving of expense of the fixed must increase the circulating capital—the fund which puts industry in motion; but with all that he did not comprehend that borrowing money on mortgage was a most effective method of making the capital in the land active. The casual remark that "the Scotch invented another method of issuing their notes by granting what they call cash accounts on landed security," showed his ignorance of their system of banking, which was particularly designed to make available the fixed capital, in their business and industry. Again, his comprehension of banking was limited; as he appears to have thought there was always a sufficiency of gold circulation, and that bank issues were limited to supplying the place of gold set free for use in a foreign market. He had not the most distant idea that the fixed capital of the real property might afford an exhaustless supply of bank issues upon capital, and far better than gold itself. It is curious to observe how the father of Political Economy so coolly tolerated the existence of such a large fund of fixed capital, when its activity was so much required; but he must not be held responsible for what he did not pretend to do; he was no discoverer nor projector. Paterson, of Bank of England fame, and Law of that of France, accomplished a thousand times more for the world's industry than did the author of the "Wealth of Nations." He was simply the historian of Political Economy, and failed even to apprehend the import or to explain the banking of his own country. Admirers of his works may do well to remember that a nation may be very wealthy while the majority of the inhabitants suffer from pinching poverty; that the distribution is a higher purpose than the accumulation of wealth; and moreover, that banking is the sum and substance —the beginning, middle and end of Political Economy.

PRINCIPLES OF TRADE.

It is sufficient to say that gold, the legal tender, is money; and that currency is a debt payable on demand. All fair commercial transactions may be ranged under the three following classes:—

FIRST,—Cash sales; requiring no definition.

SECOND,—Debts payable on time; these include all ordinary mercantile business, where a certain amount of capital is pledged to make good losses. In such cases time is given to realize by the sale of assets to pay off maturing obligations. The amount of capital necessary to insure success is settled by agreement between debtor and creditor. When one applies to a wholesale merchant for credit he is met with the enquiry—What is your capital? and is generally credited in proportion. If, in starting business with a $1,000 cash, goods valued at double that amount may at least be had,—the business ability and character of the purchaser being considered. Failure in this class of business cannot affect the general trade. That is credit business.

THIRD CLASS,—Debts payable on demand, or currency; an adequate capital has to be pledged for the immediate payment of debts denominated currency. A bank of issue is simply a commercial company, but differing from the second class in that its debts are payable on demand. It must have a capital to do as it promises; or failing that, its assets should be, under all circumstances, adequate security for speedy payment. It is not sufficiently noted by writers that as discounts create deposits, as well as circulation, they both are virtually circulation, if payable on demand.

Beyond these three classes there is no conceivable transaction, excepting it may be a "national currency," that is, a debt without any conditions of payment Paper currency cannot be money, but only a debt payable in money. The mint does not give value to gold, but makes it money by designating the fineness and quantity in the sovereign. A promise signed by the Government and not issued on capital, therefore, is not a proper currency. The Government has no capital. A Government issue is well defined as the promissory note of your hired man! A sound currency must either be capital, or an equivalent of capital, to be a perfect medium of exchange, or measure of value.

CANADIAN BANKS.

Let us now analyze the Dominion banking system, and observe how it tallies with these obvious and universal commercial principles. The issue of currency you observe must be a fair business transaction; otherwise it will lead not in the direction of progressive prosperity, but to bankruptcy and ruin.

The statement from Ottawa for December, 1881, is nearly the following in round million dollars:

PAID-UP CAPITAL.	SPECIE.	DOM. NOTES.	DISCOUNTS.		
56½	6½	9¾	U. States, 19¾	Deposits at Notice,	36
			Dominion, 163¼	" Demand,	53¾
				Circulation,	32¼
			183		122

The capital is merged in the assets, but it has undergone a total transformation, you observe,—changed to a different substance. Originally, it was capital available in a foreign market; now it has assumed the form of credit, and ranks with other evidences of or titles to property which swell the bulky assets to 199¼ million dollars. In amount the paid-up capital is less by 3½ millions than it was in November, 1879, but discounts have increased since that date from 154 to 183 millions, including all sorts of property. The circulation, together with deposits on demand have also increased from 63 to 86 millions, whilst the gold reserve is less than seven per cent. of the immediate liabilities. With less capital the credit business has vastly increased, say 29 millions during that period. It is worthy of note that with credit banks no recognised relation is observed between the capital and the volume of credit business transacted; that is—no limit is put to speculation. An uncontrolled power of inflation and contraction—to make or mar—over the manufacturing, farming, mercantile and laboring interests of four millions of people, is vested in or thrust upon the banking institutions by the legislature, without any reserve or guarantee for proper management. But the legislature, not the banker, is to blame, for he is powerless under the law to render assistance to the debtor class in the hour of trial, because if a bank cannot pay, it is incapable of giving security to its creditors.

To put the above statement into a more compact form: Upon limited capital the banks borrow from one class of customers and lend to another class. With 56½ millions capital, 122 million dollars are borrowed from circulation and deposits, payable mostly on demand to class A.; and 183 million dollars are lent to class B. at 3 months' time. These figures are governed very much by the condition of the foreign trade. Every business man knows that while exports are active, and foreign exchange plentiful, discounts are easy at the banks; because the purchase of exchange is equivalent to buying gold on credit. But when a turn of the tide takes place and exchange is scarce, the banks are obliged to shut down discounting, and call in loans, as they are forced to collect to be in a condition to pay. A tight money market causes a rise in the rate of interest and some of class A. may want exchange; for, although creditors of the banks, they may be debtors abroad. Others of class A. may wish to invest at paying interest, and some may even check out their balances for safety. Every demand on the bank serves to tighten the screws on the debtor class, who have maturing notes to meet. In such an emergency the banker is powerless to protect his customers. He is forced to collect to meet his own engagements. The stocks of merchants are thrown on the market; and debtors in wild fury submit to every sacrifice to get the cash. The money market tightens, and finally a run is made on the banks.

THE CRISIS OF 1875.

Such an event, it will be remembered by business men, occurred not so long ago. With but little more capital an increase of discounts took place between 1872 and 1875 of from 82 millions to 141 millions; when, in consequence of foreign exchange falling short in the market in Feb. 1875, the banks stopped discounting and called in loans; and during that year the discount line fell back to 112 millions—a reduction of 29 millions! That caused 30 millions of business capital to be thrown into bankruptcy. In 1876, 25½ millions; 1877, 25½ millions; 1878, 24 millions; and in 1879, 29 millions. In all 134 million dollars of bankruptcies took place; and all sorts of property dropped in value fearfully, and why? Because bankers were powerless to protect their debtors—because of the difficulty of borrowing on their assets. A disregard of the just relations of capital and credit led to an increase of 75 per cent. in discounts in three years, in direct violation of the laws of trade. Banks lend right and left while exports are active, and only when exchange falls short do the scales fall from manager's eyes; and in the hurry to recover lost ground, they fall foul of the poor debtors, and destroy the geese that layed the golden eggs. At this point of the programme trade is at a standstill. No business, no money; and what follows? The rate of interest having doubled, money comes in through the Loan Societies to be lent on mortgages; exchange is sold to the Banks; and business begins again to pulsate. The relief which the debtor class fails to impart, the straight loan societies afford. When credit fails capital comes to the rescue. Thus forty million dollars foreign capital have been invested by loan societies on mortgage. If banks in a crisis have barely the stamina to ride out the storm, let alone carry through their customers; if when exports fall short they can neither secure their creditors nor protect their debtors: there must be something rotten in the state of Denmark. An institution which serves only as a financial sieve through which the trade percolates, and pays toll, as flour through a bolting cloth, may well be termed a parasite that prospers on the profits of industry.

But take another view of the case: Suppose, for example, that the assets, 196¼ million dollars, consisted of mortgages instead of credit pledges, under no circumstances could the trade apprehend danger; as the assets might be made available in any market for gold, foreign exchange, or else accepted as security for speedy payment, by creditors. And the debtor class, who are generally intent upon improving their own wealth with that of the community, might never be sensible of the difficulty.

A money crisis or commercial revulsion was unknown before the establishment of the Bank of England, and is as easily accounted for as the foundering of a ship or the bursting of a steam boiler. A credit bank undertakes a volume of business disproportionate to its capital, in its haste to get rich; and the assets being difficult to estimate, cannot afford security if creditors, from any unlucky circumstance, take alarm, as the latter are payable on demand. If it can neither borrow nor collect, it suspends payment, and the derangement to trade is proportionate to the business done. It is quite impossible for a bank to fail if it deals in such assets *as may be valued by the banker and his creditors with equal facility*. If banks were held to guarantee their integrity, inflation would be prevented, and subsequent contraction of prices be made impossible. All financial storms are traceable to excessive credit, and governed by the principles explained. It is not the solvency of the banks that is under consideration, but their competency to assist the trade. It is their vast powers of inflation and contraction which, at inconvenient times, threaten with widespread embarrassment and ruin the general trade, that is worthy of being noted by the student of Political Economy.

Credit has its Uses.—While faith is found on the earth there must be credit; but it must be relegated to the general trading community; it falls under the second class of mercantile transactions. A merchant who can give security for his debts may be said to deal on capital; one who cannot, to that extent has he speculated. If credit may be defined as a debt not secured, then capital is a debt secured—speaking of goods not in possession. It is replied, the banks do business on the goods, but the tenure by which they are held is of the very essence of credit, as the bailiff so frequently verifies—no goods! A promissory note bearing undoubted names without the goods or property is not worth a straw. Then banks, as well as mercantile firms, fail long before they are gazetted. As a general rule, they are marked good by Mercantile Agencies up to the very last. It is crises that test mercantile virtue; when there are no suspicions, of course, everything is good enough. Banks of issue which fail to maintain prices, and let the bottom fall out of business, are unfit to be entrusted with the powers of issue. To charter such institutions is as wise as to expect to coin gold out of whims and fancies. It is basing trade and industry on an illusion. It is high time the legislature in its acts should have regard to facts not fancies, to capital not credit, in its financial legislation.

THE CAUSES OF THE IMPORTATION OF FOREIGN CAPITAL.

This question deserves some attention. Not having the data to estimate the foreign indebtedness of the Dominion, take the authority of the London *Economist*. It estimrtes it all told at seventy million pounds sterling; which at 5½ per cent is a drain of fifteen million dollars interest annually, and lessening the effective value of the annual exports that much. The bells ring from Dan to Beersheba if an English Earl or French Count deigns to invest a few thousand pounds, or as many francs, in Canadian mortgages; and instead of regarding it in a proper light it is pocketed by servile ignorance as a matter of course that Canadians are as poor and cheap as they are taken to be, and as stupid on money matters. If Canadian capital be exhausted, how is security given for the money borrowed? Interest paid for money in this country is something enormous. The average is fully 10 per cent. If mercantile paper be discounted at seven, that is eight per cent interest, and balances left at the credit of customers are counted upon. Whether these are from discounts or otherwise, the borrower foregoes the interest, as the banker expects an account to be worth at least ten per cent, and that is decisive as to the average paid.

Prof. Bonamy Price says that four per cent. was the average paid in England the past thirty years. As a hundred years is but a day in a nation's industry take the following figures as a basis of comparison—interest being compounded annually.

One dollar at 3 per cent, a hundred years, is..........$		19 38
" 4 " " "	....	50 50
" 5 " " "	....	131 50
" 6 " " "	......	340 00
" 8 " " "	....	3,200 00
" 10 " " "	....	13,780 00
" 12 " " "	....	84,400 00
" 18 " " "	....	15,000,000 00
" 24 " " "	....	2,551,000,000 00

If at four in England and at ten per cent. here, then Canadian industry pays two hundred and seventy-four times more interest than British industry does, for the use of the same amount of capital during a hundred years! But if you object to 10 as the average latterly, take 8, and in England 3 In that case one hundred and sixty times more interest is paid in Canada than in England for the use of the same amount of capital during a hundred years. Interest has been exceptionally low in Canada the past year, yet the most favorable discount rates for commercial paper have been 6 and 7 per cent. or double what is paid in England; and there is no guarantee for even such rates continuing; on the contrary higher rates than ever may fairly be expected before very long, so says "old probabilities." Such questions, however, can only be argued upon fair average: It will be remembered that all interest is compounded after a first payment. There is something, surely, at fault in the "ruling principles" of such philosophers who contend that all that is wanted in order to establish industries in Canada at such odds is to raise the tariff! I am free to maintain that the difference between one country and another in industrial ability and power will finally be found in the rate of interest paid.

DIVISION OF CAPITALS NECESSARY.

The field of industry is divisible into two parts—personal and real property—the goods and the mortgages. It is not possible that banks dealing in the goods can directly aid the landed interest. That is why a farmer has to apply to a Loan society when he wishes to borrow. The lands and the goods are two distinct capitals and cannot be mixed up in banking business with advantage to the general public. I am pointing out a principle which unaccountably has been overlooked by writers on political economy. If the two properties be mingled in the transactions of a bank of issue, the real estate in case of suspension or failure must foot the bill of losses. That was the case in the City of Glasgow Bank failure; and must be so in every case. Evidently division of labor, that great principle so well elaborated by Adam Smith, has also to be extended to properties and their capitals. If one should go to a shoemaker for hats, or to a hatter for shoes, he could hardly commit a more stupid blunder than to go to a credit bank to discount a mortgage; as the borrower on mortgage is entitled to longer time as well as to lower interest than the borrower on promissory note. It is loosely imagined that real estate is held for the payment of personal debts, but that may not hold good at all times, for a merchant after he has exhausted his credit at the banks may encumber his real estate at convenience. The capitals of the real and personal properties are therefore as distinct from each other as oil and water; but notwithstanding their equal claims upon the currency, the rights of issue are denied to capital and extended to credit, thereby contracting the basis and limiting the volume of the circulation, and is a leading cause of the prevailing high rate of interest. Then you have to consider the risk of dealing on credit as present and prospective losses have to be covered. But that is not all, you must take into account the void caused by no issue on the real estate. These three causes—a monopoly of credit issues, the hazard of credit transactions, and no issues on mortgages—fully account for the high average rate of interest in Canada —274 fold that paid by British industries during a hundred years!

THE LOAN SOCIETIES.

These facts account for the country being overrun by loan societies. "Where the carcase is there the eagles are gathered together." There are now nearly a hundred, and new charters are applied for every month of the year. They mostly borrow at 4 to 5½ per cent. and lend at an average from eight to ten per cent. on the very best security. The monopoly of credit bank issues on the one hand and the best mortgage security on the other, afford the leading inducements to the foreign capitalist to invest in Canada.

This formidable list of loan societies doing business in the Dominion is furnished by the Government, Sept. 1881:

NAME OF COMPANY OR SOCIETY.

Ontario.	
Commercial Building Society	Toronto
Imperial Loan and Investment Company	"
Freehold Loan and Savings Company	"
Union Loan and Savings Company	"
Canada Permanent Loan and Savings Co	"
Western Canada Loan and Savings Company	"
Building and Loan Association	"
The British Canadian Loan and Investment Co	"
Farmers' Loan and Savings Company	"
People's Loan and Deposit Company	"
London and Ontario Investment Co. (Limited)	"
The English and Scottish Investment Co. of Canada	"
Canada Landed Credit Company	"
Home Savings and Loan Company (Limited)	"
London and Canadian Loan and Agency Co. (Limited)	"
Toronto House Building Association	"
Trust and Loan Company of Canada	"
Ontario Industrial Loan and Investment Co (Limited)	"
The Canada Mortgage Agency	"

Ontario.	
National Investment Company	Toronto
North British Canada Investment Company	"
Scottish Ontario and Manitoba Land Co. (Limited)	"
Scottish American Investment Company	"
The Real Estate Loan and Debenture Co.	"
Bristol and West of England Canada Land, Mortgage and Investment Co. Toronto	"
Manitoba and North-West Loan Co. (Limited)	"
Ontario Loan and Debenture Company	London
Ontario Loan and Savings Company	"
Superior Savings and Loan Society	"
Huron and Erie Loan and Savings Society	"
Dominion Savings and Investment Society	"
Agricultural Savings and Loan Company	"
Canadian Savings and Loan Company	"
London Loan Company of Canada	"
Royal Standard Loan Company of Canada	"
The Financial Association of Ontario	"
The English Loan Company	"
The Ontario Investment Association	"
Hamilton Provident Society	Hamilton

ONTARIO.

Anglo-Canadian Mortage Company, merged into the Omnium Securities Company. Hamilton
Landed Banking and Loan Company......... "
Canada Loan Company......................... "
Canada Loan and Banking Company........ "
Hamilton Real Estate Association............ "
Metropolitan Loan and Savings Company Ottawa
Civil Service Building Society .... "
Société de Construction Canadienne.......... "
Ottawa 2nd Mutual Building Society......... "
Capital Mutual Building Society................ "
Southern Loan and Savings Company.. St. Thomas
South Western Farmers' and Mechanics' Savings and Loan Society................ "
Elgin Loan and Savings Company.......... "
Ontario Building and Savings Society..... Kingston
Frontenac Loan and Investment Society.. "
Lambton Loan and Investment Company.. Sarnia
Huron and Lambton Loan and Savings Co.. "
Royal Loan and Savings Company...... Brantford
Brant Loan and Savings Company........ "
Oxford Permanent Loan and Savings Society .. .. Woodstock
Security Loan and Savings Company. St. Catharines
Ontario Loan and Savings Company...... Oshawa
Midland Loan and Savings Company.... Port Hope
Guelph and Ontario Investment and Savings Society.............................. Guelph
Hastings Loan and Investment Society.. Belleville
Orangeville Building and Loan Asso'n. Orangeville
Peterboro' Real Estate Association...... Peterboro'

QUEBEC.

Montreal Loan and Mortgage Company... Montreal
Compagnie de Prêt et Crédit Foncier....... "
Crédit Foncier du Bas Canada............. "
Provincial Loan Company.................... "
Metropolitan Building Society............... "

QUEBEC.

Société Canadienne Française de Construction .... Montreal
La Société Permanente de Construction Jacques Cartier......................... "
Canada Mutual Building Society........... "
Société de Construction Canadienne........ "
Commercial Mutual Building Society...... "
Canada Investment and Agency Company.. "
French Canadian Building Society......... "
Imperial Mutual Building Society.......... "
Montreal Mutual Building Society.......... "
Provident Mutual Building Society......... "
Victoria Mutual Building Society.......... "
Colonial Building and Investment Asso'n... "
Montreal Building Association................ "
Montreal Investment and Building Company "
Quebec Permanent Building Society...... Quebec
Société de Prêts et Placements de.......... "
Artizans' Permanent Building Society....... "
Société Permanente de Construction du District d' Iberville.................... St. John
Lévis Permanent Building Society.......... Lévis
Sherbrooke Permanent Building Society. Sherbrooke
Waterloo Imperial Building Society.... Waterloo

MANITOBA.

Manitoba Investment Association...... Winnipeg
Dundee Mortgage, Trust and Investment Company.................................. "

NEW BRUNSWICK.

St. John Building Society.............. St. John
The Provincial Building Society.......... "

NOVA SCOTIA.

Nova Scotia Permanent Benefit Building Society and Savings Fund............ Halifax

There are sixty-seven in Ontario—eight of which did not comply with the request of the Government for a statement of their business. The remaining fifty-nine societies have a paid-up capital of 19½ million dollars. The cash value of assets is put at 59 millions, and the value of the property held by them at 112½ million dollars! They have borrowed 31 millions for the purposes of lending.

Quebec has twenty-six societies, having 3½ million dollars capital, and hold 3¾ millions worth of property.

That statement is a suggestive one not merely to the student of Political Economy, but also to the intelligent farmers of Canada. Wonder if a crooked Loan Society would thrive in Aberdeen! The farming and landed interests finding the banks incompetent to accommodate their necessities for money have here borrowed fifty-nine million dollars in straight loans and otherwise at from eight to ten per cent., and more in some instances, per annum!

The 31 million dollars borrowed by the societies is chiefly from foreign sources, and the interest of course is sent abroad annually. Out of the 19½ millions capital paid-up, the larger part must have been imported.

One of these societies, established in 1873, with a paid capital of but $560,000, has borrowed $3,000,000, and holds property worth $7,317,737; its mortgages pay 8½ per cent., and dividends 10 per cent. Another with apparently no paid-up capital holds property valued at $15,000,000 and divides 12 per cent. on the subscribed stock. Another with over $1\frac{1}{2}$ millions paid-up borrows $4\frac{1}{2}$ millions, has assets in cash $6,315,536; property held at $12\frac{1}{2}$ million dollars and pays 8 per cent. dividend. Another, with capital of $989,000, borrows $1,625,000 and has cash assets $2,089,742. The property held is valued at 7 million dollars. These few examples show their extensive powers of borrowing and lending upon mortgages, with comparatively insignificant capital; and their assets are of such a reliable character that they might, in case of necessity be rediscounted in the British or French markets, at convenience.

While the banks deal on credit, the loan societies deal on capital. The former are chartered to manufacture their funds, and the latter are forced to import theirs. When the banks are hard pressed for money they have recourse to the latter for assistance. These two classes of institutions afford a practical definition of the terms credit and capital, which are puzzling financiers every day.

It may be asked what do all these facts, calculations, reasons and inferences suggest? The reply is the necessity for a bank of issue, established to deal in mortgages.

A NEW BANK OF ISSUE.

Mortgages are at once capital or security for capital, as the case may require. What is wanted is a charter to recognise their value and business then may proceed. Mr. Smith desires a discount line on his property, which is good security for say $10,000. How long? Fifty years if you wish, Mr. S. That is something new; how can you lend at so long time? The reason is, the bank gets as good as it gives—a property that is always available. True, the issue may come in for gold the following day, but the banker is prepared for it. The secret is, this bank deals in mortgages—assets which are always available in a foreign market; and can in its corporate capacity at all times protect its debtors—by affording at least, security to its creditors; by selling exchange or paying the gold. You object; a mortgage is not payable at three months' date; but it is negotiable to-morrow. The banker has no motive to call in loans unless the property declines in value. The borrower looks to his own interest, and the banker minds his own business. Mr. Brown, a neighbour of Smith's, enquires what can be done with his property? You say it is equal in value to Smith's, and you don't want the money? Invest in stock, Mr. B., it now pays 10 per cent. dividend—*limited liability.* The bank buys Smith's mortgage with its issue, and Brown's mortgage with its stock at par. These two classes of transactions comprise the chief business of the institution. Of course it receives deposits, deals in foreign exchange on exports, as well as on mortgages and in gold. With but ten millions capital in mortgages, thirty million dollars of mortgages might be discounted, having thirty millions circulation payable on demand; the assets would be 40 millions, the debts 30 millions. Such a bank might discount at 6 per cent., and declare a dividend of 12 per cent.; or at 5 per cent., and declare a dividend of 10,—after due allowance for expenses. The obligations of this bank would differ from those of the Trust and Loan Co., in this particular: The debts would be owing in Canada as currency and not requiring payment;

whereas the debts of the latter are payable principal and interest in a foreign country—in London. The Trust & Loan borrows in London on its debentures a $100,000; and sells the exchange to the banks in Canada and reloans their circulation on mortgage. That $100,000 is payable abroad with interest. The new bank would afford the same accommodation in this manner: It would open debtor and creditor interest accounts with customers here for say $100,000 secured by mortgages; then, it would only require probably a tenth part of the sum to meet payments in gold—only that much would have to be borrowed. Do not, if you please, insist that this bank would encourage inflation; as it would merely take the place of the loan societies. The landed interest, you see, must have money, even if it has to be borrowed in other countries; and the new bank furnishes its issues as the existing banks do, but at longer time, on safer terms, and payable on demand—and moreover keeps the interest and profits in the country. But what is the difference between lending bank issues and lending borrowed money as the societies do—the security being equal? If there be any difference it is surely in favour of domestic industry. The loan societies are owing 40 million dollars abroad; that is, certainly, a financial blunder of the gravest sort. The proposed bank would afford A HUNDRED MILLION DOLLARS OF ACCOMMODATION on that much borrowed. It would lower the rate of interest one-half and establish on a sound basis all important domestic industries, and save interest to the Dominion. If a banker were asked why he did not import his funds to loan instead of getting them from deposits and circulation, he would reply, because there would be no money in it.

The proposed bank conforms to correct commercial principles: pledges an adequate capital to pay its debts, can always secure or pay creditors, and protect debtors. That is what may be called guaranteeing its integrity. The daily settlement of balances at the clearing house would administer a salutary check upon speculation, and keep the circulation healthy. As matters now stand, a banker may discount paper to many times the paid-up capital, there being no limit to the speculation of credit banks; but the moment you establish the bank dealing in capital, the credit banker is compelled to limit the excess of issues by a daily reckoning. The causes of inflation are excessive credit issues; but no arbitrary law has ever been competent to the task of regulating credit issues. That can only be done by the competition of issues on capital. When that is accomplished the causes of commercial crises are prevented.

As has been pointed out, division of properties, of capitals, is as important a principle as division of labor. Every tub must stand upon its own bottom. In a true economy, credit must be made to answer for itself, as assuredly capital will for itself. In no other way can you give activity to the fixed capital of the landed estate; and you may be sure that every dollar of it is wanted to develop industries and do justice to the laborer—the very class that society cannot do without. The influx of gold to Europe in the sixteenth and seventeenth centuries was equivalent to giving activity to so much fixed capital, while the proposed bank gives activity to *the capital itself.*

THE FIXED CAPITAL DEFINED.

It will be seen that merely discounting a mortgage does not make available the fixed capital—that is done every day by the loan societies for proprietors who are hard pressed for money. That is only half the import of a mortgage. I have shown that a mortgage is *capital* to the extent it is *security*; hence, equal to bank stock. When that fact is understood, it will be evident that the country possesses any amount of banking capital in its mortgages. Take this illustration: six proprietors with farms worth $10,000 each. At present, the sum of $6,000 might be borrowed on each property, in all $36,000, at say 8 per cent. But obviously they all are borrowers, and, bidding against themselves, keep up the rate of interest. But if, on my principle, two of these proprietors pay off their mortgages, and take bank stock for $12,000; then $24,000, or half the capital of the whole, would be thrown on the market—reducing the rate of interest to borrowers one-half, or four per cent. Again, you will observe that the reduction of interest would not be confined to borrowers on mortgages, but the advantages would be reaped also by persons discounting their paper at the credit banks. The mortgage bank would reduce the rate, but all classes would share the benefit On that principle only, can a cash trade be done by the retail business. There is only one house I know of that does a purely cash business. It can never become general because the present banking law prevents the issue of a sufficiency of currency for the purpose. If I am not correct, what means the existence of over a hundred million dollars of fixed capital? Either the fixed capital is of no account, or the Political Economy of the nineteenth century is of no account! What say you? If I have not given an answer to the question, then let an adequate reply be given. The industrial interests of the country demand an explanation.

CAPITAL AND LABOR.

Were the economy of banking understood, writers, such as Prof. Goldwin Smith could never commit the blunder of affirming that "there can be no contention between capital and labor" at the very moment when the capitalists and laborers were at daggers points. The error lies in imagining that all capital has a bearing on the money market, as all the labor certainly has on the wages market; but that is far from being the case. When a low rate of interest prevails, the capitalist and laborer work together in perfect harmony, for a mutual advantage; but when the average interest is high, the operative is at a disadvantage, as he is chargeable with the interest for capital that employs him. The amount of capital that bears on the money market is limited to the issues of credit banks which keep up the rate of interest, and proportionately limits the quantity of subsistance that wages command. The mission of Political Economy is, by a correct system of banking, to place labor and capital upon an equal footing. When that is done there can be no longer any controversy between them.

Take the example of a capitalist with $10,000, who lends it at 10 per cent., compounded annually. In 17½ years it amounts to $50,000, principal and interest. He may, after having lived that time comfortably, be the possessor of $20,000;

whereas, had the rate only been 2 per cent., the capitalist would be a poorer man at the end of the period. The active laborers employed by it would in the latter case be taxed with less interest and receive more wages.

SCOTTISH BANKING.

The nearest approach to just principles in practical use is that of the unlimited liability banks of Scotland. With a comparatively small paid-up capital an extensive business is done and very profitably. Over a hundred years ago Scottish industries were insignificant and demanded more accommodation. The Scotch did not resort to the device of a high tariff against English goods; nor did they clamor, like Canadians, for more credit; but said to themselves, we must have more capital, at least more capital made active, and "unlimited liability" was resorted to. The defects of the system caused the failure of the City of Glasgow Bank. With but five million dollars paid-up capital, it transacted a business of fifty million dollars! But if, at the failure, ten millions of the assets proved worthless, it resulted from discounting bad paper; and the real estate of the shareholders had to make good the deficiency; so all the debts, deposits and circulation were paid. The error lay in doing a mixed business—on credit as well as on real estate. The capital was real estate and it discounted real estate. So far, so good: but it discounted also paper, bad paper, and came to grief, but paid its debts. Unlimited liability is a barbarous device, but it could not be avoided in a country where the tenure of property is so involved by feudal usages—when in borrowing money the creditor demands possession of the title deeds as security. Yet those who blamed the bank for the shareholders' losses, were unreasonable; for had they not paid, the creditors would have suffered equally. The Scottish law is absolute,—debts must be paid; recognizing the principle that a people who pay their debts may always borrow at the most favorable market rate. In their banking, the Scotch show admirable tact and knowledge of money matters in relation to their industries. They brought down the rate of interest to a level with the English market, and raised their manufactures of iron, tobacco, sugar, cotton, chemicals, woollens, &c., to the same plane of excellence with their contemporaries. A sterile and mountainous country was soon made to occupy a foremost place in agriculture and gardening. The iron ship-building yards of the Clyde astonish visitors; at one time lately it was reported that no less than ninety steamships were on the stocks. That industry is simply prodigious. In 1838 there were only 760 steamers, of 140,718 tonnage, in all Great Britain, and of that only 8,000 tons belonged to Glasgow. Now last year—1881—no less than 340,828 tons of shipping were built on the Clyde alone, being an increase of 98,000 tons over the previous year, and about two and a half times more than the entire steam-shipping of Great Britain forty-five years ago. There were 217 iron steamships and 52 sailing vessels built on the Clyde in 1881. The increase alone as mentioned above is a greater amount of tonnage than the aggregate of all the Allan line of steamships and Clipper ships. England, Russia, Germany, France, Turkey, Italy, and the South American States—indeed all nations—go to Scotland for their steamships. Every steamship now crossing the ocean is made of iron or steel, and no matter what flag she carries she is essentially a product of Scottish genius. Great efforts have been made to set up rival steamship-building yards to those of Scotland, but the best things they have done are simply the appropriations they have made of the latest Clyde improvements in the hulls and compound engines. It is upon little Scotland, with a population less than the City of London, that the glory and power of Great Britain's modern commercial greatness now rests. Lord Roseberry said lately, at the University of Aberdeen, that since the Union, Scottish industries had increased so rapidly as almost to obliterate her nationality!

The Scottish banker is an acknowledged success; he even makes a convenience of the Bank of England itself; preferring to make a draft on it for gold, rather than to keep the expensive article on hand. The suggestion made, of a new bank, is virtually the Scottish system adjusted to this country with its superior registration law—discarding unlimited liability, but discounting only one sort of property, and that the best.

REVIEW.

In briefly recapitulating the leading points of my argument you will observe that all the commerce of the country rests for a foundation upon a currency—the debts of credit banks. As is the foundation so will be the superstructure in stability or otherwise; for ability to meet payments, either on demand or on time, depends finally upon the character of the assets. The Government, in granting the charters, imagined no doubt that they legislated upon a fact, a substance, instead of an illusion; but such is the character of credit that the widest difference of opinion may obtain as to the value of assets in credit pledges to meet a sudden demand for payment. Hence the glaring economic fallacy to which the trade is committed by the Canadian banking law. To the limited basis of credit add the hazard of credit transactions and you have the causes of the chronic high rate of interest; which, more than tariff, or any other cause, have hindered the development of general industry. The agricultural class, mark you, are barely recognized as a component part of the industrial system. Money is doled out to them in homœopathic doses, and in indirect ways, by the sale of crops, &c. The farmers are relegated beyond the charmed circle of bank favors as a class that may very well be done without, or handed over to European usurers and the tender mercies of loan societies, their agents in Canada.

CREDIT, AN UNKNOWN QUANTITY.

It looks as though capital and credit had never been defined. A broad distinction must now be made. With the exception of the specie on hand, the capital of the banks no longer exists in its original form. It has long ago furnished foreign exchange for short exports, and is now merged in the assets consisting of credit pledges. The design of the banking law is to clothe credit with the powers of capital, to evolve capital in fact from an unknown quantity, but with what success the reader may judge. A promissory note is discounted with circulation payable in gold, and when that comes in for redemption in quantity the assets are put to the strain to furnish the gold. While exports are active the exchange commands the needful; but when that source fails there is no alternative but to call in loans, and force the trade into bankruptcy. Had the law extended to a bank of issue dealing in mortgages—in capital—the assets in which all loan societies deal,—embarrassment to the general public could never happen. Carskin was a model banker. His client, on being advised by him to go into business, demurred for lack of capital. His reply was characteristic; you are but a novice not to know that pens, ink, paper and stamps, are all the business capital that is necessary in these days for success.

The capital of the landed property is made of no account,—fit only to be exported for borrowed money, and at such ruinous rates of interest, as shortly absorbs the principal, and limits the development of that most important field of labor—agriculture—the natural foundation of all national greatness.

Credit, unchecked by capital, fosters a negative economy. Not the capitalist, but his debtor, is made the banker; who deals in negative property and issues a negative currency, because his assets are an unknown quantity! Credit being made plus, makes capital a minus quantity; and what are denominated securities are simply debts, and should have a minus sign. So an excess of imports is regarded as a favorable balance of trade. The same false principle sustains all the monopolies who get hold of property without paying for it. The active public are defeated, deceived, robbed, and mocked by a negative commercial system, which always gets the better of the honest borrower of money, and also the receiver of wages; makes the rich richer, and the poor poorer!

Had we not better awake from this stupor, and rub the scales from the eyes; put down the brakes and reverse the engine? And learn to distinguish between fancy and fact; shadow and substance; negative and positive; credit and capital?

In "A Cronique of ye Olden Time," Gower relates of a prudent king, the old officers of whose household became dissatisfied because younger servants were promoted over their heads. The king, hearing of their grumbling, resolved upon quelling their discontent by saddling their demerits upon themselves. He ordered two caskets to be made, of outward appearance perfectly alike; and after filling one with the precious metals from his treasury, the other he filled with stones and dirt. He had them placed side by side in his parlor, and sent for the malcontents, addressing them thus:— You complain of not having been rewarded for your long services; but I wish to convince you that it is not altogether my fault. There stand before you two caskets, one is filled with treasures that would make you all rich, and the other is filled with rubbish. You have your choice, and see you don't commit the fault of refusing so much wealth; but whichever you choose will be your own act." After some consultation among themselves they made their choice, and their master handed over the key to open it, which they did, and found therein stones and dirt. The king opened the other and gave them a sight of the treasure.

These foolish people were not so very blameable for having rejected so much wealth, because they were in a manner blind-folded; but here in Canada are set before the people two dishes, not covered as were Timon's, but the contents open to inspection. One plate is filled with solid capital and the other contains credit; the one positive, and the other negative property; yet the good people, through their legislators, and with their eyes open, choose the worthless material by which to construct their whole commercial system! But worse than that, an indulgent Providence does not ask them to choose the one, on the penalty of losing the other; yet they contemptuously reject the treasure that was intended to make all wealthy!

Mine and thine, is a lesson in the ethics of trade that has yet to be learned. The distinction forms a new departure in political economy. Credit and capital must be placed side by side and a fair field given to work out their destiny. When it is shown that a first mortgage is not capital to the same extent that it is security; when that self-evident axiom is disproved; when landed property is no longer wanted; when credit banks protect their debtors; when the capitalist and the laborer work in harmony; when the capitalist only, becomes the money-lender; when the rate of interest is governed by a fair market; when property is fairly distributed; then, indeed, it will be no longer necessary to demand that capital be placed on a level with credit; as the industrial machine will do its duty.

Extraordinary as it may appear, our legislation—our banking law—is made operative upon an *unknown quantity!* Writers have imagined that the commercial system had a positive character, but credit is only negative property, as a lie is but negative truth. The former answers for capital just as the latter answers for truth, till the lie is found out. Hence ours is an inverted economy; and industrial progress is by fits and starts,—hesitating, or, like the crab, backwards. That explains all the anomalies that have so long puzzled commercial writers, and, particularly, that standing dispute on tariff protection to industries. A high tariff places the burden of their establishment upon the consumer; that is clearly unfair. Individual consumers can have no personal profit in emptying their pockets into the hopper of the monopolist; not even to suit the hobby of a *soi-disant* protection government; and the latter has no right to ask them to "cast their bread upon the waters" with the peradventure that they "shall find it after many days." The good old proverb is safer—"a bird in the hand is worth two in the bush." But in the case of Canada, having so large a foreign debt, and a liability to short exports, commercial crises are apt to level the industries periodically, because they are built upon foreign capital. On the other hand, the revenue tariff advocates can never hope to establish industries without a low rate of interest affording an equivalent for a high tariff. British industries are the best protected in the world; the proof is the goods sell in every market, because a low rate of interest fully compensates for a nearly pure free trade.

The banking of the future will have a positive character; dealing in capital, in mortgages, in gold. The turning point is, in the mortgage being regarded as capital, to the extent it is security, which is self-evident. That idea brings to bear a low rate of interest,—adds a *new factor* to the industrial forces; hence, a new result—a positive in place of a negative economy. We have hitherto been building with unburnt bricks; we will ere long make permanent work with burned bricks. The former appear the same shape and size, I grant you, but the first storm—rain storm—melts the structure, and it collapses into a heap!

THE BALANCE OF TRADE.

Of course all improvements in the machinery of industry ought to bear finally on the balance of trade. If a nation produces commodities of an equal value to those it consumes it may be said to pay its way. If it produces less, it has become indebted to a foreign country; and the balance is said to be unfavorable. If it produces more, it has a surplus to sell, or a foreign country may be in its debt. The foreign trade is but a fractional part of the whole trade of a nation; but if the balance is adverse, it tells on the foreign trade, though it may be difficult to verify the fact. If, for example, $50,000 worth of flour be sent to Spain and there sold for $90,000; and goods bought and entered that much inwards, the balance is actually favorable, though the customs records would make it appear otherwise. Another example, going the rounds of the papers, is that of £265,000 worth of coal sent to India and sold for £900,000; and the money invested in jute for Dundee, and entered inwards. The balance in the latter case is also favorable. But these examples only go to show that customs records are not to be taken as unreserved data to decide the question. It is just as possible for goods to be exported and sold for less than their export figures. If, as is the case with England, that not only is the public debt owned by the people, but large investments are made by her capitalists in foreign securities: importations, say of cotton, may be drawn against to pay interest upon American securities. In that case the balance of British trade might appear unfavorable when it was otherwise—it being a matter of indifference with the capitalist whether he invests in home manufactures or in foreign securities. But when the national debt is in other hands, as is the case with Canada, and no investments abroad, the excess of imports would have a very different signification A good deal too much is made by writers of the items freight and charges, to account for the excess of imports to England; 25 per cent. on the cost of goods should at least cover freight on the average. If, as has been stated, Canadian indebtedness necessitates the annual payment of fifteen million dollars interest, the effective value of the exports will be reduced that much; and is gravely suggestive of foreign indebtedness being increased with alarming rapidity. Of course it is replied that Canada has run in debt not for war purposes but for public improvements; but if these improvements do not tell favorably on exports, it is all the same as wasted.

The increase of the active capital by the establishment of a capital bank of issue would most effectively increase exports; as the reduction of interest would not only stimulate manufacturing industries, but would supersede the necessity of Governments borrowing abroad, and check the exportation of interest. The question is simply that of the national foreign account, which has to be settled by industry, in the manner any private debtor pays his debts; if we would not repudiate.

THE TARIFF.

It is not difficult to define the function of a tariff. It may be used to raise a revenue with advantage; but to collect more than is required to pay current expenses is unnecessary and oppressive taxation. To raise the tariff in favor of particular manufactures is to extort from the consumer a bonus without returning an equivalent. They are monopolists who are privileged to tax their fellow citizens by forced sales of goods. All industries should be upon an equal footing; if one is protected all should be; for no industry can claim any special merit over another to tax it for support. A high tariff will build up monopolies and divert the trade into rings that oppress and fleece consumers. The monopolists, in effect, say to the Government, "you cannot establish manufactures with the prevailing high rate of interest in Canada; but if you raise the tariff so as to secure to us a market for our goods, at such prices as will refund to us the difference between the average interest of 4 per cent in Great Britain and 8 to 10 per cent paid by us to the banks here—that is the consumer must pay the difference"—then we will invest our capital in manufactures. That is virtually the plea. All persons who have thought upon the subject will agree that with money as cheap here as in England the old revenue tariff would afford sufficient protection. A low rate of interest harmonises all the forces of industry and wipes out monopolies. There can be no antagonism between capital and labor with a low rate of interest. When the rate of interest is high, the banking, manufacturing, railway and mining companies are leagued together against the interest of the merchant, farmer, mechanic and laborer. The latter are consumers, borrowers of money and receivers of wages. These latter can have no object or profit in taxing themselves to put money in the pockets of monopolists. Employees are never protected by tariff. When a strike takes place the monopolist is always at liberty to import laborers free; they are always on the free list. Consumers are always at liberty to vote for high tariffs and unnecessary taxation; and when they do so it should be with their eyes open. But on exercising the franchise they would do well to remember the fate of the frogs in the fable, who, tired of good king log, demanded a ruler. Jove at their request crowned the water-snake. Before long the frogs repented, and demanded of their ruler "why he devoured them?" The reply was worthy any lawyer—so pointed: "You voted for me!"

THE MONOPOLISTS.

When interest is high, as it always is in Canada, the following companies being privileged, and bonused, are pure monopolies. Banks of issue, manufacturers, railways, &c.

THE DUPES.

Merchants, farmers, mechanics, laborers, as borrowers of money and consumers. But were interest low these two classes would work in perfect harmony.

THE DISTRIBUTION OF PROPERTY.

Should one be disposed to investigate this question let him begin by enquiring as to the cause of the present disposition of property. There must be a cause for existing circumstances. There must be a reason why, on the one hand there are but a few heaps of wealth, and on the other hand a great many heaps of poverty. If you divide the community into eight parts, one of these enjoys all the riches, and the other seven parts have to be contented with their lot of poverty and wretchedness; whereas a true economy would command a generous and liberal prosperity for all.

A close examination will satisfy one, that but two elements control the distribution of property. First, ability backed up by industry accumulate wealth which the laborer is justified in enjoying. Second, there is the rate of interest. A merchant who retires with $10,000 may live comfortably on the interest which at 10 per cent compounded annually will in 17½ years amount to $50,000, principal and interest. After having paid his broker a percentage for keeping it invested, and deducting his own expenses of living, may at the end of that period be in possession of $20,000, having doubled it. But say he could only invest at 2 per cent instead of 10; at the end of the period he might not have saved a fourth part of the original sum. At the low rate his capital would soon be distributed, and the late capitalist would be forced to become a producer. The original capital need not travel beyond the limits of the same community and yet be as useful, and employ as many laborers as ever it did; but the less interest the laborer pays for the capital that employs him, the greater will be his recompense, and the cheaper living. Because interest declines by competition of capitals employed in manufacturing, and productive industries, and that increases commodities. The less or more the rate of interest, the less or more the income of the capitalist. If the income be too small to maintain him, the capital gets distributed. If that reasoning be correct *circumstances* are not left to chance, but are of our own making or marring. Is it not the disgrace of our civilization that the circumstances are such as to favor the accumulation of colossal fortunes by the Vanderbilts, Goulds and Stewarts of the age; who may by selfish tyranny torture so many millions of their fellows? Robert Owen, if not the first to announce the axiom "man is the creature of circumstances," was at least the first who had the heart to make the experiment, as he did at his New Harmony; of trying to improve the character of his fellow men by improving their circumstances. So strong was his faith in the theory that he is said to have called "give me a tiger and I will educate him." His little community, however, was strewed to the winds by the competition of the larger world, crushing it like an egg shell. Owen was not aware that the rate of interest was reducible by bringing a new factor to bear on the circumstances, distributing property and yet retaining in force healthful competition. I have given the key note for a just distribution; I say just, for equality of distribution is as undesirable as it is impossible, and can only find place in the brain of a Communist. A true political economy does justice to all the forces of industry; capital gets its interest, and labor its full wages. As I have said elsewhere, a low rate of interest, consequent upon making active the fixed capital, will intensify competition and will wipe out monopolies. Then will the employer and operative, work together in perfect harmony.

There is a world of interest bound up in the just and fair distribution of property. Surely man, puny man, with a full purse, was never made to lord it over his fellows; no, not for ever; his reign must soon cease. The lowliest mortal or member of the race has a higher destiny here, than is prophesied of; but his character is hidebound and degraded by a distribution of goods made at the instance and command of a negative, a false economy.

"Progress and Poverty" is the title of a book remarkable at once for strong assertion, and impotent reasoning, by Mr. Henry George, an American Communist. He advocates vesting the lands in the Government, and requiring it to let the farms, and collect the rents, as a revenue; a cool suggestion you will say, but he backs it up with a show of reason:

First; he claims that wages are not paid out of capital, but out of the product of labor; and infers the laborer is entitled to all the product. That extraordinary assumption forms the leading argument of the book. The author forgets that although all wealth is the product of labour, nevertheless said labor is divided into two parts; labor active, and labor stored; that is—labor and capital. The goods manufactured are properly the product of both combined; therefore the capitalist is entitled to interest for his investment. If the laborer objects to pay interest, why does he allow the capital to get out of his own hands into the hands of others?

Second; he makes the bold assertion that "all the bank notes, bonds and mortgages might be destroyed without affecting the wealth of the community." As well might one argue that the destruction of all the implements of agriculture would not affect agricultural wealth. The notes, bonds, &c., are the instruments of trade; and the trade would be paralyzed were the instruments destroyed. In that case where would be its productive power?

Third; on the land question. Land, labor and capital are the elements of industry. What is there in land as a possession, but the capital invested? And what is rent but interest for the investment? The land question is therefore the capital and labor question; and the less interest the laborer pays for the use of capital the greater will be his earnings. As to vesting the titles to land in the Government, why not also the titles to wood, iron, wool or any other commodity? Persons who imagine that a land title is any more important than property in anything else, may ask themselves the question. What would be the use of a farm without the tools to cultivate it? Clearly, Mr. George has got beyond his depth; but he amply makes up for his deficiencies in Political Economy by the audacity of the highwayman, and demands: "Stand and deliver!" Communists are sure to haul up in lawless company.

REPLIES TO CRITICS.

The following criticism of a lecture delivered in Montreal on Banking and Business appeared in the *Journal of Commerce*, August, 1880. I give the remarks of that paper as they appeared, and also my reply. The object in doing so is to induce the reader to turn to the pages of both Macaulay and Alison, and make himself familiar with what has been written upon Land Banks and Assignats, that a fair judgment may be formed of all previous projects.

A LAND BANK.

Montreal has recently been honored with a visit by Mr. Galbraith, who, we learn from the *Gazette*, met several prominent business men at the Mechanics' Hall, on the evening of the 4th instant, to explain his views as to "the present system of banking, and the currency question generally.' The *Gazette* regrets that the attendance was not larger, as the subject is both interesting and important. Plenty of money and a low rate of interest are doubtless tempting offers to make to business men at any time, but we can scarcely believe that Mr. Galbraith could have succeeded in making many converts to his views, notwithstanding his sporting proposal to wager $50 a side "if any man could controvert his views." Before such a wager could be arranged, certain preliminaries would have to be settled, the principal of which would be the mode of deciding whether Mr. Galbraith's views had or had not been controverted. We are told that "the leak in the financial system was in regarding real estate as mere security for foreign capital *when it was actual capital.*" It is now nearly two centuries since an attempt was made in England to persuade the people that land was actual capital, meaning a basis for the issue of notes. We cannot occupy our space better than by quoting a few instructive passages from Macaulay's History.

"Pre-eminently conspicuous among the political mountebanks, whose busy faces were seen every day in the lobby of the House of Commons, were John Briscoe and Hugh Chamberlayne, two projectors worthy to have been members of that academy which Gulliver found at Lagado. These men affirmed that the one cure for every distemper of the State was a Land Bank. A Land Bank would work for England miracles such as had never been wrought for Israel, miracles exceeding the heaps of quails and the daily shower of manna. There would be no taxes, and yet the Exchequer would be full to overflowing. There would be no poor-rates, for there would be no poor. The income of every landholder would be double. . . . These blessed effects the Land Bank was to produce simply by issuing enormous quantities of notes on landed security. . . . Both Briscoe and Chamberlayne treated with the greatest contempt the notion that there could be an over issue of paper as long as there was for every ten pound note a piece of land in the country worth ten pounds. . . . The projectors could not deny that many people had a prejudice in favor of the precious metals, and that therefore, if the Land Bank were bound to cash its notes, it would very soon stop payment. This difficulty they got over by proposing that the notes should be inconvertible, and that everybody should be forced to take them. The speculations of Chamberlayne on the subject of the currency may possibly find admirers even in our time. . . . Distress, however, and animosity had made the landed gentlemen credulous. They insisted on referring Chamberlayne's plan to a committee, and the committee reported that the plan was practicable, and would tend to the benefit of the nation. But by this time the united force of demonstration and derision had begun to produce an effect even on the most ignorant rustics in the House. The report lay unnoticed on the table, and the country was saved from a calamity, compared with which the defeat of Landen and the loss of the Smyrna fleet would have been blessings."

Instead of Chamberlayne's Land Bank a charter was granted to the Governor and Company of the Bank of England "to trade in bills of exchange, bullion and forfeited pledges." The conditions of this celebrated charter were that the subscribers to the stock should lend to the Government £1,200,000 sterling at 8 p. c. interest. The stock was all subscribed in ten days from the opening of the books. Two years later the land bank scheme was revived in a form "less shocking to common sense and less open to ridicule" than that of Chamberlayne. "By this time the united force of reason and ridicule reduced the once numerous sects which followed Chamberlayne to a small and select company of incorrigible fools." It was found that few even of the squires believed that "the State can, by merely calling a bundle of old rags ten millions sterling, add ten millions sterling to the riches of the nation." The new projectors bid high. The Government wanted money, and the projectors of the land bank offered double what the Bank of England had given at 7 instead of 8 per cent. The Act was obtained, but it was found impossible to raise the capital. The King was induced to subscribe £5,000 by way of example, but in three weeks' time only £1,500 had been added to his subscription. The truth was that the bank was demanded not by capitalists, but by borrowers, which is precisely the case with Mr. Galbraith and his supporters, if he has any. The end of the scheme was that the whole contribution by the nation to the magnificent undertaking was £2,100. The Government had at last to fall back on the Bank of England, which provided what it required, and the Land Bank was heard of no more. The only difference that we can discover between Mr. Galbraith and the *fiat* money theorists in the West is, that the latter have common sense enough to perceive the absurdity of pretending to redeem such issues as those advocated by Mr. Galbraith, and they therefore avow that they are to be inconvertible, while Mr. Galbraith, acknowledging the absurdity of issuing any but convertible notes, is guilty of the equal absurdity of basing his issues upon a security that would be utterly unavailable for the purpose of redemption.

THE LAND BANK SCHEME.

To the Editor of the Journal of Commerce.

SIR,—Your criticism of 13th inst. of my lectures on Banking and Business has been brought to my notice; and as it appears so foreign to the subject in hand, I trust you will allow me the privilege of correcting some of your misapprehensions.

In the case of Briscoe and Chamberlayne's project of a Land Bank, allow me to remark that the cause of the failure was evidently their inability to treat real estate on true business principles? That is, by pledging an adequate capital for the payment of debts on demand. The purchase of mortgages in the manner they proposed would of necessity prove a failure. But instead of pointing out the errors of their proposal, which might have done him some credit, Macaulay, like the common run of modern critics, found it easier to use the projectors as a target for his ridicule. Their inquiries, however, were aimed in the right direction; and had they been successful, a greater benefit might have been conferred upon society than was accomplished by the establishment of the Bank of England itself. But surely you do not mean to infer that the failure of that ill-digested scheme can in any way invalidate the capital in real estate, nor prevent that property from being wisely dealt with. You must be aware, as certainly every well-informed individual is, that it has never been pretended that the principles of money were understood; on the contrary, what Sir Astley Cooper affirmed of Medicine was quite as applicable to Finance, as being founded on conjecture! The true method of utilizing the capital of real estate is what I now propose to explain: and first, I remark, that all debts payable by a bank on demand are its circulation; and an adequate capital must either be held in reserve for the purpose, or the assets should be of such a character as to afford security for speedy payment. Secondly, that a mortgage taken at a cash valuation of the property, and at a margin to recover the debt, measures its available capital. Thirdly, that said capital may as easily be lent as borrowed, as the case required.

Keeping in view these indisputable principles, let us see how they may be applied to a bank of issue dealing in mortgages. To Mr. Smith a line of discount is extended, a Dr. and Cr. interest account. He checks out and deposits at pleasure, and no motive exists on the part of the bank to foreclose, unless when the property declines in value or interest is unpaid. Again, Mr. Jones, a capitalist, desires to invest in stock, and if money be scarce a mortgage is quite as acceptable. Hence the assets consist of mortgages and money always available to pay. This bank might discount at 6 per cent. and pay 12 per cent. dividend; at 5 per cent. and pay 10; at 4 per cent. and pay 6 per cent., after allowing for reasonable expenses. So you see it is hardly fair for you to represent that capitalists have no interest in the scheme.

You put this question, "Does Mr. G. imagine that loans on mortgages can be so converted to meet his issues of notes payable on demand?" Are you not aware that it is being done by loan societies every day; who borrow even in foreign markets on the basis of mortgage assets. In fact, that is the only business method of importing money excepting by the export of produce and manufactures. But I might reply in a different form by asking the apologists of banks to point out a case where bankers were ever successful in borrowing on their promissory note assets beyond the limits of the country. When exchange on exports falls short, why have bankers to call in their loans at the risk of distressing their debtors, by forcing sales of assets and thereby spreading dismay and bankruptcy? Evidently, because the assets of banks are practically unavailable either for gold or security. You say, "it is simply absurd to suppose that a Corporation whose business is to loan money on real estate would be prepared to redeem notes which are only kept in circulation by constant re-issues. The Banks are daily redeeming and daily re-issuing their notes." Here you forget to distinguish between redeeming notes and the ordinary bank business of receiving in and paying out their circulation. Nine-tenths of the daily transactions of banks have not the slightest reference to redemption. A bank redeems its obligations only by its transactions in foreign exchange. And it is perfect nonsense to make so much ado about *keeping out the note circulation*, as that is usually but one-third of the actual accommodation of a bank of issue. The true circulation comprises all debts payable on demand. The present banks open accounts with customers on personal credit, the proposed bank on security; but the great bulk of transactions have no more reference to redeeming of notes than have the most ordinary commercial business. But if you mean that the note circulation is less likely to be presented when gold is a scarce article; then of course the credit banks will always have a decided advantage. I imagine you also are in error as to the character of the enormous balances charged to foreign agencies of Canadian banks. Doubtless the most of them are commercial paper discounted; and why the note of an American is considered more available than that of a Canadian merchant is for you to explain. Since the "New Principles" are now fairly before the public, the matter cannot rest until they are either accepted or thoroughly exploded. Business engagements prevent me being in Montreal before November, so that will afford ample time to find a man that can talk common sense on money matters. I am indifferent as to conditions. A popular verdict should suit all parties.

Respectfully yours,

T. GALBRAITH.

Port Hope, 25th August, 1880.

The *Journal of Commerce* committed the error of imagining that the project of Briscoe and Chamberlayne, so mercilessly ridiculed and condemned by Macaulay was identical with my suggestion of a bank of issue dealing in mortgages. The fact of many ill-digested schemes having been concocted to get at the capital of the real estate by an issue is not at all surprising; but it certainly does not follow that there never could be a wise suggestion upon the subject,—one justified by sound principles of trade and economy. Although mortgages designate the capital in the property, the discounting of them by an issue payable in gold or otherwise would of necessity prove a failure, where no margin of capital was pledged to make good the losses. That was the error of all previous attempts to utilize mortgages in the circulation. The authors of the project named did not understand banking, nor did they explain the principles of trade; hence their scheme did not survive the ridicule. My labors, I trust, will have a very different issue. If I have not explained the principles of trade clearly, and applied them to a bank of issue dealing in mortgages in as correct and scientific a manner as they ever were applied to banks dealing in promissory notes, then I may deserve equal treatment. The more this subject is studied the more extraordinary it will appear that commercial principles and banking have never had an adequate explanation. It is pointed out that not even mortgages can be successfully dealt in with an issue, without an adequate margin of capital; but it is the first time it has been shown that the capital is to be found in the mortgages themselves. The bank buys A.'s mortgage with its issue, and B.'s mortgage with its stock at par. That is the secret which enables one to explain not only commercial principles, but Political Economy.

In fact, the suggestion is identical with the unlimited liability banking of Scotland, rejecting the barbarous device *unlimited*, and promissory notes; but dealing only in the better property. There are already a sufficiency of credit banks in Canada; the bank dealing in mortgages only is wanted to supply funds to the real estate interest; and let the two systems meet each other at the clearing house and pay over balances in gold. That is the only way you can give credit its due, and capital its due. Then all industrial interests will have their due.

INFERENCES AND AXIOMS.

Submit the principles of Political Economy to a scientific test and you necessarily infer that:—

1. A law to discount promissory notes by bank issues will convert the capital and assets into "credit pledges," and force the available capital abroad.

2. If a bank deals in assets which cannot be rediscounted in case of necessity, the debtor class will be forced into bankruptcy whenever exports fall short.

3. When banks fail to purchase exchange on exports, they have to suspend, till money comes into the country at high rates on mortgage, and till the loan societies sell the exchange.

4. Redeemability is better maintained by assets in mortgage, than in credit pledges.

5. A high rate of interest taxes industry, limits exports and runs the country into debt.

6. The cause of high average interest is the scarcity of capital employed in banking—the less apital the more credit, and of course hazard.

7. A low rate of interest harmonises the forces of industry, wipes out monopolies, and supersedes a high tariff.

8. Credit must be relegated to common mercantile transactions.

9. The fixed capital is wasted, has no income, and no bearing on the money market.

10. A mortgage bank of issue would utilize the fixed capital to the extent of a hundred millions of dollars, for industries !

11. Capital and credit should have the chance of meeting at the clearing house in the settlement of balances.

12. If prices be not inflated, financial crisis could never occur.

13. The debtor, instead of the capitalist, is chartered to lend money. It should be the reverse.

14. Capital is positive, and credit is negative property; yet, strange to say, the latter, the *unknown quantity*, is made the basis of the currency.

15. A currency should either be capital, or its equivalent.

16. The principles of banking and business have never been understood.

17. Political Economy is the science of managing property to the best advantage.

18. The recognition of the fixed capital, adds a new factor to the forces of industry, more than doubles the currency, and gives a new significance to Political Economy.

r-

il-

le-

the

un-

than