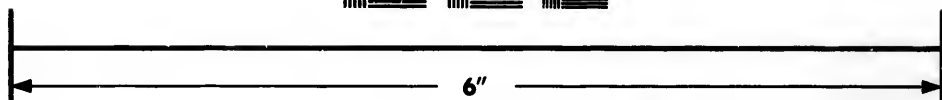
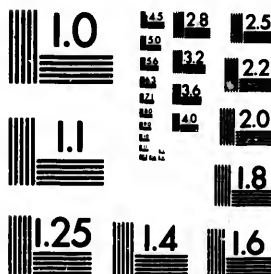


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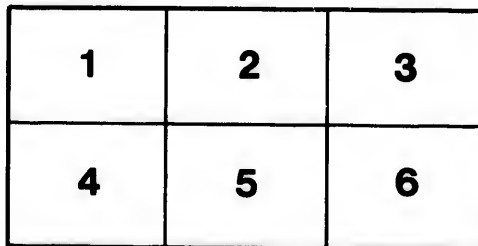
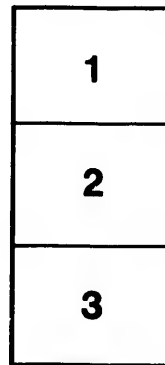
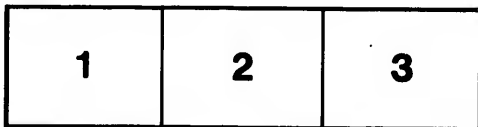
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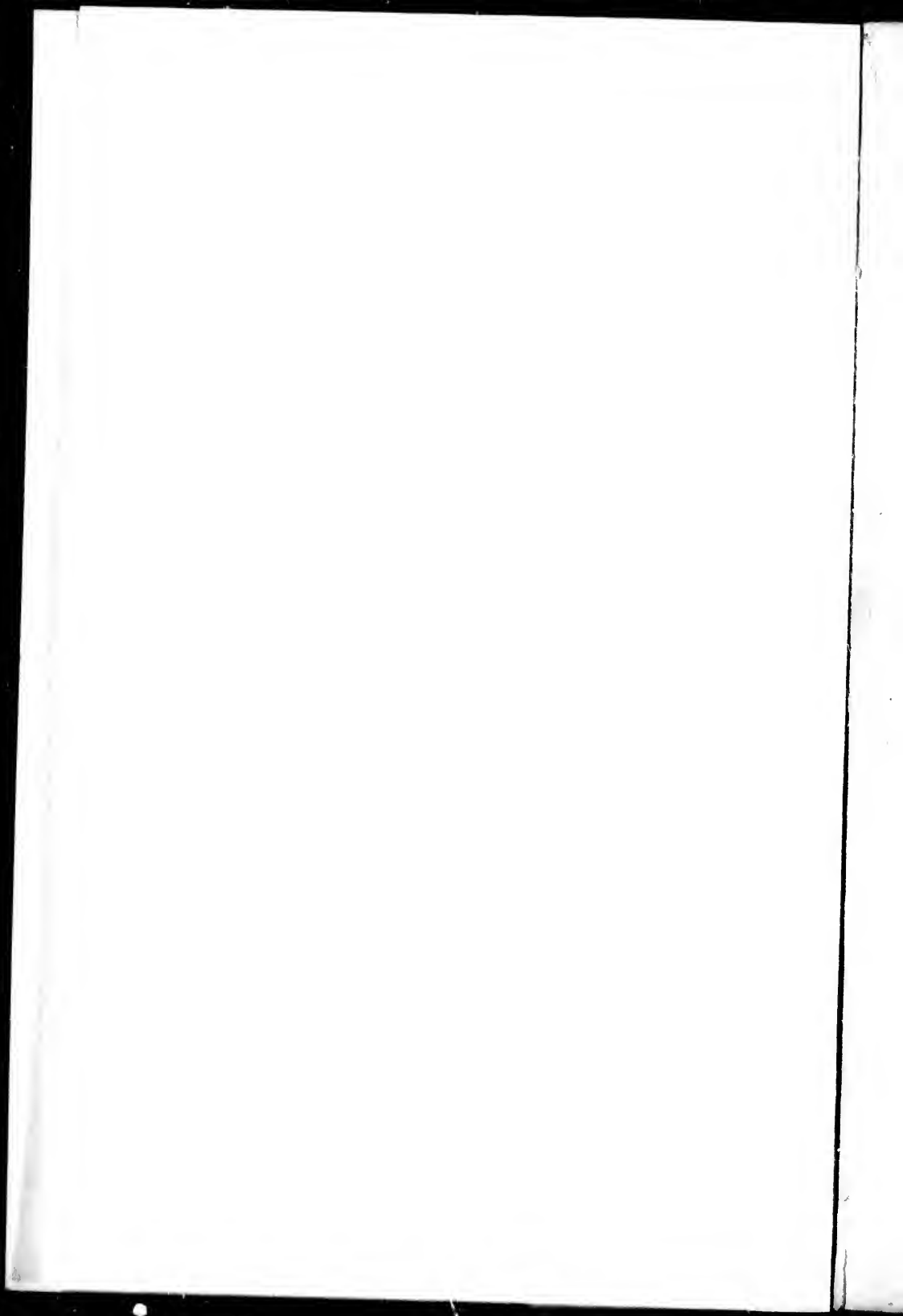
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THOUGHTS

ON

THE BANKING SYSTEM

OF

UPPER CANADA,

AND ON

THE PRESENT CRISIS.

TORONTO:

PRINTED FOR THE AUTHOR.

1837.

TO THE HONORABLE
THE LEGISLATIVE COUNCIL
AND
HOUSE OF ASSEMBLY
OF
UPPER CANADA.

These observations on the important subject upon which they are about to Legislate

ARE RESPECTFULLY INSCRIBED

By their most obedient Servant,

THE AUTHOR.

THOUGHTS
ON
THE BANKING SYSTEM, &c.

In times like the present when the deepest anxiety prevails, amongst all classes of the community, as to the result of the approaching Session of Parliament, which has been called in response to simultaneous addresses from all parts of the Province, we shall perhaps not be considered obtrusive in offering a few observations to the public.

We believe that the opinions which we shall advance, will harmonize with the admitted truths of Political Economy, but are at the same time convinced that they will be at variance with the views of those who, being directly interested in opposing them, have unfortunately but too much influence in doing so with effect. We shall be happy indeed if our opponents will discuss the question in a spirit of candour and forbearance, and the result, we feel assured, will be that the great mass of the community will be much better informed on the important subjects on which we shall treat than they have hitherto been. We candidly admit, at the outset, that having been always an advocate for free trade to the most unlimited extent, we see no reason to depart from our general principles, as far as Banking is concerned. We are then for perfect freedom in Banking, but let it not be supposed, that we object to proper restrictions, not inconsistent with that perfect freedom which we advocate. We do not object to Companies associating for Banking purposes, being obliged to register the names of their partners, to their declaring their nominal capital, and the amount paid in, to their making returns of their liabilities to the public at stated intervals, nay, we should not object to their being obliged to give security for their issues, provided all other Companies were obliged to do the same; but while chartered Companies, wholly irresponsible, are allowed to issue paper, we cannot see any

propriety in calling on Companies whose partners are fully responsible, for any further security than their general liabilities for all the engagements of the Company to which they belong. Our arguments in favour of Free Banks are—1st. That we believe the security to the public is greater than under any other system, and consequently that there will be more confidence in Joint Stock Banks than in any other, in times of difficulty.

2nd. We are against all monopolies. We can see no reason, why the privilege of issuing paper, intended to pass as money and which is the representative of gold and silver, should be extended to one individual, or one corporation, more than to another.

3rd. We believe that a Free Banking system would have the effect of bringing British Capital into the Province. We have heard from the highest authority, of the “redundant wealth of the Mother Country.” We cannot say we have yet heard of the redundant wealth of Upper Canada. We believe that the true method of “attracting” that wealth to Upper Canada, would be to do away with the Usury laws and to allow perfect freedom of trade in Banking. We know that Banking Corporations divide 12 per cent per annum and yet no individual is allowed to take more than 6 per cent. Had we perfect free trade in money, capital would flow here as long as it would bring 7 or 8 per cent. We have heard it repeatedly stated that there are Banks enough in the Province and that the more there are the more difficult it is to get accommodation.

We cannot perceive the truth of the assertion. We know there is abundance of good paper in the best of times which the Banks cannot discount, and we cannot admit there is too much Banking capital until we find the Banks seeking for paper to discount and the rate of interest coming down as it does in England, when money is plenty. We confess we should wish to see the mercantile community more independent of the Banks than they are. We should like to see the latter made to feel the value of a good account, and the merchants able to demand, aye, to insist upon that accommodation which they have a right to expect. We think these results would be produced by competition and we would not check that competition. We proceed to consider the leading objections to Free Banking, & 1st. The grand one which is in the mouths of all its

opponents—namely, that the best guarantee to the public is a paid up Capital and that responsibility is of secondary consequence. We shall perhaps destroy this argument most effectually, by *admitting its truth*. We deny that the supporters of Joint Stock Banks here or elsewhere inculcate any such notion, or that their Constitutions “*ordain any such absurdity*,” as that a paid up Capital is not requisite. We defy any person practically acquainted with Banking in Upper Canada, to assert that it is possible to carry on Banking here except on the basis of a bona fide Capital, the business to be in proportion to such Capital. We know that in England, Banking is carried on with a merely nominal Capital, but the reason is obvious. The security of the Joint Stock Banks is considered so good by Capitalists that in ordinary times they can borrow as much money at 3 per cent per annum as they can lend at 4 or 5. Thus they want no Capital, they re-discount the bills in London which they discount in the country at a profit of 1 or 2 per cent; and are thus enabled to make large profits with a small paid up Capital, and this has been the cause of great overtrading in all branches of business. Business of this description is unknown here—we have no re-discounting. The Banks do not, I believe, take short paper from one another in payment of balances, added to which, payments are more irregular than in England, so that the Banks are even restricted within what might be considered the legitimate bounds of their business. We presume our opponents are not yet anticipating the time when money shall be so plenty here as to enable Banks to do a similar business. When it is, it may be necessary to place some restrictions upon them. We must keep in mind however, that chartered Banks can do such a business as well as private ones, unless their irresponsibility should prevent their getting the same credit.

2ndly. We are told that it should be insisted upon that the whole Capital of these Banks should be paid up. We should be tempted to ask an extensive importing merchant, who frequently urges this restriction—whether he would prevent a customer of his with a Capital of £1000, from doing any business, because he anticipated in a few years getting £10,000 more Capital, and in the meantime could not make the large importations which the eminent merchant alluded to is in the habit of making?

As well might he prevent this man from commencing business till he had all his Capital on hand, as say, that a private Bank composed of persons associating together for Banking purposes should have the whole Capital paid up before commencing.

We shall illustrate our argument by a case in point. The Capital of the Farmers' Joint Stock Banking Company at the outset was £500,000. Had this been all taken up, they would now have paid in a larger Capital than any Bank in the province; but the intelligent gentleman referred to would no doubt say, you must do no business until every dollar is paid up. We contend that upon the very principle laid down by our opponents, that of paid up Capital, the People's Bank, whose liabilities to the public are probably not a shilling for every pound of the Upper Canada and Commercial Banks, is as safe as those great Institutions, while the additional guarantee is afforded of the responsibility of the Shareholders.

3rd. We are told that in times of difficulty and embarrassment the small Banks as they are called are obliged to sacrifice their customers in order to protect themselves, and are quite unable to meet any commercial revulsion such as has lately unhappily taken place on this continent. Also that in times of prosperity these institutions are a check upon the larger ones and prevent their issues being as large as they otherwise would be.

We must again repeat that if a Bank trade upon its *bona fide* capital, it cannot make any difference to the public whether that capital is large or small. If the capital is too small to pay the necessary expenses of the business and yield a fair profit to the shareholders they will have no object in carrying it on; and in Joint Stock Banks where all the partners are liable for the engagements of the Bank there is little probability of the Directors engaging in wild speculations or trading beyond their means, because the extra profits can be of little consequence compared with the risk incurred. Not so we believe with chartered Banks, the Directors know they cannot lose more than their paid up capital, which is in many cases merely nominal, and they are therefore more likely to run great risks for the purpose of obtaining large dividends.

We contend therefore that a revulsion in business cannot embarrass a small bank one jot more than a large one: we deem it next to impossible that any Banks can sacrifice the interests of the commer-

cial body more than the Chartered Banks have done in this Province. We may also observe that during the present panic it does not appear that the Joint Stock Banks have been less able to meet these distressing times than the chartered ones. With regard to the objection that in times of prosperity a number of Banks have the effect of checking issues, this complaint generally comes from the advocates of one Mammoth Institution, and of course applies equally to chartered and to Joint Stock Banks, and it has been a strong objection made by the advocates of such a Bank against the charters of small Banks throughout the Province. Now with regard to this objection we hold it as an axiom that every Bank will be anxious to keep up as large a circulation as it can with safety. It is not therefore likely that in times of prosperity the legitimate issues of any Bank will be materially checked by rival institutions; but it is of the utmost importance to the public safety that *over issues* by any Bank should be promptly checked, and to do this the salutary control of other Banks has always been found the most effectual remedy. The very existence of Banking Institutions depends on the public confidence, and every Bank is interested in having the business safely and prudently conducted by other institutions.

Finally, we have heard it charged, and we know it is done by those connected with the Chartered Banks, that the Joint Stock Banks had no specie but what they obtained from the other Banks, & they would therefore we presume imply that they had no capital at all. We feel almost repugnant to use argument with people guilty of the absurdity contained in this charge; but it is such a favourite one that we are compelled to notice it. This charge was first brought against Messrs. Truscott, Green & Co. on their commencing their Bank in Toronto, by the friends of the Bank of U. C., and a moment's consideration must convince every one of its absurdity. That wealth consists of such commodities as are useful—that is, necessary or agreeable to mankind—is one of the first truths of political economy. The man who imports £100 of British Broad Cloths brings as much wealth as he who brings £100 of British silver coin. If then Messrs. Truscott, Green & Co. sold Bills of Exchange to Merchants to pay for their cloths and flannels, they brought as much wealth to Upper Canada as if they had brought it in the shape of silver—they were paid for their bills in Bank paper,

or the representative of gold and silver, and were then abused for demanding payment of those bills. In like manner the Stock of the Farmers' and People's Banks was paid in and continues to be paid in in paper of different Banks. Surely it is unreasonable in these Banks to complain that their notes are taken and held as silver, as were they not it would be because they were not considered to be convertible into specie on demand. We shall illustrate our position by supposing that an individual in England with £1000 in gold should come to U. C. and invest said sum in gold in the Farmers' Bank. It would not be denied by any one that this was so much *bona fide* specie paid in; but let us alter the case, the gentleman paid his gold to Thomas Wilson & Co. for the *credit* of the Bank of Upper Canada. He arrives out, lets his money lie a few months, and then buys Farmers' Stock. He goes to the Bank of U. C. to draw his deposit, who pay him in their bills, which he takes to the Farmers' Bank and they of course convert them into specie. This however is no capital at all according to our logicians, whose argument however only tends to depreciate their own paper. We must however attend to the course pursued by the other Banks, the Gore for instance. We have no means of knowing how the Gore Bank got its specie, but we must assume that its capital was paid in other Bank notes. We know its Cashier professed his unwillingness to draw specie from any Bank. He must therefore have got drafts on some place where he could procure it, say New York. Now if these drafts were given him at par when they were really worth 2 per cent, we think the Bank giving them must have been badly provided with silver, for funds in New York are in all ordinary times considered better than silver, inasmuch as they command a premium varying from 2 to 4 per cent. If on the contrary the Gore Bank paid the premium for the draft, and also paid the expenses of importing the silver we are free to admit they carried their courtesy to a great extent in paying 3 per cent for what they had a right to get at par; and we think they were scarcely warranted in subjecting their shareholders to such heavy loss. We admit, however, such courtesy may have a good effect, and we believe the same course has been pursued by the Bank of British North America at great loss to themselves. They are importing their silver though they could import their capital as well by selling exchange. Ex-

change is now worth 15 per cent, so that a bill for £100 sterling at 60 days' sight would give them here in cash £127 15 6 currency, while £100 of British silver would command £125, from which deduct for expenses, including interest of money, insurance, freight, &c. at least 3 per cent, and we find they lose £5 15 6 currency on every £100 sterling they import of silver, so that they have commenced their operations by making a present of £2000 or so, probably more, to the other Banks, for which we hope they will be excused any censure when hereafter in selling exchange the balances turn in their favour. We trust we have made it apparent that when capital is invested in Banking and paid up it makes no real difference whether the specie is imported from England or New York, or brought through the medium of Bills of Exchange, or taken from other Banks by sending them in their bills.

We are not aware of any common objections made to Joint Stock Banking which we have left unnoticed, and shall conclude this part of our subject by expressing our surprise that the Banking Institutions of this Province should be modelled after those existing in the United States, instead of those in Great Britain and Ireland; and although we admit, as before stated, that in England overtrading has existed to a great extent, we deny that in Scotland or the North of Ireland any charge has been made against the management of the Banks, and we feel satisfied that should any improvement be made in the system in England, the principle of full responsibility on the part of the Shareholders will not be given up, nor will it ever be required of persons wishing to associate for Banking purposes to apply to Parliament for a special charter.

Having freely stated our opinions on the subject of Free Banking, we proceed to offer a few observations on the present position of the different Banks in Upper Canada.

We must premise that during the last Session of the Legislature a Restraining Law was passed, preventing any association of persons or individuals from hereafter issuing paper, intended to circulate as money.

Five Banks were excepted from the provisions of this Act—four Joint Stock Companies, viz., the Bank of B. N. America, the Farmers' Bank, the Bank of the People, and the Niagara S. B. Bank, and one private Bank, Messrs. Truscott, Green & Co.

These Banks had all gone into operation and the Shareholders of course had been at considerable expense in establishing them, so that it was we presume considered, to be no more than just to allow them to continue to hold the position which they had previously done. Of the 5 Banks above mentioned the Branch of the Bank of British North America, here, has not yet got into operation.

The public attention has been so long anxiously directed to the state of the money market in the United States, that we need only remind our readers that after a complete prostration of individual credit in the atlantic cities, such as has perhaps, never been before experienced, the Banks in New York and subsequently all throughout the United States, were obliged to suspend specie payments early in May. The panic consequent on this act soon spread to the Canadas, and was in this Province materially assisted by articles published in the *Constitution* newspaper of this City, in which the public were warned of the doubtful solvency of the Banks and urged to turn their notes into specie without loss of time.

We are aware that during this run, a feeling of hostility has sprung up between the Joint Stock Banks and the Bank of Upper Canada, which certainly never before existed on the part of the former, and we are not aware that it did so on the part of the latter. We proceed to consider the cause of this hostility, and to shew that if it does exist, the Joint Stock Banks have neither wilfully provoked it, nor have they ever been anxious to keep it up. The custom with Banks everywhere, is to exchange their paper at stated intervals and to settle the balances either in specie or by drafts at sight on some place where it suits the receiving party to place funds—there is usually an agreement subsisting to this effect. This is the way the chartered Banks settle their balances, and the Joint Stock Banks and Messrs. Truscott, Green & Co., have settled with one another on the same terms, usually however, paying balances in notes of the chartered Banks which they received and held as specie.

It would have been perhaps better had these Banks come at once to an understanding with the Bank of Upper Canada, whose paper was generally held, as being most easily converted, and had their balances settled weekly.

It was, however, no gain to them to hold the paper, and they refrained from asking a settlement solely from an unwillingness to give any cause of offence. The Bank of Upper Canada must, however, have been aware that both the Farmers' and People's Bank held balances against them for the past year, and had they made enquiry they would no doubt have been informed of the amount. Had they wished for a settlement, they might have proposed some plan for settling balances which we feel satisfied would have been acceded to by the others. We are sure no friend of the Upper Canada Bank will assert that that Institution would have held over paper of the Joint Stock Banks for months, the balance on the two Institutions varying from £5000 to £15,000, and if not why are the Joint Stock Banks to be blamed for asking a settlement which would have been rigidly exacted from them.

The truth, however is, that before any demand for silver to any extent was made upon the chartered Banks, the Upper Canada and Commercial Banks, simultaneously sent instructions to their agents to refuse the notes of the private Banks. This we assert, was the first act of hostility.

In an official letter the Bank of Upper Canada say, that this order arose "from the unprecedented demand for silver, and was not intended to convey any insinuation of the stability of other monied Institutions." It is also well known that for several months back, they have made a difference of 1 or 2 per cent between their own notes and those of other Banks in selling silver or drafts on New York. The avowed object of this policy was to reduce their circulation. Now we appeal to every intelligent man in the community, whether the proper way to attain this object would not have been, to have received the paper of the Banks holding the balance against them on the same terms as their own, both in Toronto and at the agencies, which would have had the same effect in reducing their circulation and would at the same time have reduced the balance held by the other Banks. Instead of pursuing this straightforward course, the Bank of Upper Canada took every means to increase the balance held by the Joint Stock Banks, by ordering their agents not to take their notes and asking 2 per cent more for changing their notes than their own.

It must be obvious to every one that the effect of refusing the notes of the Joint Stock Banks at the agencies of the chartered ones must in such times as the present have had the effect of creating a distrust of those Banks. This they say was not the intention, but surely it would have been but common courtesy to have apprized these Banks that such a course was about being pursued. It must likewise be recollected that the suspension of specie payments was generally spoken of, and it was publicly rumoured that the Executive of the Province had it in consideration whether such a course should not be sanctioned. Under all these circumstances we ask every impartial man in the community, was it to be expected that the Joint Stock Banks should hold the notes of the Bank of U. C. as specie? and yet their sending these notes in for payment is the only act of hostility which can be charged against them. On the other hand we charge upon the officers of the Bank of U. C. that they first issued instructions to refuse paper which they had been in the habit of taking without notice, & without any sufficient reason, and also that they treated with marked disrespect those persons sent on behalf of the Joint Stock Banks to obtain payment of their balances, and even went so far as on one occasion to refuse their own paper in exchange from the Farmers' Bank. We must conclude this justification of the Joint Stock Banks during the late panic with disclaiming on their part and their friends the slightest wish to provoke hostility, or to act in any way calculated to give offence. We ask for them fair play and no more, and we trust we shall not in vain appeal to Britons for simple justice.

We now approach the most important part of our subject, namely, the consideration of the course which ought to be pursued by the Legislature during the ensuing session. We hold our opinions on this subject with great diffidence, and can hardly help admitting that we almost yield our judgment to the general wish of the community. We deem it to be beyond dispute that the demand for silver for exportation must have the effect of withdrawing from circulation a large amount of the notes of our Banks. We are probably not far astray in estimating the circulation of the different Banks at about £500,000. Now if this should be in a few months reduced to one half, the Banks must curtail their discounts £250,000

and the effect of this would, we believe, be that a number of solvent merchants in the province would have to yield to the pressure.

We have never thought the interests of the mercantile community sufficiently attended to by the Banks in this province, and we would on the present occasion strenuously insist that whatever course may be adopted their interests should not be lost sight of. If it is possible consistently with a proper regard for their interests that the Banks can continue specie payments it would be most desirable that it should be done. The province would hold a proud position if it could maintain the credit of its institutions amid the dreadful crash which has taken place on every side. Should it however be found impossible to follow this course, we would most strongly deprecate the mere legalized suspension of cash payments. We would earnestly implore the Legislature to pause before they adopt a course so fraught with ruin to the whole community. Should this suspension take place Bank paper will be depreciated never again to regain its credit. The debtor will find that his creditor will refuse payment in the only currency he can obtain, and we shall be in the same condition as the United States, where it is impossible for 24 hours together to know what paper a man can pay his debts in.

We are credibly informed that Bills of the United States Bank have been refused in payment of notes, and that the debtor, who offered them in payment, had to stand a suit for the debt.

If we are not able to continue specie payments, let us at least have some description of paper made a legal tender during the suspension. We are unwilling to give an opinion as to whether this paper should be that of the Bank of Upper Canada alone, or all the Chartered Banks. If it was possible that the Chartered Banks could come to an understanding, we hold that only one description of paper should be legalized as a tender, but we confess we see difficulties in the way of such an adjustment, which we fear are insurmountable; and it may, therefore, be necessary for the three Chartered Banks to be put on the same footing. Should this plan be adopted, the Legislature will of course see the propriety of having stated returns of the circulation published at intervals, and of limiting within proper bounds the extent of circulation.

We feel great reluctance in admitting that any circumstances should occur to render such a course as that described necessary, and we cannot yet say, we are satisfied that it is so, but we do clearly perceive that the credit of our institutions, and the interest of the community at large, require that a different course should be taken from that adopted in the United States, which we know has not worked well. The plan we recommend is a desperate remedy for the existing disease, and if adopted, will require every guard that can be thought of to restrain the Bank issues within bounds, so as to enable them to return to cash payments as soon as possible. This course too, we believe, would be better than issuing the paper of Banks which have suspended specie payment, a course which we do not believe will ever be sanctioned by an intelligent people.— We are far from wishing to disparage the paper of the Lower Canada Banks—we have no doubt of their stability—but we think that they themselves can hardly approve of their paper being forced into circulation at a distance, among a people whose confidence in their own Banks has been, to say the least, shaken.

The attempt to legalize the suspension of specie payments, on the part of the Chartered Banks, without making paper a legal tender, would, as we have already stated, inflict serious injury on the community at large, but would press with the greatest severity upon the Joint Stock Banks. It must be recollected that £100,000, or upwards, of debts, will be falling due to these Banks during the ensuing three or four months; and we would ask, can these Banks receive, in payment, the paper of suspended Banks, of which they can make no use, while they are obliged to meet their own paper with specie? It will be impossible for them to do so, and they will, therefore, be compelled to collect their debts in specie, to the serious loss of their debtors.— So dreadful has been the inconvenience caused by the legalized suspension in the United States, that in New Jersey we observe a bill has been introduced, compelling the Sheriffs to stay executions where the prosecutor demands gold and silver, such execution not to be enforced until he retracts. We entreat our readers to mark the consequence, a man is obliged either to lie out of his money, or to take paper of which he can make no use, not being a legal tender, while the debtor is sued and unable to satisfy his debt with

the only currency he can procure. The evil consequences in this province will not, however, be confined to the Joint Stock Banks and the community at large, but will seriously affect the Freeholders Bank as well as the other new Banks, whose charters have not yet been assented to. We ask the friends of these Banks, if the charters are assented to, how they can get their stock taken up, while this suspension exists? If the Chartered Bank paper should be made a legal tender it will, for the present, suit them as well to get their stock paid up in that paper, as in specie; but without our having notes of some description made a legal tender, it will be impossible for these Banks to get into operation. It may be said that the suspension will not last long, a few months perhaps, or a year, but we can instance the example of the Bank of England, to shew the great difficulty of resuming cash payments, after a suspension has once taken place, and we would ask how could business have been carried on in England, had there been a mere suspension without the paper of the Bank of England having been made a legal tender? The friends of the new Banks about being established at Toronto, Sandwich, Niagara, St. Catharines, Cobourg, Prince Edward, Brockville, and Prescott, may depend upon it, that any measures which tend to give additional power to the existing Chartered Banks, will have the effect of injuring their interests. They already know the hostility felt by these institutions, or some of them, to the passing of their Charters, and they may depend upon it, that this hostility remains unabated, and the surest way to prevent these institutions now going into existence, is to pass any measure which will increase the influence of the present Chartered Banks. We wish not, nor have we advocated any measure, to injure these institutions, but we cannot see the propriety of exalting them too much. —Before leaving the subject, we may remark that we have heard it suggested that the government should issue debentures for small amounts, say as low as four or five dollars, not bearing interest, which should be a legal tender. This proposition would in some respects answer better than allowing any description of Bank paper to be a legal tender, as such debentures would command greater confidence in the country, and it is therefore well worthy the serious consideration of the Legislature.

We hold it to be the duty of the government to provide a sound currency for the country if it is necessary to restrain the Banks from paying in specie. The reason we would at all admit the propriety of making the Chartered Bank paper a legal tender, is that those Banks have already been taken under the protection of the government.

His Excellency the Lieutenant Governor has authorized all public officers to take their notes, and has used all his influence to assist them. We assume therefore that the government have means of knowing the perfect solvency of these Banks, and that therefore the Legislature may fairly consider the Executive responsible that their paper if legalized will prove a sound currency.

Holding these views then we refrain from giving any decided opinion as to whether Government Debentures, U. C. Bank paper, or the notes of all the Chartered Banks should be legalized as a tender; but we feel satisfied that the interests of the country require that one of the three courses should be followed, if it is thought necessary that there should be a suspension of specie payments at all.

We conclude our observations, trusting we have written nothing calculated to give offence to those who differ from us, of whom we admit there are many whose opinions we highly respect. We leave the subject in the hands of the Legislature who will we trust weigh well every argument which can be adduced on both sides, and we trust that an over-ruling providence may guide them to a wise legislation on this all important subject.

A handwritten signature in cursive script, appearing to be "W. L. M.", located at the bottom center of the page.

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