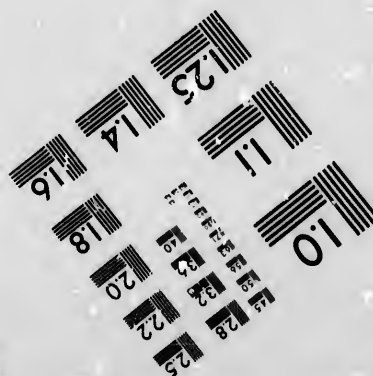
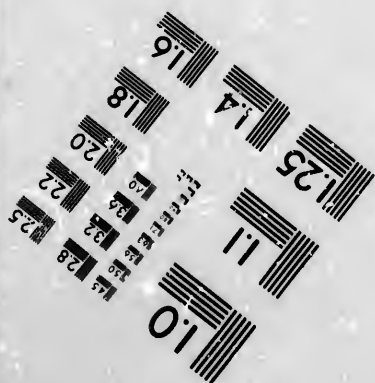
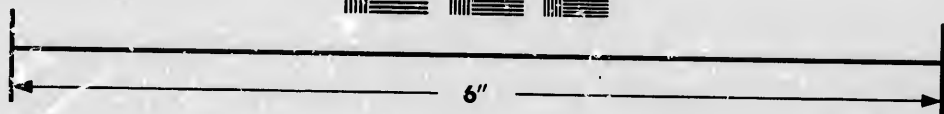
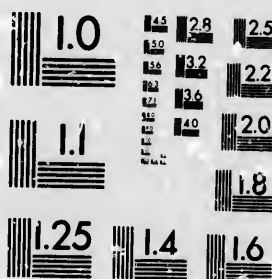


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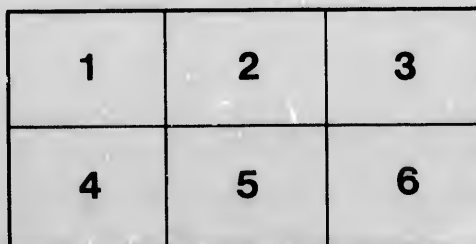
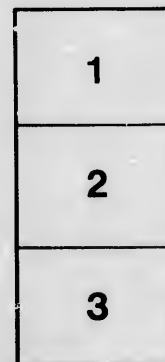
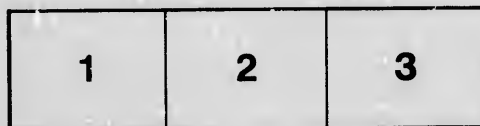
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WHY CANADA IS AGAINST BIMETALLISM

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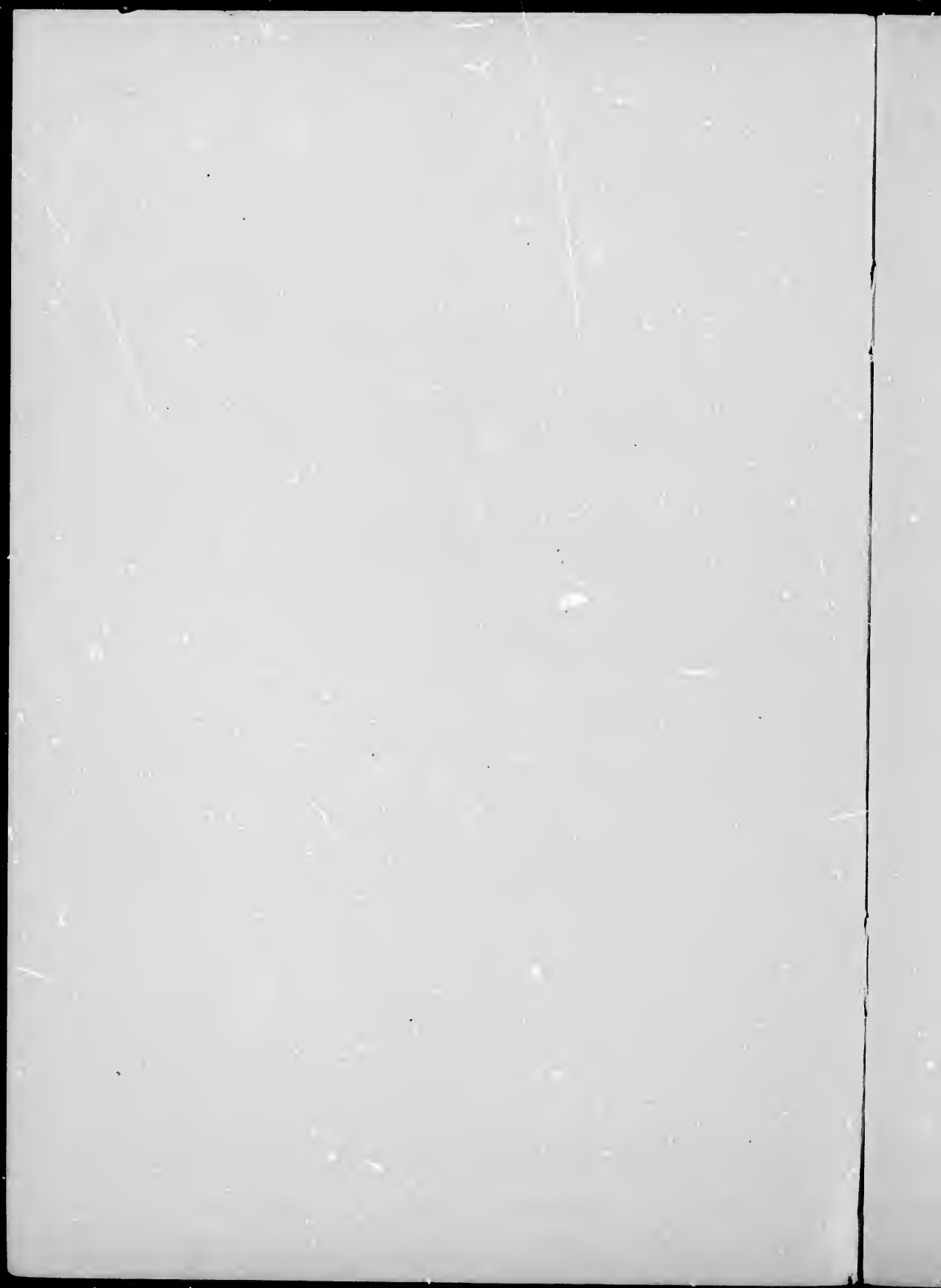
BY

P. E. WALKER,

GENERAL MANAGER OF THE CANADIAN BANK OF COMMERCE

TORONTO:
JOURNAL OF THE CANADIAN BANKERS' ASSOCIATION
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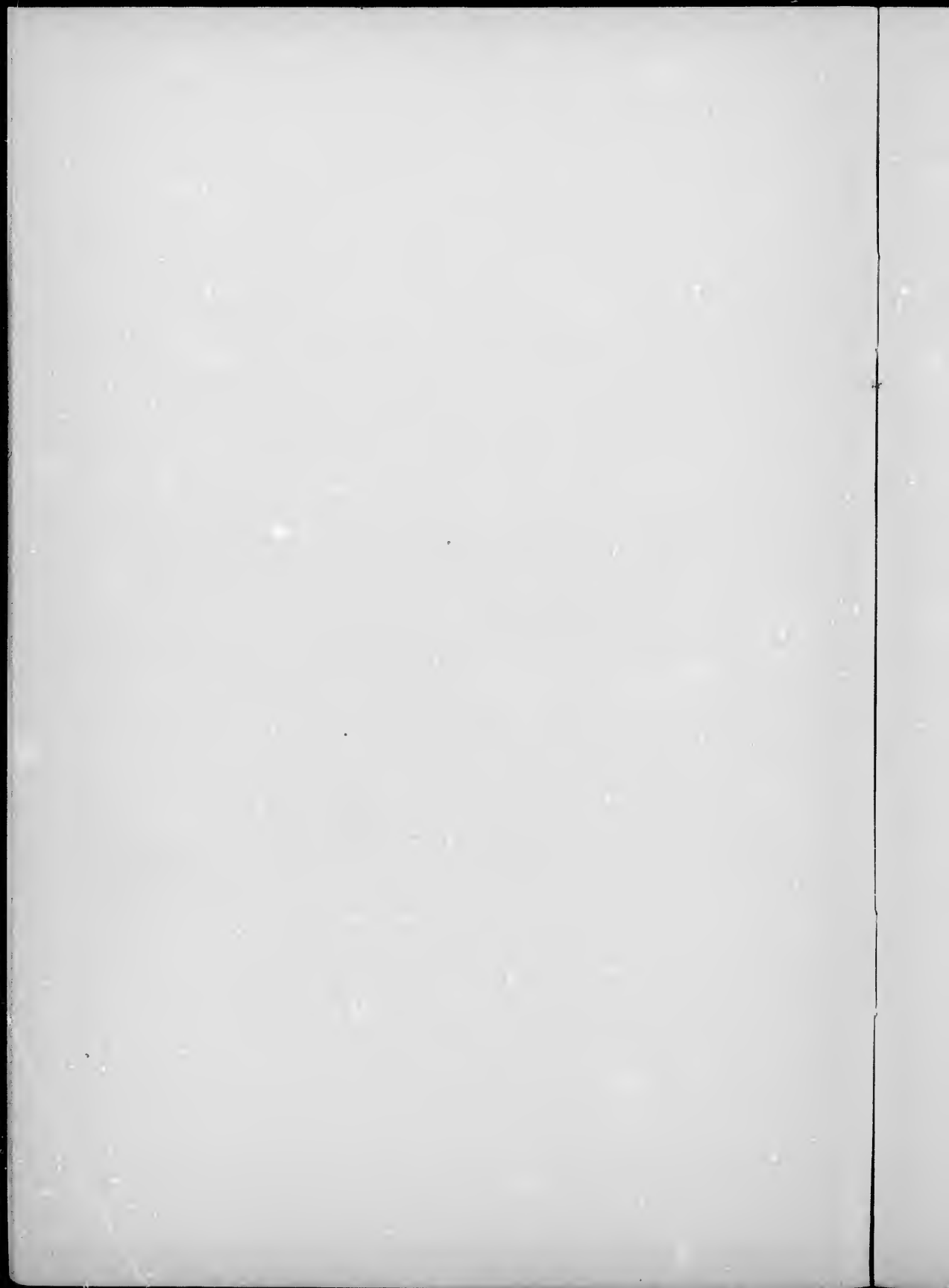
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WHY CANADA IS AGAINST BIMETALLISM*

THE southern boundary of Canada and the northern boundary of the United States run together from the Atlantic to the Pacific Ocean for about 3,850 miles. Elsewhere, except in the north, where it meets Alaska, Canada is bounded only by oceans. It is the source from which the United States must procure many of the products of nature, especially those which grow only, or grow best, in a northern climate. On the other hand, because of the greater development of manufactures in the United States, and because they grow certain products which cannot be produced in Canada, the latter country must always buy largely from them. Although Canada, in common with almost all other countries, settles the final balance of its trading and financial operations in London, the more immediate clearing city for such operations in the case of both Canada and the United States is New York. If Canada requires to pay London in excess of the bills which are being created by Canadian shipments to Great Britain, or to other countries which settle through London, it buys the bills for such excess in New York. If Canada has more exchange on London than is required by her importers, the surplus is sold in New York. Gold coin is occasionally shipped back and forth between Canada and New York; but this is a less frequent method of settlement than by bills on London. Some of the Canadian banks have branches in New York, Chicago and other cities of the United States, and both the grain crops of the west and the cotton crops of the south depend largely on these banks for money with which to buy and transport them, while the foreign exchange market of New York would lose one of its most important features were the Canadian banks to withdraw their agencies from that city. Such being the intimate trading and

*Pamphlet No. 26 of the *Gold Standard Defence Association*.

financial relations between the United States and Canada, I wish to explain why Canada maintains so easily its position as a gold-standard country, and why its great and wealthy neighbor, the United States, also a gold-standard country, has been repeatedly threatened with the degradation of its standard from gold to silver.

When the provinces of British North America entered into the Confederation known as the Dominion of Canada, they resigned their powers in the matters of banking and currency, and these were assumed by the Federal government. There is, therefore, no conflict of authority on these subjects between the Federal and Provincial governments. When the Confederation known as the United States was formed, the original States were anxious to retain as far as possible their sovereign powers. They therefore conferred upon the Federal jurisdiction certain defined powers only, including the power to stamp metal as money. All powers not thus specially conferred on the Federal jurisdiction remained with the States, and under this balance of power the States have the right to create banks. The Federal government also has power to create a bank as it has to create any business corporation; but, with the exception of the two semi-state institutions, called in each case the "Bank of the United States," the Federal government did not attempt to exercise this power until driven to do so by the exigencies of the war. In the United States since the war both Federal and State governments have continued to create banks, and neither is likely to surrender this power.

BANKING AND CURRENCY IN THE UNITED STATES

The first bank charters granted in the old province of Canada about 1820, were copied largely from that of the Bank of the United States, and until 1832 the banking systems in the two countries did not differ materially. Neither government had yet issued notes as money, and both left the creation of paper money to the banks, who were of course supposed to redeem in gold. In both countries banks were developing systems of branches, although the granting of charters by the several States instead of by the Federal government tended

ADAMAS

to make the banks of the United States local in character instead of national, and the majority of these banks had no branches. There was, however, in the United States one bank, the semi-state institution, called the Bank of the United States, which transcended in importance all others. Its relations to the government on the one hand and to the mercantile community on the other, were not very different from those of the Bank of England or the Bank of France. It issued notes, had branches in the chief cities through which it effected a reasonably satisfactory distribution of loanable capital, dealt largely in foreign exchange, borrowed money abroad when necessary to increase its loans at home, and acted as banker for the government. These were days when the commerce and land settlement of the country were fraught with unusual financial risks. Instead, however, of patiently studying the difficulties and gradually improving the system, the Bank of the United States became a political issue, and in 1832 President Jackson refused to renew its charter. The Bank of the United States continued to exist for some years under a State charter, but the Federal government, in pursuance of its policy, transferred its banking business, then very considerable in consequence of payments for land, to various State banks. The government, however, found before many years that these State banks, individually weak as to capital, were not satisfactory as bankers, and the idea of the government becoming its own banker, as far as possible, took shape in the present Treasury system. For many years after this period such banks, working under State laws, as endeavored to establish systems of branches, were met with great animosity by the politicians who reflected the popular feeling that large banks were dangerous to the public welfare. Naturally the branch system did not thrive, and when the war broke out the inland banking business of the country was being done by a vast array of State banks individually weak as to capital, and having little power to cohere for any large financial transaction, while the foreign banking business was mainly carried on by private bankers.

Had the legislators of the United States carefully matured the system with which they began, there would have been in

existence at the outbreak of the war in 1861 great banks of international importance able to procure loans abroad and otherwise serve the government financially. But because there were no banks adequate to the situation, and because of the peculiar treasury system, the government, for the first time in its history, resorted to the issue of promissory notes intended to circulate as money. The first issue of these notes was payable on demand in coin, and was so redeemed, but suspension of specie payments followed within a few months, and the government began a series of experiments in paper money of which the existing residuum is that body of notes sometimes called "war legal-tenders" or "greenbacks," and amounting to about \$346,000,000.

In order to aid in floating its bonds the Federal government in 1863 and 1864 passed Acts creating the national banking system, notwithstanding the strong opposition of the banks working under State laws; and in 1865, in order to make the new Acts effective for the purpose of the Federal government, a tax of 10 per cent. was levied upon the circulation of any bank notes other than National Bank notes—that is, upon the notes of banks working under State laws. Under this system any national bank, upon depositing United States government bonds with the Treasury, may issue notes, nominally the promises to pay of the bank, but of uniform design, guaranteed by the government, and possessing such qualities as currency that redemption by the particular bank of issue is practically not required. Thus the circulation of notes by the State banks was brought to an end, and there were practically no bank note issues left in the United States, the so-called "bank notes" of the National Banks being merely an enlargement of the paper issue of the Federal government. In this manner a nation at one time accepting the sound principle that the function of the government regarding currency was merely to certify to the weight and fineness of gold, silver, and other coined money, and that all credit instruments intended to pass as money should be issued by banks who would, by the circumstances of their business, be always able to issue enough, and yet, by the fact of daily redemption, be unable to keep in circulation too much, had now passed to the most dangerous of all theories regarding

currency. Thus the United States had accepted the theory that it was a proper exercise of power by a government to enforce by law the passage of any instrument as money, and while some only sought to excuse such action by the necessities of the war, others were ready to argue that the power to issue paper money should be enjoyed only by the government.*

PRESENT RESPONSIBILITIES OF THE UNITED STATES TREASURY

By following the incorrect principles above stated the United States treasury now stands deeply involved. The issues for the redemption of which in gold the government is directly or indirectly responsible were at 1st December, 1896, as follows:—

Legal tenders authorized during the war.....	\$346,681,016
Silver certificates issued under the Bland Act, which are legal tender for payments to the government	367,903,504
Legal tender notes issued for silver purchased under the Sherman Act.....	121,677,280
United States National Bank notes	235,398,890
Total.....	\$1,071,660,690

*NOTE by the author on the subsequent course of events:

At the end of the war it was found that the debt of the Federal government exceeded \$2,800,000,000, of which only about \$1,100,000,000 was funded, while of the remaining \$1,700,000,000 as much as \$1,540,000,000 was in treasury notes, and of these \$684,000,000 were a legal tender. In this year, 1865, Secretary McCulloch and the House of Representatives both expressed the view that the issue of legal tender notes was a measure only justified by war, and that the currency should be contracted "with a view to "as early a redemption of specie payments as the business interests of the "country will permit." Some contraction followed, but in 1868 this course was arrested owing presumably to opposite views.

In 1869 (March 18th) a bill was passed "to strengthen the public credit." It pledged the public to pay in coin or its equivalent all obligations except where it was stipulated that payments might be made in "lawful money." It did not, however, pass without strong opposition. In the preceding presidential election the Democratic party had pledged itself to the principle of paying *all* public debts in paper, and in pursuance of this policy Mr. Garrett Davis, seconded by Mr. Bayard, offered the following amendment: "That the just and equitable measure of the obligation of the "United States upon their outstanding bonds, is the value at the time in gold "and silver coin of the paper currency advanced and paid to the government "on these bonds "

Again, in the 42nd Congress, which met in December, 1871, it was urged that a government as strong as the United States could issue fiat money enough to stimulate every industry, while violent prejudice was expressed to the national banks. The sounder element once more urged the resumption of specie payment at the earliest possible time.

From this it would be fair to deduct from one hundred to one hundred and fifty millions of dollars for cash held in the treasury.

Against this mass of paper money the treasury is supposed to maintain a gold reserve of \$100,000,000, but by repeated experience in recent years it has been seen that it cannot do this comfortably when trade relations make it necessary that the country should ship gold. It is abundantly clear that the currency of the country cannot be placed on a sound basis until the government redeems at least a portion of the above paper issues, and until a new banking system is devised which will permit the issue by the banks of notes against their general estate—that is, not secured by the actual pledge of government or other bonds, and subject to daily redemption, so that the ebb and flow of the aggregate of such notes shall adjust itself automatically to the requirements of trade.

BANKING AND CURRENCY IN CANADA

When in 1792 the merchants of the chief city in Canada endeavored to establish a bank under legislative authority,

Then followed the panic of 1873, and as a consequence when the 43rd Congress met there were more supporters of fiat money than ever. The amount of legal tender notes outstanding was \$356,000,000, and in opposition to the policy of gradual redemption the two Houses agreed upon a bill increasing the issue of legal tenders to \$400,000,000, and increasing the limit for the aggregate of national bank notes by \$56,000,000, so that altogether the paper currency might be increased by \$100,000,000. No further reduction of the legal tenders was to be permitted. President Grant in a recent message had gone even further than this in the direction of inflation, but the now saw reason to change his mind and the bill was vetoed. This victory for sound money was followed in December, 1874, and in January, 1875, by the passage in both Houses of the "Act for the resumption of specie payments," which resumption was to take place in 1879.

At the time this seemed to be the end of a long fight between sound money and inflation, but the defeated politicians did not accept it as such. In the Presidential election of 1876 the leading issue was again the currency. Much doubt was expressed by the Democratic party as to the wisdom of the Resumption Act, while the Republicans reiterated the pledge contained in the Act, "to strengthen the public credit" already referred to, by stating in their platform that this "must be fulfilled by continuous and steady progress to specie payments." The most important legislation of the 45th Congress was the Act for the coinage of silver dollars. Some proposed that this should be at the ratio of $15\frac{1}{2}$ to 1; others that the old parity in use in the United States of 16 to 1 should be observed. Mr. Boutwell strongly opposed making silver a legal tender, and thought that the United States should wait until action by European nations in favor of

they proposed that it should transact the business "usually done by similar establishments"—viz., to receive deposits, issue notes, discount bills, and keep cash accounts with customers. It was further proposed to open branches "to extend the operations of the bank to every part of the two provinces (now known as Quebec and Ontario) where an agent may be judged necessary." Although there was at the time no law preventing the issue by private individuals of notes for circulation as money, the legislature refused to grant such powers to an incorporated bank. No charters were actually granted to joint-stock banks until 1826, but the two principles of (1) a note issue against the general estate of the bank—that is, not specially secured—and (2) systems of branches for the gathering and distributing of loanable capital, were recognized; and the new joint-stock banks soon opened branches and took their position in the business world as institutions having a national instead of a local character. It has been already stated that much of the detail in these first charters was copied from that of the Bank of the United States, and it is interesting to note that many of these features are retained in the present Act, unaltered

bimetallism had been secured. Others took an even stronger position, and doubted the possibility of establishing a double standard, urging that silver should be used only as subsidiary money. In his message of the 3rd December, 1877, President Hayes said: "If the United States had the undoubted right to pay its bonds in silver coin, the little benefit from that process would be greatly over-balanced by the injurious effect of such payments if made or proposed against the honest convictions of the public creditors." Secretary Sherman, in his annual report, about the same time, wrote as follows: "As the government exacts in payment for bonds their full face in coin, it is not anticipated that any future legislation of Congress or any action of any department of the government, will sanction or tolerate the redemption of the principal of these bonds, or the payment of the interest thereon, in coin of less value than the coin authorized by law at the time of their issue, being gold coin." But in opposition to the views of President Hayes and Secretary Sherman, Senator Stanley Matthews moved a concurrent resolution in the Senate, declaring that "all bonds of the United States are payable in silver dollars of 412½ grains, and that to restore such dollars as a full legal tender for this purpose, is not in violation of public faith, or the rights of the creditor." A motion to refer this subject to the Committee of the Judiciary was defeated, and the resolution was passed by both Senate and House of Representatives, and proclaimed 28th January, 1878.

In November, 1877, at an extra session the House of Representatives passed a bill, offered by Mr. Bland, for the free coinage of silver dollars of 412½ grains, such silver dollars to be a full legal tender for all debts public and private. The bill was reported to the Senate in December, when Mr.

except as to the phraseology by which they are described. In the early days, owing to the poverty of the country, and to inexperience, banking was subject to many vicissitudes, and the British authorities frequently sought to interfere. Although such suggestions were rarely accepted at the moment, they were often the cause of improved legislation at some later time, but we doubtless owe to the proposals of Lord Sydenham, referred to hereafter, the one serious blemish in our currency system.

In 1850, as a result of dissatisfaction in some portions of Western Canada with the facilities extended by the banks, a measure usually called the Free Banking Act was passed. Under it a bank might be organized with a very small capital, and might issue notes based upon the security of the bonds of the Provincial government. This was an imitation of the National Bank system of the State of New York, from which also the banking system of the United States was largely copied. The old banks in Canada were not, however, forced to adopt the new system, and, as it was unsound in principle, it never gained headway, and in a few years came to an end. Lord Sydenham,

Allison proposed an amendment to the effect that the coinage of dollars of 412½ grains be authorized to the extent of not less than \$2,000,000, nor more than \$4,000,000 per month, the seigniorage on all such coinage to be retained by the treasury. All efforts to increase the number of grains in the silver dollar, or to limit the legal-tender quality of silver as to amount, or otherwise to limit the operation of the bill, were rejected, and the Senate bill was accepted by the House of Representatives. Mr. Bland expressed his willingness to await an opportunity of passing a measure for free coinage at a later time, indicating the close connection between free silver and unlimited paper money by also saying, "If we cannot do that I am in favor of issuing 'paper' enough to stuff down the bondholders until they are sick." The President vetoed the bill on the 28th February, 1878, but it immediately secured the required vote to pass it over his veto, and thus the well known Bland-Allison Silver Bill became law.

The result of this unfortunate concession to unsound opinion, made just before the resumption of specie payments, it is unnecessary to enlarge upon here. The Sherman Act was suspended in 1893, under the pressure of a great commercial panic. In the Presidential election of November, 1896, one of the great political parties adopted as a plank in its platform substantially what was contained in the resolution which Mr. Bland induced the House of Representatives to pass in 1878, that is, that the United States should coin unlimited quantities of silver at the ratio of 16 to 1, without awaiting the co-operation of any other nation. As we have seen, the party advocating sounder views has been elected, and there is reason to hope that the agitation for the unlimited coinage of silver in the United States will not again reach serious proportions.

as Governor-General in 1841 of the united provinces of Lower and Upper Canada, had suggested a provincial Bank of Issue, the right to issue notes by the chartered banks to be cancelled, and suitable remuneration to be paid therefor. This was rejected by the people, and a similar proposal made in 1860 met the same fate. In 1866, however, owing to the pressure of the finances of the Provincial government, an Act was passed

ERRATUM

P. 10, 7th and 8th lines of the second paragraph.

Alter to read :

banking system of the State of New York, from which also the National Bank system of the United States was largely copied.

.....
in gold is from time to time required. The banking legislation in Nova Scotia and New Brunswick previous to confederation offered no difficulty to the adoption in 1870 of a General Banking Act, following the lines of the system in use in Old Canada. Under the new system the charter of each bank is renewed for periods of ten years, all charters expiring at the same time. The banks all work under the General Banking Act, and at the Parliamentary session immediately before the charters expire this Act is re-enacted with such improvement as time has demonstrated to be necessary.

The features with which we are mainly concerned are the note issue and the branch banking. A Canadian bank is permitted to issue notes intended for circulation as money, in denominations of five dollars and upwards, to the extent of its paid-up

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as Governor-General in 1841 of the united provinces of Lower and Upper Canada, had suggested a provincial Bank of Issue, the right to issue notes by the chartered banks to be cancelled, and suitable remuneration to be paid therefor. This was rejected by the people, and a similar proposal made in 1860 met the same fate. In 1866, however, owing to the pressure of the finances of the Provincial government, an Act was passed authorizing the issue by the Provincial government of notes payable in specie, and to be a legal tender to an amount not exceeding eight million dollars.

In 1867 the two provinces comprising Old Canada, together with the provinces of Nova Scotia and New Brunswick, were confederated as the Dominion of Canada. The new Federal government unfortunately did not abandon the issue of legal-tender notes. At the present time the maximum issue permitted of notes partially covered by specie is \$20,000,000, and for all issues in excess gold must be held. Of the \$21,600,000 outstanding at 31st October, 1896, \$8,200,000 are in the shape of notes of denominations smaller than five dollars, bank issues being forbidden for such denominations. The remainder of the issue is mainly in notes of very large denominations held by the banks. The gold held by the Treasury Department at this date amounted to \$10,000,000, nearly 50 per cent. upon the entire issue, or nearly 75 per cent. upon the large issues. The large issues are practically the only notes on which redemption in gold is from time to time required. The banking legislation in Nova Scotia and New Brunswick previous to confederation offered no difficulty to the adoption in 1870 of a General Banking Act, following the lines of the system in use in Old Canada. Under the new system the charter of each bank is renewed for periods of ten years, all charters expiring at the same time. The banks all work under the General Banking Act, and at the Parliamentary session immediately before the charters expire this Act is re-enacted with such improvement as has been demonstrated to be necessary.

The features with which we are mainly concerned are the note issue and the branch banking. A Canadian bank is permitted to issue notes intended for circulation as money, in denominations of five dollars and upwards, to the extent of its paid-up

and unimpaired capital. No securities are specially pledged for such issues. In the event of the insolvency of a bank each shareholder is liable for the debts of the bank to the extent of a sum equal to the face value of his shares. This is generally called the double liability. The note issues of a bank are a first lien upon all the assets of a bank, including this double liability, and prior to any lien of the Federal or of a provincial government. To avoid a discount on notes in circulation at a point remote from the establishments of the issuing bank, every bank must arrange for the redemption of its notes in certain designated cities of commercial importance throughout Canada. And to avoid discount at the moment of a bank's suspension, or thereafter, because of doubt as to the sufficiency of the assets for this particular liability, the banks as a whole maintain in the hands of the government a fund equal to 5 per cent. of the aggregate of notes in circulation, upon which drafts may be made if the assets of the failed bank are insufficient. The notes of a failed bank carry interest at 6 per cent. per annum from the date of suspension until the receiver advertises his ability to redeem. Had these features always been in force the past history of the country shows that no holder of a Canadian bank note would ever have suffered loss, and the people understand the security afforded so well that the note of a suspended bank passes without difficulty. The aggregate capital of the Canadian banks at present is about \$61,700,000: the highest circulation during the past year was \$36,300,000, and the lowest \$29,400,000. It will therefore be seen that should an unusual expansion of the currency beyond the maximum named be suddenly required—a thing only theoretically possible in Canada—there is a reserve power to issue of about 70 per cent. It will also be observed that about 23 per cent. more notes are required to do the business in the active or crop-moving period of the year as compared with the dullest period. The average circulation for the past year was 50.76 per cent. of the paid-up capital. Not only was the required circulation supplied with perfect ease, but, what is of equal importance, it was forced out of circulation immediately it was not required.

The emission and redemption of these notes, the absorption of bank deposits and the making of bank advances, is

effected in Canada by 37 banks with about 500 branches. There is nothing new in this to the European mind, and it is introduced here only to mark the contrast with the United States. The result of the branch system is that the loanable capital is directly gathered where it can be found and directly lent where it is required. The rate to the borrower is neither subject to violent fluctuations because of panic nor to widely varying rates for geographical reasons, and the borrower with good security is able to borrow at fair rates, while the note issues afford a circulation both elastic and secure.

WHY CANADA IS NOT TROUBLED WITH A BIMETALLIC AGITATION

In conclusion, I wish to emphasize the following points:

a. The agitation in the United States in favor of the unlimited coinage of silver is simply the form in which the discontent with existing conditions is expressed by those who do not understand currency and banking problems. They see that something is wrong, and accept the suggested remedy largely because nothing else is proposed. The general fall in prices and the demonetization of silver have been used as arguments for the unlimited coinage of silver; but had the suggested remedy been unlimited fiat paper money, quite as valid arguments would doubtless have been urged.

b. Existing conditions regarding currency and banking in the United States are wrong, mainly because in the past politicians have regarded popular or untrained opinion. Had the legislators of the United States followed the old maxim, "hold fast that which is good," and as the time passed endeavored to make the good they possessed better, they would now have had a system of banking and currency not essentially different from those of England, France, Germany, Scotland and Canada. But the violent policy of Jackson led to the Treasury system, the ruin of branch banking, and the survival only of the weak State banks; and these conditions caused the issue during the war of non-interest-bearing notes for use as money, which was followed by an agitation for fiat paper money, and later by an agitation lasting for twenty years, for the free coinage of silver.

c. Had the early banking methods been retained, and improved from time to time, there would now exist in the United States many large banking institutions with branches, creating an automatic flow of loanable capital from the points where bank deposits accumulate to the points where loans are most required. There would also exist a paper currency issued only by banks, redeemable in gold, and capable of just the measure of expansion and contraction in the volume necessary for the comfort of trade. With an equitable rate of interest to the borrower, and a suitable and elastic currency, the silver-miners could never have caught the ear of the discontented.

d. The history of banking in Canada shows that a country may have a paper currency supported by a very slight percentage of gold, provided the other reasons for its issuance are sound. During the seventy-five years of its existence, except for a few months in a time of rebellion (1837), the bank-note currency of Canada has always been redeemable in gold. With a sound and elastic currency, and a banking system which ensures an equitable rate for borrowed money, Canada naturally has practically no public discussion on the question of bimetallism except in the case of the few who imagine that they find a connection between the general fall in prices and the so-called demonetization of silver.

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