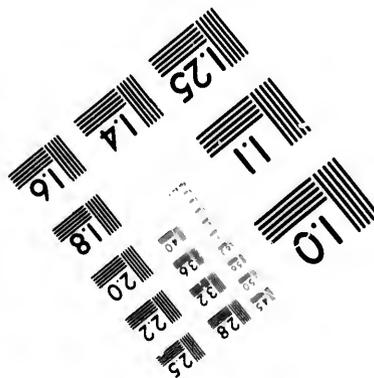
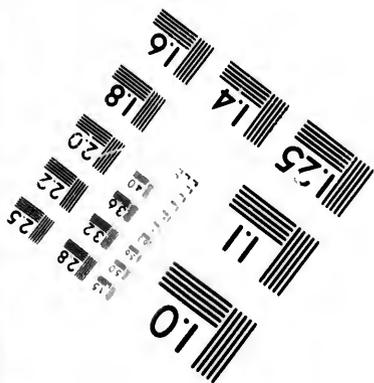
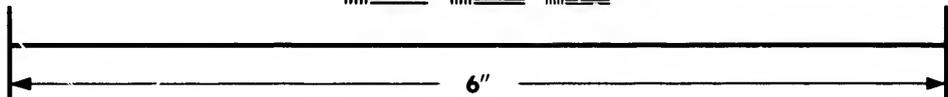
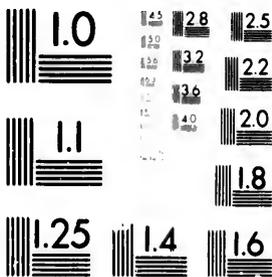


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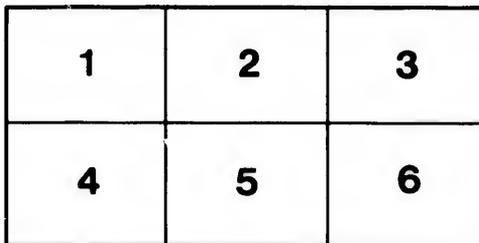
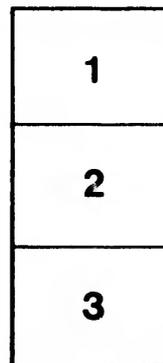
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U. T. S. Coll.

Pamphlet Box H2

1876r

# REPLIES

TO THE

Questions of the Select Committee

ON

## BANKING AND CURRENCY.

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BY JAMES FORMAN,  
CASHIER OF THE BANK OF NOVA SCOTIA.

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HALIFAX:  
PRINTED BY JAMES BOWES & SONS,  
1869.

In the following condensed replies, I have confined myself solely to the questions of the Select Committee on Banking and Currency, without enlarging on a subject upon which many systematic and comprehensive works have been written. The views prevailing among the various writers on the theory and practice of Banking and Currency, are frequently conflicting and contradictory; but notwithstanding this, many salutary warnings and examples abound in their works, which it would be as well not to leave unheeded and forgotten. Those who may have suffered from a financial crisis, will be likely to retain a remembrance of it, and act thereafter with caution and prudence, dreading a recurrence; but unfortunately, when a few years have elapsed, and their places become occupied by another generation, what has passed away is forgotten and disregarded, and similar errors will probably eventuate in similar disasters.

J. FORMAN.

HALIFAX, 17th April, 1869.

## REPLIES.

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I have no practical knowledge of the Banking system of the late Province of Canada. I have always understood that the rules and principles, according to and upon which the Banks there are conducted, are similar to those which regulate and govern the Banks of Nova Scotia. The system obtaining in Nova Scotia, has been eminently conducive to the development of the material interests of the Country.

I do not think that any system can or ought to be adopted and cannot therefore recommend any plan for the issue of Government notes as a circulating medium, either directly or by having circulation based upon public securities. I consider such a circulation absolutely unsound. Government bonds, and bonds of every description not available for gold on call, are in this respect virtually irredeemable; and an issue of paper currency, professing to be based upon security in effect irredeemable, and not upon bullion is based upon no security at all. It is a fallacy. It is an imposition upon a community.

The percentage of specie which ought to be retained, and in a knowledge of which the chief art of banking may be said to consist, depends on keeping a due proportion between actual coin and promises to pay, and this knowledge can be acquired only by experience and closely watching the various changes constantly occurring in Mercantile transactions and trade.

My ideas with regard to the advantages and disadvantages of an issue of Government notes, are sufficiently indicated in my answer to No. 3 question, and I have only to repeat that I disapprove of it altogether.

The National Bank system of the United States, origin-

ated in necessity. I can see no reason whatever, for its introduction into the Dominion of Canada. Should it ever be adopted, the result, I feel confident, would be the ruin and bankruptcy of the whole Dominion.

The evil and fatal effects of issuing irredeemable bonds and promises to pay, will be apparent to any one taking the trouble to read the history of Law's Mississippi scheme, of the Ayr Bank in Scotland, the French Assignats, and of banking in the United States, during the period from 1834 to 1837. I may also here refer the Committee to the important events which occurred in the United States and Great Britain in 1857, involving the downfall of several Banks on both sides of the water; when the City of Glasgow Bank, the Western Bank of Scotland, and the Borough Bank of Liverpool suspended, as well as to the discussions on the principles of Banking and Currency in the several periodicals of the day.

Expansions and contractions may have been found necessary in the late Province of Canada, but they are by no means usual in Nova Scotia. Bank notes being restricted in amount to £5 or \$20, the circulation is necessarily limited, and consequently a run upon the Banks never happens. Gold is not, and never has been refused in payment of its notes by any Bank in Nova Scotia, whether chartered or not, except for a short time during the years 1833 and 1834, when the two Banks then in existence were allowed by an act of the Legislature, to make their notes payable in "Gold, Silver, or Provincial Treasury Notes," but the disturbed state of trade, which was the immediate consequence, caused not only a repeal of the Act, but the passing of another which prohibited Bank notes being redeemed in any other way than with gold, and also limited the issue of any promises to pay to an amount not under five pounds.

Promises to pay issued on the Security of Public Debentures, I have already said would be tantamount to an issue of irredeemable currency. An opinion, I am aware,

prevails with some that a Bank of issue can afford sufficient security to the public by purchasing Government debentures, and depositing them with the Government to the extent of its issues. This is unquestionably Lawism, and in its most obnoxious form. "If the public funds," as has been remarked by a writer well qualified to give an opinion on this subject, "are a proper basis for £1000 of paper currency, they must of necessity be a good basis to their whole extent." If one Bank is allowed to issue paper on the security of Stock, every other one must be permitted to do the same, until the whole funded debt of Great Britain might be coined into paper currency. If £1000 of public debt is coined into £1000 of notes, it must be admitted by an inevitable conclusion that £800,000,000 of public debt may be coined into an equal quantity of notes. The principle of basing a paper currency upon either land or public funds is absolutely identical and equally vicious, a wild and mischievous delusion.

The present system under which a portion of the circulation of the Dominion is on the direct issue of notes of the Government coupled with the system of independent issues by the Banks themselves, cannot in my opinion remain satisfactory in its operation. It is true that a limited amount of Provincial Notes has been in circulation in this Province a great many years, but small as this amount is, it has at times been a serious evil. At the close of the last American War with England, a large amount was issued for the alleged purpose of paying for the Provincial Building, Government House, and other heavy debts which were about that time contracted. The result of this over issue was the exportation of the metallic portion of the currency, in payment of foreign commodities, and it became so difficult to procure even small coins and half-pence to pay labourers, that many of the merchants issued their own 5s. and 10s. notes for that purpose, and continued to do so until the greater part of this over-issue was called in, when specie began to return into the country again.

I have no hesitation in asserting that the introduction of the legal tender system has already to some extent reduced the volume of specie in this country, and will eventually cause such a further reduction as not only to depreciate the value of, but to render, the legal tenders altogether worthless.

If the present Banking Institutions were required to issue notes based on Government Security, or to issue legal tenders, I do not see why on that ground they should discontinue their country Agencies. I am of opinion that the consequences of such issue, would be more injurious to the public than the local or country Agencies.

I consider the provisions of the Charters of the Banks in Nova Scotia, do offer sufficient guarantee in the public interest, as regards circulation and deposits, and I can see no difficulty in enforcing the provision which makes shareholders liable, if need be, for double the amount of their shares. Nor can I understand what greater necessity there can possibly be for introducing unlimited liability into the Dominion, than into Great Britain and other countries. With some trivial alterations the Bank of Nova Scotia has been working under its present Charter satisfactorily for thirty-seven years.

The Capital of the Bank of Nova Scotia is and was at the first all paid up in Cash, and I presume it to be the same also as regards the other local Banks in this Province. The Acts of Incorporation require it. The Bank of Nova Scotia cannot under its Charter loan money on the security of Bank Stock.

I see no absolute necessity for a limitation of the number of a Bank's branches within its own district, if it has sufficient Capital to support them, though many and serious objections may be offered on the ground of Agencies located in different parts of the Dominion working together to injure other Institutions—and opportunities frequently occur to enable them to do so. I have understood that in the neighboring Union,

a Bank established in one State is not allowed to have a Branch in another.

The Directors themselves are the best judges with regard to the issue of circulation. It must of course depend upon the average amount of deposits and specie in the Bank. The deposits in any of the Banks in this Province, are small with regard to their capital; and their circulation is also small, seldom exceeding three-fifths of their paid-up capital, and sometimes in less proportion than even that.

I think the Banks might safely be allowed to issue in addition to a Five Pound Note, one for Five Dollars, but not under, and not to a larger extent than would be required for the public convenience.

I have not known any evils to result from Private Banking Associations, or Copartnerships, issuing Notes, although I think the privilege should be confined to chartered institutions.

I approve of the system of voting in the Bank with which I am connected. It varies in some of the other Banks, but not materially.

The statements which the Banks are now required to give, contain I think all the information which the public interests require. They are much more full than those given in Great Britain.

Competition in Banking, has to some extent, led to the practice of paying interest on deposits. It is, however, only on deposits payable at short notice, and not, so far as I am aware, upon deposits at call, or on daily balances at any of the Banks. With us the rate of interest is fixed at 4 per ct. We have never suffered any inconvenience by being called upon to pay at short notice. I see no want of safety in carrying on Banking operations on such deposits.

I know of no means of investing monies in Canada, so as to be renumerative, and at the same time available at call or on short notice.

