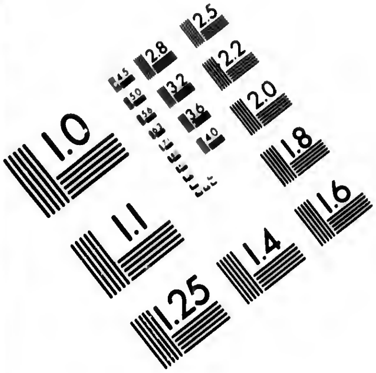


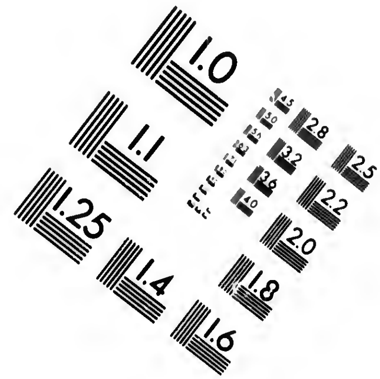
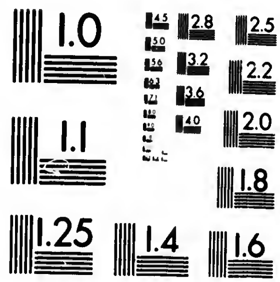
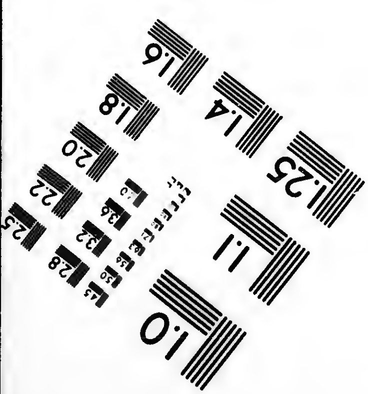
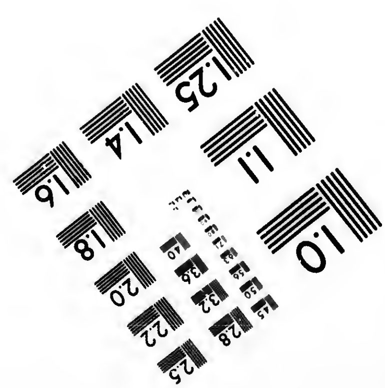


IMAGE EVALUATION TEST TARGET (MT-3)







Ca

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.

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 covers/ Couvertures de couleur
- [ ] Coloured maps/ Cartes géographiques en couleur
- [x] 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
- [ ] Coloured pages/ Pages de couleur
- [ ] Coloured plates/ Planches en couleur
- [x] Show through/ Transparence
- [x] 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
- [x] Additional comments/ Commentaires supplémentaires: Blank leaves which were added during restoration may appear within the text. Whenever possible, these have been omitted from filming.
- [ ] Pagination incorrect/ Erreurs de pagination
- [ ] Pages missing/ Des pages manquent
- [ ] Maps missing/ Des cartes géographiques manquent

1	2	3

1
2
3

1	2	3
4	5	6

[illegible]

THE

Canadian Banking System;

AN

EXPOSITION AND A DEFENCE.

WITH REASONS AGAINST THE ADOPTION OF THE UNITED STATES NATIONAL BANKING SYSTEM, AND THE WITHDRAWAL FROM THE CHARTERED BANKS OF THEIR PRESENT INDEPENDENT NOTE CIRCULATION.

By the Editor of the "Canadian Journal of Commerce."

TORONTO:

1869.

E. T. BROMFIELD & CO.

THE

Canadian Banking System;

AN

EXPOSITION AND A DEFENCE.

WITH REASONS AGAINST THE ADOPTION OF THE UNITED STATES NATIONAL BANKING SYSTEM, AND THE WITHDRAWAL FROM THE CHARTERED BANKS OF THEIR PRESENT INDEPENDENT NOTE CIRCULATION.

By the Editor of the "Canadian Journal of Commerce."

TORONTO:

1869.

E. T. BROMFIELD & CO.

THE CANADIAN BANKING SYSTEM.

The author of the following pages has approached this subject from a practical and mercantile point of view. The science of banking is, in many of its aspects, abstruse and difficult, and there will always be differences of opinion among political economists, to say nothing of theorists who know little of political economy except the name, as to the relation between paper and hard money, and the propriety or otherwise of a government issue. The author would suggest that the particular circumstances bearing upon each case, where it is proposed to change one form of circulation for another, are really the chief points to be determined, and that what may be a very proper step to take at one time and in one country, may be a very foolish step to take at another time or in another country. Had the author been writing about the United States currency three or four years ago, he would probably have been among the advocates of a legal tender issue and of the national banking system; and why? The government of the country was fighting for very existence, and could only meet the fearful emergency by pledging the resources of the nation for many future years. But to attempt a comparison between this state of things and what obtains in Canada at the present moment is absurd. We have no need to increase our debt. Our government is not embarrassed. There is no overwhelming and pressing necessity upon us which makes it essential that the floating capital of the country be placed in its hands. Far better employ it in trade and manufactures through the legitimate operations of commerce. And further, the country cannot afford any drain upon its mercantile resources. The community is young. Vast mercantile fortunes have not been amassed. A large proportion of our merchants—and these the men whose enterprises are greatly benefitting us—are men of comparatively small means; and any measure which will deprive them of their banking facilities by diminishing the volume of money on loan at current rates, will inflict an untold injury upon them, and through them upon the country. These two points then, the author invites his reader to keep prominently before him. There is no absolute and pressing necessity compelling us to make a radical change, whether we desire it or not:—It is, moreover certain, that a change, such as has been indicated as desirable in certain quarters would inflict very great injuries upon the country. These propositions will, the author hopes, be further elucidated in the course of the succeeding observations.

I.

It may be useful to state *the main features of the present banking system of Canada.*

There are incorporated banks and dealers in uncurrent money doing business in the country. Of the latter it is unnecessary to speak, but of the former it may be observed that no bank can issue more notes than to the amount of its paid up capital, specie, and government securities. In speaking of specie in this connection, Provincial Notes must be included, being legal tenders. The paid up capital (average 1868) of the various chartered banks of Ontario and Quebec (the returns from the other provinces are not complete) amounts to $27,223,262. The specie, provincial notes and government securities average $14,875,099. This gives a total of about $42,098,271, or, deducting the capital, specie and government securities of the Bank of Montreal, which abandoned its circulation two years ago, and which therefore ought not to be taken into account in the present connection, say, $29,145,626, as the outside bank circulation permissible. The independent bank circulation varied in 1868 from $7,030,800 in July to $10,589,589 in October. We therefore have the following result, taking all the chartered banks of the two provinces except the Bank of Montreal:—

Permissible Circulation.	Outside Circulation.
$29,145,626.	$10,589,589.

The proportion will be a little nearer if we take into consideration the diminution of specie in the banks during the month when the circulation was most expanded, but taking the average specie as well as the average circulation, and the nearest approach to exactness we can obtain, we have, as nearly as we can compute, the following result:—

	Permissible Circulation 1868.	Circulation 1868.	
Paid up Capital, less Bank of Montreal.........	$21,223,262	Highest	$10,589,589
Average Specie, Provincial Notes and Government Securities, less Bank of Montreal, say	7,922,454	Lowest	7,030,800
Total........	$29,145,716	Average	$ 8,525,152

Here we have a total average circulation of between one-third and one-fourth (say four-thirteenths), the circulation allowed by law. The following table gives the figures as nearly as possible for each bank, for May 1868.

	Paid up Capital, Specie and Government Securities.		Circulation.
Bank of B. N. A.	$6,517,172		922,003
Quebec Bank......................	1,993,854	......	$ 472,325
City Bank	1,660,615	......	286,161
Gore Bank........................	1,109,909	......	290,634
Banque du Peuple.................	1,907,409	......	69,371
Niagara District.................	407,593	......	119,446
Molsons	1,342,375	......	96,452
Toronto	1,414,044	......	760,118
Ontario	2,826,242	......	1,078,462
E. Townships.....................	509,566	......	104,795
B. Nationale.....................	1,312,521	......	112,760
Jacques-Cartier..................	1,159,089	......	83,115
Merchants	3,880,862	......	593,623
Royal Canadian	1,760,487	......	1,133,586
Union Bank	1,133,032	......	81,899
Bank of Commerce	1,729,845	......	693,389
Total	$30,549,615		$6,898,139

The above table shows the proportion of circulation to capital and specie for one month only. The proportion varies in different months, according as the demand for money is more or less active. In October of the same year the circulation of bank notes rose to nearly 10½ millions, and it is sometimes higher still. The peculiar feature of the system is that it provides for a large expansion of the currency to meet the requirements of business. At the same time, as the banks are directly liable for the repayment on demand of every note they issue, they have every motive to guard against an over expansion. After each season of expansion there invariably follows a season of contraction, in which the notes come back again for payment, so that a bank cannot always calculate upon having the same volume of notes afloat. This necessitates watchfulness and care, because the bank's name and fame would be lost were it to be unprepared to redeem its notes in gold, when the time of contraction comes round. This necessity for watchfulness is a better security to a bank and to the public, than any artificial support which might be derived from a government connection, and is one of the strongest arguments for the maintenance of the present system. The proverb "Take care of the pence, and the pounds will take care of themselves," really applies to this view of our subject. By the habit of constantly feeling the pulse of the community through the influx and reflux of the circulation, a bank can foresee and anticipate changes, and is better able to take care of its depositors.

The only other feature of Canadian banking which it is necessary to notice here, is the principle of double liability as applied to shareholders. A shareholder is liable to the public for twice the amount of his subscribed shares. This is a very important feature, inasmuch as the majority of shareholders would be able to bear the double liability in case of its being enforced, whereas an unlimited liability would defeat itself.

Those who, like the author, think that the system of banking now prevalent in this country, is, upon the whole, better adapted to its circumstances than any other, are mostly quite willing to admit that it is susceptible of amendment, but not in respect of either of its leading features just mentioned. There is abundant room for wise legislation on questions of detail; the qualifications of directors, the propriety or otherwise of government inspection, the nature of the official returns, the amount of specie to be held, the question of making notes a first charge upon assets in the event of failure. But to give up the principle of an independent note circulation, of direct responsibility to the public, would be to submit to a grave public injury. The banks themselves might not suffer, for they would probably obtain a higher rate of interest for their loans, but the public would suffer, as we shall herewith proceed to make plain. Meanwhile does it never occur to the advocates of a change that upon them lies the responsibility of shewing the necessity for it and the good to arise out of it? It is said, as offering in some sort an apology for this interference, that several Canadian banks have failed under this system, but there cannot be a shadow of doubt that these banks would have failed under any other system. But the essential point for consideration is, what have the public lost by these failures? In one case, that of the Commercial Bank of Canada, the notes have all been paid in full; while any loss that may have been sustained through the Bank of Upper Canada, can clearly be traced to its connection with government, which involved it in such a mass of corruption and jobbery, as ought to be a warning to the public against all government interference in banking.

II.

It is sometimes alleged that under the present system the noteholder is not sufficiently secured. A bank, it is said, may at the time of its failure owe some hundreds of thousands of dollars to the general public upon its notes. These notes are in the meantime passing from hand to hand as money, and it is very important, says our theorist, to give to the general currency of the country the stability of a government guarantee. Give us, says the advocate of a change, a secure currency—one placed beyond the reach of bank failures or commercial panics.

We admit that there is some force in this demand, but we contend that, except for peculiar reasons, such as obtained in the United States during the late war, it is unwise for the general interests of a country to have a government issue. We shall explain this further in another section, but in the meantime let us look into this charge of insecurity as alleged against the note circulation of Canada. *We argue that as the system now stands the noteholder is practically well secured,* and that for the purposes of a currency he is really better secured than he would be by a government issue. Governments may fail to keep their promises to pay as well as banks, and it is very easy for a government, when it finds these promises to pay rather pressing, to issue an order in Council to relieve itself of the obligation, and to redeem them by issuing other promises to pay. When this is the case the paper depreciates in value, and every noteholder suffers. But under our present system the simple amendment of the charters so as to make bank notes a first and speedy charge upon the assets, combined with one or two other guarantees for the public safety, would cause every vestige of insecurity to disappear, while all the advantages of an independent circulation would remain. Let us illustrate this point.

The average note circulation of the Dominion, irrespective of Provincial Notes, may be taken for the sake of argument at $10,000,000. The bank capital (subscribed) is nearly $40,000,000; but supposing it were all paid up, there is the double liability principle under which the shareholders of the various banks, including a large proportion of the wealth owners of the country, are directly and personally liable for $40,000,000 more. Suppose now that it were enacted, that this double liability should be charged first and foremost with the note circulation —that not a farthing should be appropriated to the payment of the other debts of a bank until provision was made for the redemption of every note extant. Surely this would place the notes on a secure basis! Then, there are the government securities, the specie, and other assets of a real and tangible description. These might be impounded for the redemption of notes, and in the majority of cases they would, of themselves, go a great way towards paying off the notes. Then there are the notes discounted by the banks—their bills receivable, of which a large portion is always running. These also might be set aside and not touched for general purposes until the notes were redeemed or provision were made for their redemption. During 1868 the government securities alone held by the different banks, ranged from $3,000,000 to $4,000,000, irrespective of the Bank of Montreal. The discounts ranged from $45,000,000 to $50,000,000, mostly on paper representing commodities and at comparatively short dates. The total liabilities of the banks during 1868, including their liabilities in respect of circulation, ranged from $40,000,000, to $50,000,000, whereas their assets ranged from $70,000,000, to $80,000,000. And behind these assets comes the double liability, $40,000,000 more! Surely if this proportion between circulation, capital, and assets, is anything like preserved by the individual banks, (and an examination of the monthly returns will show that it is sufficiently the case for practical purposes) the point of a bank's stoppage or suspension must be reached (unless as in the case of the Upper Canada Bank the concern is propped up by the artificial strength of a government connection) long before its note circulation could be imperilled. To meet all possible demands arising from its circulation, there is first its unpaid capital, liable to call, then its securities and specie, then its outstanding loans, and lastly the double liability, this last alone amounting in some cases to four times its note circulation. It has further been suggested that a bank should not be allowed to pay in dividends more than eight per cent. per annum until it has accumulated a Rest of 20 or 25 per cent. of its capital. This would be an additional security, and altogether there would be immeasurably less danger of loss to the individual note holder under the independent system, than there would be under a government system, especially in times of national pressure, for the notes, or the bonds securing them, might then become greatly depreciated, as they have been in the United States, and there would be no fund to fall back upon for their redemption.

III.

We now come to consider the *nature of the projected interference with the Canadian banking system.*

There are two ways by which it is proposed to supersede the present system. One is by making the government the sole issuers of paper money, in other words, *by an extension of the Provincial Note*, or as it would then be termed the *Dominion Note* system. Amongst other advantages which, it is said, would follow this step, is the uniformity of value which this paper money would possess all over the Dominion; but, however plausible, on theoretical grounds, this appears to be, it is by no means necessary or desirable that the paper money of a country should possess this characteristic. It is one of the advantages of an independent note system that the circulation is local, and is based on the credit of local institutions. When payments have to be transmitted to a distance, they ought, undoubtedly, to be made in exchange or by bankers' draft. The adoption of a national paper currency leads to many abuses, especially in the disturbance of values and in the centralisation of great financial power in the hands of the government. Especially is this the case when the paper so created is constituted a legal tender, which almost invariably happens. Indeed, the unsoundness of the principle is now so generally admitted, that it would be almost justifiable to treat it as an exploded theory. Certainly, it is hardly likely to be seriously entertained by the Canadian Parliament. Still, as many readers of this pamphlet may not have had the opportunity of studying the subject, and may be smitten at first sight by the captivating idea of "government money," one or two authorities may be cited in support of our position. The writer of the article on Political Economy, in the Encyclopædia Britannica, foresaw some of the rocks on which future statesmen were destined to make shipwreck when he wrote: "There are extraordinary dangers attending the use of this instrument (government paper money) and no cause has, perhaps, been productive of more signal commercial disasters." Government can, with propriety, lay down conditions and regulations for other banks, but, when the government itself turns banker, who is to keep *it* in check? A banker must take care not to issue more paper than he can redeem instantly, but, as the writer above quoted says: "Where the paper money has been

issued by the government, payment may be refused; but in this case an immediate depreciation takes place in the value of the notes, and a deep injury is sustained by all who are possessed of them." Mr. H. R. Hulburd, the Comptroller of the United States currency, in his report for 1867, says of this kind of money, "Such a currency possesses no inherent qualities which adapt it to the wants of trade. It does not contract during seasons of inactivity, nor expand to meet the demands of active business. * * So far has the legal-tender currency been from performing the equable and harmonious functions of money in its relations to trade and industry, that it has been the great disturbing element. By it all relative values have been unsettled, trade interrupted, and industry disorganized to such an extent that the whole foreign and domestic trade has been compelled to adjust itself, over and over again, to the altered condition of the currency. Nothing has been permanent. Violent fluctuations have characterised the market for every commodity, and speculation has usurped the place of regular and legitimate traffic."

How different were the circumstances which compelled the United States Government to adopt the legal tender system, to those of this country when the authors of the Provincial Note Act forced their scheme through the legislature. When Mr. Spaulding introduced the original bill before Congress, he characterised it as "a war measure, a measure of necessity and not of choice." The Finance Committee pledged themselves to it as a temporary measure only and not as a policy. It was universally felt to be a "hard necessity."

Austria, Russia, and England all tried the expedient of a legal tender issue during the great continental war with Napoleon I., and dearly they paid for it. France has played with the treacherous instrument and suffered. No improvident spendthrift ever threw away so large a proportion of his patrimony to the Jews as have these nations paid away for the temporary relief they obtained by the legal tender system. None but a madman or a fool would seriously propose its adoption in a time of peace and prosperity. The inevitable depreciation of the paper money issued by England was so great that it is estimated she contracted a debt of £420,000,000 in order to realize £260,000,000. Mr. Hulburd says: "Probably not less than 33 per cent of this present indebtedness of the United States is owing to the high prices paid by the government while its disbursements were heaviest; and to this day the depreciation of the currency enters into every estimate submitted to Congress as the basis for appropriation. Of every hundred millions disbursed in legal tenders, over twenty-five millons are paid for discount." And the direct loss borne by the government is only a tithe of the injury inflicted upon the general public by the disturbance of values, and the depreciation of the currency, notwithstanding that many persons in the centres of commerce may grow suddenly rich by speculation, jobbery, or corrupt favoritism.

It may also be argued under this head, that the promissory notes which are issued by a Government, have no foundation in accumulated capital like those issued by banks. When a Government issues these notes, so far from having capital it is often deeply in debt. By issuing the notes it becomes a still larger debtor to the public, and by and by the public find that even Government paper may become subject to a very close 'shave,' in the money markets of the world. Why is this? Simply because it is a promise to pay without actual funds being available to redeem the promise, whereas a bank note, payable on demand, represents, not only the credit of the corporation issuing it, but actual money or money's worth—subscribed capital and marketable securities.

Under these circumstances, and with the well defined experience of the past to guide us, besides having the example of the United States before us as a warning, it does seem almost a work of supererogation to argue the question of a government paper currency. To advocate it, except under very peculiar circumstances, implies either palpable ignorance of the plainest historical facts and the most widely admitted conclusions on the science of banking, or a strange, infatuous, and obstinate clinging to a mere theory, long after the world has thrown it aside as absurd. One might almost as reasonably counsel a youthful heir to a good estate to become a reckless borrower, and to send his ancestral acres to the winds, in the shape of accommodation paper, as to seriously advocate the adoption of a government note currency in a community like ours. It is only justifiable when it is the last resort of an embarrassed Treasury, and when the national honor and existence are at stake, and even then experience shows that whenever it is adopted a long heritage of debt and high expenditures is entailed upon the country which sanctions or suffers it.

IV.

The other and the only way likely, one would think, to be proposed by the government, by which to supersede the present banking system of Canada is *by founding the bank circulation upon national securities*, after the manner of the United States National Banks. The main feature of this system is that, in return for the privilege of issuing notes, payable on demand, the National Banks deposit with the Treasury government bonds somewhat exceeding in value the amount of such circulation. The National Bank notes are then received by the government in payment of domestic taxes, and of course the banks receive interest on the government bonds. Should any of the banks fail, the bonds are sold for what they will fetch, and the proceeds go towards paying the notes.

Now, plausible as this theory looks on paper, we are quite justified in asking *why it is attempted to force it upon Canada?* If the present system has for many years worked practically well, why destroy it in order to introduce another system which has never been subjected to the only real test of banking operations, viz., specie payments, enforced by regular redemption? Our system has stood the test of critical periods, but the severest test of the national banking system—the return to specie payments—has yet to come. The adoption of the system may have been the best thing to be done under the circumstances in the United States, for the reason that the great need of commerce was not currency but stability of some kind. In a time of over-inflation and speculation, with a legal tender currency driving all the gold out of the country, safeguards were the great desiderata. Besides which, the government urgently required money, and by compelling the banks to buy its bonds it kept up their price and absorbed some $300,000,000 of capital. The circumstances do not apply here.

a. *The contemplated change would place several millions of dollars in the hands of the government.* What would the government do with it? A banker with this large deposit would invest it, or a large portion of it, in productive loans. In his hands it would be a reservoir of money, and, lent by him upon mercantile security, it would flow forth as by innumerable rills, fertilising and enriching all the land. And this is just what Canada needs. She cannot afford to lock up her capital. A banker *lends* his money, but what does a government do with it? Does it lend it? No. Does it hoard it? No. Does it invest it? No. What then does the government do? IT SPENDS IT. There may be exceptional cases in which a government turns investor, as, for instance, the Ontario government, which has a few millions locked up in Dominion Stock. This, however, only puts back the spending another step. But such cases are very rare. A government can always find ways and means of dissipating large balances. Unproductive public works, fortifications, extravagance, high salaries, useless officials, experiments of all kinds, can be carried on with money which might be distributed all over the country through the ordinary channels of trade. It is true that the expenditure of large sums in this way creates a temporary activity in the country, and lays the basis for a few private fortunes, but when the money is gone the country becomes depressed again. The vast commerce and accumulated wealth of the United States might spare this $300,000,000 of greenbacks to aid the government in carrying on a war of existence, better than we could spare $10,000,000 or $12,000,000 of gold to be frittered away by a popular administration, which is always subject to influences which it is all but impossible to control.

b. *We actually need this money for the legitimate operations of commerce.* Our lumber merchant leans upon his banker for eight or nine months of the year to carry on his operations, to pay his laborers, to provision his little army in the woods, to bring his stuff to market. He would have to bear his proportion of the contraction of currency; and, let us ask, what would our lumber merchants say if there were two or three millions of dollars less to lend amongst them next year than last? Our produce merchants, our importers, our manufacturers, all depend more or less upon the power of the banks to expand the currency, and would severely feel any restriction. The unanimous testimony of practical bankers, conversant with the trade of the country, is, that the adoption of the national banking system would abstract from six to eight millions of dollars from the circulation, at seasons of the year when every dollar is needed. Who can picture the evil consequences of this step to the country at large? This money, instead of circulating through the land, raising the price of wheat and other products of the soil, fertilising every branch of trade, enriching the farmer, enabling the storekeeper to pay his notes at maturity, encouraging the builder to extend our cities and towns, improving the dwellings of the people, surrounding them with comforts and refinements, inviting enterprise, would be *drawn off*, as by a process of blood-letting, to swell the receipts of the Treasury, and to tempt ambitious ministers to rival foreign nations in their lavish expenditures. The country would become become dissatisfied and its progress retarded. The price of wheat and the rents of houses, and the value of the soil would fall lower and yet lower. The bankruptcy lists would grow larger and larger. The sound of the axe would grow fainter in the forests, and many a busy warehouse would be deserted. And through all this baptism of suffering the country would gradually, but slowly, shape itself to the new order of things. People sometimes wonder why Canada does not get on so fast as other colonies. They need not be surprised, for no country on earth has seen so much folly and weakness and intermeddling with things not understood in high places. Is the country to be developed—are railways to be built—are mining operations to be encouraged—is emigration to be promoted—we have to pass through a long apprenticeship of bungling, arising from experimental and fancy legislation, playing at government as children might play with diamonds—a very expensive game—before we hit upon the right mode of managing matters. Millions of money have to be wasted before we learn the art of spending one. The most enterprising of our people are driven away while we are trying to bait our hooks with inducements for the cast-a-ways of other lands. And now, to crown all the absurdities of past legislation, it is seriously proposed to change the whole currency system, losing sight of its many advantages, forgetting that it is easier to pull down than to build up, blind to the folly of destroying a system to which the country is accustomed and under which its industrial resources are being developed upon a sound and healthy basis. It rests with those who propose a change to show the crying necessity for this interference with commerce, and on them will be the blame and ignominy of all the disasters, individual and national, which will be entailed upon us if these millions of capital are abstracted from the commerce of the country, in order to minister to the power and circumstance of a few controlling gentlemen sitting in state at Ottawa. At the present critical period of our history as a colony, few propositions could have been made more mischievously affecting our material interests.

V.

We must gather into a small compass *a few remaining considerations in reference to the proposed interference with our banking system*, only premising that our treatment of them must be exceedingly brief.

1. As to the argument that the banks can meet the necessary expansion by the simple expedient of increasing their capital, a little examination shows its fallacy. At first sight this perhaps seems a natural way of providing for the deposit required by the government. But how would this plan work? In the first place the banks must increase their capital by a much larger sum than would cover their deposit, unless they required the new stock to be all paid up. This would in some cases double the present capital stock, and whether bank stock would continue to realize an 8 per cent. dividend under these circumstances is doubtful, and if it did not it would not be a popular investment. But secondly, where is the new capital to come from? We talk of 'creating' capital, but if the capital is not here we cannot create it. As the country grows richer there will be more capital seeking investment, but at present there is not a redundancy of this commodity. Say that the bankers invited investments—who would make them? The persons who would take this new stock are the very persons whose money, in one form or another, is in the hands of the banks already. The bank returns might show an increase under the head of paid up capital, but there would be an immediate decrease under the head of deposits. It would simply be taking money out of one pocket and putting it into another, and neither the banks nor the country would be any the richer.

2. The government has already to some extent, encroached upon the deposits of the banks in instituting the Post Office Savings' Banks, in creating New Dominion stock, and in compelling Insurance Companies to deposit large sums with the Treasury. It is a question whether this depleting process has not gone far enough. The money thus invested with government is not available for the commerce of the country, and, though security is no doubt a very good thing, yet it must be borne in mind that it is possible to carry a good thing too far. In mechanics it is a well known principle that what is gained in time is lost in power, and there is a point at which power becomes a leading consideration. You may lock up your capital (especially if it be none too large) so securely that it may not yield enough to support you, and then it will eat itself up. And, by leaning too much upon government security, we may not only diminish, to a sensible degree, the working capital of the country, but may encourage that very government to a wasteful expenditure of the very resources which we thus place at its command.

[illegible]. It is an important point with a banker to have his securities rea[illegible]y convertible. The money locked up with government as proposed, would be absolutely useless to him in time of pressure; it would, in fact, be less convertible than a good mortgage. But the law wisely forbids banks investing money on mortgages, and, to be consistent, should regard all lock-up investments with jealousy. To compel the banks to lock up their funds in stocks which they are forbidden to sell, is simply to divert so much money from commerce to the Treasury.

4. Every bank note issued upon the security of government stock, represents a portion of the public debt for which the public has to pay interest. The public, therefore, first lends the government the money and then has to provide the interest upon it. It is obviously then the interest of the public to keep the principal as low as possible. Further, that portion of the country which takes the largest share of these notes would bear the heaviest share of the national burden.

VI.

What then are *the practical deductions* which should be drawn by the reader from the foregoing arguments?

1. THE PROPOSED CHANGE TO A NATIONAL BANKING SYSTEM IS, IN THE PRESENT CIRCUMSTANCES OF CANADA, UNDESIRABLE, AND ITS ADOPTION WOULD INFLICT DISASTER UPON THE MATERIAL INTERESTS OF THE COUNTRY. It would be a step in a wrong direction, and while opening the path to riches to a few, would seriously imperil the interests of commerce as a whole, and would bring absolute ruin upon many individuals. Change in itself may or may not be desirable, but it certainly rests with the advocates of change to prove its necessity. In this instance they have not done so. Their sole plea, as far as we can learn, rests upon the fancied insecurity of the note-holder—a plea which has no real foundation. Let not any one fancy that the general security of our banking system will be promoted by introducing a government connection of any kind. History abounds with examples in which a government connection has been the ruin of noble institutions. "The National Banks," says Mr. Hulburd, in the report from which we have quoted, "are not exempt from the disasters which are common to all banking institutions and business corporations." This great experiment may have been—doubtless was—expedient and proper in the then condition of the United States. But the proposition is altogether unsuited to our present circumstances. Nothing could justify our government in drawing off so much capital from our commerce, and locking it up in government stock. This course might suit the ambition of bold financiers, whose proper sphere is, one would suppose, New York or London, where there are millions of money lying nearly idle, but it it is altogether out of place in a community like that of Canada. If the government could devise a plan of attracting capital to us in agriculture or manufactures without committing itself too deeply to a protectionist policy, it would earn a good

name and fame, but to drain our working resources to the extent contemplated in the proposed adoption of "a system analagous to that of the National Banks of the United States," is a step which nothing can justify.

2. The Mercantile Community should study this subject and lose no time in impressinc their views upon the Government. The danger to them is imminent. The banks can hardly be expected to agitate this question beyond placing their views on record, which they will no doubt do when parliament meets. It is for the mercantile community, through the various Boards of Trade, or through special organizations, to bring the pressure of public opinion to bear upon the legislature. The country as a whole is deeply interested in the question.

The science of banking, it is true, is not an attractive one to the general reader, but in its main features it is not so difficult to understand as some people imagine. And meanwhile there is no slight danger, lest government should construe the seeming apathy of the community into a consent. The daily press of the country, wielding as it does a vast popular influence, has a grave responsibility in this matter. They owe it to their country to examine this question thoroughly for themselves, and to utter their convictions boldly. We are in danger of drifting into an era of centralization and governmental extravagance, without enquiry or concern. A calamity threatens our commerce and our manufacturing, agricultural and lumbering interests, which is none the less real and terrible, because it approaches us in the guise of friendliness. The plea of "additional security to the noteholder" is sufficient to lull the apprehensions of the community until the crisis is past and men awake as from a dream, but are powerless to shake off the enemy. It is with the view of awakening popular interest in the question that this essay has been penned, and, whatever be the result, the author will feel that he has performed a duty to his fellow citizens and to the country.

EARLY SPRING IMPORTATIONS.

THE undersigned beg to call the attention of the Trade to their

SPRING IMPORTATIONS OF

DRY GOODS,

Which will be arriving by Weekly Steamers during this and next month, and will be fully assorted and

OPEN FOR INSPECTION

BY THE FIRST OF MARCH.

☞ To Close, Cash, or Prompt Paying buyers we can offer

VALUABLE INDUCEMENTS.

BUCHANAN & CO.

Hamilton, Ont., Feb., 1869.

J. WINER & CO.,

IMPORTERS AND WHOLESALE DEALERS IN

DRUGS, DYE STUFFS,

PATENT MEDICINES,

OILS, PAINTS, COLOURS, VARNISHES,

BRUSHES, COMBS,

AND

FANCY GOODS,

HAMILTON.