

A LETTER  
on the  
Proposed New  
COLONIAL FUNDING SYSTEM.

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William BANCKS.  
Bewdley Mills, Rice Lake,

December 10, 1836.

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To the Editor of the  
Upper Canada Herald.

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BEWDLEY MILLS, RICE LAKE, }  
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To the Editor of the Upper Canada Herald.

SIR,

The polite attention with which you favored my last communication, causes me to anticipate the pleasure of seeing your early notice of this. I am not going to give any further statements in support of my finance system, which has been so often before the public; the principles are now *being acted upon*, and I have little doubt of the system ultimately being generally adopted. At present I want to solicit your attention, and through your medium, the attention of the public, to a plan for forming a *Colonial Funding System*. The liberal grants which are now being made by the Parliament, and the necessity for the immediate application of those grants for the advancement of the country, make the subject of the *best manner* to procure the "*ways and means*" one of great importance. My finance system, by introducing a currency drawn upon time instead of treasure, I am perfectly aware is not at all understood by many; by many *mis-understood*, and by many seen in points of view not exactly consonant with *their ideas of their own interest*. Far from shunning discussion, I court even criticism on any subject I write on

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publicly, but allow me to say there is a vast *difference* in having plans and assertions weighed in the scales of opinion with the *bandage of justice* over the vision, and being *viewed* (if I may in this instance so apply the word) with the *blindness of prejudice*. My funding system is, I trust, based on principles that will meet with general approbation and confer general benefit. The first operation of my funding system will be to convert *a debt into a profitable institution*. Our Colonial debt, including the Welland Canal obligations, I believe amounts to about £500,000, be it more or less, no consequence to the argument, but say the Colony be indebted half a million, it consequently has £30,000 per annum to pay for interest, besides being in a state of *surveillance* to its creditors. Part of my plan is to *convert* this debt into *a Stock* bearing 6 per cent. interest; the due payment of this interest should be guaranteed by the Government and must be found by taxes on the Colony. I am aware by this means the interest is *at present raised*, but if this stock, or any part of it, be sold, the *government avoids the onus of the debt* to the amount sold, and is *responsible only* for the interest. It will be asked who are to be *the purchasers of this stock*? Certainly the present creditors of the Government should have the first offer to purchase, and if it were not all bought up by them, *open the sale to the public*. Except it were bought by individuals residing in the Province, in expectation of the *stock rising* in the market, many emigrants newly arriving in this country would be glad to avail themselves of an opportunity of being able to place their *surplus* or not *immediately* required capital so safely, and at the same time receive *full legal interest for it*. You will say many will be fearful to invest because there is a possibility this stock *may fall* in the market, and consequently they may lose the *difference*; this stock I assert *cannot* be depreciated *below par*, whilst the Government remains *at all stable*, and its securities bear 6 per cent. interest, instead of a *deprecia-*

tion taking place, I will endeavor to prove there is every probability of this stock *rising* in the market, but of this further anon. I will now take a review of the result of this operation. Suppose the present Government creditors buy all the stock, the single advantage to the country is its freedom from the onus of the debt, being only bound to pay the interest. This in itself is a desideratum, and the creditors are as well off, for where the principal cannot be paid, every one must be satisfied with the punctual payment of the interest. Is not the whole of the funded debt of Great Britain on this principle? Do you think it would be wise or politic to liquidate our national debt? I decidedly say *no*.— I am prepared to prove my opinion, but this is wandering from the subject. Allowing all this stock had been taken by the Province creditors, is it not reasonable to suppose many other persons who did not stand in that situation would be glad to purchase this description of security? There is no necessity for any supposition on the subject, for there are many such persons, which being the case, this stock must rise in the market; then I recommend the Government to create a fresh stock to the amount of £500,000 bearing  $5\frac{1}{2}$  per cent. interest, let this transaction, if necessary, have the Imperial sanction, and let the responsibility of England be pledged for the due payment of the interest. The way to create this stock is for the Canadian Government, to declare it will give its liabilities to the amount sanctioned by Parliament, (£500,000,) and presuming there are applicants that purchase the whole of this stock, a query arises, what is to be done with the purchase money? My plan of outlay is, the Government should advance the sum it had received for this stock to various companies who would give approved security for it to effect public improvements at 6 per cent. interest, with the understanding the repaying of the principal should be at the option of the borrowers so long as *the interest was regularly paid*; the Government is

enabled to do so, it receives on this principle, and can consequently lend on it. You perceive my system has first relieved the public from the burden of the debt, and limited its responsibility to the interest only, consequently saving the contingency of interest, it is free from obligation, and this new stock does not involve the Government, because the money it borrows is lent out on undeniable security, bearing a higher interest than it gives. I have a twofold object for making a difference in the interest of these two stocks. I will call one the "Debit Stock," and the other the "Loan Stock." My first reason for making the difference between the interest allowed and the interest received of half per cent. was, that the undertaking should pay the expense of the conducting, and secondly it would be giving the present public creditors half more interest than the purchasers of the loan stock. The advance the Government makes to the borrowers of its funds will be metallic, or the notes of companies made payable on demand,—for its own obligations it receives nothing else therefore,—it will not be necessary for it to avail itself of my *time currency*, but you see the principles of my *time currency* acting throughout this system—the Government sells without capital, and lends without capital. Suppose this Loan Stock of £500,000 be all disposed of, the natural tendency of this stock will be to rise in the market, consequently the first purchasers have the best chance to derive benefit from a rise. Suppose this stock advances from par to 110, there must have been a gain to the country from the original price of £50,000. So soon as stock had borne a premium of 10 per cent. or upwards, for two months, I would advise the Government then to create, or more properly add to its Loan Stock a further sum of a million, and appear in the market as sellers. A superficial observer will say by so doing I shall depreciate the price of stock already in the market. Nothing of the kind. The Government should not sell this new stock for

less than 110, therefore it only prevents the rise of stock until it has disposed of its last addition. Now Sir, I think I can call your attention to a feature in this system that perhaps you are not aware of, that is, the immense revenue the Government begins to derive from it. Say it sells a million of stock at 110, it only issues its obligations at par, or gives £100 of stock for £100, and merely pays the interest on £100;—thus the public gain ten pounds on every hundred, or £100,000 by the sale of a million of stock. It may be said it is only supposition on my part that this stock will rise. Allow me to ask, was not our three per cent. consols issued at 60 as par, and is not the same stock *now* 90 or upwards? consequently there must be a profit of fifty per cent. on the original stock to any who bought at par, therefore this stock must have been the means of immensely increasing the wealth, and consequently the prosperity of the country. But our Canadian stock would prove a source of profit to the Canadian public the public of Great Britain do not enjoy;—their stock was created to borrow money that was laid out, though in necessary not profitable ways, and to pay debts already contracted. Now all our stock, with the exception of the present debt, (and in fact the major part of it also was,) will be laid out in the improvement of the country. I think, with a very few words I can make this appear plain to you, and you must observe what I term the Debit Stock is either sold to the present creditors of the Government, or to persons to pay them off, and the country is still burdened with taxation to pay the interest. By the first advance of loan stock, the Government gains nothing—it merely borrows on interest on one hand, and lends for the same interest within half per cent. on the other, and cannot, in either of these cases, derive any advantage from the rise of its stock, but my plan of Government bringing to market a fresh amount of stock after the old has risen to a certain price, and selling it at the original price, which it can do with justice;

(in fact with justice it could do no other,) you see the immense profit that must accrue, and the ample funds provided for any required purposes. Do you not perceive this is nothing more than further exemplification of my time currency principle, only differently applied. Permit me to take a transient review of the effect this funding system will have generally. In the first place, funds are provided to the amount of stock sold for public improvement, and gold or notes payable on demand are issued to effect these improvements, thus creating no responsible debt; but before I proceed further, I would have all these stocks made legal tender to the amount of twenty-five pounds and upwards, the advantage of so doing must be self-evident, especially to the banks; for, supposing this stock made legal tender, it would enable the banks to invest all their present vaulted capitals in it, and receive  $5\frac{1}{2}$  per cent. interest for it, besides being gainers to whatever amount the stock may rise: this stock being made legal tender at current price, for any amount upwards of twenty-five pounds, protects the banks from vexatious applications for cash above that amount, but if a bank were to have its own notes presented to it for an amount it could not transfer stock for, it should be considered in the same light as it would be now if it could not or did not pay its notes on demand; but a circumstance of this kind never will happen, except a bank be in very bad repute.

This funding system, if carried into operation, [and I see nothing to prevent it,] will form an indissoluble bond of union between the government of the people,—a bond the most binding—the bond of interest—the Government will be placed in a truly paternal position; what Shakspeare says of mercy may then be justly applied to the Government, “it blesseth him that gives and him that takes.” I am not fond of using poetical quotations in bringing forward a finance system; but this is apt. If I have money, and as at present can procure little or no interest for it, is it not a blessing or benefit to me,



the Government being in that situation, it can allow me  $5\frac{1}{2}$  per cent. interest for it, with every probability of greatly increasing the principal by the advance of the stock I purchase?—and is it not a blessing, or a benefit to a country, when the Government is able to advance money for necessary improvements, without taxing the country for even the payment of the interest for the money advanced? The banks must advocate the system, for it incontestibly converts their vaulted capital into a profitable fund, and enables them to meet the demands on them with far greater facility than at present they can do, and consequently they can increase their business to their own profit, and to the advantage of the public.

Permit me to give a hint, that if acted upon, will prove of the greatest advantage to Banks, and would protect them in a great measure from the vexatious demands that are frequently made on them for cash, with no *other motive than to annoy or destroy them*, thereby curtailing their power to discount freely, to their own *loss* and the public *detriment*. My preventive plan is to allow the Banks *days, or more properly weeks, of grace* for every demand made on them for cash for £100 or upwards. For instance, I take £100 or upwards to a Bank of its notes, and *demand cash*; it should be allowed to give me for these notes what I may term its *Grace Bills, payable one month after date, bearing interest*; then at the expiration of this Grace, the cash *must* be forthcoming. Surely *no one* that understands Banking can object to this regulation, and certainly no Banking Company would object to it; indeed, our proximity to the States renders a safeguard from immediate drainage of our specie *absolutely necessary as a public measure*. I certainly need not enlarge on this topic, but trust I shall have the satisfaction of seeing it adopted. I will now endeavor to shew the different probable investments in these funds, and the certain demands that will be made for the money invested, if the interest be as I suggested, *garan-*

*ted in England (though not at all a necessary measure)*  
 and the stock for twenty-five pounds and upwards  
*made legal tender (this is a necessary measure.)* The  
 first purchasers will undoubtedly be the present Govern-  
 ment Creditors; their stock, which I termed the  
 "debit stock" will bear half per cent. more interest  
 than any after created stock, and if the present  
 creditors do not purchase this stock, the Govern-  
 ment would create a stock at  $5\frac{1}{2}$  per cent. and pay  
 them off; now surely no men that can see the least  
 into their own interest will make it necessary for  
 the Government to do this. The second created  
 stock, which I called the "Loan Stock" for £500,-  
 000 or any other approved amount, there is no doubt  
 but the Banks would immediately purchase this stock;  
 in fact I would recommend them to have the privi-  
 lege of so doing *before the public*, and the amount of  
 this stock should be regulated by the investments of  
 the Banks, and their investments should be limited  
 to their present specie capital. Thus, sir, I have in  
 all probability disposed of the first and second created  
 stock. I will now remind you of the position the  
 Government, the Government creditors, and the  
 Banks stand. The Government has released itself  
 from the principal of a debt, and is merely responsible  
 for the interest, and has in its coffers (I will presume)  
 the entire vaulted Banking Capital in the Colony,  
 (which it is bound to pay  $5\frac{1}{2}$  per cent. for) and ready  
 to loan it under the sanction of an act of Parliament  
 for any public improvements thus authorized at 6  
 per cent. interest, under satisfactory security, which  
 in general would be merely on the undertaking itself,  
 as if the interest be paid the loan may be perpetual,  
 and if the interest were not paid by the work, the  
 parties applying for the loan, or the District, should  
 be held responsible for both principle and interest:  
 the Government must be made secure to give its  
 funded system universal credit. The present public  
 creditor will then hold a security bearing a half per  
 cent more interest than any other stock, which he  
 has the power of converting into cash by the sale of  
 it, or to keep it till a rise, (and I will prove that a

rise must take place) in the stock, enables him to sell it for a profit, therefore I think he is decidedly a gainer by the Institution, and the Banks are in an incomparable better situation. I will instance the U. C. Bank. It has, or ought to have, £200,000 metallic capital in its vaults, which it would now be able to convert into a stock bearing  $5\frac{1}{2}$  per cent. interest, consequently, this funding system increases its profits eleven thousand pounds per annum, and that stock being made legal tender for any amount upwards of twenty-five pounds, is just as available to it as if it had retained the Capital in its vaults. My opinion is, and long has been, the "Golden Image" worship has been the cause of more commercial, and consequently national, distress, than is generally imagined. Will any one tell me why the fixed property of the Country, the interest of the Country, and the good faith of the Country, are not as fit when combined to make a legal tender of as gold? Then why go to Mexico and Peru for our legal tender. I would commercially use gold as a medicine, not make food, a kind of "staff of life" of it. Presuming the Banks had taken up this second stock, they would of course, as well as the holders of the 6 per cent stock, appear in the Market at the Exchange (and an Exchange there must be) as sellers; now the public have an opportunity of buying, Emigrants with capitals, and Foreign Purchasers; indeed, the investments that will be made by this last class, or more properly *under this head*, will be to an amount, I plainly see, but I dare not mention, fearing I might be thought taking a romantic or visionary view of the subject. I am perfectly convinced in a few months the  $5\frac{1}{2}$  per cent. stock will advance to £100 (and the 6 per cent. more in proportion) then the Government should add to its former  $5\frac{1}{2}$  per cent. stock a million more, which it should offer for sale at £110, according to the principles formerly laid down in this letter, which it is bound to sell at that price; if stock falls below £110 before the Government has disposed of its proposed amount, it should withdraw from the market as sel-

lers ; neither should the Government sell for more than £110 till the stock had obtained a further advance of £5 or risen to £115. This arrangement for Government disposals of stock would prevent any great speculative rise, and obtain funds for required purposes. Do you not perceive this plan puts it out of the power of the Government to make it at its option either a *Bear or Bull* account ! its only interest would be to do the latter, and if that were done by *artificial means* its exclusion from a Bear account would prevent its deriving any benefit. I think it highly improper for a Government, or any concerned in it, to be able by fictitious means to cause a fluctuation in the funded property, or in the currency of the country. But perhaps it may not be out of place for me to explain what is meant by a Bear and Bull account, as doubtless, many of our readers are not acquainted with the technicals of "Change Alley." A Bear is a person who sells stock to be delivered at a certain time, consequently it is his interest to do all in his power to depress or tear down the stock, that he may have the less to deliver ; the Bull is he who buys, and consequently his interest is to endeavor by all means to raise or toss up the stock that he may receive the more. But these are gambling kinds of transactions that in my funded system can take place only on a limited scale, and that only on the Bull account, for upon a rise of five pounds at all times the Government can step in if it has any demand for money, (and when will it not have ?) and immediately pins the Bull by the nose till it has disposed of all its own stock ; as for the Bear account, I trust the steady prosperity of the country will prevent its occurrence, though candidly I do not so see the means of muzzling him. I will at once go to the maximum price this stock will attain, that is, to a par with the English funds, why not ? It will have, or ought to have, the same security for the payment of its interest, this must raise it to equal value, and I assert this Canada Stock will be of more intrinsic value than the English Stock, this latter Stock has

no collateral security to enable it to pay the interest of its debt, much less the principal; now the Canada Stock (except the Debit Stock) has the most ample security, not only for the payment of its interest, but for the principal itself, though by its system it is impossible for it being requisite ever to make a demand for it.

Under all its disabilities, see what the funded debt of Great Britain has done for it; it is natural to presume the major part of this debt was contracted at par 60 (I know it was) and it now amounts to £800,000,000 as a debt, for which the country is liable for the interest, but owing to the prosperity of the country, or the confidence in the administration, or want of the means of more profitable investing property, this stock from 60 par, is risen to 90, consequently there must be twelve hundred millions of stock in the market, which must have been productive to the country generally of a profit of £400,000,000, for if I bought at £60 and can now sell at £90, I must have gained 40 per cent on my purchase, besides having my interest (all the Government is bound for) regularly paid; but our home government does not stand in the same advantageous position for acting upon a funding system, as the Canada Government does. This latter derives half per cent for its advances more than it pays liabilities, besides having the principal of its obligations most amply secured on an improving security.

I am aware you may say "spoken" to this last position, but it is at all events taking a different view of the same landscape. But to return to my proposal of taking the maximum price, this Canada stock may raise, to say from (par) 100 to 150. But I need not tell you this is not the just proportion between the advance of 5 per cent stock from £60 to £90 and stock bearing  $5\frac{1}{2}$  per cent. interest in the same ratio. but ought to be quoted at £165, and to aid my probabilities I will say the £100 stock rises to £150, consequently the public as sellers gain £50 on the £100, and make 9 per cent. when it pays only  $5\frac{1}{2}$  per cent., therefore on this high priced stock

they may lend money at 4 per cent., gain  $\frac{1}{2}$  per cent. and pay  $5\frac{1}{2}$  per cent. It would have taken some consideration from an able Financier to have placed a Government in this position, yet strange as it is true; if it be not true please to correct me. My Funding System, undeniably strengthens the hand of the Government, throws immense patronage into it, *but places no rod in it*, leaves it no means of making an improper use of its increased influence. I am aware I have prolonged this subject beyond the usual limits of a newspaper communication, but I trust you will overlook this impropriety from the necessity of a full statement of all the bearings of the subject being brought forward at once, and as a conclusion I will sum up what I think can and ought to be done, that is Government should avail itself of its credit to procure funds for the improvement of the Country without borrowing or making itself responsible for more than the interest of the sum requisite for effecting this very desirable purpose, and if the plan I have laid down does not enable the Government to do so, and at the same time increase the actual wealth of the country, independent of the value of the improvements, I have written a great deal to a little purpose; but until I am shewn the contrary I shall be of the opinion I have not done so. Is it not easier and more beneficial for Government to avail itself of its credit to improve and enrich the country, *than to pay old debts, and carry on unprofitable and expensive wars?* I shall reserve further remarks on this subject for a future letter. There being no conflicting interests to prevent this funding system going into operation, I anticipate the pleasure of seeing its merits fairly discussed. Under this impression I conclude.

Believe me to remain with respect,

Most truly yours,

WILLIAM BANCKS.



