

correspondingly greater percentage of the bond-secured notes."

(2) A further issue of credit notes not exceeding 12 1-2 per cent. of the bank's capital and paying a tax of 5 per cent. to be allowed.

(3) The total circulation of any bank, in both kinds of notes, not to exceed its capital. (Thus, to have the greatest possible amount of credit notes, a bank would have to have 62 1-2 per cent. of its capital in bond-secured notes, 25 per cent. in credit-notes taxed 3 per cent and 12 1-2 per cent. in credit notes taxed 5 per cent.)

(4) The same "lawful money" reserve required for credit notes as for deposits.

(5) The proceeds of the tax on credit notes to constitute a guarantee fund to be held by the United States Treasury and used in paying immediately the notes of failed banks. The Treasury thereupon to become a creditor of the failed bank and recover pro rata with other creditors from the bank's assets.

(6) Adequate facilities for daily current redemption of credit notes to be provided, under the direction of the Comptroller of the Currency.

(7) Any bank to be allowed to replace any of its bond-secured notes in excess of 62 1-2 per cent. of its capital with credit notes, without regard to the present limit of \$3,000,000 a month to the retirement of national bank notes.

This bill differs in only a few essential points from the plan of the New York Chamber of Commerce Committee. The latter plan proposes to allow any bank whose bond-secured circulation amounts to 50 per cent. of its capital to issue credit notes equal to 35 per cent. of its capital, subject to a graduated tax varying from 2 per cent. to 6 per cent. according to the amount of credit notes. It also calls for the repeal of the \$3,000,000 limit to the retirement of bank notes, and adds the important provision that future issues of United States bonds shall not be available as a basis for the issue of national bank notes.

Obviously neither of these plans presents a perfect system. Immediate perfection is unattainable. But they propose a step in the right direction. The details of the House bill especially have been very carefully worked out to fit present conditions. The enactment of such a bill would give a large measure of elasticity to the currency without seriously affecting the market value of government bonds. Above all it would pave the way for future reforms which might eventually bring us to the complete abandonment of the bond-secured notes, until which time any system should be regarded as only a temporary makeshift on the road toward the ideal system. This feature would be greatly strengthened by incorporating into the bill the recommendation of the New York Chamber of Commerce Committee that future issues of bonds be not available for bank note security. In view of probable large additions to our national debt this provision is exceedingly important and moreover emphasizes the need of settling the currency problem at once, before the situation is made still more dangerous and the problem still more difficult by large additions to the public debt. Such a provision, together with the clause of the bill allowing the ratio of credit notes to bond-secured notes to increase as the ratio of the bonded debt to the capitalization of the national banks diminishes, would cause the gradual and automatic substitution of credit notes for bond-secured notes, till with the final redemption or conversion of the present bonds the old national bank notes would have disappeared. This process would be hastened also by the entering of many state banks into the national banking system, for which the proposed plan offers considerable inducement.

Another proposal of the New York Chamber of Commerce Committee ought to be added to the Fowler bill. This is the repeal of the clause of the present banking law which limits the retirement of national bank notes by deposit of lawful money with the Treasury to \$3,000,000 a month. By the passage of the Aldrich bill last March this limit was raised to \$9,000,000. There is no reason why this obstruction to elasticity should not be removed entirely.

Concluding remarks are as follows:

Certain questions need to be noticed in conclusion. Whenever it is proposed to alter our time-honored national banking system, the objection is sure to be raised that our present notes are safe, at any rate, and it is better to put up with all their shortcomings in other respects than to invite a return to the regime of "wild cat" banking which disgraced our financial history before the Civil War. To

thoroughly examine this objection would require another

Two or three suggestions may be made, however, which should go far toward dispelling the "wild cat" bogie. In the first place, the soundness of the currency furnished by the New England banks for twenty years during this very period shows that "wild cat" banking does not necessarily go hand in hand with asset currency. New England was not troubled with "wild cat" currency during these years. And the bad currency of other parts of the country was, in the main, due to ignorance of banking principles, dishonesty, lack of experience, inefficient government oversight, etc. With our added knowledge and experience and under the inspection and regulation of the national government, there is no reason to fear that the abandonment of bond-security would mean unsafe currency. In the second place, it should not be forgotten that most of the "wild cat" currency of the ante-bellum days was not asset currency at all, but was based on the very system of bond deposit which is the foundation of our present national banking system. To connect asset currency with "wild cat" banking is to ignore the facts of our own financial history. And finally it should be pointed out that under the proposed system the notes must be at least as safe as deposits are to-day. And no one charges that our deposit system is unsound.

One of the first objections raised against any proposal for greater elasticity of note issue is that it will mean inflation. Elasticity will mean inflation, if it works in the direction of expansion only. That is what is very likely to happen under our present system if we add much to the public debt. We may even say it has already happened when we remember that the national banks have trebled their circulation in the past eight years. True elasticity means contraction as well as expansion. The experience of Canada is the best refutation of the charge of inflation. The Suffolk bank system gives additional testimony. Both systems have operated under far less governmental restraint than would be enforced in this country.

The superiority of asset currency over bond-secured notes seems to be established both by theoretical reasoning and practical experience. The situation in the United States is undoubtedly a complicated one, and the progress of reform must be slow and difficult. Further delay, however, will only increase the difficulties. Reform should begin at once, and the high standing of the individuals and organizations whose influence is being exerted in favor of the general plan outlined above gives reason to believe that the initial step will not be much longer delayed.

THE INSURANCE INSTITUTE OF TORONTO.

Preparations are being made by the Council of the Institute for an exceptionally interesting and useful year's work. To that end, the following committees have been appointed:

Executive Committee:—E. Willans (Imperial Guarantee & Accident), L. Goldman (North American Life), C. Elvins (Imperial Life), H. W. Crossin (C. F. U. A.), A. G. Portch (Canada Life).

Educational Committee:—J. B. McKechnie (Manufacturers' Life), W. A. P. Wood (Canada Life), G. C. Moore (Imperial Life), P. Von Szeliski (Manitoba Fire), C. N. Neely (Ontario Accident), G. P. Payne (C. F. U. A.), J. B. Laidlaw (Norwich Union).

Entertainment Committee:—H. A. Sherrard (Western Fire), D. E. Kilgour (North American Life), A. N. Mitchell (Manufacturers' Life), J. A. Shaw (Norwich Union).

The Institute is rapidly accumulating a valuable library. The books are kept in the Institute Rooms, and a catalogue is being printed and included in the proceedings of the year just closed. Among the volumes of this library are the proceedings and reports of many of the most important insurance bodies in the world.