

The American notes are well secured, but the currency system so restricts their issue when an extra demand arises as to create embarrassment and disturbance in the money market, whereas the Canadian circulation rises and falls in response to the demand.

In the United States the harvesting of a large crop is almost invariably accompanied by high money rates at the financial centres from which the currency is shipped. The hundreds of small western and southern banks, which finance the grain and cotton crops, draw their balances from New York and Chicago, and instead of shipping promissory notes from which the money to redeem them will be forthcoming when the crops are harvested, the eastern banks send notes, that are the equivalent of gold as they have dollar for dollar in United States gold bonds, deposited against them.

To procure these extra notes for crop requirements their only recourse is to call in money already in circulation, with the result that the rate of interest advances to abnormal figures. There is no special inducement to United States banks to issue notes, in fact, they are restricted as compared with our system. A tax of $\frac{1}{2}$ per cent. is charged on circulation secured by the 2 per cent. Government bonds and 1 per cent. on circulation secured by other classes of Government bonds. The deposit of these bonds is a hindrance to the extension of the circulation, which the people of Canada would not tolerate for one moment.

CASH RESERVES.

An important point of difference between the Canadian and American systems is that of Cash Reserves.

In the United States the law requires a certain fixed cash reserve to be maintained against deposits. In New York and other "reserve centres" this is 25 per cent.

Under this system when the country has been in urgent need of currency for legitimate requirements while the reserve banks held several hundred millions of dollars, not a dollar of which was available for the needs of the country.

In Canada there is no cash reserve fixed by law, this being left to the prudence of bankers, which experience has shown to be the wiser policy.

INSPECTION OF BANKS.

The Canadian and American systems differ, but under our system a most efficient inspection is maintained.

Mr. Stewart's exhaustive and instructive address was highly appreciated, for which he was given an enthusiastic vote of thanks by the members of the Canadian Club.

THE ADVANCE IN BANK CIRCULATION.

EXHIBIT OF THE RISE IN THE NOTE ISSUES AT SEVERAL PERIODS SINCE 1881, 1891, 1900, 1903.

The table published in this issue shows how extensive has been the increase in the circulation of the chartered banks of bank since 1881. Since that year the amount of notes issued by our banks has been enlarged from \$33,145,290 to \$76,890,860, an advance of \$43,745,570, or about 130 per cent. Of this enlargement \$23,692,083 has taken place in the last five years.

The gradual increase in the ratio of the circulation to the paid-up capital is a very noticeable feature in the table. In 1881 the circulation at its maximum was 55.5 per cent. of the paid-up capital. In 1891 the proportion rose to 60.9 per cent., in 1900 to 80.3 per cent., in 1903 to 90.00 per cent. and this year to 91.7 per cent., which is not likely to be exceeded beyond a very small percentage.

It will be noticed that nearly all the banks this year had a circulation at the end of October of over 90 per cent. of the paid-up capital, not one in active operation showing less than 83 per cent. How greatly conditions have changed since 1881 to 1891 is seen by comparing the percentage of the circulation to paid-up capital of the several banks with those of this year. In 1881 there were only 6 banks with a circulation of over 90 per cent. of the paid-up capital, and 6 of them had less than 45 per cent.; in 1891 there were 10 over 90 per cent., 7 from 60 to 86, and not one below 45 per cent. It seems in regard to note issues, "The appetite grows with what it feeds upon." The more the needs of the mercantile community are supplied the more those conditions are developed which call for larger supplies of currency, and these conditions develop, as with them are improved the general financial circumstances of the community which lead to the holding of money in tills and purses.

In the 1881 list there are 44 banks, 3 of which made no returns. The average paid-up capital of the 41 was \$1,450,000, and average circulation \$808,100. In 1905, the number of banks is 33, whose average paid-up capital is \$2,540,000 and average circulation \$2,330,000. Such a large addition to the average of paid-up capital indicates striking changes in banking conditions in Canada since 1881. The business is now much more concentrated, the responsibilities of the head office are far heavier, and the supervision of the whole banking business of the Dominion is more favorable for its being kept well in hand.

The steady decrease of the margin for further note issues at the maximum period is a marked feature in the circulation returns. In the 5 periods shown in the Table, the drop in the margin was