

the clearing house system, where virtually all commercial transactions in the Country are adjusted, owes another bank, and included in this obligation will be its own notes held by the creditor bank, the settlement is made in Dominion notes. Dominion notes in turn represent gold because they are convertible into gold. Thus it is a mistake to suppose that the currency of the banks, important in some respects as it is, is the controlling feature of our currency system. The Government's issue is the real and only legal tender in the form of note currency of this Country.

But there is a function of great importance to this country which the bank note issues perform. The banks have their own notes in the tills of every branch. They are not a liability there; it costs nothing in the way of interest charge to carry them. Depositors desiring cash are given the bank's own notes, and they also are the basis for moderate loans, though soon after the loan is made or the depositor makes a purchase with the notes he has received they have to be redeemed in Dominion notes in the clearing settlements. In many communities in this country, if the banks had to carry in their branches till money in Dominion notes or the notes of any central institution, for which the banks would have to pay cash, then these communities would of necessity not have banking facilities, for the business would be conducted at a loss. In other words, the local community could not support a branch bank if the interest on the unused cash in the bank's possession had to be paid out of the profits there received. It would therefore have a revolutionary effect in Canadian banking to take away the note issue privilege against paid-up capital, because many communities now receiving banking facilities would be deprived of these facilities and new communities which are constantly growing up, particularly in the Prairie Provinces, would for many years be without the banking facilities which they would otherwise have under the present system of note issue.

Finally, Canadian bank notes to-day have the hallmark of a genuine currency. The value of the bank note is unquestioned and with the protective features now in The Bank Act, it is inconceivable that any holder of it would ever sustain a loss.

#### CENTRAL BANK PROPOSAL

The establishment of a central bank of rediscount, under the control of the Government, has been suggested. Anyone familiar with the development of our present system knows that there is to-day in Canada in effect a central bank of rediscount, with scarcely a dollar of additional cost and without any of the elaborate machinery which characterizes such institutions in other countries. Under the Finance Act the banks with the greatest ease can now obtain from the Treasury Board Dominion notes against securities, to furnish currency for the movement of the crops, and other natural products, or finished manufactures from the point of production to the consumer.

The banks have to pay interest to the Government on these advances. In consequence, the banks repay the Government the currency as fast as possible; just so soon as the particular operation for which the Dominion notes were borrowed is complete, the bank returns the notes to the Government. Thus the tendency to inflation is controlled, and the history of the operation of The Finance Act both before and since the Act was made a permanent part of the financial structure of the Country in 1923 shows that its operations have been kept within moderate and

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