

of trade demand, the requirements will be met in practically the exact proportions required. When the capitals become insufficient for this purpose they can by a simple and inexpensive process be enlarged, and to assist in supplying the want new banks can be created. The capitals of many of our banks have been increased during the last few years and several new banks have been established. If the great expansion in trade which is now going on continues much longer, we shall probably see a further substantial increase in the banking capital of Canada, but if the expansion still continues, we can hardly expect that the banking capital will go on increasing, and it is not improbable that some other means to meet the situation will be adopted based on sound principles, such as a central gold reserve put up by the banks themselves, against which, dollar for dollar, they may issue circulation in excess of their paid-up capital. This is not unlikely, as in an agricultural country like Canada, the marked increase in the demand for currency—what electricians would call the "peak of the load"—takes place in the fall when the grain crops and other products of the soil are being moved. This increased demand lasts only a few months and then the notes issued to meet it find their way back to the banks and remain idle till the next fall. Banks with a large capital, which have during nine months of the year ample circulation to meet the requirements, cannot be expected to increase that capital to any great extent, merely to enable them to issue notes against the increase which will remain out for 3 months only, while at the same time the dividends on the increase must be earned and paid for the whole year. In the case of banks paying large dividends this would soon become too burdensome to be continued. Therefore, I say, that if the expansion continues it is probable that some other sound means than an increase of capital will be devised to meet the requirements.

I have said that the requirements of trade are met by the circulation in practically the exact proportions required. The system works out in this way. A certain amount of the notes of each bank is of course constantly in circulation, but as the demand increases—for instance in the fall when the crops are being moved—more notes are paid out. After these notes have served their purpose and are no longer required for use from hand to hand, they always find their way into the banks, including of course the issuing bank, by deposits from customers or in