

possible safeguards, promissory notes without interest, payable to bearer, the public will generally be ready to accept these notes, whose goodness is fairly well established under the Government's regulations. Various people who trade with the new bank accept these promissory notes in place of legal tender because they feel that their creditors will accept this bank-note currency likewise. Thus we have the promissory note starting out over the country. It may conceivably remain unredeemed for a year, in which time a ten-dollar note would earn an appreciable sum for the issuing bank.

Profit From Note Issue.

For every ten-dollar bank-note in circulation someone has given the bank values to the extent of ten dollars (or his promise to give those values plus interest at some date in the near future), and instead of legal tender has accepted in payment the non-interest-bearing promissory note. Possibly the same man brings in the note at the end of a year and receives only the legal tender which he might just as well have received at the beginning. In other words, the bank has had the use of the ten dollars for a year for nothing; it has gained the interest accrued thereon. Of course, he has much more probably passed on his note to another man, and he to another, and so on, so that the loss of each holder is exceedingly small.

The function of note-issue enables the bank to advertise itself as an institution with a strong credit. Thus it gradually grows in favor with the public, and by degrees people begin to drop in and deposit their savings with it; others come in to borrow money or to get credit.* In most cases

* In Prof. Seligman's collection of addresses on the Currency Problem, Mr. Frank A. Vanderlip, Vice-President of the National City Bank of New York, says: "The business of the modern bank is almost wholly the exchange of credit—to use a clear but homely phrase, the swapping of credits. . . . Almost its entire business consists of receiving from customers their evidences of indebtedness, which have a narrow currency, and giving to those customers in exchange the bank's evidences of indebtedness, which have a wide currency." So, too, Mr. McLeod, in his evidence before the National Monetary Commission, stated that approximately 90% of the banks' total business in Canada is done by cheques.