

go out into the grain fields and, after being held for a while in the vaults of the interior bank, to be scattered round among the people to serve as a medium of exchange. As the process goes on the central banks get weaker and weaker unless they are able to repair the drain by importing from Europe.

Here the process is quite different. The Manitoba branch bank will also call for currency just prior to the beginning of deliveries of grain. Its parent branch will send the bank's own notes, which are not cash till they are issued. So the Canadian branches in the wheat fields can stock up in anticipation of the grain movement without draining any actual cash from the centres, except the "ones" and "twos" needed for change. All that is required is the transfer of a lot of printed promises to pay from the central or depot branches to the branches in the wheat fields.

Grain is Hurried to Ports.

Then, when the payments for grain commence, the Canadian bank "promises to pay," which are just as good as a medium of exchange as the hard cash put out by the United States banks, are paid out as proceeds of loans against warehouse receipts, and in purchase of bills of exchange with bills of lading for grain attached. As fast as the railroads can carry it, the grain is hurried to the lake ports, and thence it goes to seaports. On arrival at the sea foreign bills of exchange are drawn and negotiated in the New York market, and the banks get back the money which they loaned in the shape of their own notes. But, in the meantime, those notes, or some of them, may yet remain in circulation, passing from hand to hand, being required as currency. So the bank may get payment in cash for some of its loans for which it has paid out as proceeds nothing but its promises.

Mark the great difference between the position of the central branches in Toronto and Montreal, and that of the banks in New York and Chicago. In the case of the former there is no drawing away of their life blood. Until the circulation of a Canadian bank gets up its limits, the effect of the crop movement is seen in the head office in an increase of its liabilities, on note circulation, and probably by a corresponding increase in its advances and purchases of bills of exchange. It does not part with cash. The cash remains in vault, and may even be augmented through the negotiation of the foreign bills of exchange already referred to.

How the Movement Benefits.

In the Canadian bank head offices the outward rush of the circulation and the expansion in loans and advances is decidedly exhilarating. On the contrary in the New York institutions the loss of cash has a tendency to produce depression.

When their work is done, these extra issues of bank notes are paid for and retired, and everything quiets down to normal. Created for a special purpose, they vanish when not wanted. Though the same special need crops up in the States there is no recognition of it as special in the currency system. The supply of currency there may be only sufficient for normal times. No matter; it has to do the extra work of moving the crops in addition to its ordinary work.

WHAT IS ELASTICITY?

In view of the prominence of the word "elasticity" in financial discussions at present the explanations and reflections of Mr. J. B. Forgan, once given in a letter to the Texas Bankers' Association, are unusually interesting.

"The popularly accepted meaning of the word seems to be expansion. This is precisely the reverse of the real meaning of 'elasticity.' To illustrate; if I take a piece of soft gum in my hands and pull it out, it will expand to the limit of its capacity, and when released will remain expanded. Gum is not elastic.

"If, however, I take a rubber band in a similar way and expand it, when I let go it will contract. It is elastic. Elasticity is that quality in a substance which enables it to contract when outside pressure on it has been removed. This is precisely what elasticity in the currency is. It is the contraction in the amount of it which takes place when the demands of commerce for it decrease. These demands increase and diminish, are strong and weak in accordance with the natural and seasonable fluctuations of business.

Demands of Commerce.

"The lack of elasticity in our currency is that when once issued it remains expanded like the gum and does not of its own accord contract like the rubber band. The amount of it in existence is no less when the demands of commerce are at their lowest than it is when they are at their highest, and vice versa. I know of only one way by which this elasticity, this ability to contract, can be given to it; that is by daily withdrawal, through the actual redemption and practical cancellation, of all bank notes which are not kept in circulation by the requirements of commerce. When the Bank of England

redeems its notes it cancels, destroys and does not reissue them. Other banks issuing credit currency, such as the Scotch and Canadian banks when they redeem their notes cancel them so far as their existence as any part of the money of the country is concerned; but do not destroy them.

"They are written off their books and are laid aside for the purpose of being reissued when the opportunity occurs. They are, however, so far as their connection with the circulating medium of the country is concerned, as utterly out of existence as if they did not exist at all, and remain so until they are again issued.

Tight Money Due to Easy Money.

In the long run, commerce suffers more from the periods of overabundance than from those of scarcity. The origin of each recurring period of tight money can be traced to preceding periods of easy money. Whenever money becomes overabundant that bankers, in order to keep it earning something, have to force it out at abnormally low rates of interest, the foundations are laid for a period of stringency in the not far distant future; for then speculation is encouraged, prices are inflated, and all sorts of securities are floated until the money market is glutted with them.

"Our monetary system is not the sole cause of these alternating fluctuations, but it lends itself to them and is auxiliary to other causes. Our national banking system and the government treasury system also aid and abet them, and the three together are responsible for them. If these three systems, so closely allied, were all adapted and adjusted to the needs of commerce, as they should be, their relation to commerce would be to develop it on a sound basis by establishing steady markets. Their influence would be to prevent rather than to cause such oscillations, as now take place between easy and tight money, speculation and stagnation, inflation and depression."

GOVERNMENT ASSISTANCE.

Opinion of United States Financial Authority of Currency and Credit—Canada's Problems.

"In the first place, our system of currency and credit, which is necessarily at the bottom of all business movements, and which should be automatically responsive to every condition of trade, and equal to every industrial and commercial emergency, however created, is admittedly inelastic, satisfactory as some of its feature undoubtedly are, and, as experience unceasingly proves, is sometimes lethargical, sometimes provocative of strain, and sometimes an invitation to rash speculation or unscrupulous manipulation."

Thus the Honorable Charles Francis Phillips, of New York in his introduction of practical problems in banking and currency. "It lacks delicate adjustment," he continues, "the percolating qualities essential to a constantly maintained equilibrium, and especially the faculty of rendering as efficient service to small as to large transactions, to isolated as to closely connected fields of operation, to minutely subdivided as to highly concentrated capital. This condition is not due to any want, on our part, of either ability or resourcefulness, but to the absence of scientific co-ordination, so natural and so usual in countries relatively new, and to a certain vanity and a somewhat reckless spirit of independence inducing us to eschew imitation and initiative.

Reference to the Canadian Situation.

"Models in accordance with which we might work for our betterment are so far from lacking that they may be almost said to abound; and they are so completely beyond the charge of empiricism that their rational and sustained success has become well nigh proverbial. We have only to look across our border to the north to see much to which we might conform with qualified advantage. Our Canadian neighbors with less resources and less experience than ourselves, but we may fairly claim, with no more aptitude for intelligent enterprise, though certainly with greater reverence for authority, and more native respect for wise precedent, have largely escaped, by adherence to well devised methods, many of the difficulties with which we have to contend and many of the risks we have to encounter.

"They are free from the menace that lies in the interference of the Government with banking; they have not to encounter the danger to metallic reserves inherent in the large amount of our outstanding treasury notes.

Canada's Branch Banks.

"They are able by their system of branch banks, their treatment of the circulating notes of their financial institutions, their habit of unlimited re-discount and other safe and tried means, to make their currency and their commercial credits well nigh as fluid as the waters of the ocean, and well nigh as obedient as they to the varying conditions which demand, now here, now there, a change in channel or in volume."