

THE GROWTH OF THE BANKS' CIRCULATION.

The returns of the banks' circulation made in the newly-published bank statement for August show by practical example the absolute necessity for the arrangements made under the new Bank Act for additional circulation. The expansion made by circulation during the month forms the most notable feature of the August return. The circulation of the active banks reached during the month a maximum of \$109,426,865, and at August 31, stood at \$105,780,834. The following table shows the August circulation of the individual banks in detail, and also the amount of their ordinary issue authorised at the end of the month:—

STATEMENT OF THE BANKS' AUGUST CIRCULATION.

	Ordinary Issue authorised August 31.	Maximum Issue in August.	Issue August 31
Montreal	\$16,000,000	\$15,651,601	\$15,223,370
Quebec	2,712,150	2,654,907	2,565,387
Nova Scotia	5,985,810	5,661,024	5,661,024
British*	4,866,666	4,672,461	4,672,461
Toronto	5,000,000	4,829,500	4,845,762
Molsons	4,000,000	3,929,620	3,602,995
Nationale	2,000,000	1,968,200	1,946,160
Merchants	6,784,700	6,313,311	6,162,496
Provinciale	1,000,000	973,563	962,843
Union	5,000,000	4,980,109	4,592,659
Commerce	15,000,000	14,779,000	13,492,695
Royal	11,560,000	11,038,420	10,906,809
Dominion	5,583,442	5,214,515	5,214,515
Hamilton	3,000,000	2,807,610	2,779,340
Standard	2,714,840	2,684,608	2,684,608
Hochelaga	3,683,325	3,458,197	3,412,926
Ottawa	3,946,620	3,822,650	3,677,255
Imperial	6,930,852	7,038,212	6,717,537
Metropolitan	1,000,000	979,667	947,947
Home	1,939,330	1,814,200	1,666,015
Northern Crown	2,789,059	2,251,100	2,250,183
Sterling	1,136,750	1,092,995	1,022,970
Vancouver	868,607	596,400	564,842
Weyburn	316,100	214,995	208,035
Total	\$113,818,251	\$109,426,865	\$105,780,834

* The old Bank Act provided that the Bank of British North America may issue its notes up to 75 per cent. of its paid-up capital without special security and up to its paid-up capital at any time in the year by depositing cash or Dominion government bonds in the Canadian treasury equal to the excess over 75 per cent. At the time when the bank's extra issue is authorized it may issue a further excess equal to 10 per cent. of its combined capital and rest. Under the new Act the deposit in the treasury is changed to deposit in the central gold reserve. The other provisions affecting this Bank's note issue are as before with the addition of the central gold reserve arrangements which it shares in common with the other banks.

ADVANCE IN MAXIMUM CIRCULATION.

The present August maximum of \$109,426,865 compares with an August maximum in 1912 of \$104,370,157, an increase of over \$5,000,000 while the end of the month issue of \$105,780,834 compares with \$101,472,315, an increase of \$4,300,000. The amount of the paid-up capital of the banks was at August 31, 1912, \$111,098,525 and at August 31, 1913, \$113,818,251, an increase of \$2,700,000. So that the difference between the maximum circulation of August, 1913, and that of August, 1912, is nearly double the increase of the

banks' capital, on which the ordinary circulation is based, in the same period. Whereas at the end of August last year there was a margin of \$9,600,000 of ordinary circulation, at the end of August, 1913, this margin had been reduced to just over \$8,000,000. This margin is, in fact, largely nominal, for it is well understood that in the case of banks with a large number of widely-scattered branches, it is an absolute necessity to have a considerable margin for the sake of safety, and it will be noted from the statement above that a number of the banks were during the month not far off the limit of their authorised ordinary circulation. This failure of the banks' capitals to expand in the same ratio as the circulation of notes which are based upon them is due to circumstances that are readily understood. The banks are naturally conservative in the matter of increases in their capital owing to their desire not to jeopardise their existing rates of dividend—a point of view which is not nearly so narrow as it looks at first sight owing to the likelihood that because a Canadian bank has not reduced its rate of dividend for many years, any action of that kind now taken, even for excellent reasons, would produce an effect unfavourable to the bank and possibly to the Canadian banking system as a whole, altogether out of proportion to the originating cause. Moreover, in these days bank stocks, owing to the double liability upon them and the yet comparatively modest (though larger than several years ago) returns from them cannot be considered to have any very great attraction to the investor. Thus the demands of the country for increasing note circulation progress much faster than the increased supply available through this source.

EFFECT OF EARLIER CROP MOVEMENT.

The increase in the August circulation over that of July was over \$6,600,000, an advance of practically a million over the August, 1912, increase over July, 1912. This larger advance is probably to be accounted for by the fact that the movement of the western crops is much earlier than it was last year. With the crop movement in full swing during the last week or two it is to be expected that a great increase in the banks' circulation will be shown in the September statement. As at September 1, the banks would be able to issue the excess circulation up to 15 per cent. of their combined capital and reserve. This would give them about 30 millions additional circulation for purposes of crop-moving, apart from any use which might be made of the new Central Gold Reserve for the purpose of increasing circulation. In regard to the excess harvest-moving circulation, it is to be remembered that several of the banks do not take advantage of this circulation but keep within the limits of the ordinary circulation as a matter of policy, their contention being that the excess issue being subject to tax, does not pay.