

### THE NEW CURRENCY ACT OF THE STATES AND BANK CIRCULATION.

The Act just passed by the Legislature of the United States, and just signed by the President, is in one respect highly satisfactory to all who have financial relations with that country, but in another respect we fear it will not prove of such advantage to the banks and people generally as its sanguine supporters anticipate. It is satisfactory, inasmuch as it definitely establishes the gold standard. The law now renders it impracticable for any government of the United States, without repealing the new Act, to substitute any standard as the basis of the national currency and bond obligations, in the place of gold. The new arrangement provides for the redemption of the government note issues in gold without their being used, as they have been in the past, to drain the Treasury gold reserve down to a point which excites alarm in the money market. The Act gives the Administration power to borrow whenever the gold redemption fund falls below a given amount, and this fund is raised from \$100,000,000 to \$150,000,000. A drain of 86 millions from the average amount of gold in the Treasury last year might occur before the minimum of the gold reserve was reached. Whatever money is borrowed under the arrangement must be used to strengthen the gold reserve and not used to cover any deficit in the revenue. It will be remembered that President Cleveland once borrowed to replete the Treasury and used it for other purposes. The new bonds to be issued under the new Act will be about 80 per cent. of the debt, and their redemption by anything but gold is prohibited. The danger, therefore, of silver being a standard for bond redemptions is removed. Outside of the national bonds, silver is to retain its qualities as a legal tender, and the subsidiary coinage is to be increased to \$100,000,000. The net result will be to establish the gold standard on a legal basis, and to enlarge the gold reserve for protecting and redeeming the national paper currency. Although open to adverse criticism in some points, they are of minor importance. The new Act is sound in intention, and is well calculated to have a bracing effect on the national securities of the United States.

As regards the effect of the Act on banking interests, more especially in respect to the note issues of banks, the results may prove disappointing. The principle is recognized of basing the circulation of banks on their stock of national bonds, that is, the banks are allowed to go into debt to the public by issuing notes, to the extent of the amount due to them by the government, as shewn by their holding of national bonds. Practically, this is a system for floating government bonds of such small denominations as \$1 and \$5, through the medium of the banks. The process is this, a bank buys, say, a bond for \$1,000, and converts it into notes for circulation amongst its customers in small denominations. For the privilege of performing this transformation of bonds into note

issues, the Government is to charge each bank one-half of one per cent. per year. If, however, a bank bases its circulation on the old bonds, the tax is to be one per cent. per year. The position then of the American banks which desire to issue notes is this, they must purchase bonds to the extent of the circulation desired, on these they will draw interest at 2 per cent. and pay a tax of half of one per cent. per annum. The bonds now bear 6 per cent. premium, so that the transaction will work out as follows, as stated by the Assistant Secretary of the U.S. Treasury. The figures below assume that a bank desires a circulation of \$100,000.:

|                                      |           |
|--------------------------------------|-----------|
| Capital invested in bonds. . . . .   | \$106,000 |
| Par value of bonds bought. . . . .   | 100,000   |
| Circulation allowed thereon. . . . . | 100,000   |

#### Receipts:

|                                                |                  |
|------------------------------------------------|------------------|
| Interest on circulation at 4 per cent. . . . . | 4,000            |
| Interest on bonds purchased. . . . .           | 2,000            |
|                                                | <hr/> \$6,000 00 |

#### Deductions:

an operator in the bond market. It is alleged that the arrangement will lead to a large expansion of Tax, expenses, Sinking fund. . . . . 666 83

|                                                     |            |
|-----------------------------------------------------|------------|
| Net receipts. . . . .                               | \$5,333 17 |
| Interest on capital invested at 4 per cent. . . . . | 4,240 00   |

|                                     |            |
|-------------------------------------|------------|
| Profit left in circulation. . . . . | \$1,093 17 |
|-------------------------------------|------------|

|                                                  |       |
|--------------------------------------------------|-------|
| Net percentage of profit on circulation. . . . . | 1.031 |
|--------------------------------------------------|-------|

If, however, money is worth more than 4 per cent. in the market, the profit will be less, since the amount locked up in the premium paid on the bonds would have earned more than 4 per cent. had no circulation been issued. The banks also must take out 2 per cent. bonds to the maximum of their desired circulation, and lock their money up to that extent when it will earn only 2 per cent. during those periods when their note issues fall below the maximum. They must either hold bonds in excess of the needs of the circulation at regular periods, or sell bonds when the circulation is declining and re-buy them when it is expanding. This will be done on a large scale, it is thought, when there is a chance of selling and re-purchasing at a later period at a profit. So that every bank of issue in the States may be counted upon as note issues of the banks, now that they are allowed to put out notes to 100 per cent. of the bonds they hold, instead of only 90 per cent. as formerly. This is problematical. The extent of the circulation of a country does not so much depend on the issuing power of banks as upon the needs of the community and its capacity to absorb a paper circulation. The extent of such circulation is also affected by the ability of banks to redeem their circulation on demand in such forms of money or credit as is acceptable to those who hold their notes. A bank can only issue notes safely in response to the legitimate and prudent requirements of business, and when they are in a position to redeem them on demand.