

to a few large banks with branches as compared with thousands of individual banks.

Discussing the functions of the credit-notes of a bank, Mr. Walker remarked that since they had never returned to the simpler conditions of the use of money which closely followed barter, the United States nation must manage somehow to achieve its large volume of trading, done so largely by credit instruments, in such a manner as to avoid panics and such violent changes in prices as cause widespread ruin. This they had been unable to do. "You have achieved the huge volume of trade; you have achieved the necessary transportation—most difficult of problems usually; but you apparently cannot manage the shifting of credits without panic.

What is Really Needed.

"In the United States, where the volume of trade and the price of commodities and securities vary largely from one period of contraction through a period of expansion to the next period of contraction, and from one year to another, and from one part of a year to another, and from day to day, there should be in addition to the constantly varying total of cheques, drafts, and such credit instruments, with which most of our trade is done, a species of credit-note issuable by banks which can be varied in total quantity in proportion as the total quantity of trade done with such instruments of credit varies. And there is the additional reason for such a credit-note that whenever, because of panic or any form of distrust, the ordinary currency is hoarded or additional cash is being held by banks as reserves, some legal credit currency becomes more than ever necessary.

"No one at this late date will advocate the issue of such a credit currency unless it is perfectly safe. But a currency issued to the extent of the paid-up capital or less; secured as your National bank-notes now are, by a first lien on the assets of the bank including the double liability but not by anything specially deposited or ear-marked; further secured by an insurance fund; and bearing a fair rate of interest if not paid by the liquidator immediately after suspension, is perfectly safe in any country where daily redemption can and will surely be effected."

Where the Difficulty Lies.

"The whole difficulty of carrying out such a plan in this country lies in the fact that you have become used to a system which requires practically no redemption, and with so many thousands of banks you do not quite now how, or you are not quite willing to take the trouble to establish the complicated machinery necessary to effect such a daily redemption.

"That the issues proposed are credit-notes, while National bank-notes are not, and that they must be subjected to actual daily redemption, while National bank-notes need not, should never be lost sight of for a moment. One of the greatest elements of safety in such issues lies in the fact that having performed the credit service required they will immediately come back for redemption."

Proposed Central Bank.

Discussing the remedies which had been proposed for the United States currency and banking systems, Mr. Walker said that there were practically only two directions in which those who desired reform were looking for aid. These were the creation of a credit note system of bank currency based upon the assets, somewhat similar to that in use in Canada, although much more restricted in the extent of the powers or franchise to be granted; and the creation of one central bank which alone would have the franchise of issuing credit-notes. In the most comprehensive form in which he had seen it, the proposal to form a central bank set out the following features:—

1. A capital of say \$100,000,000 to be invested in Government Bonds.
2. The shareholders to be National banks, and possibly, also, State banks.
3. To issue its notes, say for \$300,000,000, in exchange for gold provided by the banks who become shareholders.
4. To be authorized to issue additional notes up to say \$600,000,000, provided a gold reserve of at least 33⅓ per cent. of the whole issue is maintained.
5. The central bank to use its powers of lending merely by rediscounting for or lending to the other banks of the country.
6. The shareholders to be represented by a board of directors elected by territorial districts.
7. The Government also to be represented in the directorate by officers of the Treasury Department.

Arguments Against It.

An argument against such a central bank, which perhaps would appeal more strongly to a Canadian than to an American banker, was that as the central bank might not have any customers except banks, it could do nothing to change the state of affairs now existing because of which a large borrower might have either to keep a discount account with a great number of banks, or to sell his paper to some-

times as many as fifty or sixty banks, or even more, through the medium of a note-broker. That clumsy manner of borrowing not only prevented that close intimacy between a sound borrower and his banker which, lasting over a series of years, tended so much to create firmly cemented credit relations, but it had undeniably often caused perfectly solvent American merchants or manufacturers to fail—a thing which in other countries would be regarded as reflecting on the banks of such countries.

Another argument which would appeal to Canadian banks and to all other bankers engaged in financing the export and import business of the United States, was that the central bank, having no customers except the banks of the United States, could do little to build up the foreign exchange business, which was still done mainly by bankers other than the National and State banks.

But when all that was said there was little doubt but that a central bank, if wisely administered, would be an improvement upon the present conditions. Nevertheless if the temper of the people would permit such a departure from the present system, there were surely better plans for the permanent reform of United States banking.

Essentials of Effective Reform.

Mr. Walker said that his own views on the subject had not changed materially since he had addressed the New York State Bank Association in 1895. He was doubtful then as to the probability of the necessary reform being acceptable to the existing bankers, and he was not much more hopeful now. "But if the people are willing to create a central bank, with the monopoly of banking which would be involved, they should be much more willing to create a series of large banks which could perform every good feature of centralizing banking, and still preserve that chief safeguard of the people in industrial matters, viz., competition.

"In order that reform may be permanent and effective the new species of bank should be able to create:—

"(1) A sound credit currency with effective daily redemption.

"(2) A distribution of capital available for lending, so that it shall not be idle and congested in one locality and scarce or non-existent and proportionately dear in another.

"(3) A condition where the gold and other cash reserves of the country may be made more effective and doubtless be minimized in quantity.

"(4) Where in time of trouble the capital of the country may be mobile and capable of being centralized when necessary.

"(5) Where there may be banks capable of doing the entire lending business of your merchants and manufacturers, except where these are unusually large, when they could be divided by arrangement between two or three banks.

"(6) Where a great international banking business may be created and you may do justice to your over-sea possessions, to the great ports of export and import, to your mercantile marine, and to your position among the great nations of the earth."

Mr. Walker's Suggestions.

This state of things could only be brought about by permitting the creation of banks in the United States similar to the banks of other countries. The mere creation of one central bank would not change the defective character of the eight or ten thousand other banks. In 1895, he had suggested that "any bank with a paid-up capital of \$1,000,000 or over, should be allowed to issue notes, say to the extent of 75 per cent. of the paid-up capital, secured only by being a prior lien on the assets of the bank, including the double liability of stockholders, and by an insurance fund of say five per cent., and to be free from the ten per cent. tax; such banks to be allowed to establish branches within the State in which the head office is situated."

In the light of later experience, Mr. Walker considered that banks having power to establish branches throughout the whole of the United States and its over-sea possessions should have a larger minimum capital than \$5,000,000. That proposed asset-currency, and he was aware of the arguments which had been made against it.

Branch System Should Be Established.

But no effective argument had been made other than the difficulty of applying it to thousands of relatively small banks, and effecting that daily redemption which was indispensable. "That it can safely be applied to all individual banks with a capital of \$500,000 and over, and to all banks with branches with a capital of \$1,000,000 and over, I have no doubt whatever. That it is extremely desirable in this country if it can be made safe, I am quite certain.

"Quite as important as the asset-currency, to my mind, is the branch system. If you make your laws so that it is merely permissive, surely the branch system will not come into being in an important degree unless it is right in principle. If it is right in principle, should the particular interests of ten thousand or more individual banks stand in the way of a great public good?"