

pushed out, the average of losses from the business being so high, and they have certainly done damage to their customers. There can be no good in reversing the natural order of things. When a trader wants to borrow the natural course for him is to go the man who has money to lend, and explain his position and security. And instead of aiming to borrow as much as possible, it should be his ambition to borrow as little as he can possibly do with. Let him build up a character for prudent dealing and he may depend upon it that his legitimate wants will be supplied at all times.

If Banks had a mutual good understanding it would prevent one institution being played off against another. Better terms are sometimes sought. The demand in some cases may be legitimate enough. In other cases when the demand is for more money or less security, it may be refused in the customer's own interest. Another Bank may be applied to in such a case. The spirit of competition may then prevail to the extent of breaking down reasonable safeguards. Managers of branches need special care in this direction. To take an account from another Bank by offering or consenting to better terms is often deemed a fine achievement, deserving special recognition by the Directors. But Boards of Directors by this time have learned to estimate such achievements at their true value. If I were to put on record the amount of money the Banks have lost in this way it would run up into millions.

Bankers would find it to their interest to have that sort of common understanding that will make it impossible for a customer to leave one Bank for another except on equal terms. The checks and restraints of prudent Banking should be so common that any customer will understand that he cannot get rid of them by changing one Bank for another. There will, of course, be preferences and repulsions, likes and dislikes. A Banker may make himself so disagreeable and unreasonable as to make it difficult to do business with him. Other Banks in that case will have the offer of accounts on perfectly equitable terms; and will be justified in taking them. What is specially deprecated here, is that spirit of ambition to extend business which will lead to its being taken on unsafe terms, or the allowance of rates which are unprofitable and unreasonable. An association of Bankers, like that of the United States, for the furtherance of mutual interests would be of great advantage both to the Banks and to the public.

I will now take the liberty of making a few remarks on the subject of requiring all Bank note issue to be secured by Government debentures.

As the Bank charters have still six years to run, this can scarcely be considered a practical question at present. It may however, be well to give the subject consideration for some time beforehand. A few remarks, therefore, may not be out of place, especially as it has been prominently brought forward by the President of our leading Bank.

To begin with, it is well to remember that this is not a new subject. It was exhaustively discussed in Parliament and through the press sixteen years ago. The Government at that time brought forward a measure for the covering of bank notes by Government bonds, but after discussion, spread over two years, the measure was withdrawn as unsuitable to the circumstances of the country. The system of bank circulation established among us has been the growth of forty or fifty years, and has spread its roots into every department of business. It could not be radically altered without serious disturbance to our commercial interests. The case is not that of considering what is the best theory on the subject, as we might do in establishing a Banking law for a new territory. Our Bank circulation, whatever its merits or demerits may be, is already established. This is no reason why it should not be modified or improved, or even, if need were shown, abolished altogether. But all must acknowledge that to bring about a fundamental alteration in the whole Bank note system

of the country is a matter that should not be entered upon without weighty and pressing reasons. The gravity of the issue may be inferred from the fact that to carry it out must necessarily involve a large diminution in the supply of money available for the mercantile community.

There may be differences of opinion as to how many millions or tens of millions this diminution will amount to. But the diminution will necessarily be sufficiently heavy to make itself felt in a scarcity of money. This may or may not be an unmixed evil; but it is certain to transpire, and due weight and consideration should be given to it by the public. This may not be a sufficient reason in itself for allowing things to remain as they are, for if we were troubled with such rotten issues as formerly prevailed in the United States, and by which untold losses accrued to the people, almost any sacrifice would be cheerfully made to get a better system. But it cannot be said that the bank currency of Canada is now, or ever has been, on such a footing as this. On the contrary the loss suffered by the community during the last fifty years by the failure of banks to redeem their issues has been but a small fraction.

The case may be summed up as follows:

On behalf of alteration and the compelling all banks to cover their issues by Government bonds, it is claimed that a currency thus secured would rest on a solid basis, would circulate in all parts of the Dominion at an equal value, and if the issuing bank failed would be promptly redeemed.

That for the banks to lend large sums of money to the Government would prevent the necessity of borrowing abroad to the same extent, and would create a home market for Government securities.

That it would prevent the establishment of ephemeral and unsound institutions that are enabled to carry on business wholly by means of the facilities circulation affords them.

That it would be a benefit to the Banks themselves to lessen their power of making loans by means of circulation. Such loans, so easily contracted, leading often to inflation of prices and loss both to the merchant and the Bank.

That the system has been long tried in the United States, and has proved of great value in providing a sound currency, in which the people have perfect confidence, circulating at par in all sections of the country.

It is sometimes said also—but this is a mistake—that the circulation of Great Britain is based on this principle.

Against such a fundamental alteration as is proposed, it is argued: First, that as above stated it could not be carried out without a heavy diminution in the supply of money for mercantile purposes.

That the disadvantages, whatever they may be, of the present system, have not been so serious as to call for a remedy involving such grave consequences.

That Bank notes are sufficiently negotiable, for all practical purposes, in every part of the Dominion, and are now as secure as they can be made (even in the way proposed), by reason of their being constituted a preferential lien on the assets of the Bank.

That the system of Bank circulation, subject to constant redemption like that of Canada, is the only one that provides naturally and easily for the expansion and contraction of circulation necessary in an agricultural community.

That a system of fixed issues, which provides neither for contraction nor expansion, has proved a serious detriment in the United States, leading to unnatural scarcity of money at one time, and unnatural redundancy at another.

It is urged, too, that the Banks of the United States are all local institutions, each one complete in itself and without branches, and that a system which may be readily and easily worked in that country, might lead to serious practical difficulties in Canada where Banks have numerous branches.

It is pointed out further that this is a ques-

tion that affects country districts rather than great monetary centres; that our system of Bank circulation is the one conducing to the greatest economy of capital, in doing the business of a sparsely settled country, where capital in the shape of money is not by any means abundant; and that the conditions of circulation are so radically different in monetary centres and out-lying communities that no argument can be carried from the one to the other.

With regard to preventing the establishment of unsound institutions, it is contended that the responsibility of this rests with the Government, and that it could be fully secured by legislation similar to that of Sir Robert Peel's Banking Act of 1844.

I am aware that rejoinders could be made to some of these arguments. But it cannot be denied that this is a very grave question, affecting, as it does, the whole mercantile and industrial community of the Dominion, and that it should be dealt with in a cautious and conservative spirit. It is not the condition of things in this city or province only that must be considered. Banking is within the sphere of the Dominion Government, and the interests of Ontario, of the Maritime Provinces, and of Manitoba, must be looked at, and that in view of the future as well as the present.

Before the time for legislation comes, many circumstances may have transpired of which we are now in ignorance. These may affect any conclusion that we may arrive at. But my present impression is, without committing myself or the Bank to details, or in fact, definitely at all, that this country would do well, when the time comes for legislation, to follow the lines of Sir Robert Peel's Acts of 1844 and 1845. On this basis the whole banking system of Great Britain has rested for the last forty years. These Acts dealt with the circulation, first, of the Bank of England; secondly, of the country Banks of England and Wales; thirdly, of the Banks in Scotland and Ireland, and its provisions deserves attention whenever the subject of bank circulation is discussed. I. With regard to the country Banks of England, it was provided, first, that no new Banks should be established having the right to issue notes; second, that existing banks should continue to have the right to the extent of their average circulation in the three years preceding the passing of the Act. The country Bank circulation is still carried on in England on this basis, and returns respecting it are periodically published. The total amount of such notes in circulation last February was £2,986,000. It is an utterly erroneous notion, though somewhat prevalent, that the Bank of England is the only Bank in England that issues notes.

II. In Scotland and Ireland, as in England, no new issuing Bank can be established; but the Banks were allowed to continue their circulation on the same basis as the country Banks of England, with the additional proviso, however, that any Bank might issue beyond the three years average on holding gold good for the excess. This the Banks of Scotland and Ireland take care to do; and have practically continued their issues as before. The circulation of the Irish banks, according to the latest return, was £6,224,000. The circulation of the Scotch banks was £5,378,000.

III. The provisions of the Act with respect to the Bank of England are worth studying. For though we have no Bank in Canada corresponding to the Bank of England, our Government issues notes which are a legal tender, like those of the Bank of England, and which are redeemable in gold at the Government Treasuries. Recognizing the fact that a legal tender note, which cannot be refused, no matter how large its amount, requires to be on an exceptionally secure basis, the Act provided that the Bank as heretofore might issue notes to a certain amount fixed by the Act as mint Government securities; but that the whole excess should be represented by gold in its actual possession. To secure this latter a department of the Bank was created, whose sole function is to give gold for notes and notes for gold. Sir Robert Peel's Act, it was supposed, would accomplish many things which