

not. When the process of note issue is analyzed it will be found that it really is only a particular variety of deposit, in which the depositor of values with the bank receives promissory notes instead of book credit.

### Definition of the Bank Note.

"A bank-bill or note is a non-interest-bearing obligation payable to bearer upon demand, in lawful money, title to which passes by delivery. The value of such note depends upon the financial credit of the bank issuing the same, the special provision of law for its redemption, the security set apart for such purpose, the fidelity with which such laws are enforced as to redemption, the character of supervision, and the degree of conservative banking thereby insured."—Comptroller Hepburn, Annual Report to Congress, 1892 (page 14).

### Importance of the Bank-Note to New Banks.

The function of note issue, though not essential to a bank, is nevertheless very important historically, and thus deserves our careful consideration. In the early history of the banking systems of different countries, as well as in the early history of most individual banks, there was a time when either the banking system or the individual bank was too new, too untried, to secure the public confidence.\* Many people still feel that since the interest paid by Canadian banks on savings deposits is almost universally three per cent., the savings depositor may as well put his money into the safest possible institution. This need not necessarily be one of the largest banks, but usually the depositor will think it is.

Here is where the importance of the function of note-issue comes in. If the State, under what the Americans call its "police power," permits the new bank to issue, with all

\* In new communities, too, there is very little surplus saved up, as money or capital which is not in active use. Thus deposits in such a community are small, and do not remain in the bank for long periods, as in older districts.