

# The Chronicle

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## FOR A CENTRAL BANK.

In his address this week before the Chicago convention of the American Bankers' Association, President George H. Reynolds dealt specifically with the project for a United States central bank. It would seem as though some such institution, partly under government control, has become necessary if the United States is to find relief from present currency defects. Canada may be pardoned some self-gratulation if it calls its neighbour's attention to the fact that the practical advantages sought by establishment of a central bank—and without some of its very possible disadvantages—are already secured by the Canadian branch bank system, with its assets-secured note circulation which expands and contracts automatically as business requirements increase or decrease.

Mr. Reynolds carefully outlines the organization of a central bank that should "automatically support the needs of, and be the servant and not the master of business." In the first place, its capital should be large enough to command respect and confidence—not less than one hundred million dollars. Whether the capital stock should be subscribed for by the national banks of the country or sold to the public under a guarantee of a small dividend by the government, with the right of the government to share in the profits above the amount of that dividend, is a matter of detail to be considered. Many bankers believe that the latter plan would be the better, as it would do away very largely with the feeling that such an institution would be run for the especial benefit and profit of the banks of the country. This plan would make it a people's rather than a bankers' bank, and might assist in solving the political problem, which the president of the Bankers' Association recognizes to be quite as difficult or even more difficult of solution than the economic problem.

Such a bank should be the fiscal agent of the government, and have all government funds deposited with it, so that its branches would replace the sub-treasuries. In addition to government

funds, it would receive as deposits the funds of national banks in the three central reserve cities, acting as reserve depository for banks in those cities, just as they act as reserve depositories for the banks in regular reserve cities. This would not affect the relations now existing between the banks in the country, either as to reserves or deposits—apart from the taking away of government funds.

Up to this point the whole plan seems to be very simple, but to the working banker there still remains the consideration of the most important principles involved in the whole question, viz., From whom shall the bank accept discounts; what shall be the character of the paper eligible for discount; and how shall it account to the public for the proceeds of discounts when the requirement for credit by the business interests of the country is exceptionally large and its coin reserves are not sufficient to cover them?

Views on these points necessarily differ, though there is general agreement that a short-time credit created in the actual conduct of business (representing a real transaction between two or more solvent concerns, and which bears a solvent endorsement in addition) is the credit which is most desirable. Mr. Reynolds would restrict the discounts of the central bank to short-time credits of this character; those which would run, say, not to exceed ninety days. He would make the bank a bank of discount for the national banks of the country; and if it would be necessary to do so to enable it to employ its funds, he would allow the bank to accept discounts from the public, but it should not receive deposits from the public.

If the bank has a large credit-creating power—and is able to discount for the public and the banks of the country large amounts of paper during crop-moving seasons and in times of emergencies—it necessarily follows that it must be able to supply an adequate circulating medium in the form of its own bank-notes. The requirements of such a circulation are safety and elasticity—the latter feature being absolutely lacking in the present system of national bank issues.

While Mr. Reynolds believes that the notes of the bank should be secured in part by a coin or metal reserve, a considerable percentage of the notes thus issued must be secured in some other way. It should be by means of security which in the natural course of business will first be redeemed, and through its redemption or payment bring into the treasury of the bank actual money. Neither bonds nor real estate mortgages are of this nature.

If it is wise to restrict the character of the paper which will be eligible for discount at the bank to that which will be first paid—to a commercial credit or to paper representing an actual transaction in business between going concerns—Mr. Reynolds