

THE CANADIAN BANK ACT.

(Second Article).

(Some Unaccepted Proposals).

Regarded in the light of results, the Canadian Bank Act is one of the most satisfactory achievements of man in the domain of commercial law. As previously stated, it owes its perfection to the unity which has generally existed between the government of the day and the banking community. Occasionally, the government has been swayed by some ulterior object, as when it essayed to compel the banks to transfer to it their unclaimed deposits or successfully attempted to secure a large issue of Dominion notes by forcing the banks to keep forty per cent. of their cash in that form; but, as a rule, the banks were able to defeat any measure that would injure the system, while the government restrained itself with commendable self control.

Nevertheless, there have been occasions when the proposals of the government had to be energetically fought, and still more frequent times when the proposals of certain sections of the country, through their parliamentary representatives, required all the influence and reasoning powers of bankers to defeat schemes which would have lowered the Canadian banking and monetary system to a level of that of the United States, from whose example many of these proposals were derived.

It is very fortunate for Canada, in the end, that her early experience with card money and assignats taught her the fallacy of fiat money. Millions of dollars were lost in these desperate resorts of bankrupt governments, and, as a consequence, the people, as a whole, look with disfavor upon a currency system which is not redeemable in some absolute standard of value. Even in the midst of the war of 1812, Canada did not resort to fiat money, or even borrow on her credit without making provision for redemption. Her Army Bills carried interest, and were exchangeable for London drafts at certain periods, the consequence of which was that the war was scarcely terminated before this strange but logical currency was rapidly redeemed.

There is no doubt that much of the success of the various Bank Acts resulted from the fact that they were for a ten year term. When occasions arose which excited public clamor against any part of the Act, it was easy to quiet the agitation by the promise to make a note of the complaint and revise the troublesome clause at the usual revision. This afforded time, as a rule, for careful study, for the abatement of public excitement, and in some cases the amendments adopted were not in the least degree in harmony with the first demands of the people. It is proposed in this article to consider the many proposals which have been brought forward.

Canada lies so near the United States that it is only natural that we should look frequently to that great country for information and example, ignoring the fact that, in many cases, that country has been peculiarly unfortunate in the conditions under which its systems

have been originated. The National Banking system for example, resulted almost altogether from the Civil war and the necessity of replenishing the treasury, and the conditions which gave rise to it having passed away, the system finds it more and more difficult to adapt itself to the ordinary circumstances of trade. The idea of basing a currency issue upon the holding of government bonds was quite sensible when the Government was issuing bonds, and especially profitable when these bonds were at a discount and carried good interest. But just so soon as the country entered again upon peace and prosperity, and its bonds rose to a premium and were converted into bonds of lower interest, the country found itself in difficulties with its bank currency when that currency should have been increasing in proportion to the demands of commerce.

It was this circumstance which enabled the silver advocates to make their long fight, and to deceive the public by calling a gold basis currency a rich man's weapon.

Canada naturally has had advocates of a currency based upon Government bonds. Her Dominion currency is so based, and there has probably not been a single revision of the bank act without some one proposing the adoption of the United States system. It is highly probable that this proposal will again be brought forward this year, in view of the Ville Marie Bank case, and it is very desirable that our readers should be warned against the support of a system which, by its costliness and inelasticity, is wholly unsuited for a new country which has before it the full development of its resources.

The Free Banking Act of 1850 introduced into Canada the system of issuing bank notes against deposits of Government securities with the Government. Interest was allowed on the deposit, and the then ruling tax of one per cent. on bank notes was remitted in such cases. Several banks, notably the Molsons' Bank, were established under the Act, but as the system could not, for a moment, compare with that of the chartered banks for economy, the result was the winding up of some of the banks, and the securing of charters by others. The failure of the system when placed in competition with that still in force is, and has always been, a lesson to Canadian politicians, who now endeavor to secure the safety of the bank note by methods which will not burden the business man with extra charges or deprive him of the fullest advantage to be derived from an elastic, cheap bank circulation, to protect which it is not necessary to lock-up an equal amount of funds. It is quite possible that the time will arrive when, at the busy seasons, bank circulation may be required in excess of the legal limit for a short period, and be allowed against a deposit of some kind with the Government, but, as a permanent system applicable to the whole bank note circulation, no such retrograde move is to be anticipated.

(To be Continued.)