

posed to the Banks that they should consent to give up their issues of small notes under \$4, which should in future consist exclusively of Dominion notes. I further proposed that instead of holding their reserves exclusively in gold, they should hold one-half, or never less than one-third, in Dominion notes, it being understood that the Government would not issue the denominations between \$50 and \$4. The Government on its part agreed to abandon the tax on bank issues, and also the requirement that the banks should hold government securities to the extent of one-tenth of their capital. I may observe here that the tax on bank notes was the only one imposed upon the banks by the Dominion Parliament, which never entertained for a moment the idea of taxing bank deposits or bank capital, nor, indeed, am I aware that such taxes are imposed in any other country but the United States. It must be borne in mind that the Canadian banks are not required to hold any special percentage of their circulation and deposits as a reserve. Statements are made monthly to the Government, and published without delay, but the amount of reserve is left to the discretion of each bank. The Dominion legal tenders are redeemable in gold by Assistant Receiver General, at Montreal, Toronto, Halifax and St. John, N. B. It may be supposed that such an arrangement would be found inconvenient, as the Toronto notes are a legal tender at Montreal, Halifax and St. John, though only redeemable in Toronto. In practice no inconvenience has been felt, and though I think a single office of redemption has much in its favor, there seems no probability of the present arrangement being disturbed. The Dominion \$1 and \$2 notes are circulated to the extent of about three millions of dollars, but the larger notes are kept by the banks exclusively as reserves. The aggregate circulation of Dominion notes is about \$11,200,000. \$7,200,000 are based on Government securities, and for all the issues exceeding that amount, the Government is required to hold either gold or bank deposit receipts, the latter being only permitted when the gold is in excess of the percentage required by law, which varies from 25 per cent. upwards, increasing as the circulation increases. There is not the slightest tendency to inflation in the Government circulation. The banks naturally issue their own fives and fours in preference to the Dominion small notes which only circulate to the extent of the public demand. The large notes are not kept in excess of the requirements of the banks. The chief point of difference in our system from yours, is that the banks are allowed to circulate notes to the extent of their paid up capital, at their discretion, and you will observe that the assets held against that liability, in excess of the reserve, consist of "bills discounted." The National Bank assets, held against their bank note liability, consist of Government bonds deposited with the treasury. This will explain the objection entertained both by the banks and the public, to the various propositions made from time to time to substitute Government securities for commercial paper. Another important difference in our system from yours is that nearly all our banks have a large number of branches and agencies, while your practice is to have no agencies. I note this difference in our system from yours, without attempting to discuss the merits of the two systems. The agency system necessitates vigilant inspection, and certainly has its weak points, though it has likewise its advantages. A considerable business is done by advances on warehouse receipts for produce purchased in the vicinity of the agencies and delivered at our commercial capital—Montreal. Our banks deal largely in foreign exchange, and have nearly all London correspondents, while two or three have offices of their own in London and New York. With regard to the relations between the Government and the banks, I may mention that the bank of Montreal has been for many years the fiscal agent of the Government, receiving the revenue at all the principal ports of entry, and paying the Government cheques wherever required. The Government of Canada having charge of the construction of public works, has been a borrower in London, and consequently a drawer of exchange. Its exchange is offered to public competition, and the proceeds are occasionally left with the purchasing banks, or placed in special deposit at interest. The Government is also a constant purchaser of exchange to meet the interest on its debt, and this it likewise purchases by tender from the banks. We have not yet introduced the system of clearing house settlements in Canada. There are no special safeguards of solvency, and notwithstanding constant complaint of the ruinous management of estates by assignees, it strikes me that compositions with insolvents are more rare with us than in England. Our savings bank law was originally modelled on yours, but was repealed a few years ago. We have an admirable Post