

inevitably lead to periods of aggravated financial stringency, such as are not uncommon with our neighbours across the line. The opening of branches in hitherto unoccupied districts in the Northwest (by facilitating the deposit of currency) will relieve the tension in some degree, but if Canada advances, as we hope and expect she will, I am afraid it is only a question of time when we may be brought face to face with the same condition of affairs again."

#### THE BANKS AND THE CIRCULATION PROBLEM.

At the recent meeting of the Canadian Bankers' Association at Toronto the circulation question was freely discussed, which shows that it has advanced from the academic stage to become one of practical interest. The president, Mr. E. S. Clouston, general manager of the Bank of Montreal, in referring to the currency situation expressed his judgment to be that the needed increase of circulation would be best secured by the banks enlarging their paid up capital. As an alternative Mr. Clouston said:

"If we do not choose to adopt this plan, then it should always be possible in emergencies to obtain notes from the Government by deposit of gold or Dominion notes."

While offering this as an alternative plan for increasing the circulation in times of pressure, he pointed out that, "it does away with the elasticity of the system, and if indulged in to any great extent it will inevitably lead to periods of aggravated financial stringency." The general opinion of the bankers present at the recent meeting was in favour of an increase of capital as the basis of enlarged currency. At the same time it was considered feasible to make arrangements with the Government whereby they would always have on hand an ample supply of small denominations of Dominion notes, that is ones, twos, fours, fives, tens, and twenties, which the banks could obtain from them upon putting up either specie or large legal tenders, during the short period when the movement of the crop creates an enormous demand for currency, which is issued every year in large volume and returned again to the banks for redemption also in a short time. This condition of things would only last for about thirty days, say from the 15th Oct. to the 15th Nov. It is somewhat remarkable that the circulation of Dominion notes remains so stagnant during the periods, when the circulation of bank notes is rising rapidly. Thus, between 31st July and 30th September this year the bank circulation rose from \$52,070,065 to \$60,965,801, an increase in two months of \$8,895,736, whereas the circulation of Dominion notes in the same period only advanced to extent of \$123,900, that is, from \$32,824,909 to \$32,948,809. It seems then, reasonable to assume that a considerable relief

might be secured when the demand for currency is pressing hard upon the bankers by bringing the Dominion notes circulation into closer touch with the requirements of the country. The excess of specie and debentures held by the Government against its note issues usually exceeds what the Act requires by 5 to 6 millions. On the 30th September last the total excess was \$5,589,593, that is, the circulation of Dominion notes might have been enlarged to the extent of \$5,589,593 on the securities already held by the Finance Minister. Were the banks then, in times when currency is in greatest demand, that is, in the fall of the year immediately after harvest, to deposit a portion of their specie or large legal tenders with the Government they might have a supply of fives, tens, twenties which would meet the temporary conditions, and the security of such enlarged issues would be perfect and be immediately available for their redemption. The inflow of the notes immediately after the circulation has reached its maximum, when the ebb tide has set in, shows itself in the enlargement of deposits, which, in the three months' interval between October and the following January in last 5 years has ranged from 5 to 8 millions. The redemption of notes thus gives, practically, no very serious anxiety to the bankers. Such an arrangement for utilizing Dominion notes might be effected without amending the Bank Act, which it is desirable to keep from being tampered with, save for imperatively grave reasons.

In considering the proposal to rely upon an enlargement of the capital of the several banks as a basis for increased circulation it is not intended to declare that, as some imagine, the amount of a bank's paid-up capital is an absolute standard for and measure of the amount of notes a bank ought to be empowered to issue, for no such standard or measure has been agreed upon by bankers or writers upon finance. Thousands of treatises, pamphlets, articles, have been written on currency, without any sign of an agreement having been reached as to its desirable limits and proper basis. In the 40's, 50's and 60's of the last century these and other phases of the currency question were discussed by school-boys; by artisans; by barbers, whose ideas were as frothy as their lather, but not more so than most speeches on this matter in Parliament; millions of currency tracts were distributed on the streets, Currency Clubs existed in large towns, and fortunes were spent in disseminating currency literature. All this agitation, which had risen to the height of a public mania, passed away without any approach having been made to a general agreement as to the proper basis of and security for paper currency. The Canadian system of making a bank's paid-up capital the standard and measure of its note issues