

## AMERICAN CURRENCY LEGISLATION

The present attempt by our southern neighbours to improve an admittedly bad currency and banking system must have a considerable interest for Canadians. The intricate commercial and financial relations between ourselves and the Republic; the fact that unfavourable developments in the American markets often have a certain amount of reflection here; and the tendency in certain directions to pattern Canadian legislation after American models make of importance to us any such far-reaching changes in the financial structure as are proposed by the Wilson administration. The proposals now put forward embrace many novel ideas, some of which, it is already apparent, will probably meet with strenuous opposition from the bankers.

### PURPOSES OF THE LEGISLATION.

According to Representative Glass, who has played a prominent part in the drafting of the new bill, its purpose is to furnish a comprehensive revision of the currency system of the country so as to obtain these principal objects: (1) provision of a means for rediscounting commercial paper of specified types; (2) provision of a basis for elastic note issues properly safeguarded; (3) provision of machinery for doing foreign banking business. In order to carry out part of these objects, there is to be created a new class of banks, which will be known as Federal reserve banks. They will be twelve in number, and owned by stockholding banks of the twelve districts in which they are situated. National banks will be compelled to become stockholders, but in the case of state banks and trust companies membership will be permissive. The business of these banks will be:— (a) The rediscounting of paper presented by stockholding banks under specified conditions, provided such paper grows out of actual agricultural, commercial, or industrial transactions, and does not run more than a specified number of days; (b) the buying and selling of government securities, gold and silver, bullion and foreign coin, foreign exchange, and open market bills of given maturity; (c) government fiscal operations. While the national banks will be allowed to continue their note issues as at present, provision is made for the additional issue of what are called Federal reserve treasury notes to an amount not exceeding \$500,000,000. These notes will, upon application, be issued to the Federal reserve banks upon prime short time commercial paper and other liquid collateral. While the notes will, on their faces, purport to be the obligations of the United States, they are required to be secured by a gold reserve of 33 1-3 per cent. provided by the Federal reserve bank, and are a first and paramount lien on all the assets of these banks, and are redeemable in gold on demand at the Treasury Department, Washington, or at any Federal reserve bank.

### POLITICAL CONTROL.

To control this new system, there will be created

a Federal reserve board, consisting of seven members, the Secretaries of the Treasury and of Agriculture and the Comptroller of the Currency (who are *ex-officio* members) and four other members, chosen by the President "by and with the advice and consent of the Senate," at least one of whom is to be a person of banking experience. This Board is given sweeping powers. One duty imposed upon them is the establishment each week or as much oftener as required a rate of discount which shall be mandatory upon each Federal reserve bank and for each class of paper, provided that this rate of discount need not be uniform for all Federal reserve banks, but shall be made "with a view to accomodating the commerce of the country and promoting a stable price level."

### RE-ADJUSTMENT OF RESERVES.

The present sub-Treasury system being, according to Representative Glass, "unsatisfactory, clumsy, injurious to business and difficult to manage in times of stress," all current funds of the Treasury will be placed in Federal reserve banks, being equalized between the different reserve banks, while the present bank reserve system is also to be re-cast so that part of the reserves of national banks will be transferred to the national reserve banks. The presumed effect of this, according to its sponsors, will be "to end the placing of reserve with central reserve city banks for use in stock market operations, to keep reserves in some measure at home, and to require speculators to get the funds they need in their operations either by directly borrowing them from persons who hold them and want to lend the cash for that purpose, or else by borrowing from the banks in the places where the operations are to be carried on." Finally, the bill authorizes any national banking association with a minimum capital of \$1,000,000 to establish branches in foreign countries for the furtherance of foreign commerce of the United States and to act as fiscal agents of the United States abroad.

Whether this last provision will lead to competition from American banks being encountered by some of the Canadian banks in their southern business remains to be seen. Up to the present the most powerful attack directed at the new legislation is that referring to the centralized character of the control and to the fact that political nominees are to form the personnel of the controlling body. According to one indignant critic, "nothing of the kind exists on the face of the earth. The nearest approach to it is in the Imperial Bank of Russia. It is an appurtenance of autocracy requiring supernal wisdom at its head. It is in conflict with every principle and tradition of democracy." Perhaps so. But are professed democracies always democratic in their actions?