

made by parliament at the close of successive periods of approximately ten years each. The fifth revision took place in 1923. The sixth revision will be made at the ensuing session of parliament.

In the earlier days of Canadian banking banks' loans to their customers were restricted to their bank notes and their banking capital. The customer usually received from the bank the amount of the loan in bank notes or metallic currency and therewith made his payments to his creditors. As late as 1840 the note issues of the Canadian banks constituted more than one-half of their liabilities. Since then banking practice has radically changed.

On September 30 last the notes in circulation of all the Canadian chartered banks amounted to \$141,000,000 and their total liabilities aggregated \$2,849,000,000, or over twenty times the amount of their note issues.

The prevalent conception that bank deposits may only be created by actual deposits of specie, or its equivalent in dominion notes or foreign exchange, is quite erroneous. The bank returns for September 30 last disclose that the banks held only \$49,000,000 in specie and \$127,200,000 in dominion notes, or a total of approximately \$176,000,000 in specie and notes, while their current loans and discounts were \$1,428,000,000 which was a reduction of \$932,000,000 in the amount of current loans and discounts on September 30, 1929. Such a large reduction in outstanding current credits would seem to indicate that the industrial and commercial activities of Canada have been reduced or restricted by nearly 40 per cent since September, 1929.

The aggregate of these loans, by which the bulk of all deposits are created, largely represents advances of credit made by the banks to their customers. The capital and reserves of all the banks of Canada amounted on September 30 to \$306,500,000, which was at least partially represented by fixed investments. The credit extended by the Canadian banks is secured in less than one-fourth part by the capital and surplus of the banks, but largely by the good faith, property, administrative efficiency and business capacity of the customers to whom such loans are made.

The creation and issue of money was in former times the prerogative of the sovereign. In a more primitive society money consisted exclusively of metallic coins. Later governments began the issue of paper notes, redeemable in metallic currency, and these notes were declared by decree or by statute law to be legal tender in payment of all liabilities.

In more modern times the invention and adoption of the cheque system has effected a radical revolution in monetary policy. The cheque has now largely usurped the function of metallic coins and government notes as currency.

Under the modern banking practice a bank customer, instead of withdrawing his loan in bank notes and metallic currency, receives a credit entry in the books of the bank for the amount of the bank's loan, as if it were a deposit made by him in his account with the bank. Against this credit in the bank's books of account the customer draws his cheques. The customer's cheque, which is an order on the bank for the payment of money to the payee of the cheque, merely results in the

[Mr. Lucas.]

transference of the credit, which has previously been granted by the bank, from this customer's name to the name of another customer in the same or another bank's books of account. In case the payee of the cheque so drawn keeps his banking account in another bank, the two banks, in the larger cities and towns, daily adjust their balances through the clearing house.

The result is that, in modern practice, 70 to 80 per cent of the aggregate of all deposits shown in the Canadian bank returns represent in reality the amount of loans made by the banks and then outstanding. In consequence bank deposits consist largely of credit money which has been created by the banks. When a loan is repaid by the customer to the bank which made the loan, the deposit created by the loan is wiped out, and the aggregate of all bank deposits is thereby reduced by the sum so paid.

Then he gives the total of the deposits of chartered banks in Canada as \$2,260,000,000, and continues:

This aggregate of deposits on September 30 last was \$436,500,000, less than the average amount of deposits during the year 1929.

Since the cheque system has been adopted the difference between the amount of cheques paid into a customer's account at his bank and the cheques drawn by the customer and paid out by the bank represents a sum of money which the customer owns, but nevertheless this money does not exist except in the accounts of the customer's bank.

What is paid out of one bank account is paid into another bank account by entries in books of account. A relatively small quantity of metallic coins or paper currency suffices for owners who require cash for their petty expenses.

The cheque system, which has been developed, enables the banks to create money without the issue of their printed notes. On September 30 last all the Canadian banks had \$141,000,000 of their own notes in circulation, while the aggregate of bank deposits was \$2,260,000,000.

It is convenient for the banks, with their numerous and widespread branches, to have available a limited quantity of their own notes, which suffice, in part, for the cash requirements of their customers; and therefore, to avoid the expense of holding in reserve and transferring currency as required, it has hitherto been deemed expedient that parliament should grant to banks the privilege of issuing their own notes in limited quantities as required, not only at head offices but at all their branch offices throughout Canada. This privilege is now being criticized, and parliament must decide at the ensuing session whether or to what extent it shall be withdrawn.

But the cheque system, which now prevails, enables the banks, as I have stated, to create credit money at will for many hundreds of millions of dollars in excess of their note issues. \$1,428,000,000 of such credit money was issued and outstanding on September 30, last. In comparison with this bank credit money the amount of all money in circulation is quite insignificant.

But in fact the banks have not an unlimited power of creating credit in the form of bank loans which may be drawn upon by their