THE ISSUE OF DOMINION NOTES TO BE ENLARGED.

REVIEW OF THE CURRENCY SITUATION LAST FALL; WILL THE BANKS BE IN A BETTER POSITION NEXT FALL? THE NEW PAID-UP CAPITAL INADEQUATE TO MEET THE PROBABLE EXTRA DEMAND FOR NOTES; THE FINANCE MINISTER'S CURRENCY RESOLUTION; WHAT IS PROPOSED, AND WHAT IT WILL EFFECT.

The unprecedented demand for currency in the fall of 1902 caused the note issues of the banks to be so enlarged as, in the majority of cases, to practically exhaust their legal powers. Out of our 34 chartered banks 26 of them in October last had issued notes within a small amount of their limit; they had gone as far as is prudent. The position stood as follows:—

26 banks were authorized to issue to extent of.....	$44,067,879
Those banks had an aggregate issue on 31st Oct., 1902, of....	42,138,384
Average authorized circulation of 26 banks........	1,310,000
Aggregate margin of the whole 26 banks...........	1,929,495
Average percentage of margin of the whole 26 banks	4.58 p.c.
8 banks were authorized to issue to extent of.......	27,069,631
Those banks had an aggregate issue of.............	23,790,589
Average authorized issue of these 8 banks.........	3,383,700
Aggregate margin of the whole 8 banks.............	3,279,042
Percentage of margin..........................	13.78 p.c.
Total of authorized issue........................	71,137,510
Total margin of the whole 34 banks...............	5,208,537

When it is considered that branches of the banks of Canada are distributed over a country stretching from the Atlantic to the Pacific, each one of which branches emits notes, it is obvious that the 26 banks had no available margins for further issues. If too is considered that the 8 banks included the two largest banks in Canada, whose business exposes them to daily demands on a large scale, it is also obvious that their margins were reduced down to the line, which is desirable to be observed as the practical limit, for no manager of a large bank would dream of allowing his note issues to run up to the legal limit.

Such being the conditions last fall, with every certainty of the demand for currency increasing, the best method of providing for such increase became an anxious question with bankers. A number of them have sought to meet the requirement by enlarging their capital. Since October last, the total paid-up capital of the banks has risen from $71,137,510 to $75,979,565, an increase of $4,842,069, which is likely to be enlarged to 6 millions before the pressure becomes acute next October. But this, we submit, will not be adequate to meet the demand for currency. Last year the expansion of the circulation between May and October was from $50,754,716 up to $65,928,973, an increase of $15,174,257. Assuming that the demand for currency this season will be equal to that in 1902, the circulation in October next will amount to $72,123,376, which would be $6,194,403 more than in October last year. But the paid-up capital of the banks, which fixes the limit of their note issues, has only been increased $4,842,069, which is very much below what is, or will be needed to supply the demand for currency next fall. Even supposing the paid-up capital is raised to $76,000,000, the banks are almost certain to have a demand for notes that will put them in a worse position than they were in last year. All probabilities point to the demand for currency during next harvest, and for a month or two after it is gathered, being so extensive as to call for a larger issue of notes by the banks than they will have the legal authority to meet. Shortness in the supply of money involves serious inconvenience to the mercantile community, as well as sacrifices, for the rate is certain to be high under such conditions.

To relieve the situation, the Finance Minister proposes, or, we may say purposes, to arrange for an increased issue of Dominion notes. The following shows how the circulation and specie account of the Government stood on 31st May last:—

Total Dominion notes in use.......................		$37,912,296
Specie held by the asst. receivers general on the 31st May, 1903..................		24,836,692
Guaranteed sterling debentures, £400,000 sterling....		1,946,666
		$26,783,358
Specie and guaranteed debentures to be held under the revised statutes of Canada, cap. 31, as amended by 58-59 Vic., cap. 16—25 p.c. on $20,000,000.......	$5,000,000	
Specie held in excess of $20,000,000.....	17,912,296	
		$22,912,296
Excess of specie and guaranteed debentures.........		$3,871,062
Unguaranteed debentures.........................		$17,250,000
Unguaranteed debentures to be held under the revised statutes of Canada, cap. 31, as amended by 58-59 Vic., cap. 16, 75 p.c. on $20,000,000		15,000,000
Excess of unguaranteed debentures.................		$2,250,000

SUMMARY.

Excess of specie and guaranteed sterling debentures.	$3,871,062
Excess of unguaranteed debentures..................	2,250,000
Total excess......................	$6,121,062

The Government proposes that the security held for the redemption of Dominion notes up to 30 millions shall be in gold, or guaranteed securities equal to not less than 25 per cent. of the amount of the issue; 15 per cent. at least to be in gold. For all notes issued in excess of 30 millions an amount in gold equal to the excess to be held. This change is, practically, to raise the amount of Dominion notes to be issued on the same terms as at present, from 20 millions to 30 millions. Now, up to 20 millions of notes issued, 25 per cent. of specie and debentures must be held, and all above the 20 millions must be covered by gold. Under the new regulation, notes to extent of 30 millions could be issued, when secured by 25 per cent. of the amount held in specie and debentures, and all over 30 millions would have to be covered by gold, instead of all over 20 millions as at present. Under this arrangement the issue of Dominion notes could be so enlarged as to be of enormous service in providing currency during the harvest, and the months immediately following. The effect would be to protect the money market from undue pressure in the fall, and, by enlarging the supply of money would prevent stringency and high rates.

To make this new system most effective there would have to be a larger issue of notes of those denominations most in use. The banks under the new scheme would be able to secure an indefinite supply of Dominion notes, according to their ability to put up gold or the requisite debentures.