

THE INCREASE OF CIRCULATION QUESTION.

The question of enlarging the legal limit of the bank circulation was the leading one in the able address delivered by the president of the Bank of Ottawa at the recent annual meeting. This is the first reference to the matter on such an occasion. It will serve to arouse general attention, and will probably lead to some action being taken to initiate a movement for extending the note issuing powers of the banks. Under the present Bank Act each chartered bank is authorized to issue its own notes up to, but not beyond, the amount of its paid up capital. The limit is purely arbitrary as there is no such relation between the paid up capital of a bank and its circulation as to make one a natural measure of the other. There might be such a natural relation, or correspondence, if the security to the holders of a bank's notes, in case of its failure, were confined to the amount collectable from shareholders under the double liability. But this is not so, the notes of a bank are very amply secured (1) by the special deposit made by all the banks with the government for that purpose, and (2) by their constituting a first lien on the assets of the issuing bank.

Limiting circulation to paid up capital was proposed some thirty years ago by a bank manager who was then, as he is now, the leading banking authority in Canada. The proposal was in the nature of a compromise; it was made in order to bring an end to a controversy between the banks and the government that threatened to deprive the banks of their circulation. A Bank Act was actually passed in 1868 for the purpose of providing the requisite machinery for the government taking over the whole of the note issues of the banks, which was then aimed at. This scheme did not succeed as the banks generally declined to surrender their note issues. In 1871 another Bank Act was passed by which the circulation of a bank was limited to its paid up capital, as is now the law. We speak from authority in saying that this limit was not suggested because of its being leased on any financial principle requiring such restriction, but solely because some limit had to be decided upon, and this was the most likely to be accepted by the government. As then the limit put by the Bank Act of Canada upon the circulation of each bank is purely arbitrary, having no base in an economic principle, or reason derived from any supposed natural relation existing between capital and circulation, the course is clear to consider:

1st. What should be the limit of a bank's circulation?

2nd. In what way should note-holders be protected?

3rd. What conditions exist that call for wider note issuing powers being given to the banks?

4th. What would be the readiest, safest and most rational way of extending the circulation privileges of banks?

It is not satisfactory to have questions placed for consideration for the solution of which no fixed principle, or generally admitted authority is available. Bank circulations in Great Britain, in Europe, in the United States, vary widely as to their limits, which are all arbitrary. The following table exhibits the capital and circulation of banks under several systems. The sterling is converted at \$5 to the £1:—

| | Capital paid up. | Circulation. |
|--|------------------|--------------|
| | \$ | £ |
| Bank of France | 36,000,000 | 750,000,000 |
| Bank of England | 72,765,000 | 145,000,000 |
| Other English Int. Stock Banks | 223,000,000 | 5,200,000 |
| Bank of Germany | 30,000,000 | 270,874,000 |
| Banks of Scotland | 46,500,000 | 39,000,000 |
| Banks of Ireland | 35,625,000 | 29,345,000 |
| Colonial Banks in London | 128,450,000 | 40,375,000 |
| Foreign Banks in London | 127,200,000 | 21,540,000 |
| New York National Banks | 70,000,000 | 32,000,000 |
| U. S. do do | 663,224,195 | 359,911,000 |
| Amount covered by Government bonds | | 328,200,000 |

The amount of paper currency in the principal countries of the world which is uncovered by specie is estimated to be \$2,629,660,000.

The soundest basis for note issues is the capacity of the former to redeem them, in connection with a system of daily redemptions. But no indication of this is given by a bank's paid up capital. Such capacity can only be definitely and absolutely conferred by its being under a legal obligation, accompanied by a faithful adherence thereto, to hold a reserve adequate for redeeming all its notes on demand to the satisfaction of the holder. This is one of the distinguishing features of the currency system of Canada. The note issues of the banks are protected by four distinct provisions:

First. The notes issued by a Canadian bank are a first lien on the assets.

Second. There is a fund placed with the government contributed by each bank at the rate of 5 per cent. of its circulation, which fund is a guarantee for the note issues of any bank needing such a reserve.

Third. The notes of each of the banks of Canada are sent in by each bank for redemption through the Clearing House every business day.

Fourth. The secretary of the Bankers' Association is legally authorized to examine the circulation of every bank in order to see that the legal limit is not being exceeded.

The idea that a bank's note issues should be limited to the extent of its gold reserve is only advocated in Canada by theorists who have acquired their views outside the sphere of practical life. The other idea of limiting the circulation of a bank to the extent of its holdings of government bonds, or some proportion thereof, is in reality a scheme for compelling banks to lend the government the great bulk of the proceeds of their circulation. In September last the National Banks in New York City held \$32,225,000 of "U. S. bonds to secure circulation," and their "notes issued" were \$30,654,740. What services to mercantile interests such notes rendered were confined