

abouts of uncovered issues, the liability therefor being assumed by the Dominion, were outstanding. If the Government of Canada had taken the credits created in its favour in the banks in exchange for these issues and invested in securities as in the Australian case, it would be receiving for Consolidated Fund Account, the borrowing rate at the time these emissions were made being considered, at least \$3,000,000 per year in interest. As it is, the Government of Canada has had the use, free of interest, of this sum. Its currency issues are nevertheless just as good as the Australian for its promise to pay is as good a security as the debentures which the Commonwealth Bank's Note Issue Department holds against its issues.

In addition to the \$3,000,000 referred to, there is approximately \$1,200,000 which the Government of Canada annually gets in the 1 per cent tax upon bank notes in circulation against capital, and the income derived from the issue of Government notes to the banks under the Finance Act, as well as the tax on excess circulation of the banks. It is submitted that the Government of Canada has directly and indirectly derived and is deriving from the note currency of the country advantages out of its own currency and the circulation privilege of the banks that compare favourably with those derived in recent years by the Commonwealth of Australia from its control of currency issues. In this connection it should be noted that the Commonwealth Bank is paid by the Government of Australia for many services such as are rendered by the banks of Canada to the Government of this country free of charge.

UNIT BANKS WITH LIMITED CAPITAL

As a collateral to the Central Bank idea it has been suggested in some quarters that if a central bank were in operation and legislation were introduced permitting the establishment of banks with a minimum capitalization of \$50,000, these institutions having the right and privilege of obtaining currency from the national central bank by deposit of securities and rediscounting, great advantage would result to agricultural interests. (See "Currency and Banking Reform" proposals by A. E. Darby, considered and approved by the Canadian Council of Agriculture a year or two ago.)

The record in recent years of small banks in the United States in agricultural communities is one of disaster. In the first place the banks with the small capitalization rarely, if ever, have securities which measure up to the rediscount requirements of the Federal Reserve System, so they cannot take advantage of the system. Between the years 1921 and 1926 inclusive, 2,687 State banks failed in the United States, the most of these in agricultural communities with conditions comparable to those in the Prairie Provinces. For example, there were

- 279 failures in North Dakota
- 236 failures in Kansas
- 212 failures in South Dakota
- 186 failures in Minnesota
- 145 failures in Missouri
- 130 failures in Montana.

These are the figures presented by the Economic Policy Commission of the American Bankers' Association and published in the November, 1927, issue of the journal of that association.

[Mr. Albert E. Phipps.]