

The issuance of currency is commonly regarded as a governmental function, and while some portion of Canadian currency is provided by the Dominion government, by far the greater amount in ordinary circulation is issued by the banks themselves under conditions laid down by the law. The withdrawal from the banks of this privilege would constitute a revolution in Canadian banking, only to be justified by the existence of serious abuses. No abuse of the right to issue currency is known to exist. But circumstances may easily arise in which a national currency, in the strict sense of the term, might be required and the establishment betimes of machinery capable of supplying that requirement without dislocation of business or serious inconvenience would be a wise provision.

Similarly the double liability now resting upon bank shareholders, however suitable to existing conditions, could not be insisted upon in relation to banks founded under different circumstances or to co-operative banks. A treatment of shareholders in banks different from that of shareholders in other corporate businesses is not, in itself, very desirable nor has it been as effective as may have been anticipated. Provision for its removal if and when banks surrendered or lost the right to issue currency might reasonably be made. Consolidation of the scattered functions performed by the Treasury Board, the Department of Finance, the trustees of the gold reserve, etc., would lend greater stability and coherence to the banking system and would enable changes to be made in response to changing needs with less resistance and confusion.

In the light of these considerations, and of considerable study of banking conditions and institutions elsewhere, the following suggestions are advanced as embodying a policy which would be of benefit to the rural communities and of benefit also to the banking system of the country in its relation to the future needs of the people:

1. The establishment of a National Bank of Issue and Re-discount. In this bank stock would be taken by the Dominion government, the chartered banks in proportion to their capitalization, and, in certain circumstances, the provincial governments. To it should be transferred the duties now performed by the Treasury Board, so far as they affect those banks, and the Canadian Bankers' Association, together with the custody of the central gold reserve and the circulation redemption fund. Government banking should also be handled by the National Bank. The bank should not receive deposits from the public or carry on a general banking business in competition with the chartered banks. It should take over the Dominion note issue and the making of loans to banks such as are now made under the Finance Act, expanding this function as the need develops into a general re-discounting business similar to that done by the Federal Reserve Banks in the United States.

Ample business for a National Bank is already available, but its readiness to conduct re-discounting business—to act as a bankers' bank—will make possible the relaxation of the present quasi-monopoly enjoyed by the 11 chartered banks through the passage of legislation enabling local banks to be established where there is the genuine need and desire to establish them. This brings us to the second suggestion:

2. The Bank Act to be amended or a supplementary act passed permitting the formation of local banks with a minimum capitalization of \$35,000. Might be increased to \$50,000. These banks would not be permitted to issue notes or to make loans in excess of a given multiple of their capital. They would be required to obtain currency from the National Bank by deposit of securities and re-discounting (the National Bank maintaining an adequate gold reserve) and to deposit a percentage of their deposits with the National Bank as a reserve (say 15 or 20 per cent). In return they would enjoy the re-discounting privileges extended by the National Bank. They would be subject to strict inspection

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