THE COST OF ASSET CURRENCY IN CANADA.

The following expert opinion upon this subject was written for The Bankers' Magazine of New York by H. P. M. Eckhardt of the Merchants' Bank of Canada :

In any discussion that has for its subject the advisabiity of a change in the currency system of a great nation it is particularly desirable that a most liberal account be taken of the expenses and drawbacks likely to be met with in connection with the innovations that are proposed.

This paper has a two-fold object : it is purposed to give, first, a rough summary of the not quite so well-known expenses incidental to the maintenance of the Canadian bank note circulation ; and then to show that note issue against assets will earn its full profits only when associated with a system of branch banks, and to give some reasons why it appears to the writer that the redemption and removal of superfluous currency issues, which is so necessary to healthful working, might not proceed in the United States with the automatic prompitude that obtains in Canada.

In a general way, the Canadian public has the idea that apart from a small proportionate cash reserve, the banks loan out the amount of their note circulation at something like five or six per cent per annum, the only charge against these profits being the cost of the printing of the notes. Other expenses properly chargeable against the profits of note circulation are : extra transportation costs, and salaries for extra work.

To creat a vacuum for its own notes to fill every branch bank collects and sends in for redemption all the notes of other banks on which it can lay its hands. For branches outside of the reserve cities there is here the expense of continually shipping these notes to a point where redemption will be made and a loss of interest until the funds are actually collected from the respective issuing banks. The branches of a bank which are always shipping in sundries must be supplied in return with the bank's own notes. There is, therefore, going on all the time in Canada a cross flow of currency—notes coming into the centres for redemption ; with others exactly similar going out to take their places. The cost of this cross-flow is an expense peculiar to the asset currency system. It sometimes happens that this double transportation cost is incurred for the sake of a note circulation lasting only a couple of days. In a great many instances, however, when the notes issued by one branch wander far afield they drift into the territory of a second branch ; when this occurs, economies in transportation are often effected.

It is not intended here to draw the inference that these and other expenses outweigh the profits derived from the Canadian bank-note circulation ; the fact that the business, with its attendant expenses is vigorously pushed to the limits authorized is proof to the contrary.

The branch manager's incentive in actively withdrawing from circulation the notes of other banks and replacing them with those of his own, is to get credit with his head office for being influential in increasing the bank's circulation. Diligence and zeal exercised in this direction are noticed and rewarded promptly, just as the same qualities are rewarded when through their employment the bank's deposits are increased or its loans extended.

In Canada, then, there is direct profit derived by each bank from the process of withdrawing from circulation the notes of its competitors. This point should be noticed ; it will be referred to later.

As to the exact proportion of these transportation expenses deserving the term extra, that can be arrived at readily by American bankers familiar with their own expenses for transporting currency under the present system.

Next, as to the manner in which the Canadian bank-note circulation entails additions to bank salary lists. In the reserve cities the laborious daily sorting out of every dollar of cash receipts calls for extra work in the telling boxes. Every day in each busy bank, twenty, fifty, a hundred thousand dollars and more in fives and tens must be divided into from ten to twenty-five bundles—every bank note sent into the bank that issued it or into its redemption bank. Then there is the signing of new notes, and the care of worn-outs; in the head office of a good sized bank these duties will provide steady employment for a senior officer for six months or more in every year.

The foregoing comprise the chief costs and expenses chargeable against the profits earned by the Canadian bank-note circulation; concluding them, it should perhaps be mentioned that it is the custom of the banks to lend on the New York call money market a portion of the funds derived from their note circulation. Especially is this the case when note issues expand violently during crop-moving time. New York is selected, of course, because the funds can be readily called in without creating disturbance. The fluctuations in New York call rates have therefore some influence on the profits from bank-note issues in Canada.

In maintaining a note issue consisting of asset currency the isolated banks of the United States would work at a disadvantage compared with the branch banks of Canada—first, in the matter of securing notes. The peculiar circumstances prevailing in Canada makes it possible to secure the bank circulation by means of a deposit with the Canadian treasury of five per cent. of the total note circulation—the banks receiving three per cent. interest on this deposit and undertaking to replenish the fund whenever it is impaired. As the notes of failed banks are a first charge on all its assets, the liability to loss is not considered of moment. Through the Bankers' association, supervision is exercised over the note issues of all the banks. On account of the vast number of banks in the United States that must participate in any note-issuing scheme, American bankers quite naturally would prefer to secure the general note circulation by means of a safety fund accumulated from annual payments by each bank, of one-eighth per cent. or more on its average circulation—this contribution made, the liability of solvent banks for notes of failed competitors to cease. Such an annual contribution would be a disability from which the branch banks of Canada are free.

Next, the cost of the redemption agencies which would be necessary to keep the new asset notes floating at par all over the United States must be considerably enhanced when there does not exist in the different districts numerous friendly branches to take care of and utilize such notes as come into the neighborhood.

The new addition to the country's currency would be a hopeless mixture; the labor of sorting out, finding and making presentation to the redemption agents, or the issues of the notes would be unending. Instead of thirty-five banks issuing notes, as is the case in Canada, there would be thousands. In a teller's receipts for the day there would be the notes of many hundreds of banks, scattered singly or in twos and threes throughout the pile. If redemption is to proceed as it should proceed, the labor and cost of the sorting out, and of the long journeys necessary to see the notes to their respective homes, would have to be faced. It could not fail to be greatly in excess of what Canadian branch banks are called on to pay.

Under these circumstances, it is at best an open question whether or not the trouble would be taken to force redemption. Unless there is profit to be gained it seems likely that trouble and labor would be avoided. In Canada, as we have seen, each bank gains directly through shoving its own notes into the vacuum caused by the withdrawal of those of its competitors; but if an American bank is already circulated to the maximum, as many of them undoubtedly would be throughout the year, there would be nothing to gain from the withdrawal and redemption of other banks' notes. The probability is that in seasons of pressure for currency the asset notes would be kept in the vaults of banks that received them, and paid into circulation again as the occasion arose. This would be quite right and proper and would be meeting the very emergency for which the new notes were devised. But what would happen when the currency was over-plentiful? Would not the country banks ship these notes, indiscriminately mixed with other currency, to reserve banks