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APPENDIX.

NOTE A.

The reason generally assigned for giving note-holders a first lien on assets is, that bank notes, although not legal tender, are taken in payment of debts by a great many people as a matter of necessity. Theoretically, no one is compelled to accept a Canadian bank note; practically, notes on banks of supposed solvency are accepted as freely as gold or silver. On the other hand, no one is compelled theoretically or practically to deposit his surplus capital in a bank. It is entirely a matter of choice with the depositor whether he places his money in a bank or invests it some other way. This is the usual argument for preferring note-holders before other creditors. Against this may be quoted the following from the recent report of the Comptroller of the U. S. Currency: "The issue of preferred notes . . . would probably cripple fatally the general credit of the bank with prudent depositors. . . It is much more important to the banks as a body to retain and augment their deposits than to acquire the power to issue more currency, and the public have even a greater interest than the banks in the preservation of this condition of things, because the credit that attracts deposits is always better founded than that which floats currency, and is also more jealously guarded by the banks enjoying it, and is therefore less likely to be abused. It is, indeed, doubtful whether any really strong and prudent banks would like to risk their credit with depositors by issuing notes as a first lien on their assets. . . . In times of panic now banks (American) have to take care of their depositors only, . . . but when there is no special security behind these notes the case will be very different; every rumor of monetary trouble will bring both note-holders and depositors clamoring for payment, and just when there is most need of money to pay them with, the currency will be contracted by the discredit of national bank circulation." (Pages 123-4.)

It can scarcely be said that our experience of the first lien principle has been such as to fulfil the forebodings of the Comptroller. It is true that depositors have lost heavily in some instances, but it is equally true that "strong and prudent" banks have experienced no difficulty in securing very large deposits in spite of the operation of the first lien principle.

NOTE B.

The following from Laughlin's recent manual on Political Economy, will explain why banks in certain large cities require to maintain a larger reserve than fifteen per cent. of their deposits: "Certain cities named by Congress are called reserve cities, and all banks in these places are required to keep a reserve on hand equal to twenty-five per cent. of their deposits. Banks outside of

Reserve cities = 25% reserve of deposits
for redemption -