of the other banks which were presented to it, charging them to the account of the issuing bank. In payment, the Suffolk Bank received from any bank in the system the notes of other New England banks in good standing. Whenever the Suffolk Bank received the notes of any bank not in the agreement they were immediately returned to the bank of issue for redemption in specie. In this way the Suffolk Bank acted as a central clearing house for the note issues of the New England banks, charging to each bank the amount of its own notes redeemed and crediting it with the notes of other banks turned in. Any bank which remained outside the system found it impossible to circulate its notes beyond its own locality, for they soon found their way into some bank in the system and thus were presented for redemption by the Suffolk Bank.

This system operated through the self-interest of the banks, wholly without legal enforcement, except that after 1845 Massachusetts enforced the system by forbidding any bank to pay over its counter any notes but its own. As regards legal regulation the New England banks were remarkably free from restraint. Their charters were issued by the several states under no general plan. About the only point of uniformity was the permission to issue notes without special security of any sort. Note holders in most of the states did not even have a prior lien on the assets of the banks, but were on exactly the same footing as depositors and other creditors. The legal limits to the amount of the circulation were so liberal as to leave the banks practically unrestrained in this respect.

And yet, in spite of the absence of nearly all the legal regulations commonly supposed to be necessary to sound banking, the banks of New England furnished for twenty years a credit currency recognized by contemporary critics and students to-day as worthy of the highest praise. The absence of any practical limit to circulation did not lead to inflation. In fact the actual circulation never even approached the legal limits. In 1835 the total circulation of the New England banks was 27 per cent. of the maximum allowed by law; in 1840, 23 per cent.; in 1850, 40 per cent.; and in 1860, 36 per cent. The absence of special security or other legal restriction in the interest of note holders did not prevent the circulation being safe, and the losses remarkably small. Of course there were failures (as there are sure to be under any system) especially after the panic of 1837. From 1840 to 1860, 47 New England banks failed, having a total capital of $6,295,301; circulation of $3,536,350; deposits of $1,691,554, and assets valued nominally at $11,157,973. The total loss to note holders was about $880,000. This was an average annual loss of $42,000, as compared with an average annual circulation of $33,148,000. The losses to note holders, then, amounted to about one-eighth of one per cent. of the circulation. The circulation of the New England banks was not only safe. It was elastic and convenient. Its volume corresponded to business needs. Customers received credit either in notes or deposits as they preferred. The system commanded the universal satisfaction of its users.

As another illustration of the benefits conferred by asset currency the Canadian system is described. Professor Fairchild has an accurate conception of the working of our system, the only error noticeable being the statement that "Essentially the present system was adopted in 1890." Though the Canadian banks are now working under the "Bank Act of 1890" the system was in vogue for many years before that. Many of the essential features of the present system were present even before the Bank Act of 1870 was passed.

His summing up of the effect of the Canadian system follows:

Under this system Canada has for many years enjoyed a currency possessing in a high degree the qualities of safety, elasticity, and convenience. The freedom of issue without special security guarantees that notes will always be forthcoming in response to business needs. The annual handling of the crops gives rise to exactly the same need for an elastic currency in Canada as in the United States. But in Canada the need is met. A glance at the diagram on a preceding page will make this clear. Every year between midsummer and October the Canadian bank circulation expands by about $15,000,000, or roughly 30 per cent. Having reached this maximum and performed its duty, it contracts even more rapidly, reaching its minimum in January. No better evidence of elasticity and the absence of inflation could be presented. The comparison with our own inelastic currency is significant.

Under the efficient system of redemption, and spurred on by the competition of the banks, the Canadian notes are redeemed daily through the clearing houses of the large cities and very promptly through the branch banks in the country districts. It is this that gives elasticity and prevents inflation.

The redemption fund and prior lien on assets make the notes absolutely safe, and the payment of interest between the date of suspension and final settlement prevents the depreciation of notes of suspended banks. Although a number of chartered banks have failed since 1890, in not a single case have the note holders suffered loss or inconvenience. In fact there has not yet been a case where it has been necessary to resort to the guarantee fund held by the government.

Professor Fairchild next proceeds to the discussion of remedies and points out the difficulties in the way. Any system that involved the immediate abandonment of the bond-secured notes would probably result in causing a loss to the national banks of some $150,000,000 on their present investments in government bonds, and therefore, could not be seriously proposed.

All the bonds are above par. Even the two per cent. bonds are between 104 and 106, a valuation obviously not made on the basis of earnings. Any change which took away from the bonds their function of serving as security for bank notes would remove this artificial premium. Two per cent. bonds would fall to the neighborhood of 70 or even lower. British consols paying two and one-half per cent. are quoted between 85 and 87, which places them very nearly on a three per cent. basis. French rentes at three per cent. and the German Imperial three per cent. loan are both below par. If our two per cent. bonds fell to a three per cent. basis they would be worth exactly 66 2-3. On their holdings of 510 millions to secure circulation, quoted to-day at about 105, the national banks would lose 195 millions. If the bonds fell only to 75, the loss to the banks would be 153 millions. This, moreover, is the loss on the two per cent. bonds only. Needless to say, the national banks would unanimously oppose such a change, and since they have been compelled to purchase bonds at artificial prices as the condition of issuing notes, their opposition would undoubtedly be justified.

There is one way, it is true, by which this difficulty might be avoided. The rate of interest on the consols of 1930 and the Panama Canal loan might be raised to three per cent., or whatever figure would prevent the bonds falling below par. If this were done at the same time that the bond-secured notes were done away with, no injustice would result to the present holders of the bonds. This proposition, however, has not as yet met with enough favor to make its consideration more than an academic problem.

The paper next outlines the remedies proposed by the New York State Chamber of Commerce in October, 1906, and by the American Bankers' Association in the same month, also the features of the Fowler bill, which took the latter proposition as a basis. The essential features of the Fowler Bill and Professor Fairchild's opinion as to the merits of the suggestions are given as follows:

(1) Any national bank, having been in business not less than one year and having a surplus of at least 20 per cent. of its capital, to be allowed to issue "National Bank Guaranteed Credit Notes," without security, to the amount of 40 per cent. of its bond-secured circulation, but not exceeding 25 per cent. of its capital. These credit notes to be taxed at the rate of 3 per cent. Provided that "if at any time in the future the present proportion of the total outstanding unmatured United States bonds to the total capitalization of all national banking associations in active operation shall diminish, then the authorized issue of national bank guaranteed credit notes shall be increased to a