

The State Banks.

The state banks of the United States—including in that term all the institutions outside the national banking system—do a business very nearly equal in volume to that done by the national banks. The total deposits of the two groups are almost the same in amount. But the state banks are not as strictly limited in their operations as are the national banks, especially with respect to the amount of legal money reserves that must be held against deposits. There are, indeed, strict requirements with respect to reserves in several states—especially in New York and Massachusetts where trust companies and state banks are required to hold substantial reserves in cash—but the requirement is usually for such a small amount of cash as to be useless. The state banks, as a rule, may manage their cash holdings in such a way as will secure most profit for them. This means that they reduce their reserves to the smallest minimum that is consistent with safety. Therein they follow the procedure of the English joint-stock banks. Like these English banks they keep deposits with other financial institutions, to which they turn in case of emergency. The national banks of New York especially, have acted as the custodians of the reserves of state, as well as of national banks.

The whole American system of deposit banking has thus brought in the past, a great concentration of responsibility upon the national banks of the reserve cities, and especially of New York, Chicago, and St. Louis, but particularly of New York. The national banks of New York have occupied a position similar to that of the Bank of England; they have been the depositories of the really available stock of free cash, and therefore the nerve centre of the whole sensitive system. Naturally, a panic in New York has meant imminent danger to the whole line of national banks allied with that centre through depositing part of their reserves there. There has been a bold attempt to remedy this situation, and to reduce the dangers inherent in it, by decentralizing the reserves of the nation under the Federal Reserve Act. The plan adopted will be explained in detail when we come to consider the changes in the national banking system effected by that Act.

Money at Call.

The funds which reach New York banks as the deposit of "reserves" of other banks, are put to such uses as will yield a reasonable return, while at the same time they remain available to meet any sudden need for them to take care of home requirements. These bankers' deposits are peculiarly subject to large and sudden drafts; hence each New York bank holding them tries to keep a large volume of assets within instant com-