for specie; to drive specie from the channels of circulation, and leave only a trace of it in the vaults of the banks. It is idle to talk of convertibility, in connection with anything copied from the national bank system of the United States.

A closer inspection of the organization of the national banking associations will remove any possible doubt that could exist on this point. The last annual report of the comptroller of the currency, published on the 7th December, 1868, presents us with a general view of these banks, and their internal operation, to the 30th September previous. A national bank before going into operation, is required to deposit with the government, United States bonds to secure the ultimate redemption of its note circulation. For every one hundred dollars so deposited, it receives, in return, legal tender notes to the amount of ninety dollars. In other words, the bonds deposited exceed in amount ten per cent. of the notes it receives for circulation. On this basis, the banks commence. This proportion may, in time, become somewhat disturbed by a number of the banks going into liquidation, voluntary or forced. At the date to which Mr. Hulburd's report comes down, the aggregate paid up capital of the national banks was four hundred and twenty-six millions, one hundred and eighty-nine thousand, one hundred and eleven dollars ($426,189,111), and the bonds on deposit amounted to three hundred and forty-two millions, nineteen thousand, nine hundred and fifty dollars ($342,019,950). In other words, the national banks, all taken together, had loaned to the government, in this form, about four-fifths of all their capital. In return, they had got legal tender notes, to be used as currency, to the amount of three hundred and nine millions, nine hundred and fifteen thousand, one hundred and sixty-six dollars ($309,915,166). The actual circulation was, however, reduced, by the process of liquidation, some ten millions below the amount of notes originally issued; bringing it down to two hundred and ninety-nine millions, eight hundred and six thousand, five hundred and sixty-five dollars ($299,806,565.) It is evident that these proportions are altogether incompatible with a specie basis; and that would have been a sufficient reason, if there had been no other, why no attempt was made to introduce into the system the element of convertibility.

The question is not whether, speaking in round numbers, a reserve of gold equal to one-fifth of the capital of a bank is sufficient to maintain the convertibility of a note circulation equal to the remaining four-fifths; for if that proportion were sufficient, in any case, it could only be when the bank was at full liberty to make the best use of its resources; and that condition is wanting when it is obliged to commence by a loan of four-fifths of the whole amount of its capital to the government. It is quite useless, in this discussion, to point to instances where, the conditions being wholly different, convertibility has been maintained on a minimum reserve of gold. It is true, the government gives the bank, in return for its loan, legal tender notes in the proportion of one hundred to one hundred and ten; and these notes having a forced circulation every where within the country, may serve its purposes so long as holders cannot demand gold for them; but if there should be one place—the counter of the bank—where specie could be demanded for them, the whole conditions would be so changed that the colossal machinery of the national banks would come to a stand-still. It is the circumstance of the notes having a forced circulation that invests them with effective utility for the purposes of the banker. Deprive them of their character of a legal tender, at the counter of the bank, by making them exchangeable into gold, and it would be found that convertibility could be effected only through liquidation, in which case the loan to the government would be returned by a sale of the bonds deposited.

THE QUESTION OF SAFETY.

IV.

If the national banking system of the United States is not a safe one, it has confessedly nothing whatever to recommend it. It has led to speculation on a gigantic scale; speculation which partakes of all the worst features of gambling, and is a great source of danger, both morally and financially, and by it the public mind is being debauched. The comptroller shows the nature of the loans made and the speculations encouraged, in the city of New York, by the National Banks. The total amount of their loans is one hundred and sixty-three millions five hundred thousand dollars ($163,500,000). Of the whole amount, only nine-sixteenths, or rather more than half, goes to discount business paper; the rest is used for gambling speculations in gold and stocks. The comptroller is led, by official data, to the conclusion that "nearly one-half of the available resources of the National Banks, in the City of New York, are used in the operations of the stock and gold exchange; that they are loaned upon the security of stocks which are bought and sold largely on speculation, and which are manipulated by cliques and combinations, according as the bulls or bears are, for the moment, in the ascendancy."

The loans on call, of which the proceeds are used for speculation, appear to absorb the entire amount of the deposits. If there is not direct and positive proof of this, there is the remarkable coincidence that, on a given day—the day to which the official report of the comptroller comes down—the deposits held by the New York banks amounted to sixty-eight millions five hundred and twenty-nine thousand four hundred and seventeen dollars, ($68,529,417) and the call loans to sixty-eight millions five hundred thousand dollars, ($68,500,000). It is true these loans are made on the security of bonds of one kind or another; but that does not justify the reckless extent to which they are carried. Let the reader try to conceive what would happen in a panic that should greatly reduce the market value of all these securities, and render many of them altogether unsaleable. And even this is not all. Besides the direct loan of seventy millions for gold and stock gambling operations, the banks create a fictitious daily credit of from one hundred and ten to one hundred and twenty millions, by means of cheques certified to be good, when the drawers have no cash deposits to meet them. Some of the banks, we are told, deprecate the practice, and look with anxiety and alarm to the final issue; but they are all involved in the danger. The failure of one or more institutions, through reckless management, would endanger the whole. The comptroller traces the incentive to this mad speculation to that feature of the system which relieves the banks from the obligation of providing for the payment of their notes in specie, on demand. It is quite certain that the dangerous expansion of credit which fosters and sustains this speculation would be impossible if the paper issued by the banks were liable to be returned on them for specie. The necessity of being obliged to meet the demand for specie, in exchange for notes, is a great and salutary regulator of the currency. It has a constant tendency to keep discounts within the limits of actual transactions; for notes issued in excess of that limit, and for mere purposes of accommodation and speculation, return to the issuer almost immediately. They are not absorbed by the employment of labor, or in any other way carried into the circulation. It thus happens that specie-paying banks have very little power to inflate the currency beyond the legitimate demands of business. And, practically, when under no artifical restriction, and no monopoly is encouraged, they have almost as little power to contract it beyond that limit. If one bank fails to issue up to the maximum point at which a convertible paper currency can be maintained, another steps in and fills the vacancy. But where the check which convertibility imposes is wanting, excesses of all kinds receive the utmost license.

We must conclude, then, that the National