

turer, who has sold him agricultural implements on credit—the debtor is unable to meet the payments agreed upon, and his creditors are consequently unable to discharge their obligations, and their creditors likewise, and so on. The shock of the crop failure is thus transmitted throughout the whole business world, just as the shock of a stone falling into water from a height is transmitted in widening circles throughout the whole expanse. As a result everybody, except perhaps the banks, ceases to give credit, and demands ready money for whatever he sells. Confidence, and with it credit, has departed, and as a consequence the business of the country contracts, bringing hardship to many and bankruptcy to some. Such a condition is known as a business depression or a “crisis.” Its most disastrous effects may be avoided or at least minimized by the granting of credit by our banks to all those entitled thereto, i.e., to people who are really solvent but who are unable to realize on their property at the moment, and may thus be forced into bankruptcy. This is one of the greatest services the banker renders to the community.*

The Bank and Its Functions.

“A bank may be described in general terms,” says Dunbar, “as an establishment which makes to individuals such advances of money or other means of payment as may be required and safely made, and to which individuals entrust money or the means of payment when not required by them for use.” That is, its business is to make loans and to receive deposits. These are the essential functions, but in almost all countries some or all of the banks have the additional function of issuing notes—promises to pay which circulate practically on a par with money and are considered just as good as money. Sometimes these notes are legal tender, as in the case of the Bank of England’s notes. Sometimes, as with us, they are

* Of course, a bank cannot in its own interest afford to jeopardize its financial position by unduly reducing its reserves in a “crisis” in order to help even its best and most solvent customers.