and to the various sub-treasuries, and be locked up in safes. That was found to be an unsatisfactory proceeding, because it took money out of circulation. This was the period of State bank notes or "yellow dog" currency. Anybody could start a bank in the States and issue circulating notes. The laws of the States were various; there was no uniformity at all. A few of the States, such as Louisiana had very good banking laws. There was a strong bank in Wisconsin known as George Smith's bank. The State Bank of Indiana was a very good institution. But as a rule, parties who held notes issued by State banks would find that the value of those notes varied directly with the square of the distance from the office of issue, so that a man working his way from Louisiana to New York with his pocket full of notes issued by a bank in Louisiana by the time he got to Tennessee, would find his notes at a discount. He would trade them off and get Tennessee notes, then when he got to Virginia he would find that they were again at a discount, so that when he got to New York he would find the amount of his pocket money considerably reduced by reason of these successive discounts.

The country muddled along up to the time of the Civil War with State Bank notes as the main circulating medium. There were many bank failures in 1857, when there was another financial panic, and the note holders, as well as depositors lost their money. Then the Civil War came on, and the United States Government was hard put to it, to find money to meet the expenses of the war. Bonds bearing interest as high as 7.3 per cent were issued, the gold standard was abandoned and governmental expenses were met in part by the issue of Treasury notes or "green backs" as they were called, which although fiat money, were made by law legal tender for all debts public or private except customs. Despite the high rate of interest they bore, bonds went to a heavy discount and the green back dollar at one time had a value of only 40 cents as compared with the gold dollar. As the war progressed, it became increasingly difficult for the Government to sell its bonds and during the year 1863, legislation was enacted which provided for the charter by the government of National banks which were given the privilege of issuing circulating notes against the security of United States bonds. At first the banks were allowed to issue notes only to the extent of 90 per cent of the face value of the bonds held, but later on when the bonds went to par or a premium, the law was changed so as to allow the banks to issue notes up to the face value of the bonds. These National banks notes were not made legal tender, but as the issuing banks were required to keep a redemption fund with the United States Treasury which also held the bonds against which the notes were issued, they circulated everywhere on a parity with the paper money issued by the Treasury itself. In 1866, Congress enacted a law imposing a tax of 10 per cent upon the circulation of state bank notes which forced their retirement.

The volume of National bank currency at the time of the outbreak of the World War was about 770 million dollars. These notes were issued by over 9,000 National banks throughout the United States, all against the security above described. The chief merit of the National Bank notes was that they were a National currency, worth as much 2,000 miles away as at the domicile of the issuing bank and that they were just as good, even though the bank had failed, as if the bank was solvent and doing business as usual, because the Government was back of them, and would redeem the notes out of proceeds of the sale of bonds held as security. National bank notes had one fatal defect, however, which is inherent in all bond-secured currency, that is, they were totally inelastic; they could not expand or contract in accordance with the demands of trade and commerce. They were a fixed quantity; and their volume depended primarily upon the supply and the price of United States bonds.

[Mr. W. P. G. Harding.]