

*elastic. On the other hand, by the very nature of the government, by the fact that it is not a bank, it is impossible that it should know how much circulation the country needs, when to increase and when to contract it. This was seen as long ago as 1790 by Alexander Hamilton, when he said: "Among other material differences between the paper currency issued by the mere authority of the government and one issued by a bank payable in coin is this: that in the first case there is no standard to which an appeal can be made as to the quantity which will only satisfy, or that which will surcharge the circulation; in the last, that standard results from the demand. If more should be issued than is necessary, it will return upon the bank." This should be kept in mind in considering the retirement of United States government currency in favour of bank notes.*

#### *Advantages of System.*

There are, however, great compensating advantages. These are to be found in (1) the creation of a general discount market for commercial paper; (2) the systematic pooling of reserves of existing banks; and (3) the provision of an elastic currency.

Hitherto American banking has been too largely an agency in the service of speculation. This is borne out by the following considerations: (1) the interest rates controlling the flow of gold out of the United States have been dictated by the call loan market, not by those prevailing in the commercial discount market; (2) the funds which the banks desired to have ready to hand have been customarily invested in demand loans on stocks rather than in quick commercial paper or short-term foreign exchange; (3) in times of crisis or pressure the banks have shortened loans in the country instead of, as in other countries, enlarging them to accommodate legitimate borrowers. Their primary purpose, hitherto, seems to have been the upholding of the stock market, in a period of pressure.

The new act changes these conditions by (1) transferring a small but necessary fraction of the ultimate reserve of the national banks to government-inspection institutions, located in various parts of the country, where they will be responsive to, and in sympathy with, business necessities. It prescribes by rigid rules that these funds shall be applied solely to commercial needs, and to nothing else, the loans being narrowly restricted in term and character; (2) it broadens the methods of doing business allowed to national banks, so far as relates to investments in legitimate commercial paper, and narrows