that the reserves held by our banks are generally enough for ordinary transactions, though they do not provide for the case of insolvency. The banks are allowed to issue up to the amount of their paid up capital, and no moderate reserve would sustain the credit of such an issue, after the bank suspended payment. The holding of any reserve, much short of the entire circulation, must therefore be rejected on the ground of insecurity, or rather because it would not produce that public confidence which is as essential as the real and ultimate goodness of the notes.

But we have seen that the assets of our banks are quite sufficient when realized, making all allowance for losses in collection, to cover their note indebtedness several times over, and have considered whether making the notes a first lien on such assets would not be sufficient security. This we rejected, not because it would not provide for ultimate payment, but because we feared it might not prevent temporary depreciation during liquidation. Such a provision, if enforced in addition to the holding of a moderate reserve, would however give perfect security to any party who could afford to await the out-come of a liquidation.

Now the proposition the writer wishes to advance is this. Let the government compel all banks to hold a moderate reserve, take a first lien on all their assets, and then undertake to guarantee note holders against any loss by the failure of any bank. The most natural way of affording this guarantee would be for the government to print the notes, in the name of the different banks, and with a guarantee endorsed, and to issue them to the banks, within certain limits proportionate to the extent of their resources, as such bank might require them. The government would thus become responsible to all note holders to the full extent of the circulation, and it would have as security the reserves held by the banks to whatever extent might be agreed on, say one quarter of the issue, and a first lien on all the assets of the banks for the balance. Such a plan would certainly secure note holders perfectly, as the goodness of the notes would be affected in no way by the financial position of any bank. Consequently there would be no "run" of note holders on weak banks, and one of the chief causes of bankruptcy, and consequent loss by hurried liquidation, would be removed. When a