the market value if it is less than par. The bonds protect the notes if a bank should fail, or if it should withdraw from business. In addition to this security for eventual repayment, each bank must keep at the Treasury a cash fund equal to 5 per cent. of its circulating notes, to provide for their immediate redemption if presented. This is a redemption fund, be it noted, and not a guarantee fund, such as the Canadian banks keep at Ottawa.

Each individual national bank may issue notes only up to the amount of the bonds deposited, and the maximum is limited by the paid-up capital. The changes with regard to note circulation under the Federal Reserve Currency Act passed in 1913 will be later described; it suffices, in the meantime, to say that under this act provision is made for a greatly extended note circulation on the basis of discounted commercial paper.

Security of National Bank Notes.

Through this strict regulation, national bank notes are made secure beyond any question. Their redemption in legal tender money, owing to the compulsory system of reserves, is no less sure. Hence, the notes circulate freely, and with little likelihood of being presented by the public to the issuing bank, for redemption. Not only every individual, but every bank, treats them as safe currency, and pays them out in the ordinary course of business. Hence, presentation of the national bank note for redemption at the counter of the issuing bank, rarely takes place. Nor does presentation take place with regularity at the National Treasury, where the five per cent. fund for redemption is kept. Thus, when national bank notes are once put into circulation their tendency is to remain there.

In addition, the national banks are anxious to keep the notes in circulation once they have bought the bonds for their protection and deposited them with the Treasury. It costs something to buy bonds, and it may involve a loss to sell them. These factors have operated in giving the United States a perfectly safe bank note currency, but also a very inelastic one. In other words, the currenc yhas hitherto lacked the capacity to expand or contract, according as the conditions of business demand. The Canadian bank note, on the contrary, has the element of elasticity to the highest degree. As no special security is pledged for its support the bank does not hesitate to redeem it when occasion requires, or when it is obliged to do so through clearing house transactions.

> *The gravest defect in the national banking system has been the lack of elasticity in the note circulation. The demand for money in that country*