

other banks  
= 15% reserve

these cities (known as "country banks") need keep a reserve of only fifteen per cent. of their deposits. Then the country banks may put three-fifths of their reserves on deposit in some bank in a reserve city; and banks in a reserve city may keep one-half of their reserves in a bank in New York city, the place of the central reserve. (Note.—An Act has just been passed by Congress to establish other central reserve cities)." (Pages 341, 342.)

## NOTE C.

Referring to the difficulty of obtaining bonds as a basis of national bank circulation, the Comptroller remarks: "One effect of this condition of things is to make the obligation to deposit bonds a serious obstacle to the formation of new banks in the sections where they are most needed, and to the increase of capital on the part of those banks of which the capital does not already exceed \$150,000.

"The public needs and demands a continual increase of banking facilities, and to supply those facilities it is necessary to have not only more banks, but banks in a greater number of localities, and also some increase of capital among banks previously established.

"The need of such increased facilities is co-extensive with the country, but it is most pressing in those sections where the growth of population and the expansion of industry are year by year outstripping the measure of accommodation afforded by local capital.

"To such communities the national bank system affords opportunities otherwise unobtainable for bringing to the development of their resources supplies of capital from the remote centres of cheap and abundant money; hence, any obstacles to the growth of this system in our newer States and Territories is a more serious matter than it is elsewhere.

"Another effect of the laws as they now stand is to deprive the national bank circulation of the little elasticity possible to it, because the volume of this circulation varies with the amount of bonds held by the banks, and not only are bonds too scarce and dear to be freely bought and sold, but the inducement to banks to reduce their holdings of bonds to the minimum prescribed by law is constant and of growing intensity, while there are no inducements to an increase of such holdings; consequently there is neither elasticity nor steadiness in the volume of bank notes, but only a continuous contraction of circulation that year by year more than overcomes the annual expansion due to the formation of new banks, and keeps the public mind in a state of feverish anxiety, always easily excited into alarm.

"Still another effect is to render the banks very sensitive to every system made towards reducing the bonded debt of the Government." (Page 125, Report.)