which are most used, and most characteristic of banking operations. Then, whether the customer chooses to use checks and transfer his deposit to another person without taking the funds from the bank; or, whether he finds his needs best served by taking notes of the bank away in his pocket—is settled merely by the wishes of the borrower, and not by the will of the bank. The amount of the loan being fixed it then makes no difference whatever to the bank, so far as its profit is concerned, whether this credit to the borrower takes the form of a deposit, or of a withdrawal of its notes. Both are equivalent demand-liabilities of the bank. A note is a promise to pay on demand; so is a deposit. Either one means that its holder refrains from demanding actual money from the bank, the deposit or note answering all his purposes. Large city banks have customers who scarcely ever use anything but deposits and checks, who never call for notes; and yet, without issuing notes, these banks make a profit quite as well as any note-issuing bank. It must be evident, at once, that the privilege of issuing notes is not in itself the means of profit; but that the profit arises out of the process of discounting, or lending.

On the other hand, in some parts of the country checks are little used. To make payment one needs a form of money that will be taken irrespective of any knowledge of the signature on the check, or of whether or not the signer has a deposit in the bank. And if the transactions are for small sums, for retail trade, or payment of wages, checks are not always convenient, especially if, as in rural districts, a bank is not close by. Under these conditions, a borrower at a bank will usually ask for that means of payment which his situation and the business habits of his community demand. If he cannot get it in that form, his loan is ineffective. Hence the habits of the community determine which form of liability the bank will make use of; it is not determined by the will of the bank. If the latter is not able to conform to the business habits of its customers it cannot loan in that district. In the interest of borrowers, therefore, a proper banking system should be so ordered that it can adjust itself to the needs of its constituency. If banks are given perfect freedom in conducting their business, whether they issue notes or not is a question merely of convenience to their customers; to a large city bank the privilege of issuing notes is of almost no advantage.

GOVERNMENT SUPERVISION OF BANKS.

The government does no more in the matter of supervising the issues of a bank than it does in coining bullion into money. In the latter case, it certifies to the fineness and weight of the metal in a given coin; it does this not for the bullion owner, but to save the public the inconvenience and delay of weighing and testing the metal at each exchange of goods and money. In the same way it provides a banking system, decides how the notes should be secured, redeemed, and the like, not in the interest of the banks, not even to protect note-holders against loss; but to save the public the inconvenience and delay involved in examining into the security of each note; for it is only when bank notes are issued under such a system that it is unnecessary to examine into the circumstances of each individual bank that they can attain their greatest usefulness. If, also, there is free banking, so that any body of reputable men can form a bank under the general law, banking is not a monopoly; and the bank which is unwilling to issue its notes under a system that is safe and wise for all, thereby indicates that, if permitted, it might issue its notes under methods little likely to bear inspection and with the evident result of loss or inconvenience to the public.

How truly the properly regulated issue of bank notes is really in the interest and for the convenience of the public may be seen by taking a simple illustration of those needs of a community which lead to the organization of a bank.

Suppose the case of a farmer who desires to market his crop. His prospective purchaser has not the immediate funds in hand with which to purchase the farmer's products. He offers to give his note for some amount (say $1,000). The farmer, however, wishes to use the proceeds of the sale of his crop in paying the expenses which he has incurred in raising it. The credit of his purchaser is undoubted, so that the farmer's creditors would unquestionably accept the note of the purchaser in payment. In order that the claims may be all satisfied, the farmer proposes to accept instead of one note for $1,000, one hundred notes for $10 each, and for the privilege of having them payable on demand, he proposes to forego the interest upon them. In such a case the purchaser of the produce might take the goods upon these terms, and if his total property, upon which the notes would become a lien, was formerly $10,000, he would then have $11,000 as security for the notes—that is to say, his original $10,000 and $1,000 in property additional.

The illustration may be carried further: Suppose the merchant who purchased the farmer's crop were to extend his operations and to purchase the products offered for sale by nine others, giving on each occasion one hundred notes of $10 each. The merchant has now outstanding one thousand promissory notes of his own of $10 each, making $10,000 in all. These notes are all payable on demand, and have been given by the farmers who received them to their creditors in payment of debts.

The notes being payable at the wish of the holder, are likely to be presented at any time. To enable him to meet the notes as they are presented, the merchant has the original $10,000 of property with which he started, and in addition ten different lots of produce worth $1,000 each or $10,000 in all. We may assume that on a certain day, a month after the notes were given, fifty of the holders of the notes, finding it desirable to obtain money, for the purpose perhaps of paying taxes, present the notes for payment. The merchant, foreseeing the probability of this event has, in the meantime, converted either a part of his capital, or of the goods purchased, into coin (as a reserve to meet demands). He is thus prepared to meet the fifty notes, and when presented he pays for them $500 in cash and destroys them. In such a way as this, a community otherwise devoid of a medium of exchange, might derive great help from the creation of such a currency, which converts property into means of payment. The farmers have been able to market their crops and obtain the means with which to satisfy their creditors without sacrifice. Had they not been able to obtain from the merchant the titles to immediate means of payment, it might have been necessary to sell their products at a heavy loss.

BANK DEPOSITS.

So far it has been assumed that the deposits of a bank come into existence when other persons leave their funds with the bank; and that the banks can lend the portion over and above the sums needed for reserves. But this is by no means the origin of the principal sums which swell the deposits to very considerable, or even surprising, figures. It seems, at first, paradoxical to say that in the main deposits do not result from the bringing of money to a bank. And yet it is literally true. This is indeed one of the things most necessary to understand about a bank, because it is thus only that we can comprehend how a bank creates a most effective currency without issuing any notes. No progress can be made in getting correct views of banking and currency until we grasp the fact that banks are not confined to issuing notes when they wish to create a medium for the exchange of goods. Indeed, in no other way, can one clearly see how large city banks, without issuing a single note, can supply their customers with a perfectly satisfactory medium of exchange. Such a currency is readily supplied through the deposits of a bank, on which checks are drawn.

A manufacturer may have a stock of hardware, and yet he needs a means of payment at the present moment. If he has sold goods on ninety days' time, and needs means to pay a note maturing tomorrow for materials used in his