

factory, he can present his evidence of sale of this property to a bank and get it changed into means of payment. The value of goods expressed in terms of money (the common denominator) is by the bank converted into means of meeting obligations, so that goods may be exchanged against goods. This is the pre-eminent service which the banks render to society. The process is simple. The sale of the goods creates a bill drawn on the purchaser for, say, ninety days; the manufacturer takes this claim for a given sum due in the future, and sells it to the bank in return for the right to draw on the bank immediately. That is, the loans of the bank (on the side of resources) are increased by this bill; and a deposit on the liabilities side is credited to the borrower. Now it by no means follows that the borrower (who is now technically a depositor to the amount of his loan) will take his deposit away. All he wishes is that the value of the goods sold may be utilized in the form by which he can pay tomorrow's maturing note. By drawing a check on the bank in favor of his creditor he transfers to another the right to draw on demand, and his debt is paid. The granting of the loan by the bank depends upon the borrower's possession of or capacity to obtain property; whether, after the loan is granted in the form of a deposit, actual money will be drawn out, or whether this right to draw will be passed about on paper from one to another depends entirely upon the business habits of the bank's customers. In our chief cities the right of drawing out cash is seldom exercised, because payments can be more expeditiously and safely performed by transferring the title to the deposit.

The real function of a bank is thus to assist the man of business who has property, and whose credit is good where known, to secure an advance of current funds which he can use in his business. Those selling commodities to him may not be willing to let him owe them, for they may not know what his credit is, or even if they do, may insist on being paid because they need the money, and those to whom they must make payments would not know the merchant's credit, and hence would not be willing to take his notes. They know the bank, however, and are willing to have it owe them (either as evidenced by bank notes or deposits), because they know that the customs of the community make such bank liabilities a form of money. The members of the community, therefore, are willing to leave funds with a bank which they can call for; and on the strength of these, and with the aid of the bank's capital as a guarantee, the bank makes the advance to the merchant who needs means of payment. The bank's promises are convenient and useful to the community, since they are currency, while an individual's promises are not usually sufficiently well-known or

guarded; and third, the one is more acceptable and valuable than the other. For this reason the merchant is willing to pay the bank for giving him immediate means of payment for his note, even though what he receives may be only the bank's promise instead of his own. So long as the bank's promises are convertible into money and are accepted by the public as equally as good as money and even more convenient, they are currency and means of payment, which his own promises are not.

In this way, then, a man having property, readily salable, can borrow upon

**THE BENEFIT TO THE COMMUNITY.**

the strength of it, to get the value of that property converted into means of payment, expressed in terms of the standard, and exchange it for other forms of property which he most needs at the moment in his business; and all this is swiftly and conveniently done by creating a deposit and giving the right to draw on it. It is a highly efficient medium of exchange—indeed the most efficient, and the most largely used at this time by the business men of the United States. The value of wheat shipped from Chicago to New York appears—expressed in terms of money—in a bill at a New York bank to be traded against a similar title to dry goods traveling west from New York. And the exchanges take place through deposits and transfer of rights to draw on deposits. Anyone may now see how the deposits of a commercial bank are enormously increased by the result of granting loans. It does not at all follow that deposits were originally formed out of money left with the bank. In most cases the balances deposited are simply checks transferring claims on deposits created by loans. In England and the United States, in normal times, the loans and deposits move together, and their sums roughly correspond; because in these countries the habit of using checks on deposits is highly developed, as contrasted with the continent of Europe (or rural districts in our own country), where note currency is largely used.

When we consider the operations of a bank, then, it is evident that the institution can do its work equally well either by notes or deposits. It is for the community, by its own business habits, to determine which shall be used; from the view of profit to the bank it makes no difference which is used. It also follows clearly enough that expansion and speculation are equally possible under either form of currency created by the bank. The essential point lies in the discounts. If a speculative mania seizes the public and loans are made on property which turns out eventually not to be worth what it seems to be, then the liabilities created on the basis of these assets may be unduly expanded whether the liabilities are notes or deposits. This has been illustrated by his-

tory. In the United States before 1837-1839 careless lending produced an expansion of notes because notes were the kind of currency the public then demanded. In England, before 1844, it was also urged that speculation and expansion were due to the issue of notes. In 1844, the Issue Department of the Bank of England was entirely separated from the Banking Department; and while its notes can no longer be increased except by deposit of gold, the deposit-currency provided by the Banking Department has been expanded in times of over-trading quite as certainly as under the old form of note-issues. Without going into details, it is sufficient to point out the error of supposing that by controlling the issue of notes alone expansion of the currency can be prevented. So far, however, as notes are the necessary currency of certain parts of the country, they will, of course, be the form through which any expansion must necessarily take place.

**THE "NEW DUTIES" AND "NEW RELATIONS."**

We have in our time read many a yard of buncombe and blatherskite, but buncombe and blatherskite used to be simply funny. You read them, you had your roar or your chuckle, as your habit might be, and you flung the stuff into your basket. One of the peculiarities of this day is that buncombe and blatherskite have become wicked and malignant, as well as amusing and silly. They have at last begun, for the first time in their history, to fill the minds of the public with anti-social passions, with envy, hatred and malice, with the desire to humiliate and injure fellow-men with or without cause, with the desire to seize what does not belong to us in virtue simply of our superior strength. They are being used to turn away a whole American generation from the arts of peace and civilization, to fill their minds with dreams of battle and murder and sudden death, to persuade them that the ideas of national greatness and individual glory through which the American people have risen to unparalleled strength, and have won the respect of mankind, have all been a mistake, and that we from the start should have closely followed the old-world example of strife, extravagance, and folly, of blood and tears and devastation.

There are many excited windbags engaged in this silly business, but we have not come across one who has made his comedy so mischievous as Mr. Griggs, the attorney general of the United States. Here is some of his latest stuff, which, properly enough, was delivered at a political convention:

"These new duties and new relations will add fresh dignity to American citizenship, will raise the sense of official and political obligation as they increase responsibility. They will take the people out of the treadmill rounds of domestic politics, where issues are too often artificial and transient. New thoughts,