mains a great field of activity in which the habits of the country require the use of notes, while in the cities the business is carried on through the medium of deposits.

A further analysis of the conditions in New York state in regard to this preference for one or the other form of currency will make this more clear. In the foregoing table there is given not only the movement in the state as a whole toward a greater use of the deposit currency, but also a classification each year showing the use of each kind of currency by New York City banks separately from the remaining banks of the state. With the development of more important commercial centers outside of New York City, the proportion of deposit to note currency naturally rose.

Yet the movement in the city of New York was even more marked; while at every period the notes in the country districts fill relatively a much larger part of the field than they do in the city, and increasingly so; so that it clearly appears that among the more distinctly commercial communities the preference for deposits was constantly maintained and strengthened.

Carrying the analysis further, it appears that in December, 1860, of the $20,240,300 of notes and $31,882,551 of deposits attributed to banks outside of New York City, $4,556,950 of notes and $15,259,534 of deposits belonged to the banks in the five next largest cities (Albany, Brooklyn, Buffalo, Rochester and Troy). Here the proportion is 23 per cent notes to 77 per cent deposits. In the seventeen cities next in size the note circulation was $4,887,111 and the deposits $5,699,758—still a preference for deposits over notes in the proportion of 54 to 46. After taking out the banks in these cities, the currency of the remaining sections is $10,796,239 of notes and $10,912,259 of deposits—nearly evenly divided. If this analysis were to be carried still further it would be found that scattered throughout the smaller towns in the state there were included in this remainder 70 banks whose note circulation amounted to $6,004,715, and the deposits to $3,273,340—which, in the more distinctly rural communities of New York, gives a preference for notes over deposits in the proportion of 65 per cent to 35 per cent. As contrasted with this we have in New York City the opposite preference for deposits over notes in the proportion of 91 to 9.†

†This showing is manifestly defective in some particulars. For instance, throughout some of the rural sections of the state the lack of adequate savings banks unquestionably added something to the deposits of the local commercial banks of a character which can hardly be called currency in the sense that active commercial deposits deserve the name. This explains the existence of comparatively large deposits in some banks which did not serve a distinctly commercial community. If all deposits of this character were to be eliminated from the table as being in the nature of savings banks accounts, rather than currency, the result would even more clearly show the deposits to constitute the currency of the city; again, a considerable portion of the notes of New York City banks are known to have been in circulation in the West. These, however, may be assumed to be offset by country bank notes circulating in New York City.

Illustration from Illinois Banks 1899.

This question cannot be thrown aside as one affecting only the population of a generation ago. The preference still continues. In the cities deposit accounts and the use of checks are very general; and though the spread of commerce and consequent extension of commercial customs have brought the use of the deposit and check to hundreds and thousands throughout the smaller cities and towns of the country, there are still territories (especially among agricultural districts) where their employment is unusual except by the merchants and professional men. In all these districts credit currency for general use must be in the form of notes, at least until affectve by the slow change of business habits which alone can make them deposit-using communities.

To take the more recent illustration (although its force is seriously impaired by the restrictions which our present laws place upon the employment of bank-note currency in excess of those placed upon the use of deposits), consider the bank currency of the national banks of Illinois as shown by the report of the comptroller of the currency for August 3, 1899. Grouping the 201 banks outside the city of Chicago separately from the 16 in the city, the situation on August 3, 1899, was as follows:

posit currency—the natural outgrowth of business methods. So great has been the freedom allowed in the development that the commercial communities (whose currency is almost entirely deposits, and whose business is most largely done with that currency by the use of checks and drafts) have little cause to complain about government interference with the currency tools they use, or about legislative restrictions upon their method of doing business.

The result has been of incalculable benefit to the communities in which this currency is employed. The commercial deposits of the banks in the city of New York alone approximated $1,200,000,000 on Jan. 1, 1899. This enables the banks of that city to loan in one way or another $900,000,000 more than they could have done without those deposits. The community has received the larger share of the economic gains resulting therefrom, in the shape of lower interest rates.

Under our system of free competition, the rate of interest on bank loans cannot be kept permanently above the point where the return upon the aggregate loans (including deposits as well as original capital) will cover the cost of carrying on the banking business and make the ordinary return upon the capital invested. Take, for example, a city bank of $1,000,000 capital and

Assets.	Chicago Banks.	Banks Outside Chicago.	Liabilities.	Chicago Banks.	Banks Outside Chicago.
Loans and Discounts	$130,160,590	$55,677,582	Capital and Surplus	$30,538,480	$26,850,185
U. S. Bonds	2,575,850	9,759,645	Bank Note Circulation	679,295	6,351,217
Reserve (in reserve agts)	42,285,408	23,434,086	Deposits, Individual	105,121,965	65,080,114
Other assets	72,066,160	14,057,329	Deposits, Bank	109,327,526	3,145,593
			Other Liabilities	1,250,742	1,501,533
	$246,888,008	$102,928,642		$246,888,008	$102,928,642

From this it will appear that the Illinois banks outside Chicago, on a smaller capital, issue almost ten times as much bank note currency as the Chicago banks; while the latter have considerably more than three times as large deposits as the country banks outside.

This is merely a straw to indicate which way the wind blows; for, as will be shown subsequently, the use of the note currency has been repressed by certain features of our legislation to be enumerated later, and the sections which would otherwise have made largest use of this form of currency have been forced to forego its employment except at excessive cost.

Freedom of Development of Deposit Currency.

But whatever the burdens placed upon the issue of notes, they have not been laid on the use of deposits. Those who have chosen to utilize that form of bank liability as the currency with which to transact their business have been left free to do so without any serious burden or restraint. The result has been the creation of an immense volume of this de-

surplus and $4,000,000 deposits, its business being conducted at a cost for interest and expenses of $75,000 a year. A dividend of 6 per cent upon the capital would require a net income of $60,000—or a gross income of $135,000 to meet the expenses and provide for a 6 per cent dividend. Against the $4,000,000 deposits the bank would have to reserve, say, $1,000,000—leaving, with the capital, $4,000,000 for loans or other investments. If this could be so invested as to produce an average income of $3\frac{3}{8}$ per cent per annum, it will be seen that the required $135,000 would be obtained. If such an amount could not be invested so as to average $3\frac{3}{8}$ per cent, the net income of the bank would not equal 6 per cent upon the capital invested, and capital would be discouraged from going into banking if there were other enterprises in which 6 per cent could be obtained. If, on the other hand, it could be so invested as to produce 4 per cent, the net income would be not merely $60,000, but $85,000—equivalent to $8\frac{1}{2}$ per cent upon the capital invested. Such a condition would encourage the investment of more