

on an equal amount of government securities and is provided with inadequate facilities for redemption. It responds to varying demands only sluggishly if at all. Before a bank can increase its circulation it must first purchase bonds and pledge them for security. Such an arrangement instead of being sensitive to alterations in the demand for money responds only to a change in the market price for bonds. A decline in the price of government securities seldom accompanies an increase in the demand for currency. Since there is no reliable connection between money need and the price of bonds, an overproduction as well as a scarcity of bank-notes may be the result. Our national bank system has provided no cure for redundancy by creating adequate facilities for redemption. Bank notes are not convertible in the sense that they are exchangeable for coin. Redemption is usually demanded only in the case of old, ragged and dirty bills which deserve to be put out of use for **sanitary** rather than **economic** reasons. New notes are issued for bank bills that are too delapidated for further wear and there is no automatic contraction, no reduction of the volume afloat. True a bank may at any time deposit lawful money to retire all or a part of its outstanding circulation but the initiative comes from the issuer and not the holder of the note. Such action is generally prompted by a rise in the premium on bonds and a desire to secure their release and their conversion into coin. Even here the discretion of the banks is limited by a statutory restriction that not more than \$3,000,000 of circulation can be retired each month.

Most of the recent plans and suggestions for currency reform in the direction of greater elasticity have favored the retention of the national bank system with the device of a bond secured circulation and have merely sought to correct patent defects and to supplement its shortcomings. Of this type were the proposals of the New York Chamber of Commerce and the plan of the currency commission of the American Bankers Association made in the autumn of 1906. Recognizing that "not a permanent increase in the currency was needed but only the addition of a variable element" banks were to be allowed to supplement their bond-secured circulation by an additional issue of credit currency, portions of which were to be taxed at a rate high enough to secure their retirement under normal conditions of the money market. In December, 1906, the House Committee on Banking and Currency reported favorably on a bill embodying the main features of the bankers' plan, but the