

IS THERE MONEY ENOUGH

We Shall Never Have Enough While
Bank Reserves Are Invaded

The Circulation Is Fixed by
the Habits of the People



QUESTIONS relating to the continuance of our prosperity have recently, to a very great degree, been closely related to considerations affecting the money markets. We have just passed through a year in which the average rate for money has been higher the world over than in any year before in a generation. In this year there were thirty-three weeks in which the New York call money rate was six per cent. or higher; at one time it touched sixty per cent. High rates for money have by no means been confined to loans in speculative markets. Through a considerable portion of the year merchants and manufacturers have been forced to pay six per cent., and sometimes even well above that rate. Money rates have been so high that the ordinary market for investment securities has been much restricted. Corporations have found it difficult to put out new bond issues, and financing by means of issues of stock promising high dividend returns has been resorted to by corporations of the first order of credit.

Such a state of affairs naturally raises the question as to whether or not we have money enough. Do our universally high interest rates and disturbingly low cash reserves indicate that the supply of money is now inadequate to support the abounding prosperity and unexampled industrial activity that characterizes the present period? The question is one of universal interest, for it touches every man's welfare.

Belief About the Supply

UNFORTUNATELY it is a problem about which there is much confusion of thought concerning the fundamental data. With the well nigh universal desire for money, it is not surprising that there should, at all times, be a wide spread belief that the supply is inadequate. In times when normal conditions as to interest rates have given way to periods where most extravagant percentages are current, and in times when there is deep concern in regard to the adequacy of the cash reserves, it is not unnatural that there should be many who would hold to the opinion that there is not money enough to do the business that is waiting to be done.

The first requisite in considering the question is a clear comprehension of the functions of money. It is not necessary to make all those fine distinctions which are made by the economists, but it is absolutely essential to have clearly in one's mind the practical fact that the two great uses of money are, first as a circulating medium, and second as bank reserves. In this country, with its system of sub-treasuries and its practice of withdrawing the Government receipts from the channels of trade and locking the money up in its own vaults, there becomes a third use for money, or rather a third purpose to which money is devoted. Practically speaking, all of our money will be found in one of these



By **F. A. VANDERLIP**

classes. It is either in circulation, in bank vaults, or in the treasury of the Government. The small amount that is hoarded, that is used, as the economists would put it, "as a store of value," is with us in ordinary times so insignificant as to be negligible.

A second consideration of great importance in a discussion of the money supply is to understand that the volume of money in circulation is determined by the habits and will of the people at large, and is not a matter over which financiers, bankers, and Treasury officials have much, if any, control. The amount of currency which men carry in their pockets will vary in some measure as times are prosperous or otherwise; but in the largest degree that amount is determined by each man's habits and judgment. At any given time bankers can have little influence in determining it. A man will carry so much money in his pockets, and if he has more he will either directly deposit it in a bank or so use it that it will quickly find its way into bank deposits.

In a discussion of the money question, then, we must keep in mind that the two main uses of money are for circulation and reserve; that the total volume of circulation is determined by the will of individuals, while the total amount of bank reserves will equal the total money supply in the country, less the amount in circulation, and, further, less the amount in the Treasury vaults. Bankers cannot largely vary the supply of money used as bank reserves.

A Strain Upon the Bankers

THE enormous increase in bank deposits in the last ten years has put an exceptional strain upon bankers in the direction of securing sufficient reserve to sustain the deposits. Deposits in national banks in that period have increased from two thousand one hundred and forty-two million to six thousand eight hundred and eighty-eight million dollars. These gigantic figures take no account of four or five thousand millions of deposits in other than national banks. On the other hand, it is true that we have had very great increases in this same period in our money stock. The total circulation has gone up from fifteen hundred millions to two thousand seven hundred and fifty millions. National banks have issued three hundred and twenty-five million dollars' increase of bank notes, while the gold stock in the country is about one thousand millions greater than it was ten years ago. This marks a per capita increase from twenty-one dollars and seventy-one cents to thirty-two dollars and thirty-two cents at the present time. Nevertheless, the lawful money reserves held by national banks were eighteen and one-fourth per cent. of their deposit liability ten years ago, while at the date of the last statement the percentage was less than eleven. The percentages referred to do not take into account that portion of reserve which it is permitted banks to hold in the form of deposits in other national banks.

A factor that has been of world wide importance affecting the money supply of every country, has been the enormous increase in the production of gold. More gold was produced in 1906 than would equal the entire gold holdings of all the national

banks in this country at the close of the year. There is every indication that the gold production for the present year will reach four hundred and twenty-five million dollars. The important relation that such a sum as this bears to the gold reserves of the world is sufficient to silence a great part of the question as to whether or not the supply of money is sufficient. It gives promise even of raising the question of whether or not the supply may not become so abundant as to cause a disturbing change of prices.

Many Europeans tell us that we are barbarously wasteful of money under our existing banking system. They say that with our system of twenty thousand unrelated banking organizations, we are like a nation going to war with an army that has no centralized authority; with an army where each man is fighting as he independently thinks best; with no one to give general orders for retreat or advance. There are truly two sides to any discussion of the merits of an independent banking system as compared with a branch banking system, but there can be only one opinion as to the economy in reserves, and consequently the economy in the use of money which follows the branch banking system. With us in any time of stress, each bank looks only to its own position, and reaches for reserves for its own vaults, at no matter what cost to the whole situation.

The Value of Bank Notes

THE direction where we are most extravagant in our employment of money, however, is in the restriction which we put upon the issue of bank notes. Most of the countries of the world have discovered and thoroughly proved that the properly safeguarded bank note is, for the purpose of general circulation, for the hand to hand, daily use of the public, an almost ideal form of currency. The amount of circulation needed at one season, compared with the amount needed at another, varies more widely with us than with almost any other nation. In the fall we require at least one hundred and fifty million dollars more circulation than we do at other seasons of the year, and under our present system that circulation is ruthlessly drawn from the reserves of the bank vaults. Bankers have no power to resist the drain, and can keep a legal relation between their deposits and reserves only by a great contraction of credit. They do their best to make this contraction as small as possible by importing gold, while the Treasury in the last few years has helped most materially by various devices for increasing the money supply.

It is the opinion of many students of the money question, however, that no matter what the supply of money in the country might be, we should still have periods of tight money as long as the seasonal requirements for hand to hand circulation vary and there is no means of utilizing bank credit to satisfy that variable demand. If in any season

