THE WALL STREET JOURNAL

JUN 2 1944

Gold Reserve and Currency

Not many years ago the Treasury's stock of gold amounted to some two and one-half times the total of currency in circulation outside the Treasury. According to the New York Federal Reserve Bank the volume of currency now slightly overtops the gold stock, being about $22 billion as against a little under $21½ billion of Treasury gold. The Bank points out that this increase in currency circulation cannot be explained wholly on grounds of increased volume of transactions, large as that has been under our war effort. At the peak of the effort in World War I the circulating currency *per capita* was less than one-half what it is today despite the higher level of commodity prices. The Bank suggests among other causes of the present phenomenon "a growing use of currency in avoidance of taxation and for illicit transactions in violation of wartime restrictions and regulations, as well as for accumulations of individual savings in cash despite more favorable alternatives such as investment in interest-bearing Governments, securities or deposits in banks." Without doubt these causes are operative, but to what extent respectively is not so far determined and is, perhaps, not closely determinable.

This particular phenomenon, the Bank says, is the principal factor in producing an increase of some $8 billion in Federal Reserve System credit required by member banks in the last twelve months. In the same period the reserve ratio of the combined Federal Reserve Banks has declined steadily at a rate of about 2 per cent monthly. Among other causes has been the growth of foreign deposits here resulting from our war operations, requiring additional reserves.

Already warning voices are heard concerning the trend disclosed in these figures and its bearing upon our gold stock, which has seemed so enormous as to be practically inexhaustible. The Bank points out that we still hold three-fifths of the world monetary stock, and have $4.7 billion more than we had at the outbreak of World War II. Even if there are deducted $2½ billion for floating foreign credits we are still $2.2 billion ahead of the early war period. The great question is whether the trends above-mentioned are to continue to operate as they have been, and seemingly still are, that is, whether the Federal Reserve System's reserve ratio is to continue to decline at last year's rate. There is no reason inherent in the case why it should be so, but neither was there any such reason in the last twelve months, yet it so did. The problem is somehow to eliminate the special adventitious causes which are producing the result.

More than a year ago this newspaper pointed out that a special effort should be made in loan campaigns—one is just about to open—to demonstrate the advantages of a government bond as compared with a currency hoard. It ought to be possible to present these with sufficient force and clearness to convince all but the most hopelessly ignorant. And it might, if successful, do much to stop the present trends. Here is a real chance for salesmanship.