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Letters to the Editor

Our Monetary Position

Editor, The Wall Street Journal:

In view of the approaching world monetary conference and in view of the widespread and erroneous notion that we, the United States, still have a burdensome load of monetary gold—which possession many sensible people have been propagandized into regarding as absurd—possibly you can spare a little space for a few statistical facts.

On January 15, 1941, reporting New York City member banks had $3,369,000,000 reserve in excess of legal requirements. These figures need some trifling adjustments; they are close enough for practical purposes. Today, May 17, these same New York banks have surplus reserve of just $6,000,000.

Now take a look at our Federal Reserve banks—our real reservoir of cash. On January 15, 1941, these banks held $20,216,319,000 cash reserve. Against this there were outstanding $5,824,852,000 in Federal Reserve notes. The Reserve Bank is required to carry against these notes, a minimum reserve of 40%. On the same date total deposits held by Reserve banks amounted to $16,392,419,000 against which the federal banks are required to carry a minimum of 35% reserve in cash. Total cash requirements $8,067,287,000; total cash actually held $20,216,319,000—excess reserve $12,149,032,000.

On the same basis, the excess reserve held May 17 is $6,789,451,000. In short in a little more than three years New York City member banks have actually lost all their excess reserve while the Reserve banks have experienced a loss of $5,350,581,000, leaving the smallest excess reserve since 1938—and with a war gulping down surplus by the hundred millions.

One other matter might be mentioned. On January 15, 1941, the reserve ratio of the Federal Reserve banks—the fever chart of our banking system—stood at 91.0%, meaning that the Reserve banks held $91 of actual cash for each dollar of notes in circulation, plus total deposits. On May 17 this year, this reserve ratio stood at 58.0%. The ratio was down 19 points compared with a year ago. If the loss continues at that rate for another year—and why shouldn't it?—our ratio will be down to practical minimum under present law. Meaning that within one more year we may not have enough gold to support our own currency, far less be able to prop up the worthless wads of paper currency issued by the pantsless governments of the *sansculottic* world.

Then there are some other danger signals. For instance, New York City banks not only have not increased their loans and investments for the 12 months ended May 17—they have actually reduced these assets $169,000,000. And here is the big point. The Federal Reserve banks—not the commercial banks—are carrying the increasing burden of financing the war. This is indicated by an increase of $7,911,000,000 in the loans and securities owned by the Reserve banks compared with a year ago and by the increase of $5,051,000,000 in money in circulation in the last year. At the current rate of expansion our money in circulation by mid-1945 will be around $27,000,000,000. Compare that with less than $5,000,000,000 in circulation on September 4, 1929 when the great speculative bubble was punctured.

With so much paper money in prospect, while we are losing our monetary gold at a record rate of speed, how can we indulge in so much idle vacuous vaporing about supporting currencies of the entire world?

It seems to this writer that the New Deal money czars are suffering from an attack of an illusion of opulent grandeur. Instead of a great mass of troublesome gold—"idle hoard of gold in the hills of Kentucky"—we are actually threatened with a serious shortage of the yellow metal. When the world monetary conference is held why not tell the representatives of the rest of the world that Santa Claus is even now faced with the specter of a shortage. He has no more gifts. We should speedily return to sanity—insist on that.

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Cites Danger of Easy Credit

Editor, The Wall Street Journal:

In the olden days, when the banks needed cash due to an over-credit expansion, Clearing House certificates were issued. Today we have the Federal Reserve bank notes issued in time of stress.

The writer wonders if this very easy issue does not lead to a greater panic, as it is relied on to carry over enlarged credit expansion far beyond the time when there should have been liquidation.

During 1929 those who had hypothecated securities paid 10% rather than reduce their holdings. While I thoroughly approve of the Federal Reserve Act, nevertheless as a preventer of panic during 1929, did not the reliance on it cause a catastrophe? It would seem that its benefits should be sparingly used at certain times.

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