

HAVE WE SUFFICIENT GOLD IN CIRCULATION?

MONETARY science has no exact answer to the question, What should be the proportion of gold in the monetary circulation to insure the maintenance of the gold standard? In our own monetary experiences we have often seemed perilously near the margin of safety. But in the last two years a feeling of confidence has given place to the former sense of insecurity; for the gold in our circulation has been increasing. No fact of our recent monetary history has been more loudly proclaimed; and none is attested by more indisputable evidence.

The increase of gold not only greets us in the statements of the Treasury, but faces us in the holdings of the banks and in the receipts of the Government, and shows itself occasionally in the money which passes through our hands in daily life. The Treasury statements tell us that the gold in circulation, in coin and certificates, ranged, from 1883 to 1889, between four and five hundred millions of dollars; while from 1889 to 1895 it varied from five to six hundred millions. On July 1, 1896, it was comparatively low, 497.1 millions; a year later it had risen to 554.9 millions; and at the opening of the last fiscal year, July 1, 1898, it had reached the sum of 693.8 millions. This substantial increase since 1896 is confirmed by the reports of the National banks. From July 14, 1896, to July 14, 1898, the holdings of the National banks in gold and gold certificates increased from 161.9 millions to 284.9 millions. If the banks "other than National," whose aggregate resources are very considerable, increased their gold holdings in a like proportion, as there is every reason to believe they did, it may well be argued that practically all of the increase of gold since 1896 is in sight.¹

Moreover, in the reappearance of gold in the Government's receipts, there is gratifying evidence that the pressure upon the gold-

¹By methods explained later in this article, I estimate the amount of gold in "other" banks at 120.2 millions in 1896, and at 174.5 millions in 1898. With the amounts above given for the National banks this estimate would account for an increase in bank holdings alone of 177.3 millions in the two years in question.

supply has ceased. While gold receipts have never been entirely absent, the comparatively minute sums of gold coin which have found their way into the National Treasury through the Custom-House since January, 1894, have been garnered almost exclusively on the Pacific Coast. The gold collected each month at the Port of New York, notably since January, 1895, was, with a single exception, too insignificant to constitute 1 per cent of the total receipts until October, 1897. In that month gold formed 3.6 per cent of the total receipts,—a proportion which rose so rapidly that since April, 1897, from one-half to three-quarters of the receipts at the New York Custom-House have been in gold coin.¹

Thus the symptoms of returning health in our monetary circulation are numerous and conclusive. For some, they have dispelled all fear for the future safety of the patient. Many friends of gold have felt that the time has come when they may relax their vigilance. It may be that they are right, and that time will do the rest. But, however favorable the progress of recent years, it may be well to ask whether we have yet reached a point of safety; whether the wide-spread feeling of confidence in our monetary system has, in fact, an adequate foundation. Is there any point of absolute safety short of an entire gold circulation? If so, monetary science has not established it beyond peradventure. Yet, the larger the proportion of gold in the monetary system, the greater our sense of security.

The question concerns not merely the increase since 1896, but the original stock upon which this increase was grafted. It is to the amount of this stock existing in 1896 that the present inquiry is directed. After eliminating the Treasury holdings, the monetary circulation of the country is reported as follows :

Date.	Total.	Gold (Coin and Certificates).	Per Cent of Gold.
July 1, 1896.....	\$1,506,434,966	\$497,103,183	30.2
July 1, 1897.....	1,640,209,519	554,875,027	33.8
July 1, 1898.....	1,837,856,895	693,762,052	37.7

The increase which these figures record may be accepted as proved. Yet when the average citizen is informed that more than one-third of

¹ Reference is here made to coin only; for the use of gold certificates for the payment of Customs duties has practically ceased since the Government began to restrict the issue of such certificates.

the money in circulation is gold, he is generally incredulous ; but his incredulity vanishes when he is told that all the money of the banks is included in this sum, and that the gold is to be found there. Should he be satisfied with this explanation? Does it account for the wide difference between the estimate and his personal experience?

The whole sum of gold which was reported in circulation on July 1, 1896, was \$497,103,183 ; and our immediate problem is to find the traces of this gold. If we turn to the National banks, we find that on July 14, 1896, they held gold, in coin and certificates, to the amount of 161.9 million dollars, which leaves a goodly sum as yet unaccounted for. There are many other banks with perhaps equal motives for accumulating gold. Of the amounts they held there is no exact record; but the quantity is not beyond the reach of a reasonably accurate estimate. The total money of all kinds in possession of the National banks in July, 1896,—disregarding merely the minor coinage, an insignificant detail in the holdings of banks,—amounted to 361.7 million dollars. Of this total, gold formed 44.4 per cent. The State banks, loan and trust companies, savings banks, and private banks, from which the Comptroller of the Currency obtained reports at the same time, held in cash of all kinds 169.2 million dollars. The reports were not complete. Out of a total of 9,260 banks “other than National” there were 3,480 from which no information was obtained. Had they held proportionately the same amount of cash as the banks reporting, the total cash in all these banks would have been 270.7 million dollars. The assumption, that the non-reporting banks were essentially like those which made reports, finds official sanction in the Report of the Comptroller of the Currency in 1896.

If we are warranted in assuming that the “other” banks had the same motives for accumulating gold as the National banks, we may estimate their gold holdings at 44.4 per cent of their cash, or 120.2 million dollars. Adding this sum to the amount of gold held by the National banks, we have accounted for 282.1 million dollars,—an amount, however, which falls short of the reported circulation of gold by 215 million dollars. It would appear, therefore, that, outside of the National Treasury and the vaults of all banks, there is probably as much as 215 million dollars of gold in general circulation.

Before searching further for this vast amount of gold, it is important that we should be sure of our ground and test our methods. The only conjectural element thus far introduced is the gold held by other banks. If this has been exaggerated, a true estimate would only in-

crease the difficulty of our undertaking, which is to find a large quantity of gold not in the banks. The objection of an under-statement of the gold in other banks is less probable; for it would imply that the minor banks had greater motives than the larger ones for accumulating gold. Fortunately, the method of estimate does not rest wholly on these general grounds. In July, 1896, the Comptroller of the Currency made a special investigation of the kinds of money held by banks. In addition to reports from 3,458 National banks, he received direct reports from 2,265 other banking institutions which held on July 1, 1896, \$77,950,233 in cash, of which \$34,484,737, or 44.4 per cent, was gold. Again, among the "other" banks which made a specific report of gold holdings in July, 1898, the proportion to their total cash was practically the same as that reported by National banks at the same date. It is true that in 1896 the Comptroller of the Currency, basing his calculations upon the number rather than on the resources of the banks not under national supervision, estimated their gold at \$140,939,807. This larger estimate would slightly reduce the amount of gold to be accounted for in the hands of the people, but would not change the nature of the task.

Was there in fact so much gold coin circulating among the people in 1896, and has that amount been increased since that time? Before we can answer this question we must know something of the relation which gold bears to the other money reported to be in circulation, and which may be assumed to be in the hands of the people. Fortunately, we have definite statements of the amount of each kind of money in circulation, and exact knowledge of the amount held by National banks. For all other banks we have calculated the total amount of cash, and must estimate its distribution. Two kinds of money, gold certificates and currency certificates, are almost exclusively bank money. So large a proportion of the total amount of outstanding gold certificates is in the hands of the National banks that, even if we assign all the remainder to the other banks, their share would be relatively less than that of the National banks. We may, therefore, conclude that the banks hold them all, and that any gold which may circulate outside of banks is in the form of coin. With respect to the other elements of our monetary circulation, it seems fair to assume, since the rule is so well confirmed for gold, that they will all be found in like proportions in both classes of banks. If these assumptions be correct, they furnish, for July, 1896, the results which are set forth in the following table:

Description.	In Circulation.	In Banks.	In the Hands of the People.
Gold coin.....	\$454,905,064	\$239,854,127	\$215,050,937
Gold certificates.....	42,198,119	42,198,119
Silver dollars.....	52,116,904	12,698,823	39,418,081
Silver fractional coin.....	60,204,451	10,284,864	49,919,587
Silver certificates.....	330,657,191	54,426,162	276,231,029
United States notes ¹	319,295,115	208,854,204	110,440,911
Currency certificates.....	31,890,000	31,890,000
National bank notes.....	215,168,122	32,169,948	182,998,174
Total	\$1,506,434,966	\$632,376,247	\$874,058,719

¹ This line contains the legal tender notes and the Treasury notes of 1890, as they are not separately stated in the returns of conditions made by the National banks to the Comptroller of the Currency.

With this general view of our monetary system, one cannot fail to be impressed with the large proportion as well as with the amount of gold which it contains. Not only is the proportion of gold large in the banks, but, according to our table, gold coin forms 24.6 per cent, or, in round numbers, one-fourth of the money which circulates among the people. Daily experience does not confirm the statement; but daily experience may be at fault. Some of the money enumerated in the table does not enter into competition with gold. If we should eliminate the silver coin, and allow for the one- and two-dollar notes in circulation, we should find that, in the money of \$5 and over in general circulation, gold formed a somewhat larger part,—perhaps as much as one-third. Does gold in fact enter for nearly one-third of the amount into payments between individuals involving any considerable sum? Again common experience denies what seems a logical conclusion from the official figures.

In this conflict of opinion we are not left entirely to the uncertain testimony of personal experience. During the fiscal year 1896-1897 the amount of gold in the country was increasing; and the beginning of the year represents perhaps a minimum point. If, in the circulation of the country, gold formed 25 per cent, it must appear strange that so little of it was paid to the Government for Customs duties? In the aggregate Customs receipts for 1897 of \$176,155,705, only \$5,437,500, or a little more than 3 per cent, was received in gold. This was collected mainly at San Francisco, where, in total receipts of \$6,054,136, upward of 78 per cent was in gold. In the remaining Treasury offices the Customs gold receipts for the year amounted to \$704,827, or $\frac{4}{10}$ of 1 per cent of the total amount. If these facts seem to show that there

was in reality less gold in circulation than claimed, it is to be noted, on the other hand, that they are not absolutely conclusive. Gold does not flow into the Government's coffers except when it flows out. When the Government pays gold freely to the banks, the latter are ready to give it to their customers, and these in turn to pay it back to the Government. Now, at the period under consideration the Government was not paying out gold freely. But the facts in the case at least justify the question, If one-fourth of the money in the hands of the people was gold, why should there have been such a pressure for the yellow metal that both the Government and the banks felt it necessary to protect their holdings?

We have further testimony regarding the money in the hands of the people in the year 1896 which is yet more conclusive; and it is this that caused me to select that year as the basis of my calculations. This testimony is a detailed statement of the deposits in banks on July 1, 1896. The reports, made directly to the Comptroller of the Currency, covered 5,530 banks, both National and State, and embraced nearly six million depositors. The purpose of the inquiry was to determine the proportion of credit instruments used in payments; but the figures serve equally well to illustrate the kinds of money in circulation. It is upon similar returns from banks and public treasuries that European Governments base their estimates of the kinds of money in general use. On July 1, 1896, the aggregate deposits in the banks represented in the inquiry amounted to the considerable sum of \$302,936,232, of which a large proportion consisted of credit instruments. The cash deposits with which we are here concerned were grouped as follows: Gold coin, \$1,868,589, or 8.3 per cent; silver coin, \$1,643,844, or 7.3 per cent; paper currency, \$19,084,598, or 84.4 per cent; total, \$22,597,031.

If we group the figures already given for the amounts of money in the hands of the people, we find the following results: Gold coin, \$215,050,937, or 24.6 per cent; silver coin, \$89,337,668, or 10.2 per cent; paper currency, \$569,670,114, or 65.2 per cent; total, \$874,058,719.

The disagreement in the proportions of the types of money in the two series is striking. If deposits in banks are a fair sample of the money actually used in payments, it is clear that they should have contained a much larger proportion of gold than they actually did. Indeed, were the amount of gold and silver coin in circulation absolutely identical, we should expect to find in bank deposits a larger

share of gold than of silver, because the former is current in larger denominations. The larger the denomination of the money, the greater the probability of its being deposited in banks; since, for those who use banks at all, this is the usual process of making change. If proof be needed of this simple proposition, it will suffice to point out that the deposits recorded in July, 1896, represent 1.84 per cent of the silver coin and 3.35 per cent of the paper currency estimated to be in the hands of the people. It must seem wholly illogical that of the gold in circulation outside of the banks only .87 per cent found its way into the banks by deposit on July 1, 1896. It seems improbable that silver should be deposited relatively twice as frequently as gold, and paper currency four times as often.

But, if we examine the reports of these deposits more closely, we find that a large part of the gold deposited is found in bank deposits of the Rocky Mountain and Pacific States,—that group of States which the Census designates as “Western.” Separating these States from the remainder, we find that the deposits on July 1, 1896, stood as follows:

Description.	WESTERN STATES.		OTHER STATES.	
	Amount.	Per Cent.	Amount.	Per Cent.
Gold coin.....	\$1,222,193	69.4	\$646,396	3.1
Silver coin.....	129,460	7.4	1,514,384	7.3
Paper currency.....	409,164	23.2	18,675,434	89.6
	\$1,760,817	100.0	\$20,836,214	100.0

In these Western States, where the free circulation of gold is a matter of common observation, this metal has a large share in the bank deposits. In order to determine whether in the remainder of the country gold plays in bank deposits a rôle commensurate with its assumed importance in the general monetary circulation, we must find a measure of that importance. In 1890 the Western States comprised about 5 per cent of our total population; but, as the region is one of rapid growth and has a less highly developed banking system than older and more populous States, it will be fair to assign to this region 10 per cent of the monetary circulation of the country. Now, if this

sum were distributed in the same proportions as in the bank deposits, we should have in circulation :

Description.	WESTERN STATES.		OTHER STATES.	
	Amount.	Per Cent.	Amount.	Per Cent.
Gold coin	\$60,659,675	69.4	\$154,391,262	19.6
Silver coin.....	6,468,035	7.4	82,869,633	10.5
Paper currency.....	20,278,162	23.2	549,391,952	69.9
	\$87,405,872	100.0	\$786,652,847	100.0

It is clear that the larger the amount of gold assigned to the Pacific Coast, the simpler the problem becomes for the other States. But I believe that I have stretched the estimate to the extreme of probability ; for the gold in general circulation is assumed to be equal in proportion to the gold in bank deposits.

The elimination of the Pacific Coast does not simplify the problem. If we look at the proportions of money estimated to be in general circulation and the amount known to be deposited, the disproportion is even greater in the remaining States than it is when the whole country is considered. Or, if we calculate the proportion of the estimated stock which was deposited in these States, we find for gold the meagre figure of .42 per cent ; for silver, 1.83 per cent ; and for paper currency, 3.40 per cent.

There is a glaring discrepancy between the amount of gold reported to be in circulation and that amount as indicated by the bank deposits. The extent of this discrepancy cannot be accurately measured ; and yet, if we wish to secure even a general idea of its significance in amounts rather than proportions, some estimate must be attempted. In making such an estimate, we accept without question the statements of the Treasury in regard to other forms of money. It is hardly necessary to explain that they are subject neither to export nor hoarding, and must of necessity remain in the country for monetary use. Our problem is, therefore, to estimate the amount of gold in the country not in the banks, on the basis of the gold shown in the deposits of nearly six million persons on July 1, 1896. The following methods may be employed :

1. It may be assumed that the gold in circulation among the peo-

ple corresponds in proportion to the gold among the deposits. In that case, 8.3 per cent of our money out of the banks is gold, and 91.7 per cent is paper and silver.

2. It may be assumed that gold in the hands of the people is deposited in banks as frequently as paper money.

3. It may be assumed that the gold in the hands of the people is approximately as stated for the Pacific Coast, and may be determined for the rest of the country by the first method.

4. The same assumption may be made for the Pacific Coast, and the figures for the rest of the country determined by the second method.

We then have the following results, assuming the amount of gold in the banks and other money in circulation to be the same in each case:

	Gold not in Banks.	Total Gold.	Total Money in Circulation.	Per Cent of Gold.
Original estimate....	\$215,050,937	\$497,103,183	\$1,506,434,966	30.2
First method.....	69,648,469	351,700,715	1,361,032,498	25.8
Second method.....	55,778,776	337,831,022	1,347,162,805	25.8
Third method.....	80,886,826	362,939,090	1,372,270,873	26.5
Fourth method.....	79,671,322	361,723,568	1,371,054,351	26.4

It is not pretended that any of these estimates represents the exact state of affairs ; yet even in the most favorable case the amount of gold thus estimated falls short by \$135,000,000 of the amount reported. How can this discrepancy be explained?

It might indeed be argued that bank deposits were no criteria of the money circulating among the people ; but it is not believed that such a contention would be seriously received. With greater apparent justice it might be argued that the deposits on July 1, 1896, in the midst of a period of financial stress when the gold standard itself was trembling in the balance, form no just criterion of the money actually in circulation. A second explanation would turn upon the meaning of the phrase "in circulation." It would argue that the gold was actually in existence in the country, and in so far "in circulation" in the sense intended by the Treasury, but that it had been hoarded and would not therefore appear in the bank deposits. A third explanation of the discrepancy—which I believe has the weight of evidence in its favor—would be, that all of the gold reported in the country did not in fact exist, and that there was a flaw in the calculation by which the stock of gold was determined.

If the first explanation be the correct one, our whole contention falls to the ground. It is unfortunate that the only evidence of the money actually circulating among the people should have been gathered in 1896. But a closer examination of the facts will show that this does not substantially affect the inquiry. It would invalidate our conclusions, if there had been a temporary hoarding of gold in July, 1896; but the monetary stringency of the year 1896 occurred later than July. In September discount rates were excessive; but in July they were normal. Hence, it may be inferred that the monetary uncertainty caused by the Free Silver agitation, which led to a hoarding of gold, had not affected financial circles so early as July. Evidences of hoarding would be found in excessive holdings of gold among the people; but this is not indicated by the official figures, which are as shown in the subjoined table.

GOLD IN MILLIONS OF DOLLARS.

July.	In Circulation.	In National Banks.	In the Hands of other Banks and of the People.
1894	562.3	199.6	362.7
1895	528.2	171.2	357.0
1896	497.1	161.9	335.2
1897	554.8	193.7	361.1
1898	693.8	284.9	408.9

The explanation that gold has been hoarded, and that year by year considerable sums have been extracted from the monetary circulation and laid aside in odd nooks, or buried in the ground, might account for the discrepancies which have been noted. It would not, however, help the monetary difficulty: for such hoarded gold cannot be considered a part of the monetary system. It would merely prove what I have contended; viz., that the available gold basis of our monetary fabric is less than is currently believed. But is the explanation in itself probable? Sporadic cases of miserly hoarding of coin may indeed occur; but it will hardly be credited that the intelligent American people, ever keen to make a profit, have put away over one hundred million dollars of gold, relinquishing all hope of interest upon this capital.

There remains but one explanation, namely, an error in the calculations of the Treasury officials. To ascertain whether such an error is possible, we must look into the methods pursued in determining

the amount of gold in circulation. As set forth in a response of the Secretary of the Treasury to an inquiry of Congress touching this matter, the methods of calculation followed by the Treasury officials cannot be questioned, if the data be accurate.¹

Since 1873 there has been added to the gold stock of that year the annual coinage and importation of domestic coin ; and from the sum thus obtained deductions have been made for recoinages, the exportation of domestic coin, and the industrial consumption of gold coin. As the coinage is accurately known, any possible errors must lie in the other elements of the calculations, some of which can be more accurately studied than others. The existing stock in 1873 was calculated with reasonable correctness, the known elements in the computation being the Treasury holdings and the holdings of the National banks. In the aggregate estimate of \$128,389,864 the only conjectural element was an allowance of \$30,000,000 for the gold circulation of the Pacific Coast and for private hoards. Hence, it is clear that no initial error here could account for the discrepancies which have been pointed out.

A sincere and thorough effort has been made by the Bureau of the Mint to ascertain the industrial use of gold. Nowhere else are these inquiries pursued by such intelligent methods and commendable zeal as in our country. The amount annually reported is considerably larger than that which foreign Governments are able to trace. But the concentration of industry, and the fact that the Government affords facilities for the purchase of gold in bars, lead to the belief that the industrial consumption of coin is small.

If these elements be conceded to be substantially correct, the only remaining source of possible error is in the estimate of exports and imports of gold coin. The figures used by the Bureau of the Mint are the official records of Custom-House officials. They do not, however, include any coin carried on the persons of passengers; it being assumed by the Bureau of the Mint that the amounts thus exported and imported offset one another. But this assumption is open to question; for it is probable that what may be termed the personal exportation of domestic gold coin exceeds considerably its personal importation. Outgoing passengers belong mainly to two classes; viz., (1) those who visit Europe merely for business or pleasure, and (2) steerage passengers, many of whom are returning to their native countries to enjoy the fruits of their labors among us. Incoming passengers, on the other

¹ Finance Report, 1898, p. 493.

hand, consist mainly of those who return to the United States after their special purposes have been accomplished, and of immigrants who come to this country to seek their fortunes. It needs no statistical demonstration to prove that the outgoing passengers carry a larger stock of money with them than the incoming. It is, moreover, probable that those who leave the United States carry with them domestic coin, while those who come to us from abroad bring with them foreign coin. Nor would the sums thus carried out of the country be insignificant in the aggregate. The passenger travel since 1873 has been numbered by millions ; and a small average amount assigned to each passenger would bring the sum total of this personal exportation of gold to hundreds of millions of dollars. Here, I believe, is the source of error, which, in the course of time, has resulted in official figures for the gold in our monetary circulation so far in excess of the amount of gold in sight.

It is humiliating to think that the strength of our monetary situation is based not upon demonstrable facts, but on elusive estimates which cannot be substantiated. But, if such be the case, there can be no better time than the present frankly to admit it. The Treasury officials owe it to the people to demonstrate the existence of the gold they claim, or to revise their estimates. Nor would a revision of the estimates weaken the hold of the gold standard. Exact knowledge of the facts is of far greater worth than false confidence.

In the meantime those who propose radical changes in our banking system, with an extension of credit money, will do well to ponder the question, Have we sufficient gold in our monetary circulation ?

ROLAND P. FALKNER.

RECENT CANADIAN FICTION.

AMONG many good influences which are shaping the course of the young Canadian Dominion—the sturdy Northland—toward a true and virile manhood, none is more significant and far-reaching than the growth of a strong and wholesome native literature. While it would, perhaps, be going too far to say that Canada can boast of any men of genius, in the true sense of the term, it cannot be denied that she has given birth to not a few writers of undoubted talent.

Such men as Sir James Le Moine, Sir John Bourinot, Benjamin Sulte, and the late Dr. Kingsford, among historians ; Charles Heavysege, W. W. Campbell, C. G. D. Roberts, the late A. Lampman, Bliss Carman, and the two Scotts, in verse ; and Sir William Dawson, Dr. G. M. Dawson, Grant Allen, and the late J. G. Romanes, in the realm of science, would do credit to any country, and are certainly men of whom Canada has every reason to be proud. And Canadian men-of-letters are no less proud of their native land ; for it is a notable fact that, however far abroad they may roam, they never forget the Northland, and never cease to speak and write of it with fondness and pride.

In the enumeration of those who are doing credit to the land of their birth, a very important class has so far been omitted—the novelists. As a matter of fact, until quite recently Canada could scarcely be said to have any novelists. Fiction has been in the past the most unfruitful branch of our intellectual tree. While every decade has produced scores of verse-writers and one or two genuine poets, and every period of the national history has had its more or less capable historians, the rich mines of Canadian history and national characteristics have remained almost untouched by novelists. There is in Canada the broadest possible field for the writer of fiction. The early days of the French occupation teem with incidents of dramatic and romantic interest, such as the interminable conflicts between the French and the English, and between each of these and the Indians ; the expulsion of the Acadians, and the stirring incidents of the Jesuit Relations ; later, the exodus of the United Empire Loyalists from New England to Canada, the War of 1812, etc. For the analytical novel-