

II. Currency

"CURRENCY" AS USED in this section means coin and paper money. The issuance of currency has been restricted to the Treasury and the Federal Reserve Banks since August 1, 1935, on which date all provision for issuance of national bank notes ceased upon redemption of the last outstanding issue of bonds carrying the circulation privilege. Prior to 1935 national banks could issue bank notes against certain U. S. Government bonds deposited with the Treasury.

Currency is the most convenient means of payment for many purposes, and practically all small money payments are made in currency. In addition, many people hold currency as a store of value either because they have no bank accounts or for other reasons. However, since most money payments of substantial amounts are made by checks drawn on bank deposits, currency represents the smaller part of the total supply of means of immediate payment. For example, on June 30, 1962, currency in circulation amounted to \$181 per capita, while demand deposits in banks were nearly four times as much.

The statistics in this section relate to currency in circulation and its composition. The volume of currency in circulation is significant for two reasons: first, because currency in circulation outside banks is a part of the total money supply; second, because withdrawals of currency from banks affect the volume of bank reserves and, unless offset by monetary action, the ability of banks to extend credit.¹ Accord-

ingly, accurate and up-to-date information on the volume of currency in circulation is necessary to the Federal Reserve in carrying out its responsibility for influencing the flow of bank credit and money.

CURRENCY IN CIRCULATION

The term "currency in circulation" means currency outside the Treasury and Federal Reserve Banks, except for: (1) gold coin and silver coin known to have been exported and (2) beginning with January 31, 1934, all gold coin outstanding. Currency in circulation thus includes all coin and paper money held by the public, whether in active use or idle—that is, cash carried in pockets of individuals, that in the vaults of banks and the cash registers of merchants and other businessmen, and that hoarded or otherwise kept idle. It also includes some paper currency that strictly speaking is not a part of the money supply in the hands of the public, namely, currency lost or destroyed and currency held abroad. Because no accurate measure of such currency is available, it is impossible to exclude it from current statistics of currency in circulation. However, the amount may be presumed to change only slightly, except perhaps over relatively long periods of time or under unusual circumstances.²

Among the factors that cause changes in currency in circulation are trends in business conditions, growth in population, changes in the

¹ Statistics on the money supply and its two components, demand deposits and currency outside banks, are contained in "Banks and the Monetary System," Section 1 of *Supplement to Banking and Monetary Statistics* (1962), and are published currently in the *Federal Reserve Bulletin*. These statistics show currency outside banks both adjusted and not adjusted for seasonal variation. No data are available for currency outside banks by kind or by denomination.

² In August 1962, under authority of the Old Series Currency Adjustment Act of 1961, the Treasury determined that \$58 million in old large-size notes of various types had been destroyed or irretrievably lost, and in October 1961 it made a similar determination in respect to \$1 million of Treasury notes of 1890. Beginning with the months referred to, these amounts have been excluded from the statistics of currency in circulation.