

public's need for pocket money, and seasonal requirements.

During World War II the amount of currency in circulation increased greatly in response to a variety of influences: the growth of payrolls, retail trade, and travel; many and widespread changes in places of residence; payments to members of the armed forces; larger incomes of people not in the habit of using banks; and no doubt some hoarding. The demand for additional currency subsided after the War, and circulation declined somewhat between the middle of 1947 and the end of 1950. During the war in Korea, demand for currency again strengthened and, except for the year 1954, has continued to expand.

In contrast to the long-term trends, there are sharp changes in seasonal needs for currency. The demand varies with the day of the week, with different parts of the month, and with different seasons of the year. Around any major holiday the volume of currency in circulation fluctuates sharply. In the last 2 months of the year circulation will increase by a billion dollars or more, decreasing by almost as much in the early part of the following year.

With the exception of a relatively small amount handled through the Cash Division of the Treasury in Washington, D. C., all currency goes into and out of circulation through the Federal Reserve Banks. The machinery of the Federal Reserve System enables the public to convert bank deposits into cash, and vice versa, to suit its convenience. When people want more currency, they obtain it by drawing on their deposits at banks; the banks, in turn, obtain their currency, directly or indirectly, from the Federal Reserve Banks. When people no longer want all the currency they have on hand, they deposit the excess in banks, and the banks subsequently deposit any excess with the Federal Reserve Banks.

COMPOSITION OF CURRENCY IN CIRCULATION

In mid-1914, before the Federal Reserve Banks opened, gold coin and certificates

formed nearly 50 per cent of the currency in circulation, national bank notes about 20 per cent, silver dollars and certificates about 15 per cent, and United States notes about 10 per cent. In 1940, before the expansion in circulation which occurred during the war, Federal Reserve notes accounted for nearly 66 per cent of the currency in circulation. In mid-1961 they accounted for about 85 per cent (Table 1).

Federal Reserve notes, silver certificates, and United States notes are the kinds of paper money currently being printed and paid into circulation. Other types still in circulation—national bank notes, Federal Reserve Bank notes, gold certificates, and Treasury notes of 1890—are being retired when received by the Federal Reserve Banks or the Treasury.³

The Treasury issues silver certificates and United States notes. The quantity of silver certificates that can be issued is limited to the amount of monetary silver in the Treasury. The outstanding amount of United States notes is fixed by law at \$347 million. Federal Reserve notes are issued in amounts necessary to supply the demand for paper currency beyond that taken care of by Treasury currency. Thus they constitute the flexible element in the circulation.

In recent years the Treasury has issued silver certificates in denominations of \$1, \$5, and \$10, and United States notes in denominations of \$2 and \$5. All \$1 bills are silver certificates, and to the extent that the public demand for \$1 bills does not use the available monetary silver backing, larger denominations are issued. All \$2 bills are United States notes, and to the extent that the public's demand for \$2 bills falls short of \$347 million (the amount of United States notes that must be maintained), \$5 United States notes are issued. To the extent that \$5 silver certificates and \$5 United States notes together fall short of the public's demand for this denomination, Federal Reserve notes are issued.

³ Federal Reserve Bank notes—not to be confused with Federal Reserve notes—were issued in small amounts at various times by the Reserve Banks. The last time was in 1942-43 (Table 1). Authority to issue Federal Reserve Bank notes was terminated by the Act of June 12, 1945.

Federal Reserve notes are currently being printed in denominations of \$5, \$10, \$20, \$50, and \$100. Existing stocks of larger denominations are still being paid out by the Federal Reserve Banks when requested by their member banks, but the amounts in circulation have been declining since 1945.

The fact that both the Treasury and the Federal Reserve Banks issue paper currency is not so complicated as it might seem, and it causes no problems in administration.

A brief historical description of the currency system appears in the paper "Currency System of the United States" in *Banking Studies* (pages 65-83), a publication of the Board of Governors (Washington, 1941). The monetary significance of currency is discussed in the paper "Money System of United States" in the same publication (pages 295-319) and in *The Federal Reserve System—Purposes and Functions*, (Board of Governors, Washington, 1961, pages 155-63). For a discussion of the demand for currency in World War II, see the article "Currency in Circulation" in the *Federal Reserve Bulletin* for April 1944, pages 318-28.

DESCRIPTION OF TABLES

The figures for both tables in this section are based on data compiled by the Treasury Department and published in the monthly "Circulation Statement of United States Money," which shows, for each kind of currency, the amount (1) outstanding, (2) held in the

Treasury, (3) held by Federal Reserve Banks and Agents, and (4) in circulation. A second part of the statement gives a denominational breakdown of the amount of each kind of paper currency in circulation. The first part of the statement for November 30, 1960, adapted to show a separate total for Treasury currency, is shown in Section 10 of *Supplement to Banking and Monetary Statistics*, page 13.

Both tables give data for the period 1941-61. Currency in circulation by kind is shown for the end of each fiscal year (June 30) and for the end of each month in Table 1. Table 2 shows monthly figures of paper currency in circulation by denomination. It also shows monthly figures for total coin in circulation, whereas Table 1 shows a breakdown of this total into silver dollars, subsidiary silver (50¢, 25¢ and 10¢), and minor coin (5¢ and 1¢).

SOURCES OF CURRENT STATISTICS

Estimates of total currency in circulation for each Wednesday and an average of daily estimates for the week ending Wednesday are available in the Board's weekly release (H.4.1) "Factors Affecting Bank Reserves and Condition Statement of Federal Reserve Banks." These estimates are also published in the *Federal Reserve Bulletin*. Figures for currency in circulation by kind and by denomination (derived from the "Circulation Statement of United States Money") are also published in the *Bulletin*.