

# Causes of the High Cost of Living

Following is special Washington staff correspondence to the Chicago Tribune:

"The Federal Reserve board believes currency legislation at this time is unnecessary and undesirable, and would suggest that whether viewed from an economic or financial standpoint, the remedy for the present situation is the same, namely, to work and save; to work regularly and efficiently in order to produce and distribute the largest possible volume of commodities; and to exercise reasonable economies in order that money, goods and services may be devoted primarily to the liquidation of debt and to the satisfaction of the demand for necessities, rather than to indulgence in extravagances or the gratification of a desire for luxuries.

## WAR OVER — ONLY MILITARILY

"The war is over — in a military sense — and while the bills have been settled by loans to the government, these obligations, so far as they are carried by the banks, must be absorbed before the war chapter of the financial history of the country can be closed."

With these words the federal reserve board, through its governor, W. P. G. Harding, closes a letter today to Senator George P. McLean, chairman of the committee on banking and currency, responding to a request for an expression of its views as to the advisability of legislation providing for a gradual reduction of the currency in circulation as proposed in a senate resolution.

## CREDIT EXPANSION INEVITABLE

The board admits that there undoubtedly has taken place in the last two years a certain amount of credit expansion which was inevitable, in view of the circumstances of war financing; but says this will be corrected as securities issued by the government for war purposes are absorbed by the investors.

The principal cause for advanced prices before and during the war the board attributes to the urgent needs of allied governments for goods and for quick deliveries, while it holds responsible for the present rising prices:

General relaxation of wartime personal economy.

Increased demand for commodities by individuals who heretofore restricted their purchases and are now buying in competition with export demand.

Accrued incomes and increased wages leading to demands for luxuries and semi-luxuries and to diversion of labor and material to non-essentials.

## GOLD COIN IS ALL RIGHT

The board assumes that it is generally recognized that no legislation is necessary with respect to gold coin, gold certificates, standard silver dollars, silver certificates, subsidiary silver and treasury notes of 1890, and that the question of currency reduction arises over federal reserve notes.

"The amount of federal reserve notes outstanding," the letter says, "has increased from \$357,239,000 on April 1, 1917, to \$2,504,753,000 on August 1, 1919.

"It appears, therefore, that those who see in the larger volume of circulation in the United States the prime cause of increased costs of living, and who seek a remedy by a forced contraction of the currency, must have in mind the federal reserve note and section 16 of the federal reserve act, as amended June 21, 1917, which provides for its issue and redemption.

## CAUSES OF SITUATION TODAY

"In analyzing our present monetary situation, and in considering the causes which have led to the expansion of credits and note issues during the war, we should not lose sight of some of the developments of the pre-war period and of their effect upon credits and prices.

"Very heavy purchases of supplies of all kinds were made in this country by European belligerents during the years 1915 and 1916, payment for which involved the shipment to us of large amounts of gold.

"The stock of gold in the United States on July 1, 1914, was \$1,890,678,304. This amount increased steadily until April, 1917, the date of our own entry into the war, when it reached

\$3,088,904,808, an increase of about \$1,200,000,000.

## BANK DEPOSITS SOAR

"Bank deposits likewise show a large increase, the net deposits of national banks having risen from \$7,495,149,000 on June 30, 1914, to \$10,489,217,000 on March 5, 1917, while the net deposits of all bank in the United States increased from \$17,966,150,000 in June, 1914, to \$24,891,218,000 in June, 1917.

"Net deposits of national banks has further increased up to May 12, 1919, to \$11,718,095,000, and those of all banks in June, 1918 (the latest date for which figures are available), to \$26,769,546,000.

"Shortly after April 6, 1917, when the congress declared war, the treasury began to sell bonds, notes, and certificates in large amounts, resulting in a net increase in the public debt to August 1, 1919, of \$24,518,064,840.

## VAST INCREASE IN MONEY

"On July 1, 1914, the total stock of money in the United States, exclusive of that held by the United States treasury, was \$3,419,168,368. On April 1, 1917, the stock of money, estimated on the same basis, was \$4,702,130,941, an increase of \$1,282,962,573, of which increase \$883,481,028 was in gold.

"The corresponding amounts of money outside the treasury and federal reserve banks in circulation on April 1, 1917, December 1, 1918, and August 1, 1919, are shown in the following table:

### APRIL 1, 1917

|  |                 |
|--|-----------------|
| Gold coin and certificates.....  | \$1,989,152,000 |
| Silver dollars and silver certificates (including treasury notes of 1890)..... | 532,700,000     |
| Federal reserve notes.....   | 357,239,000     |
| Federal reserve bank notes.....  | 3,170,000       |
| All other currency.....  | 1,218,715,000   |

Total.....\$4,100,976,000

|   |       |
|---|-------|
| Amount per capita outside the treasury and the federal reserve banks..... | 37.88 |
|---|-------|

### DECEMBER 1, 1918

|  |                |
|--|----------------|
| Gold coin and certificates.....  | \$ 861,245,000 |
| Silver dollars and silver certificates (including treasury notes of 1890)..... | 372,480,000    |
| Federal reserve notes.....   | 2,607,445,000  |
| Federal reserve bank notes.....  | 87,737,000     |
| All other currency.....  | 1,201,069,000  |

Total.....\$5,129,985,000

|   |       |
|---|-------|
| Amount per capita outside the treasury and the federal reserve banks..... | 48.13 |
|---|-------|

### AUGUST 1, 1919

|  |                |
|--|----------------|
| Gold coin and certificates.....  | \$ 728,046,000 |
| Silver dollars and silver certificates (including treasury notes of 1890)..... | 241,505,000    |
| Federal reserve notes.....   | 2,504,753,000  |
| Federal reserve bank notes.....  | 166,289,000    |
| All other currency.....  | 1,156,297,000  |

Total.....\$4,796,890,000

|   |       |
|---|-------|
| Amount per capita outside the treasury and the federal reserve banks..... | 15.16 |
|---|-------|

## GRADUAL DECREASE SHOWN

"Assuming that December 1, 1918, marks the beginning of the post-war period, the table shows up to August 1, 1919, a net decrease in circulation for the post-war period of \$333,095,000 or \$2.97 per capita.

"In considering the question of currency in circulation, there should be taken into account the various factors which have entered into the demand for currency, among which are:

"The gradual enlargement of pay rolls, both as to the number of workers and amount paid to each.

"The effect of higher wages upon deposits in banks and upon the amounts of money carried by shopkeepers in their tills and by individuals in their pockets.

"The amounts of money locked up or carried on their persons by workmen who have been receiving high wages and who, especially in the case of ignorant foreigners, are unwilling to deposit their savings in banks or to invest in government bonds.

## EMIGRANTS CARRY OFF COIN

"The amount of money carried away by work-

men returning to their homes in foreign countries.

"The fact that the circulating media of the Philippine Islands, Hawaii, Cuba, Porto Rico, Santo Domingo, Haiti, Honduras, Panama, and, in part, Mexico, include United States paper currency and subsidiary silver.

"The increased volume of federal reserve notes in circulation during the last three years, in so far as it is not the result of direct exchanges for gold and gold certificates which have been withdrawn from circulation, is the effect of advancing wages and prices, and not their cause."

## WALSH OPPOSES LOANS

A Washington special, dated Sept. 11, says: A resolution providing that no further loans should be made by the United States to foreign nations for the creation or maintenance of armaments was introduced into the senate by Senator Walsh of Massachusetts.

After showing that the United States had already advanced to other nations a total of \$9,684,272,567, the resolution states that further advances as from four to five billions of dollars are soon to be asked for by the President to help rehabilitate the industry and credit of foreign countries. In the statement prefixed to his resolution Senator Walsh asserts that these proposed loans will in all probability be used for the creation of new rivalries in armaments, and therefore subversive of the peace of the world.

"The purpose of this resolution," said Senator Walsh, "is to serve notice to the world that public sentiment in the United States is emphatically in favor of mutual disarmament, and is emphatically opposed to a resumption by the nations of Europe of the race in armaments which was largely responsible for the conflagration of 1914, and which if resumed will compel this nation to adopt a militaristic policy of vast proportions in self-defense. Under the circumstances, it is monstrous that our national resources should be drawn upon to aid other nations in creating fleets and armies the very existence of which is a menace to our national security and our national prosperity."

## WAR LOAN PREDICTION DENIED AT WASHINGTON

A Washington dispatch, dated August 20, says: Reports that the war loans made by the United States to allied and friendly nations are to be canceled are unfounded. This information is brought out in a letter which R. C. Leffingwell, assistant secretary of the treasury, has written in response to an inquiry from John J. Chester, a Columbus lawyer, who inquired as to the amount of these loans and the prospect for their cancellation.

"The cancellation of these loans," writes the assistant secretary of the treasury, "has not been suggested by any of the governments of the allies nor, so far as the treasury is aware, by any one in authority in this country."

The assistant secretary sets forth in detail the amounts of these loans, which now reach the astounding totals of \$9,653,348,904.79. The credits established by the secretary of the treasury in favor of foreign governments as at the close of business July 28, 1919, were as follows:

|                     |                   |
|---------------------|-------------------|
| Belgium.....        | \$ 343,445,000.00 |
| Cuba.....           | 10,000,000.00     |
| Czecho-Slovaks..... | 55,330,000.00     |
| France.....         | 3,047,974,777.24  |
| Great Britain.....  | 4,316,000,000.00  |
| Greece.....         | 43,412,966.00     |
| Italy.....          | 1,587,675,945.99  |
| Liberia.....        | 5,000,000.00      |
| Rumania.....        | 30,000,000.00     |
| Russia.....         | 187,729,750.00    |
| Serbia.....         | 26,780,465.56     |

## A MEAN TRICK

Sam Blythe, who takes upon himself quadrennially the duty of listing for publication the names of all purchasers and possessors of presidential lightning rods, is of the opinion that the republican old guard has played a mean trick on Borah and Hiram Johnson by pushing them out as antagonists of the president and the treaty and the league, out where the bullets are thickest. Very likely, very likely, as about the best way that the old grey wolves of politics have found to kill off men and measures has been to set some progressive republican fighting a progressive democrat or a progressive democrat slitting up a progressive republican.