Volume Title: Monetary Statistics of the United States: Estimates, Sources, Methods

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Volume Publisher: NBER

Volume ISBN: 0-870-14210-0

Volume URL: http://www.nber.org/books/frie70-1

Publication Date: 1970

Chapter Title: Part Two: Earlier Estimates, Introduction

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Chapter URL: http://www.nber.org/chapters/c5284

Chapter pages in book: (p. 201 - 203)

PART TWO

EARLIER ESTIMATES

Introduction

The construction of comprehensive time series for the United States of the stock of currency or deposits or their sum dates back more than a century and a half—almost to the founding of the Republic. Generally, the final estimates have involved a division of labor between private individuals and official agencies, the individuals constructing the final estimates from basic statistics collected by agencies. This division of labor has never been complete. Official agencies have from time to time, and especially in recent years, constructed comprehensive estimates, and private individuals have contributed to the collection of basic statistics by criticizing official compilations, rearranging and adding to them, and stimulating additional collections of data.[1]

Throughout the period, the monetary estimates, and even more the basic data used in constructing the estimates, have often been by-products of other interests. Currency and banking problems have occasioned public concern and governmental action since Colonial times and still do so today—witness the recent changes in both coins and paper money and the recurring Congressional consideration of the regulation of banks and financial intermediaries. Unquestionably governmental regulatory agencies and legislatures have been the most important sources of data for the monetary estimates—though the data used in constructing the monetary estimates have been only a small part of the total collected by these branches of government.

Until after World War I, neither official agencies nor private individuals combined, as a regular practice, currency and deposits into a single total designated "money." [2] At first the reason was that only currency—and, initially, only specie—was regarded as "money." Bank notes were initially treated simply as "claims" to money, and deposits continued to be

[1] The reason private initiative was limited in collecting monetary data was explained by W. M. Gouge (*A Short History of the Paper Money and Banking in the United States,* Philadelphia, 1833, Part II): "To collect and arrange the accounts of five or six hundred Banks which are, or which have been, scattered through twenty-four States and two or three Territories would be no easy task" (p. 221). Gouge was critical of the accuracy of existing banking figures and of monetary estimates (pp. 219–226).

[2] Amasa Walker was one (though not the only) exception. As part of his description of the "mixed currency" system of the United States, he published sums of bank notes outstanding and gross bank deposits, excluding interbank but including Treasury deposits, 1834–59, using the state bank figures in the Treasury annual reports (*The Science of Wealth: A Manual of Political Economy,* Boston, 1866, p. 161). These reports are discussed in Chapter 7.

so treated even after bank notes were accorded the status of money proper.

By the end of the nineteenth century, the reason was slightly different. E. W. Kemmerer, Irving Fisher, and others, while still not treating deposits as "money," in their development of the quantity equation subdivided transactions into those effected by currency (MV) and those effected by check ($M'V'$). To test or fill in this equation, they constructed estimates from which a single total of currency and deposits might have been obtained. However, they were interested mostly in the components, and other investigators followed their lead.

The recognition of the need to separate money held by the public from money held by banks was also crucial to the development of U.S. monetary statistics. Even the earliest bank statements in the United States distinguished the deposits of the nonbanking public from the deposits of banks. However, the parallel distinction between currency held by the public and currency in banks was not usually made until a much later date, even though some early students recognized its importance. Typically, the sum of currency held by the public and banks—total bank notes outstanding reported by the issuing banks—was given as the amount in circulation.[3] The focus of interest was the banks—

[3] On this point, two illustrations may be cited. The first is a remark of Secretary of the Treasury Crawford concerning one set of his own estimates of bank note circulation in 1819 (he made alternative ones) in "Report on Currency Made to the House of Representatives of the United States, 24th February, 1820," in *Reports of the Secretary of the Treasury of the United States,* Vol. II, Washington, 1837:

> It is probable, however, that this estimate is too high; as, according to the general practice of banks, all notes issued are considered in circulation, which are not in the possession of the bank by which they were issued. A reasonable deduction being made from the notes supposed to be in circulation, but which are, in fact, in the possession of other banks, it is probable that the actual circulation . . . is less, at this time, than . . . (p. 482).

Despite this insight, Crawford's estimates for 1813 and 1815 were limited to bank notes outstanding, and in tabulations (arranged by other investigators, not by him), of his estimates for these two years and for 1819, his estimate of bank notes held by the public in 1819 was ignored.

The second illustration is in Albert Gallatin, *Considerations on the Currency and Banking,* Philadelphia, 1831: ". . . the notes of other banks on hand, form no part of the circulation, and ought, when considering the banking system as a whole, to be deducted from the amount of the notes in circulation" (p. 41).

Though Gallatin estimated bank note circulation in 1829 "if the notes of other banks on hand are deducted" instead of following the "usual mode of computing" (p. 54), the estimates associated with his name for 1810, 1814, 1815, and 1829 (in his account shown as the beginning of the following years) are for notes outstanding. See U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1957,* 1960 [*Historical Statistics, 1960*], p. 623, Series X-3.

On the other hand, a table in a Treasury Department document of 1834 distinguishes "All paper issued and in the country" and "All specie in the country" from amounts

whether their resources were adequate to their demand liabilities, regardless of the identity of the holders—rather than the public, which chose to hold part of its money in the form of currency. Early statistical practice ignored the cancellation—when the accounts of all banks are consolidated—of bank notes held as an asset by some banks against the corresponding liability of other banks.

The concept of currency held by the public did not become firmly established until it was rediscovered early in this century. On the other hand, from the start of banking operations in the United States there was widespread recognition that some specie in the banks duplicated bank notes outstanding, which were promises to pay specie, and that other specie in banks, which the banks regarded as a reserve for deposits, duplicated some deposits of the public, and hence that specie in banks should be omitted to avoid double-counting. The concept of bank float as duplications in the deposit accounts arising from checks credited to the drawee but not yet debited to the drawer was first developed in this century.

Because 1867 marks the year our own estimates begin, the estimates for the period before 1867 are discussed separately (Chapter 7) from those for the post-Civil War period (Chapter 8). Chapter 9 compares the various earlier estimates with our own. The general contours of all the estimates are similar, but there are numerous differences in detailed movements that would be capable of significantly altering conclusions, especially about cyclical timing and behavior.

Before turning to a detailed examination of the earlier estimates, we discuss in Chapter 6 some common features of the basic data.

"Not circulating"—"Paper in other banks" and "Specie in banks"—and shows the remainder as "Circulations" of "Paper" (private and state bank notes and "national and U. States bank notes," separately) and "Specie" (gold and silver, separately), in selected years 1775–1834, with estimates for whatever items are available (23d Cong., 2nd sess., H. Rept. 27, p. 63). Ezra Seaman in *Essays on the Progress of Nations*, Detroit, 1846, estimated bank notes held by the public after commenting as follows on official statistics for all banks in selected years 1811–45:

> The table exhibits the whole amount of notes issued and outstanding of all banks, without deducting the amount of notes held by the banks respectively, which were issued by other banks; on making this deduction, the nett circulation . . . was but . . . . [B]y deducting the amount of specie in the vaults of the banks from the nett circulation of the same, at any period stated in the table, any one can ascertain the increase of our circulating medium by reason of bank paper (pp. 243–244).