The Effect of War
on
Currency and Deposits

CHARLES R. WHITTLESEY

OUR ECONOMY IN WAR
Occasional Paper 11: September 1943

NATIONAL BUREAU OF ECONOMIC RESEARCH
1819 Broadway, New York 25
Preface

This paper is the third in the National Bureau series entitled "Our Economy in War" and the second prepared by Dr. Whittlesey.

The special studies in the series dealing with the effect of war on banking, prepared under the Financial Research Program, have been made possible by grants from the Association of Reserve City Bankers and the Rockefeller Foundation.

The present paper, *The Effect of War on Currency and Deposits*, is on a subject of vital interest to every citizen. It provides measures of the growth of the circulating medium since the outbreak of war; explains the processes, long familiar to students of money and banking, by which this growth has been brought about; considers the problem of the ownership of the increase in circulating medium; reviews ways in which currency and deposit expansion may occur in a period such as the present; and relates the wartime expansion of currency and deposits to the question of wartime inflation. The objective of the study is to provide perspective for consideration of wartime and postwar monetary developments in the United States and to indicate problems that may press for solution.

A preliminary draft of the study was circulated for technical criticism to a number of individuals cooperating in the Financial Research Program. The present study has benefited from their many suggestions.

Dr. Whittlesey is Professor of Finance and Economics in the Wharton School of Finance and Commerce of the University of Pennsylvania and Economic Consultant to the Penn Mutual Life Insurance Company. As in his earlier study, *The Banking System and War Finance*, he was assisted by Edith Elbogen and Willis J. Winn, both research associates of the Financial Research Program. Dr. Lorine Pruette was in charge of editing the manuscript.

Ralph A. Young

*Director, Financial Research Program*

September 1943
## Contents

**The Growth of Currency and Deposits**  
*Changes in the Volume of Circulating Medium*  
*Changes in Composition of the Circulating Medium*  
*Time Deposits*  
*Differences by Location and Class of Bank*  

**How the Quantity of Circulating Medium Changes**  
*The Volume of Currency*  
*The Volume of Demand Deposits*  
*Factors in the Wartime Expansion of Deposits*  

**What Becomes of the Increased Circulating Medium?**  
*Use of the Circulating Medium*  
*The Increase in Deposits*  
*The Relative Growth of Currency*  

**Alternative Methods of Monetary Expansion**  
*Borrowing from Banks vs. the Issue of “Greenbacks”*  
*Borrow-and-Buy vs. Direct Borrowing from Banks*  
*Treasury Borrowing from Federal Reserve Banks*  

**Monetary Expansion and the Problem of Inflation**  
*The Bases of Inflation*  
*Characteristics of Recent Price Behavior*  
*The Problem of Liquid Resources*  

**In Conclusion**  

**Addendum: Monetary Expansion to June 1943**
Tables

1 Composition of Circulating Medium and Time Deposits, World Wars I and II 5

2 Percentage Increase in Demand Deposits of Federal Reserve Member Banks, and Percentage Distribution, June 1939 to December 1940, by Federal Reserve Districts 8

3 Percentage Increase in Demand Deposits of Federal Reserve Member Banks, June 1939 to December 1942, by Federal Reserve Districts 10

4 Changes in Factors Related to Growth of Demand Deposits, 1939-42 18

5 Indexes of Sales of Retail Stores 26

6 Indexes of Cost of Living and of Principal Component Items in Selected Cities, December 1940, 1941, 1942 37

Charts

1 Total Circulating Medium, World Wars I and II 3

2 War Contracts and Increase in Demand Deposits of National Banks, by Region, June 1940 to December 1942 9

3 Demand Deposits in National Banks, by Region, World Wars I and II 11

4 Wholesale Prices and the Circulating Medium, World Wars I and II 35