

CHAPTER VI

BANK NOTES AND CURRENCY NOTES

CHAPTER VIBANK NOTES AND CURRENCY NOTES.

In dealing with Bank Notes and Currency Notes there are of course certain factors common to the history of each; if, however, such factors were dealt with under both headings unnecessary repetition would result. They have accordingly been included in whichever Section they appeared most to concern.

Thus, references to the Currency Note Act and to the Committee on Currency and Foreign Exchanges after the War occur principally in the Currency Note Section, where also will be found paragraphs on the encashment of Currency Notes and Bank Notes in Australia, etc., while on the other hand the question of the export of Currency Notes to the Continent is dealt with exclusively under the sub-heading on Export in the Bank Notes Section, and the influence of inflation on currencies is also referred to in another sub-heading of the same Section.

The Report of the Currency Committee should be read in conjunction with that of the Special Committee on the Bank Act of 1844 appointed by the Bank of England. This Report (dated 26th November 1918 vide C. C. P. 186) contains a brief but weighty defence of the principles of the Act of 1844. various recommendations concerning Profits of Issue, Securities in the Issue Department, Gold Reserves, etc., put forward in connection with the proposal to transfer to the Bank the issue of small denomination Notes, and other suggestions.

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The undermentioned graphs are in the possession of the Chief Cashier, viz:-

- A 203 Currency Notes outstanding and Bank of
 England Notes in active circulation.
- A 203¹ Bank of England Note circulation compared
 with average for previous 10 years.
- A 203² Net variation monthly in active Bank of
 England Note circulation compared with
 average for previous 10 years.
- A 203³ Monthly variations in Currency Notes
 outstanding compared with average for
 previous 5 years.
- B 201 Wholesale and Retail Prices, Cost of
 Living and Wages Index Numbers.

N.B. £1 Notes

The suggested issue during the War of Bank of England Notes for £1 is referred to in the Section dealing with the Printing Department.

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Expansion and Variation

Export

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Upon the issue of Currency Notes or shortly after, the line taken by the Bank with private individuals who demanded that their Bank Notes should be cashed in gold was to make an appeal to patriotism and in this course the Bank received some support after the first year from a Treasury Notice which was issued in August 1915 asking Government Departments, etc., and the Public to economise in the use of gold and employ Notes in its place wherever possible. After the D.O.R.A. Regulations covering the melting and sale of gold were passed, the Bank supplemented their appeal by a request for an explanation of the presenter's motives. The Act of 1833 required the Bank to pay "legal coin" if their Notes were to continue to be legal tender, but on the other hand the Bank felt that they were hardly under an obligation to assist persons in an attempt to break other laws and regulations. Apart from a desire to test the Bank's attitude, the Public could but seldom have a legitimate use for sovereigns, particularly after the 1st April 1919, the date on which the export of gold was prohibited. The Bank's resistance was never carried to an extreme, as is evidenced by the large amount of gold withdrawn from the Bank by Sykes, (vide Chapter 5). Counsel's opinion (that of Sir Archibald Bodkin and Mr. Travers Humphreys) was taken on the subject soon after Sykes's arrest and the view expressed was that since gold had been withdrawn from circulation and replaced

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by Currency Notes the Bank of England would be justified, in the public interest, in refusing to pay sovereigns to any person who declined to give a satisfactory explanation, in writing, of his desire to obtain them. The matter was referred to the Treasury Solicitor, who did not agree with Counsel, pointing out that a Note payable on demand is not payable subject to conditions or enquiries. The Bank's Solicitors held that although the powers of persuasion of the Bank's officials seemed to have been very successful, the position was risky and the Bank might find themselves some day served with a Writ; they would have liked the Law Officers of the Crown to be consulted. But the Governor thought that the risk of a Writ was small, as the Bank's instructions from the Government were not to refuse payment in gold, but only to endeavour to dissuade applicants from taking it, and so much the Bank was justified in doing as the policy of the Government was to discourage the use of gold in the country. For these considerations and also because from the end of February 1920 the demand for gold fell off considerably, it was decided to make no change in the Bank's practice.

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NOTES.Circulation.Expansion and Variations in Notes Issued.

The effect upon the Note issue of the outbreak of War is shown in the following table:-

000 's omitted.

Date	Total Notes	Notes with the Public	Notes with Bank of England
29 July 1914	£55,121	£29,706	£25,415
30 " "	£52,976	£30,156	£22,820
31 " "	£49,039	£33,144	£15,895
1 Aug. "	£44,491	£36,105	£8,386
7 " "	£44,076	£42,942	£1,134
8 " "	£44,545	£42,961	£1,584
10 " "	£48,007	£42,540	£5,467
11 " "	£48,771	£40,737	£8,034
12 " "	£50,692	£35,934	£14,758
19 " "	£55,638	£37,187	£18,451
22 " "	£59,482	£36,044	£23,438

It will be observed that whereas between 29th July and 7th August, Notes in the Reserve decreased by £24,300,000, Notes in the hands of the Public showed an increase of only £13,200,000. A part of the difference, or decrease of £11,000,000 in the Notes issued, was due to the refusal of some of the Banks to pay their customers' cheques in

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gold (as mentioned elsewhere in the chapter on Bank Rate), with the result that the Public brought the Notes in which they were paid to the Bank of England to be exchanged for gold. Over 5,000 applicants presented Notes for payment between the 30th July and the 7th August, the value of the Notes being no less than £404,485, while in the following six working days, although much smaller amounts of gold were taken, the number of persons applying to the Issue Office averaged nearly 1,100 a day. The table, however, shows that in three weeks the immediate effect of the crisis had quite passed.

The figures quoted do not include certain other Notes issued to the Banks, under the Currency and Bank Notes Act, in temporary substitution for Currency Notes, which could not at the outset be produced in sufficient quantities to meet the demands of Bankers. Bank Notes for £5,500,000 were so issued on the 7th August: the Bank of England receiving at the time no payments therefor. This was the maximum amount so outstanding at any time: by the 13th August the figure had been reduced to £4,451,140 and by the 28th idem all the Notes advanced had been repaid.

A reconstruction of the daily accounts to ascertain what the result would have been had the Notes supplied from "Store" been included in the figures of the Issue Department may be seen at the end of the Chief

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On 7th August by £3,851,000
and on 8th " " £3,423,000

Smaller figures were, however, quoted by the Bank to the Treasury in a letter dated the 9th November 1915 and as a result the Prime Minister, speaking in the House of Commons on that day, gave the maximum excess issue as £3,043,000 only.

From August to mid-December the Notes issued rose steadily to over £90,000,000, the whole of the gain being added to the Reserve, which more than kept pace with the growth of the Bankers' Balances and Other Deposits, the Proportion rising from about 17 to 34%. During the first half of 1915 an exactly converse movement was apparent which reduced the issue by the 30th June to £69,530,000, of which £34,636,000 was in active circulation and £34,894,000 in the Reserve, the Proportion being back again to about 17%.

The collection of £20,823,000 in sovereigns from the Bankers now began, resulting in an addition of

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£15,500,000 to the Notes issued between the beginning of July and the beginning of September, the whole of this remaining in the Reserve. But heavy gold exports to the United States and elsewhere reduced the figures by the end of the year to the June level.

During 1916 and 1917 the total Note issue did not vary greatly from the latter half of 1915, averaging £73,483,000 and £71,685,000 for the two years respectively, but it is of interest to observe that the "Notes with the Public" during the latter year were on an average some £4,700,000 in excess of the figure for 1916, while the Reserve Notes dropped by £6,500,000 (average Proportion 18.9). The receipt of £10,000,000 in gold coin from the Bankers on the 19th June 1917 made no difference to the Bank's figures as the gold was immediately "set aside" on behalf of the Federal Reserve Bank of New York (vide chapters on Gold and Silver and on the London Exchange Committee).

During the last quarter of 1917, there began an expansion in the Note issue which continued without any reversal throughout the remainder of the period under review. It was gradual at first, more rapid in 1918 and 1919 while in 1920 the total rose by one third.

The expansion towards the close of 1917 and in 1918 may have been due in part to increased Continental demands (vide Export of Notes) though to what extent it is

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difficult to say. There is little doubt, however, that the main causes in 1918 were an increase in wages (which by the end of the year were double the pre-War level) and a general, though by no means corresponding, rise in prices. The imposition of a twopenny tax on cheques as from the 1st September may have been a contributory cause. Finally, the seasonal expansion at the end of the year was accentuated by the Armistice, which brought a period of free spending by the Public. The average active circulation for 1918 was £56,743,000 as compared with £40,195,000 for 1917, but by Christmas 1918 the figure had risen as high as £70,307,000. The increase was considerably greater in the second than in the first half of the year, and for the whole 12 months amounted to about £23½ millions.

A further £20,000,000 was added to the "Notes with the Public" in 1919, distributed more equally between the first and second six months. Of this total £4,000,000 is accounted for by appropriations for the Currency Note Account between August and the end of December.

The balance of the increase, which may have been greater than appears as regards internal circulation if allowance could be made for the return of Notes from abroad, is explained chiefly by the rapid increase in wages and prices, the latter moving up 70 points or 13% in the 9 months, March to December, as measured by

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There was, however, in the Bank's opinion another factor operative in the Autumn - the fear of a Capital Levy. On the 29th November 1919 the Governor wrote to the Chancellor -

"The active circulation of Bank Notes has "already (up to last night) increased during the "present calendar week by no less than £1,889,000, "during which period the Currency Note circulation "has only increased by £328,000.

"It is true that there is generally some "expansion in circulation at the end of each month, "but the facts (1) that the increase in Bank Notes "is out of all proportion to that of Currency Notes "and (2) that the increase is mainly in Bank Notes "of high denomination, point to the present abnormal "withdrawal of Bank Notes being due to other causes "than the usual expansion at the end of the month.

"I left with Mr. Blackett last night a "statement which he promised to put before you showing that the principal expansion latterly has been "in the £200, £500 and £100 Notes, and although the "circulation of the first of these denominations is "so small that the percentage increase might be "somewhat misleading it is abundantly clear that the "large Notes are those chiefly affected.

"I have little doubt that one at any rate of

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"the causes is the increased prospect of a 'levy' -
"this time on war profits - and indeed I had already
"formed that opinion, and so informed the Court,
"before ascertaining in which denominations of Note
"the principal increase had occurred. It is note-
"worthy that each time the question of a levy on
"capital in any shape is brought into prominence the
"fact is reflected in an expansion of our active
"circulation.

"It does not follow that actual hoarding or
"hiding away of Notes is responsible for all or even
"the greater part of the increase in Note circulation.
"This is probably quite as much due to small traders
"conducting their business more and more on a strictly
"cash basis, keeping no books and no banking account,
"or at least not making full use of the latter, so as
"to leave no visible evidence of their wealth or
"profits. Having once formed this habit under threat
"of a 'levy', such people will be very slow to abandon
"it while ordinary taxation remains so high as it is
"and the Public Revenue will probably suffer in
"consequence. ..."

Another possible cause of an increased circulation during the latter years of the War, was the alleged probability that hoarding of Bank Notes was resorted to in order to evade, to some extent, the Excess Profits Duty.

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In 1920 prices continued to rise until the peak was reached about April. Thereafter a rapid and continuous decline took place which was still in progress at the end of August 1921. Yet the total Note issue mounted fairly rapidly until June 1920 and thereafter very slowly to a maximum for the whole period on the 31st August 1921.

The "Notes with the Public" rose in proportion throughout 1920 rather faster than the total issue but thereafter there was a period of fluctuation ending in a definite decline by the end of August 1921 of about £5,000,000.

It will be convenient to divide 1920 into two periods, one ending on 7th April, which may be regarded as the approximate date of the "peak" reached in the upward price movement, and the second from that date to the end of the year, during which time deflation was taking place.

From 31st December 1919 to 7th April 1920 the total Notes issued increased by £21,400,000 and the "Notes with the Public" by £15,400,000 only. The Reserve consequently gained £6 millions and the Proportion rose from 9 to 15%. The £15½ millions included £2½ millions set aside for the Currency Note Account,* and the balance is mainly accounted for by the issue of £11,850,000 Notes to the English Bankers in part payment for £32,702,000 in gold coin collected from them in the first three months of the year (vide chapter on Gold and Silver).

*Vide below, "Currency Notes, Reserve".

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From 7th April to 31st December 1920 the total Notes increased by £14,827,000 and the "Notes with the Public" £26,040,000, a loss to the Reserve of some £11,200,000 (Proportion 31st December 1920 7%).

The Currency Note Account is once more the explanation of £12,950,000 of this increase of £26 millions in the "Notes with the Public" and of the net loss to the Reserve, leaving an increase of £13 millions in the circulation to be accounted for.

To explain this it would appear unnecessary to consider the question of Velocity of Circulation, which, though roughly calculable for Total Purchasing Media, is difficult to gauge in respect of the component parts of that aggregate, viz., Currency and Deposits, and impossible for a single factor in the former sub-heading. For deflation did not at first affect wages; these in fact continued to increase throughout the year 1920, moving from a level in December 1919 126% above pre-War rates to 176% above in December 1920. Such wage increases alone may have absorbed easily the £13 millions in question. (It may be noted that the collection of gold from the Scottish and Irish Bankers, some £9,000,000, did not affect Bank Notes, as the whole amount was paid for in Currency Notes).

The figures for 1921 to the end of August

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require no comment, for, as already stated, the total issue slightly increased, while the contraction in the circulation of about £5,000,000 which took place quite near the end of the period, may safely be ascribed to deflation.

In conclusion it may be mentioned that the last right of Note issue by any Bank in England other than the Bank of England lapsed in January 1921, when Fox Fowler & Co. were absorbed by Lloyds Bank.* The Bank of England had not increased their fiduciary issue (under Section 5 of the Act of 1844) since August 1903, and the extent of their right to apply for an increase was thereby raised to about £1,300,000.

For the purpose of comparison, the following figures are appended:-

000's omitted. Yearly Averages.

Date	Total Notes	Notes with the Public	of which held by Currency Note A/c	Reserve
1914	£64,344	£31,605	-	£32,739
1915	£77,186	£33,783	-	£43,403
1916	£73,483	£35,456	-	£38,027
1917	£71,685	£40,195	-	£31,490
1918	£84,019	£56,743	-	£27,276
1919	£103,234	£78,690	£4,000	£24,544
1920	£134,389	£115,286	£19,450	£19,103
1921	£145,007	£127,304	£19,450	£17,703

*Amalgamations. After commenting on the fact that the

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only amalgamation to record for 1921 was that of Messrs. Fox, Fowler, and Co., of Somerset, with Lloyds Bank (an amalgamation involving the disappearance of the last bank in England and Wales possessing the right to issue its own notes), the Clearing House Report for the year makes the following comments, contrasting the position after the close of the War with the position a century ago:

"At the close of the Napoleonic Wars in 1813," says the Clearing House Report, "there were over 900 Banks in England and Wales issuing their own notes, every small town having its bank, but as soon as overseas trade was resumed and prices, particularly the price of wheat began to fall, many of these banks were soon in difficulties; they were small and their resources very slender, but there is no record of what their liabilities and assets consisted of. In the years 1813-14-15 280 of them failed, and in the financial crisis of 1825 many more went under, no fewer than 70 closing their doors within a period of six weeks. In 1844 when the Bank Act was passed there were 207 private banks having the right to issue notes, in 1901 there were 30 such banks, and in 1919 their number was reduced to six."

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NOTES.Figures at end of August in each year.

000's omitted.

Date	Total Notes	Notes with the Public	of which held by Currency Note A/c	Notes with Bank of England
1914	£61,598	£35,486	-	£26,112
1915	£85,735	£32,334	-	£53,401
1916	£72,866	£36,471	-	£36,395
1917	£70,360	£40,712	-	£29,648
1918	£87,011	£58,043	-	£28,968
1919	£104,668	£80,511	£250	£24,157
1920	£140,002	£126,263	£18,600	£13,739
1921	£145,037	£126,890	£19,450	£18,147

Maximum and Minimum Totals.

4 August 1914 - 31 December 1919				
		Maximum		Minimum
Notes issued	3/12/19	£108,752	7/8/14	£44,076
Notes with Public	24/12/19	£92,148	18/9/15	£31,409
1 January 1920 - 31 August 1921				
Notes issued	31/ 8/21	£145,037	8/1/20	£108,742
Notes with Public	23/12/20	£134,917	17/1/20	£87,285

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NOTES.Circulation. (continued)

There was never any actual embargo during the War upon the export of Bank Notes or Treasury Notes as such and, in view of the obstacles which had to be placed in the way of the export of gold, the Bank of England were anxious that at least no restrictions should be placed upon the free circulation of their Notes. But the prohibition of the remittance of money to enemy countries under the Trading with the Enemy Acts and Proclamations resulted in the Postal Censor stopping every remittance of Notes leaving the country, unless the documents accompanying them made it quite clear that no suspicion of any offence of this nature was involved. D.O.R.A. Regulation 41D of 27th November 1917 prohibited the remittance of money out of the United Kingdom, unless by permission of the Treasury (Trading with the Enemy Branch), for the purpose of subscribing to capital issues, purchasing securities or other property abroad other than merchandise or investing in foreign currencies. Bankers had to require of persons wishing to make remittances abroad that they should make a declaration in writing of their purpose.

The export of Bank of England Notes does not appear to have been carried on to any great extent by English Banks on their own account. Upon this subject the following extract from a letter written by Sir Adam Block* to Sir John Bradbury dated the 31st August 1918 may be quoted -

*Then Controller of Finance Section, Ministry of Blockade.

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"Rightly or wrongly, the Treasury resist a
"prohibition of the export of Bank of England Notes.
"That being so, there is no regulation to prevent
"Banks in this country from covering their sales of
"foreign exchange by sending Bank of England Notes
"to be sold and credited to their account abroad.

"Now, though this is so, the vast majority
"of Banks in London, to the best of my knowledge,
"will not touch the export of Bank Note business
"for their own account because they fear that they
"are being bought and used by the enemy for some
"purpose or other; and they also seem to be under
"the impression that, even were this not so, it
"would not be a proper thing, or in accordance with
"Government wishes, for them to employ the method
"of exporting Bank Notes to cover their sales of
"foreign currencies.

"There is, however, one notable exception -
"Messrs Samuel Montagu & Co. They freely send Bank
"Notes abroad for their own account to cover their
"sales of foreign currencies, in the meantime utilis-
"ing overdrafts pending arrival and sale abroad of
"said Notes."*

*For three weeks in August 1918 the total Note exports of Samuel Montagu & Co. according to Sir Adam Block, amounted to £193,000.

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Following this letter the Finance Section of the Ministry of Blockade were permitted by the Treasury to circularise the Banks on the 2nd October 1918 advising them as follows:-

"There is no special restriction upon the
"export of Bank of England and Treasury Notes, and
"these Notes may be sent abroad provided the re-
"mittance of money thereby effected complies with
"all the regulations in force relating to other
"forms of remittance to foreign countries."

According to returns apparently emanating from the Chief Postal Censor's Department, the total of British Bank Notes and Treasury Notes exported from the 1st January to the 12th October 1918 and recorded by them, was £4,089,710 and from detailed returns of the Censor between the 20th March and the 29th June it appears that the great bulk of the Notes went to Switzerland and Holland,* nearly all the rest going to Norway and Sweden in about equal proportions. It is not possible to estimate what the total of Bank Notes and Treasury Notes exported may have amounted to during the War.

It was about the time of the issuance of the D.O.R.A. Regulation, viz., the Autumn of 1917, that a Continental premium on Bank of England Notes appears to have

*The internment of prisoners in these two countries probably accounted for a large part of the Notes sent there.

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BANK NOTES been first noticed. A premium was also paid for Treasury Notes, but Bank Notes were said to command a larger figure, partly no doubt because the demand was chiefly for high denominations. American Notes were also in demand on the Continent about the same time. The matter attracted a good deal of attention at the Treasury and Foreign Office* and on 5th April 1918 the Treasury advised the Bank that Bank Notes were then selling in Holland, Switzerland and Denmark at a price in local currency exceeding by from 25 to 50% the price of sterling drafts and in some cases even the Mint parity rate of exchange. The Bank replied that they were not satisfied that any harm was being done thereby to the cause of the Allies; indeed rather the reverse. They said they were unable to ascertain the total then being exported to the countries in question but it did not exceed say, £3,000 a week.

It was, however, arranged forthwith that the Bank should record the numbers of any Notes the export of which was advised to them, although it was realised that only a fraction of the Notes actually exported would be covered in this way. The practice lasted only a few weeks for, subsequent to the 20th May, it was arranged, on the unofficial advice of the Deputy Governor of the Bank, that the Government should mark all Notes leaving

*On 18th March 1918 there was a suspension of mails to Holland and Switzerland for ten days pending investigation, similar action being suggested to the French.

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the United Kingdom. This was done by the Chief Postal Censor (acting under the Director of Military Intelligence) and from the 11th June 1918 to 20th December 1919 the Bank sent the Censor a daily list of such marked Notes as had been presented to them for payment.

On 24th April a notice was issued to the Press, at the request of the Treasury, asking that no reference should be made to the price of Bank of England Notes in foreign countries.

The results of the system of co-operation between the Postal Censor and the Bank were described by the Governor (letter to Scotland Yard 22/8/19) as having been "almost negligible" and on the 4th December 1919 the Army Council suggested its discontinuance to the Treasury. The Treasury agreed and as stated above, the Bank, except on the occasion of the presentation of one or two large parcels, ceased to advise the Postal Censor of payments as from 20th December 1919.

A number of different theories were advanced in explanation of the demand for Bank Notes abroad but very little satisfactory evidence was forthcoming in support of any one of them. There was, however, no doubt that a premium existed at the end of 1917 and throughout the greater part of 1918.

The allegation that Notes were purchased by German Agents, though frequently repeated, rested so far

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*It was alleged that clean notes commanded a better price than those which had been in circulation and if this was so, it would seem to give colour to the theory that they were used for Secret Service purposes for which marked notes might naturally be avoided.

⁺Another fantastic suggestion was that it was the intention of the Enemy to encourage the circulation of large amounts of British Notes, then discredit them by the issue of forged Notes and so force a run on the Bank.

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with regard to Turkey, it was said that the Turks trusted neither their own currency nor that of Germany or Austria. that their finances were in a chaotic state and that Bank Notes were in demand as a medium of exchange. The premium was also explained as being due to neutrals' and to Russia's demand. Russia, * Siberia and Eastern Europe generally, in fact all countries with badly depreciated currencies, were reported to be buyers.

Upon the attractiveness of the Notes to neutrals, the Censor (Trade Branch) in June 1918 stated that -

'The premium current lately in Switzerland, "Holland and the Scandinavian countries on Bank and "Treasury Notes of England, America and France, "accompanied as it has been with very low rates for "sterling exchange, affords a great chance to any- "body so disposed to conceal capital and to avoid "payments of income-tax for a considerable period

"The foreign merchant or trader, when he "has established a credit in this country by a "sale of goods, is unwilling to allow that credit "to lie idle; and it has been the custom in years "gone by to leave the money on deposit here or to "lend on short-term securities. The high rate of "income-tax in the United Kingdom has of late years

*There was also a demand for Russian Notes in Norway in the Spring of 1918.

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"rendered this undesirable, and the trader has re-
"sorted to the purchase of the Government bonds of
"his own country, in lieu of the above. This has
"had the effect of causing a big rise in the Govern-
"ment securities of the neutral countries. As an
"instance of this might be cited -

"Spanish 4% Bonds which used to stand at
"a very large discount in years gone by
"are now quoted over 100."

"The increase in the price of neutral
"Government bonds has caused investors of the class
"mentioned to look elsewhere for the employment of
"idle capital, and has probably given rise to a
"demand for Bank Notes as a form of temporary in-
"vestment free from income-tax and obtainable at a
"price which fully compensates for present loss of
"interest.

"Take the case of Switzerland, for example.
"The rate of exchange between that country and the
"United Kingdom now stands at about 18.70 francs to
"the £ sterling and a Swiss desirous of investing in
"Bank Notes is able to purchase them in this country
"at the existing rate of exchange. The Bank Notes
"are posted to Switzerland, a small charge only being
"necessary for insurance and postage. Then later
"on we have no more war purchases to make from

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"Switzerland, the balance of trade will readjust
"itself in our favour with a consequent improve-
"ment in the exchange and the holder of the Notes
"will probably be able to dispose of them at a
"profit which will fully compensate him for the
"temporary loss of interest.

"It will therefore be seen that there is
"some inducement to the acquisition and hoarding
"of allied paper money; an additional factor is
"the ease with which Notes can be carried and
"concealed."

As early as the 14th May 1918 the London Exchange Committee had expressed the opinion that the prohibition of the export of Bank Notes was economically unsound. They added, however, that they were not in a position to dispute with the Foreign Office whether the export was helping Germany. The Bank of England's point of view at this time (and thereafter) was that the Foreign Office had failed to establish the contention they put forward that this was the case.

The Army Council's reasons for suggesting discontinuance were that from the counter-espionage standpoint, the labour was no longer justified, for exhaustive investigations made in various parts of the world during the previous few months had produced no evidence sufficient to confirm the suspicion that Notes were being bought for this purpose. Moreover, since the Armistice, the Notes

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It does not appear, however, that a definite answer can be given to the question whether or not the facilities for obtaining British Notes were or were not a greater advantage to enemy countries than to the United Kingdom, and the question seems to have been found an equally controversial one in certain countries abroad where an embargo on export was instituted. France and Switzerland, for example, prohibited the export of their Notes, the measure causing considerable discussion in the latter country at least. The United States on the 7th September 1917 forbade the export of their Notes unless with approval of the Federal Reserve Board. Prohibition of export was urged in England at various times. On 23rd September 1918 the Governor wrote to Mr. Strong (Federal Reserve Bank of New York)

" There has been some talk about
 "prohibiting the export of our paper money but
 "nothing has come of it as yet. It is of course
 "inconvenient to this Bank that its active circulation should increase so largely but a good deal
 "of this increase is within the country; and I
 "cannot help thinking that at a time when we are

*£130,000 Notes marked by the Censor and returned to United Kingdom in November 1918 came, with very few exceptions, from the towns and frequently from the actual addresses to which they had originally been sent.

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"anxious to raise credits abroad and are willing to
"pay a handsome rate of interest on them, it must
"be good business for the country to place this
"paper abroad free of interest. The argument that
"Notes constitute a "first call" upon our gold does
"not hold water as any credit in England can be con-
"verted into Notes. Nor does there seem to be a
"vestige of proof that our Notes are being used by
"the enemy though dozens of suggestions have been
"made to that effect. I expect they are mainly
"used for hoarding and concealing wealth."

Mr. Strong replied on this point (11th October 1918) ex-
pressing an equal scepticism as regards the accumulation
of foreign paper currency by Germany.

While the Bank of England were either pleased
or but little disturbed to see the circulation of their
Notes increase abroad and remained unconvinced that
enemy countries were purchasing food or paying spies or
propagandists to any appreciable extent by their means,
they took up a somewhat different attitude in rather
different circumstances, namely, in regard to a proposal
for the use of Bank Notes as legal tender in Ecuador.
Information as to this suggestion reached the Bank in
December 1919. The exact scope of the proposals was
not very clear, but it seemed that the Commercial Bank
of Spanish America, or some off-shoot of it to be estab-
lished in Ecuador, sought permission to hold its Reserve

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in the form of Notes of the United States or Bank of England Notes, as an alternative to gold, or that the Notes of these two countries should be internal legal tender there. The introduction of Bank of England Notes into the proposal appeared to have been due to representations made by the British Foreign Office. The Governor wrote to the Treasury on the 2nd December 1919 a letter from which the following is an extract -

"I do not see how Bank of England Notes
"as well as United States Notes could possibly be
"interchangeable with the local currency of Ecuador
"at a fixed Exchange, at a time when British Ex-
"change is at a fluctuating discount of 15 to 20%
"in the United States and when shipments from the
"stock of gold in this country are not allowed.
"And I think that the Foreign Office in urging
"Ecuador to legislate in that sense would merely
"make the British Government ridiculous.

"Like you, I do not see that we can well
"interfere if foreign Governments choose to hold,
"or to allow their local Banks to hold, their
"reserves in British Notes; nor do I see that
"we could really interfere if they choose to make
"such Notes legal tender. But I would certainly
"not recommend that we should encourage foreign
"Governments to adopt either of these courses.

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"It is true that the holding by foreigners
"of Bank of England Notes constitutes a loan to
"this country free of interest. But when our
"currency laws come into full operation again
"such Notes will be fully secured by gold which
"also pays no interest; and I think that any
"spectacular advantage there may be in that sort
"of increase in our stock of gold is more than
"off-set by the fact that such additional stock
"would be extremely vulnerable and might give a
"false sense of security, while any such whole-
"sale employment of British Bank Notes abroad
"would greatly complicate the fixing of a proper
"limit for their fiduciary issue."

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NOTES.Forged Bank of England Notes.

In August 1914 the forgeries presented were almost entirely confined to the one variety known as the Warsaw, about 100 of which had been presented since its first appearance on the 11th October 1910; but only 14 of these came in during the early part of the War. The general appearance of this Note was rather grey, the paper indifferent and very easily torn, all four edges cut, the Medallion poorly engraved, and some of the numerals of a type not used by the Bank. There was a curious and unnecessary addition to the Sum Block of a large bead over the letters "iv" in "five". The watermark in the paper appeared to be produced with grease or similar matter.

At the beginning of 1915 a few pen-and-ink £5 Notes of a crude nature, and all bearing the same number, were presented, but nothing of interest occurred until the 3rd October 1916 when the first of the Amsterdam forgeries was presented. In December 1916 the investigation as to the origin of these forgeries was placed in the hands of the City Police who eventually traced them to an architectural draughtsman named L. W. Heckman, a Dutch subject, and his parents. The Heckmans were tried at Zutphen and convicted in December 1919, receiving sentences of one and three years penal servitude.

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These Amsterdam Notes, which were of all denominations up to and including £100, were executed by hand, the effect of a watermark being obtained by the means of picture varnish applied with a brush. They were inaccurate in many particulars for Heckman had to rely on his memory to a certain extent, as he did not possess examples of the higher denominations and could only borrow them for short periods. In all 119 such Notes were presented prior to 31st August 1921, the number in 1921 having dropped to eight.

In the latter half of 1918 a few pen-and-ink forgeries of a very rough type were presented. They emanated from the Prisoners of War Camp, Bramley.

On the 5th December 1918 the first of a fresh variety of forgeries was presented. These Notes were all of the denomination of £10, dated either 7 April 1915 or 17 April 1915, and in nearly every case were traced to towns in France. Eighteen Notes in all were presented, the last on the 3rd June 1920.

A great number of rumours had reached the Bolshevist Bank regarding the supposed forgery by Notes. the Soviet Government of large numbers of Bank Notes said to be the most perfect imitations as yet produced. Up to the end of August 1921 these reports were not confirmed by the specimens reaching the Bank.

On the 10th November 1919 the first of a

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series of Notes believed to be of Bolshevist origin was presented. These Notes, which were still coming in at the end of August 1921, were all dated 22nd June 1914, Kull, and were for £5. They were printed on a poor cream-coloured paper, the watermark, which was not manufactured in the paper, being obtained partly by pressure and partly by some substance of a greasy nature, the composition of which could not be ascertained. The numerals were of a very peculiar type and certain numbers frequently recurred. Up to 31st August 1921, 277 of these Notes were received, numbers coming from Russian Ports, Turkey, Persia and Egypt.

On the 30th December 1919 another type appeared. This came from Constantinople and the type is known by that name.* These Forgeries, which were still being presented at the end of August 1921, were of two denominations only, £5 and £10. The printing and paper were both poor and the watermark obtained by means of grease. 330 specimens were presented.

On the 13th June 1921 the first specimen of a £50 Note supposed to be of Bolshevist origin was presented. The paper was poor and easily torn, had imitation deckle edges and a grease watermark.

Eleven of these Notes, all dated 13th February 1915,

*In this connection the Bank considered the advisability of sending detectives to Constantinople and elsewhere in the Autumn of 1920 but did not do so.

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came in, all from Constantinople or Varna.

Perhaps the most disquieting case in connection with forgeries during the War period occurred at the end of 1920 when it was discovered that three men (Ford, Levy and Kuräsch), whose activities centred in Fords Hotel, 24, Calthorp Street, Gray's Inn Road, were apparently using the transfer process to reproduce French, American and Scotch Notes. The matter was brought to the notice of the Police by an informer and it was arranged to introduce to the gang one of the Bank's staff, who represented himself to be a man of wealth prepared to give support if he were satisfied that it was worth while. Evidence was in this way secured that the forgers were able to transfer from genuine Notes on to plain paper a large amount of the ink of the former, thus producing a very good, if somewhat blurred, impression of the Notes in reverse, from which they claimed they were able to print forged Notes.

The Bank of England, experimenting themselves, discovered that the claim was well founded as regards their own Notes. In the case of coloured Notes, however, less success was obtained for, in general, where two or more colours were superimposed upon each other only the top colour could be satisfactorily transferred. The accused men seem to have obtained specimens rather better

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in this respect, and their productions might perhaps in time have been equalled by the Bank, but on the whole the Bank were forced to admit that Notes in various colours possessed a real advantage over plain Notes as regards liability to forgery by these means.

The three men were eventually arrested and brought up for trial at the Central Criminal Court, where they were convicted on the 16th February 1921 of conspiracy to defraud only,* it being agreed between the Bank of England and the Public Prosecutor that it was against the Public interest to produce in Court the evidence necessary to obtain a conviction on any other count.

*i.e., to defraud by obtaining funds wherewith to execute forgeries.

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The figures given below show the total number of forgeries of Bank of England Notes presented each year from 1914 to 1921 and their average per million of Notes paid.

	<u>No. of Notes presented</u>	<u>Value</u>	<u>Average per million</u>
1914	59	£329	3
1915	25	178	2
1916	14	64	1
1917	27	135	3
1918	32	293	3
1919	122	1,168	7
1920	455	2,932	20
1921	<u>359</u>	<u>2,820</u>	14
	<u>1,093</u>	<u>£7,919</u>	
	=====	=====	

23 Bank of Engraving Notes were presented during the War, a number much in excess of the average. There were six prosecutions for uttering the Notes, in five of which a conviction was obtained, the sentences imposed varying from 12 to 20 months' Hard Labour. Over 1,100 specimens of the Notes came into the possession of the Bank, but after the prosecutions no more was seen of such Notes.

CHAPTER VIBANK NOTES AND CURRENCY NOTESBANK
NOTESRe-Issue of Bank Notes

From the 4th August to the 10th September 1914 inclusive, those Notes considered suitable for re-issue were left uncanceled, tied up in bundles and in the possession of the Bank's Treasury. From this date until the 25th April 1917,* when re-issue started on an organised system, only parcels of new Notes with consecutive numbers were left uncanceled and handed over to the Bank's Treasury for re-issue.

The uncanceled Notes delivered to the Treasury between 4th August and 10th September 1914 remained untouched until near the end of November 1916 when they were sent back to the Bank Note Office in batches of 20,000 Notes each evening, there to be sorted, counted, entered, posted in the Ledgers in a distinctive manner, those suitable for re-issue being tied up again into bundles of 500 and returned to the Treasury. Re-issue to the Public from these Notes began on 30th November. The total number and amount of Notes re-issued to the Public during the War period are shown in the following table:-

*On this day the Committee of Treasury accepted in principle the re-issue of £5 and £10 Notes.

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London Bank Notes re-issued to
the Public during each of the following years.

	£5	£10	£20	£50	£100	£200	£500	£1,000	Number	Value
1914 (From Aug. 4)	92,100	40,400							132,500	£864,500
1915	60,600	21,100	18,500	12,500	7,250				119,950	2,234,000
1916	456,000	80,000	25,000						561,000	3,580,000
1917	1,892,000	176,500							2,068,500	11,225,000
1918	1,833,500	269,800	20,820	500	450				2,125,070	12,351,900
1919	402,000	69,500	2,600	800	500	200			475,600	2,887,000
1920	3,100	1,450		23,000	2,500		3,200	8,343	41,593	11,373,000
1921 (To Aug. 31)	2,500		1,000						3,500	32,500
	4,741,800	658,750	67,920	36,800	10,700	200	3,200	8,343	5,527,713	£44,547,900

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As from 11th April 1919 only parcels of new Notes amounting to at least 500 Notes with consecutive numbers were set aside for re-issue. This was the practice before the War.

It may be noted that on the 20th August 1918 the Bank approached the Clearing House with regard to the mutilation of Notes by excessive stamping as Notes frequently bore several impressions of the same stamp, thus rendering them unfit for re-issue. The chief offenders were the London City & Midland Bank, the London County & Westminster Bank and the National Bank of Scotland; about 1,200 Notes were so rendered unfit for re-issue each day.

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NOTES.Destruction of Bank Notes.

The period for which paid Bank Notes have been stored before destruction has varied from time to time. At the outbreak of War the period was three years, but there were two years' Notes scheduled for destruction at the Record Office, Barnes, (1907 - 8) which had not been destroyed.

The period of retention was reduced to one year on the 22nd December 1914*and extended to seven years in April 1915.

The method of destruction employed in 1914 was pulping. The Notes were reduced to pulp by a machine installed in the basement in the north east corner of the Bank, under the control of the Printing Department, a representative from the Accountant's Bank Note Office being present. The last pulping took place on the 11th July 1914.

The process was then discontinued, and the machine sold in October of that year, as the price obtained for the pulp (50^s/- per ton) was not sufficient to pay for the cost of labour and bags. A guillotine with automatic shaving attachments was bought and installed in December, and in the following February a five year contract was entered into with W.Howard & Son of Chartham Mills to take the

*On the 4th November 1914 the Governor reported to the Committee of Treasury the destruction of Bank Notes cancelled in 1912, to make room for work in connection with forthcoming War Loan.

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BANK NOTES. shavings at £4:10. - per ton. This contract had to be broken almost immediately as the Bank decided in April to extend the period of storing Notes to seven years.

The bulk of the accumulated Notes set free by the Order of the 22nd December 1914 was burnt at Messrs. Peek Frean's biscuit factory in the early part of 1915.

During the latter half of 1918 and the early part of 1919, the Notes paid in 1907/8 were removed at intervals from the Record Office by H. M. Stationery Office to the premises of Phillips Mills & Co. Ltd., Battersea, where they were pulped. The last pulping took place on the 28th March 1919.

The burning of Notes commenced at the Record Office, Barnes, on the 29th May 1919 and this remained the method of destruction during the rest of the War period.

On the 31st January 1919 a £5 Hull Note which had been paid and cancelled* on the 30th May 1911 was sent to the Chief Cashier with an anonymous letter, the Note having been patched with portions of a Bank of Engraving Note. The Notes paid on the 30th May 1911 had been moved by H. M. Stationery Office from the Record Office to Battersea to be pulped on the 12th August 1918. Thirteen Notes from the same file were

*by punching.

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subsequently presented or surrendered, the last being brought in on the 28th January 1920.

An investigation into the circumstances of the loss of these Notes was made by H.M. Stationery Office without any result.

Although destruction of Notes by pulping or burning was always supervised by one or more representatives of the Bank, the Stationery Office were alone responsible during the packing and transfer of the Notes from the Record Office to Battersea.

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Printing, Watermark, Forgeries, etc.,
Notes Issued and Paid.

STAFF, OFFICE ROOM, METHODS OF CANCELLATION OF NOTESADVANCESSCOTTISH AND IRISH BANKS' EXCESS ISSUES AND LEGAL TENDER STATUS

Currency Note Certificates

AUSTRALIA, etc.

Encashment of Notes in.

ACCOUNTING

Redemption Account and
Investments Reserve Account.
The Return.

INVESTMENTSRESERVERECOMMENDATIONS OF CURRENCY COMMITTEE, MAXIMUM FIDUCIARY ISSUEMANAGEMENT TERMS, RE-ISSUE, NOTE REGISTER

CHAPTER VIBANK NOTES AND CURRENCY NOTES.CURRENCY NOTES.The Acts.

The Currency and Bank Notes Act was passed on the 6th August 1914. The main provisions of the Act were -

The issue of £1 and 10/-^s Notes by H.M. Treasury, the Notes to be legal tender in the United Kingdom for any amount and to be payable on demand at the Bank of England in gold coin.

Postal Orders to be legal tender in the United Kingdom for any amount and to be payable at the Bank of England in any legal tender coin. (Revoked by the Proclamation of the 3rd February 1915)

Currency Notes to be issued by way of advance in such manner as the Treasury direct. (The Treasury Minutes covering facilities under this provision of the Act were revoked, as from 1st January 1920, by Treasury Minute of 15th December 1919)

The Bank of England and any Scottish or Irish Bank of Issue, so far as temporarily authorised by the Treasury, to have power to issue Notes in excess of any limit fixed by law.

Bank Notes issued by any Scottish or Irish Bank of Issue to be legal tender for any amount in Scotland or Ireland respectively: the Bank of Issue not to be under any obligation to pay

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their Notes on demand except at the Head Office, the Notes to be payable, if the Bank see fit, in Currency Notes. (Revoked, as from 1st January 1920, by Proclamation of the 20th December 1919)

On the 28th August 1914 the Currency and Bank Notes (Amendment) Act was passed which provided for -

The exchange of Notes called in for other Notes of the same face value.

The issue of Currency Note Certificates.

Copies of the Currency and Bank Notes Act 1914, the Currency and Bank Notes (Amendment) Act 1914 and of the various Proclamations, Treasury Minutes and Notices issued in this connection will be found in the Chief Cashier's Private File No.161.

The Three SeriesDates of Issue

	<u>£1</u>	^s <u>10/-</u>
1st Series	7th August 1914	14th August 1914
2nd Series	23rd October 1914	21st January 1915
3rd Series	1st February 1917	2nd November 1918

Currency Notes were at first intended as an emergency issue.* to tide over the first few weeks of

*A considerable portion of (shorthand) Notes of Meetings held at the House of Commons and Treasury on the 4th, 5th and 6th August 1914, between Government, Bank of England and other Bankers and Traders is filed in C.C.P.120. The conditions of the issue of Currency Notes are discussed at great length. At one point, on the 6th August, Sir John Bradbury remarked;

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War; they were placed "at the disposal of Banks for "meeting exceptional demands" and took the form of Advances at interest. Their status was not enlarged until the 20th August 1914 when a Treasury Minute accepted the principle that they should also "be "issued to any person upon application through the "Bank of England on payment of the face value of the "Notes required, the amount paid being carried to the "separate account.....to be called the Currency Note "Redemption Account". Thenceforward Notes could be obtained at face value without an interest charge for the privilege.

The Currency Notes were not printed by the Printing Bank of England. An account of the arrangements made by the Treasury for the printing of the first two series of Notes and of the specimen £1 Notes submitted by the Bank of England will be found in the "Printing Department" Section (Chapter 7).

The first delivery of Notes, £2,480,000 £1 First Series Notes, was received from the Stamps Department,

Inland Revenue, Somerset House, on Thursday the 6th August 1914; 10/- Notes were received a week

"...I think it is essential they (i.e. the Bankers) "should have every motive to withdraw this currency as "quickly as possible."

On the 13th August the future of the Notes was still in doubt for on that day the Committee of Treasury agreed to urge on the Chancellor that in the event of the £1 Notes being permanently continued they should be issued by the Bank.

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later. The Notes were issued to Bankers on the same day, the last of the additional Bank Holidays, in order that they might be sent to the country to be available at the recommencement of business on the following day. (As explained in the Section on Bank Notes it was necessary on the 7th August to supplement the issue of Currency Notes by Bank Notes taken from Store to the extent of £5,500,000)

The first series of Currency Notes was such a poor production that it was easily copied. Forged Notes soon appeared; by the end of October 1914 over 300, and by the end of December over 2,000, had been detected at the Bank.*

On the 23rd October a second and larger £1 Note was issued. This, although of improved design, presented little difficulty to the forger so that several counterfeits appeared within two months of its issue and by the end of 1915 the number had reached 4,200. During the year 1916 the number was nearly 3,500: in many cases the imitation was so good that detection was far from easy.

After the introduction of this Note, the Bank wrote to the Treasury pointing out that the employment of the wave line watermark in the paper of the Note seriously affected the safeguard on which the Bank principally relied for protection against forgery of Bank Notes. The Treasury were reminded that

*Sir Basil Thomson estimated the total of First Series forgeries at £60,000. (vide "Queer People", published 1922.)

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the exclusive right to use "curved or waving lines" was first specifically secured to the Bank of England in 1801, subsequently confirmed by Sections in later Acts, and that though the Sections had since been repealed their place had been taken by the provisions of Section 9 of the Forgery Act 1913 which preserved to the Bank, although in more general terms, the rights previously accorded. After referring to the correspondence of August 1913 in which the Treasury stated that the Advisory Committee engaged on the Forgery Act considered that the protection afforded was as ample as under the previous law, the Bank said that they viewed with grave apprehension the fact that an ordinary firm of trade paper-makers had for the first time been allowed to make the apparatus required for the production of paper containing the "wave line" watermark and that, under Treasury directions, the Statute protecting the Bank had been contravened. The Bank appreciated that in the pressure of affairs, their rights might have been inadvertently overlooked but asked for an assurance that, when affairs became normal, the protection hitherto afforded might be restored to them.

No reply to this letter was received and the
 Second series ^S10/- Note was issued in January
 Series
 10/- 1915 with the same watermark. This was the
 only series of ^S10/- Note which was forged to any extent

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CURRENCY NOTES. nearly 900 spurious Notes being detected in 1918 and again in 1919, though this number was far in excess of that for any other years.

On the 28th February 1916 the Bank called the attention of the Treasury to the fact that no answer had been received on the subject of the employment of the wave line watermark and asked that, as it was understood that an early issue of Currency Notes of a further new design was under contemplation, their rights might not on this occasion be violated. The Treasury replied that the matter was receiving very careful consideration and subsequently enquired whether the Bank would not withdraw their objection to the use of the "wave line" in the new Note as they were advised that substantial advantages in the way of security would be gained thereby.

The matter was considered by the Court*and it was resolved not to agree to the proposal. The Treasury deferred to the Bank's wishes in the matter.

The third series of £1 Notes, a coloured Note still in use on 31st August 1921, was issued on the 1st February 1917, the printing being done by Messrs. Waterlow Bros. & Layton Ltd. Forgeries of this type were inconsiderable until 1920, during which year they amounted to over 1,000 and increased to over 1,700 in 1921. On the 9th July 1920 the Bankers'

*O.C. 6.4.1916.

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Clearing House sent a circular to Bankers drawing attention to the fact that such forgeries as reached the Inland Revenue only did so after so long a delay that when placed in the hands of the Police it was almost impossible to trace their source. The Banks were therefore requested to instruct their Branch Managers to inform the local Police at once in cases outside the Metropolitan Police area and the Directors of Criminal Police Investigation, New Scotland Yard, in cases within that area whenever a forged Note was tendered.

In the Autumn of 1918 owing to the continued demand for small currency and the difficulty of obtaining silver to meet the demand, preparations were made for the issue of Currency Notes of 5-^{s} and $2\text{-}^{\text{s}}\text{d}$ and even 1-^{s} each (Vide C.C.P. 18) but owing to the decision to undertake the recoinage of silver (the coins to be .5 fine instead of .925 fine) the necessity for the use of these Notes did not arise.

The third series of 10-^{s} Notes was not issued until November 1918, the printing again being entrusted to Messrs. Waterlow Bros. & Layton Ltd. A slight alteration in the Note was subsequently made, all cyphers and numbers being printed in red instead of in black. This change was made because of

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CURRENCY NOTES complaints as to the similarity of appearance between the 10/-^s Note and the £1 Note, a criticism for which there did not seem to be much justification but which it was desirable to avoid if possible.

Specimens of the Notes of all these three series are in the possession of the Chief Cashier.

Notes for Turkey Between May and November 1915 Currency Notes of £1 and 10/-^s overprinted in Turkish were sent to Alexandria for the use of the troops operating in Turkey. In all 1,860,000 Notes were sent of a total value of £1,050,000. The £1 Notes were overprinted 120 Silver Piastres; the 10/-^s Notes overprinted 60 Piastres. These Notes were also legal tender in England. Specimens of these Notes are held by the Bank (Currency Note Office).

Notes called in The first and second series of Currency Notes were called in by a Treasury Order dated 11th in June 1920, to be exchanged for other Notes of the same face value on application, before the 1st September 1920, at any Money Order Office in the United Kingdom or at the Bank of England or the Bank of Ireland.

A Treasury Minute dated 21st July 1920 provided for an extension of the time fixed by the previous Order and directed that on and after the 1st September 1920 the holder of any Currency Notes of the first and second issues might receive in exchange other Currency Notes on application at the Bank of England but not otherwise.

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The Minute also directed that the Notes of the first and second issues still outstanding be treated as cancelled, the words "or called in" being added to the heading in the Currency Note Return which formerly read - "Total cancelled"; and that in the second part of the Return a separate heading be introduced among the liabilities, viz., "Notes called in but not yet cancelled". The Notes of the first two issues outstanding on the date mentioned amounted to £7,148,564:10: -. On the 31st August 1921 this figure had been reduced to £1,934,549:10: -.

On the 16th February 1915, the Treasury issued a notice to the effect that the printing or use of advertisements bearing words, figures or marks peculiar to Currency Notes was a felony under Section 9 of the Forgery Act 1913 and that they regarded as highly objectionable the practice of stamping advertisements on genuine Currency Notes.

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NOTES.Notes Issued and Paid.

Below will be found a table showing (to the nearest £1,000) the variations in the total of Currency Notes outstanding in the years 1914 to 31st August 1921 and the Notes and Certificates issued and paid during that period.

000's omitted.

		Issued	Paid	Increase in Notes Outstanding	Outstanding Notes 31st December
1914	August to December	£71,719	£33,557	£38,162	£38,162
1915	January to December	£189,113	£124,440	£64,673	£102,835
1916	January to December	£249,226	£202,360	£46,866	£149,701
1917	January to December	£287,560	£223,226	£64,334	£214,035
1918	January to December	£338,263	£229,057	£109,206	£323,241
1919	January to December	£373,135	£340,223	£32,912	£356,153
1920	January to December	£409,503	£401,638	£7,865	£364,018
1921	January to 31st August	£237,450	£282,213	- £44,763	August 31st £319,253

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CURRENCY NOTES. 000's omitted

ISSUED

		Certificates	£1	8 10/-	Total
From August to 31 Dec. 1914			£57,942	£13,777	£71,719
During	1915	£17,060	£125,972	£46,081	£189,113
"	1916	£14,560	£175,361	£59,305	£249,226
"	1917	£22,400	£199,304	£65,856	£287,560
"	1918	£27,480	£237,886	£72,897	£338,263
"	1919	£23,390	£279,968	£69,777	£373,135
"	1920	£25,230	£312,024	£72,249	£409,503
1st Jan. to 31st Aug. 1921		£8,560	£181,676	£47,214	£237,450

000's omitted

PAID

		Certificates	£1	8 10/-	Total
From August to 31 Dec. 1914			£28,758	£4,799	£33,557
During	1915	£11,260	£83,151	£30,029	£124,440
"	1916	£4,730	£144,348	£53,282	£202,360
"	1917	£13,900	£149,933	£59,393	£223,226
"	1918	£14,010	£152,224	£62,823	£229,057
"	1919	£26,170	£242,890	£71,163	£340,223
"	1920	£27,390	£300,537	£73,711	£401,638
1st Jan. to 31st Aug. 1921		£18,890	£214,731	£48,592	£282,213

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The causes which operated to increase the Notes outstanding may be said in the main to have been the same as in the case of Bank Notes, viz., the rise in wages and increase in prices; the subject is dealt with in the previous Section on Bank Notes. After the end of 1918, however, a fairly constant seasonal movement of Currency Notes began. In each of the years 1919, 1920 and 1921 the Notes showed a low level at the beginning of the year, a rise in the Spring, a fall in the Summer or Autumn and a sharp rise again near the end of the year. Bank Notes showed a somewhat similar variation except that they had a tendency to rise during the Summer holiday season.

Staff - Office Room - Cancellation of Notes.

During the period August 1914 to 16th January 1915 the work connected with the issue and payment of Currency Notes was carried on in the Dividend Pay Office (Rotunda) and later in the Dividend Office adjoining.

The counting and examination of Notes paid in by Bankers was done after 5 o'clock p.m. by a staff of men borrowed from various Offices with occasional assistance by women clerks. The arrangement worked fairly well for a time, but as the work increased it became necessary to appoint a staff to deal with it in the day time and to set aside an Office for their use.

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The former residence of the Deputy Chief Cashier, over the front gate, was accordingly adapted for the purpose and on the 18th January 1915 the work was transferred thither.

The staff consisted of 4 men and 26 women clerks. To begin with, four rooms only were used. In a very short time, however, owing to the rapid increase in the work, the women clerks were increased to 40 and later to about 80, a considerable amount of late work also being necessary. All the available space the house afforded was utilised: the rooms were often overcrowded, but at the time further accommodation could not be found.

On the 1st November 1918 that part of the work immediately connected with the payment of Currency Notes, i.e., the cancelling, counting and examining of Notes returned from circulation, was transferred to the charge of the Principal of the Accountant's Bank Note Office. At the same time the work of the issue of Notes to Bankers was transferred to the Issue Office together with the book-keeping and the compilation of the weekly Return.

In January 1919, the staff engaged in the cancellation etc. of Notes was moved to temporary premises in Princes Street: two years later the staff moved back again to the Head Office and occupied rooms formerly used by the Printing Office. By this time 100 women and 7 men were employed during the day owing to the heavy increase

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in the work (in 1919, 239,000,000 Notes were dealt with and in 1921 over 293,000,000) and to the fact that overtime, which had been so much resorted to in previous years, was almost entirely discontinued in 1921. This was rendered possible not only because of the larger numbers employed but also in a marked degree because of the increased efficiency of the staff.

The cancellation of Currency Notes was at first effected by means of the Punching Machines employed for Dividend Warrants. A hole was punched through the centre of the Notes; this method, for reasons mentioned later, was abandoned in favour of holes pierced through the "numbers" of the Notes a process which entailed three or more strokes of the machine, while not more than 100 Notes could be dealt with at a time.

On the 19th June 1917, the Treasury approved the use of Hand Guillotines for the cancellation of 3rd series Notes by cutting off two corners; these machines were capable of cancelling 500 Notes in 4 strokes.

Owing to the delay in delivery of machinery consequent upon the War, it was not until the 3rd December 1917 that this method of cancelling could be put into force, and three machines only having been delivered by that time, a considerable portion of the cancelling still had to be carried out by the old system of punching.

In November 1918, the Bank decided to place an

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order for 5 electrically driven guillotines, each capable of cancelling 500 Notes in 2 strokes: these machines were brought into use in February 1920.

The new machines were found faulty in design and action and numerous alterations to parts had to be made from time to time, breakdowns being frequent, so that it was not until the latter half of 1921 that they were working with any degree of regularity, although meanwhile a considerable amount of time had been saved by their use.

During the latter part of 1914 and the beginning of 1915 the number of Currency Notes paid in at the Branches steadily increased. In August 1915 the question of permitting the Branches to count and cancel Notes was discussed, but definite instructions to carry out this duty were not given until the end of July 1918. After this date a staff of about 50 women were employed on Currency Note work at the Branches.

In July 1915, the Bank of Ireland represented to the Treasury that a considerable number of Currency Notes too soiled for re-issue were accumulating in their hands and that, in view of the dangers to which cross-channel traffic was then exposed, the Notes could not be sent to the Bank of England without undue expense and risk. In the circumstances the

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CURRENCY NOTES Treasury, by a Minute of the 27th July, (Amended as to procedure by a Minute of 3rd April 1918) authorised the Bank of Ireland as a temporary arrangement to cancel any such soiled Notes.

Under Treasury Minute of the 7th June 1916, the West African Currency Board were similarly permitted, as a temporary measure, to cancel in West Africa Currency Notes which it was not desirable to re-issue.

Advances.

Currency Notes were issued to Bankers against payment or in the form of an advance under Section 2 of the Currency and Bank Notes Act, as amplified by Treasury Minutes of the 6th and 20th August 1914. When a Banker took an advance it was generally in the form of a "credit" and not in actual Notes.* Advances were made to the extent of 20% of the total liabilities of the particular Bank on deposit and current account as shown in its last statement of account prior to the 6th August 1914, but subject to the proviso that where the liabilities on current and deposit account exceeded the total in the last audited balance sheet, the 20% was to be calculated by reference to the latter amount. Under the Act, these advances constituted a floating charge on the assets of the Bank in priority to all other such charges. In the Act

*The Notes were regarded as issued to the Banks though not handed to them. The Bank of England credited the Bank's accounts with the Notes, which were then paid by the Currency Note Redemption Account.

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CURRENCY NOTES. itself the word "floating" does not appear before "charge" but this was amended by a clause in the Finance Act 1915. The advances bore interest at Bank Rate, payable monthly.

The primary object of the facility was to place Bankers in a position to meet exceptional withdrawals on deposit and current account. Advances were also made to the National Debt Commissioners on account of the Post Office Savings Banks Fund and of the Trustee Savings Banks in order to provide funds for the payment of depositors: these advances bore interest at such rate as the Treasury from time to time determined.

In the first few weeks advances were made to approved Bankers without submitting to the Treasury individual names and the total which might be advanced in each case, though the sums required were well within the limit prescribed. By the beginning of September, however, the procedure had become regularized and, in order to avail themselves of the facility for taking advances, Bankers had to furnish copies of their balance sheets to the Bank of England, who informed the Treasury of the total money held on deposit and current account and enquired whether advances not exceeding 20% of the figure might be made. On receiving a reply from the Treasury, the Bank of England informed the Bankers concerned as to the limit within which they were at liberty to apply for advances.

The Bank were required to report to the Treasury

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CURRENCY NOTES. cases in which, in their opinion, it would not be prudent to comply with applications or would be desirable to restrict the amount of the possible advance.

The majority of Bankers took the precaution to obtain Treasury approval to possible advances although in many cases no advance was taken. Indeed the bulk of the advances made were speedily paid off as the following figures will show -

Advances outstanding

On 26th August	1914	£10,111,650 (maximum)
" 30th September	"	£3,881,500
" 30th October	"	£2,165,000
" 30th November	"	£939,000
" 31st December	"	£614,000 (of which Trustee Savings Banks Advances £450 ^m)

In September 1914, the Treasury gave Bankers an assurance that facilities for advances would not be withdrawn except after a period of notice during which Bankers would be allowed to take up such part of their authorised totals as they might think necessary. The Treasury Minutes of the 6th and 20th August 1914 were not, in fact, revoked until 1st January 1920, by which time the need for advances under the Act had entirely disappeared.

Several Banks took advantage of these advances during the issue of the War Loans when large withdrawals were made by their customers on account of subscriptions.

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CURRENCY NOTES The advances were, however, again of a temporary character, as is shown below:-

4½% War Loan issued June 1915*

At the end of July 1915 advances amounted to	£3,354,000	
Reduced at the end of September to	£595,000	
During the year 1916 these were further reduced to	£104,000	of which Trustee Savings Banks Advances £40 ^(L))

5% War Loan issued January 1917

On the 15th March 1917 advances amounted to	£3,900,000	
At the end of July all were repaid except	£434,500	(of which £255,500 Savings Banks Special Investment Account Advances)

During the years 1918 and 1919 advances fluctuated between £700,000 and £350,000. On the 15th December 1919, the date on which the Treasury notified their intention to withdraw the facilities, £505,000 (of which Bankers' Advances £250,000) was outstanding, all of which was repaid by the end of August 1920.

*In connection with the issue of the 4½% War Loan, the following arrangement with the Bankers was made, by agreement with the Treasury, early in August 1915 -

"On the written request of any Bank to whom the Government have granted Currency Note facilities the Bank of England to deposit in their name with such Bank a sum not exceeding five per cent. of its published deposits on or about the 30th June 1915. Any such deposit to have the effect of reducing by the same amount such Bank's Currency Note facilities.

"The rate of interest to be one-half per cent. under Bank Rate varying. The deposit to be repaid not later than the 15th November 1915, with the option to the Bank with whom the deposit is made of repaying at any earlier date".

Under this arrangement deposits aggregating £12,507,000 were made with the Bankers. The sums deposited were charged to the Exchequer and the whole of the interest earned accrued to H.M. Treasury.
(Vide G.C.P. 171)

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Scottish and Irish Banks'

Excess Issues and Legal Tender Status.

Currency Notes Certificates

Currency Notes Certificates, for the issue of which the Currency and Bank Notes (Amendment) Act 1914 provided, were not issued until July 1915. The Certificates were not used for circulation but to avoid the cumbersome process of setting aside and subsequently releasing actual Notes at the Bank of England in connection with the excess issues of Scottish and Irish Banks; such issues were sanctioned under Section 3 of the Currency and Bank Notes Act 1914 which was amplified by Treasury Minute of the 6th August 1914. The Minute authorised the Banks of Issue in Scotland and Ireland, in view of the apprehended shortage of currency in those parts of the United Kingdom, temporarily to increase their issues by an amount not exceeding 20 per cent. of their total liabilities on current and deposit account as shown in the monthly balance sheet last issued before the date of the Treasury Minute. Following the provisions of the Bank Notes (Scotland) Act 1845 and Bankers (Ireland) Act 1845, the condition was laid down that a Bank should not have in circulation upon the average of any period of four weeks a greater amount of Notes

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than the amount authorised by the Certificate of each Bank plus the monthly average of gold, silver coin and Currency Notes held at the Head Office during the same period; but Currency Notes deposited in the name of the Bank with the Governor and Company of the Bank of England could be treated as if they were held at the Head Office. The Currency Notes might be taken by way of advance in which case interest at Bank Rate varying was charged; but only one Bank ever took advances for this purpose.

The following is a summary of the amounts set aside at the Bank of England under this heading by Scottish and Irish Banks at the end of each year 1914/20 and on 31st August 1921.

<u>000's omitted</u>	<u>Scottish Banks</u>	<u>Irish Banks</u>
1914	£1,630	£1,900
1915	£4,980	£5,425
1916	£7,860	£9,070
1917	£12,405	£11,520
1918	£18,100	£18,880
1919	£20,610	£13,310
1920	£23,310	£10,085
31 Aug. 1921	£19,575	£3,400

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The "Committee on Currency and Foreign Exchanges after the War", in their final report dated the 3rd December 1919, recommended that the status of legal tender given to the Notes of the Scottish and Irish Banks of Issue as an emergency measure at the outbreak of War should be revoked. Effect was given to this recommendation as from the 1st January 1920 by a Proclamation of the 20th December 1919, despite a protest made to the Treasury in a letter dated the 19th December from the Bank of Ireland writing on behalf of the Irish Banks. These feared that it would not be possible to obtain by the 1st January a sufficient supply of Currency Notes to meet their requirements in respect of outstanding Notes; and the Bank of Ireland expressed the opinion that if proper currency were known not to be available the opportunity to demand it would be taken by those who desired to discredit the Government. They added that the time afforded for the change was insufficient. The Treasury, however, saw no reason for believing that Irish Banks would experience any special difficulty in obtaining supplies of Currency Notes and offered, if necessary, to ask the War Office to provide a military escort to accompany the Notes to Dublin.

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NOTES.Arrangements for Cashing Bank Notes
and Currency Notes in Australia - and
Proposed Extension of Arrangements to South Africa.

The Commonwealth Bank of Australia arranged in 1917, chiefly for the benefit of the Australian Imperial Force, disabled members of which were then being repatriated in large numbers, that their Australian Officers should cash Bank of England and Currency Notes free of commission.

In view of the possibility of the loss of these Notes in transit by the action of German submarines the Commonwealth Bank, in August 1917, suggested to the Bank that production of the actual Notes cashed should be waived and that reimbursement should be made in London against certified lists of the numbers of the Notes encashed. To this the Bank of England and the Treasury agreed, provided that the Commonwealth Bank accepted all responsibility in the event of any forged or mutilated Notes being paid in Australia under this arrangement.

An indemnity was accordingly obtained covering the Bank of England and the Treasury against any loss that they might incur by the payment in Australia of any forged or mutilated Notes or by the loss of Notes in transit to England. It was decided that the actual Notes should be cancelled and retained in Australia until the end of the War. The methods adopted worked smoothly.

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A few months after the Armistice the Bank suggested that the time had arrived for the discontinuance of the arrangement and requested the Commonwealth Bank to forward the Notes already encashed. At the urgent request of the Commonwealth Bank the system in force was, however, continued until the 30th September 1919.

Shortly before the date by which the agreement was due to terminate, a parcel of cancelled Currency Notes amounting to £5,000 was stolen in France whilst in transit from Australia. This caused the question to be reopened by the Commonwealth Bank and a further extension of six months to the 31st March 1920 was agreed to. Some of the stolen Notes bearing the somewhat unsatisfactory cancellation used by the Commonwealth Bank were presented from time to time: payment was invariably refused.

The total amount of Notes paid under the arrangement ended 31st March 1920 was -

Bank of England Notes	£197,325
Currency Notes	<u>1,391,182</u>
	<u>£1,588,507</u>
	=====

On the expiration of the six months' extension the Commonwealth Bank again strongly urged the Treasury and Bank to renew the arrangement in view of the danger of remitting uncanceled Notes some 13,000 miles by post and of the fact that Australian soldiers were still presenting Notes for encashment in substantial amounts. It was

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CURRENCY NOTES. therefore reluctantly decided to agree that Notes cashed in Australia might still be cancelled there until the 28th February 1921, but it was stipulated that reimbursement should not be made until the actual Notes were presented in London and that no cancelled Notes should be accepted at the Bank of England after the 30th April 1921.

Proposed Cancellation of Currency Notes
in South Africa.

In August 1918, the Treasury agreed that, as a temporary measure, Currency Notes might be cancelled in South Africa by the National Bank of South Africa Ltd. and by the African Banking Corporation, the arrangement to follow the lines of that made with the Commonwealth Bank of Australia. In view of the cessation of hostilities in November, however, the arrangement was never brought into force.

Accounting.

Payments for Currency Notes issued were placed
 Redemption to the credit of an account in the Public
 Account Drawing Office at first entitled "Government
 Suspense Account Currency Notes" and the account was debited
 with the amount of Notes paid. The title of the account
 was changed on the 21st August 1914 to "The Currency Note
 Redemption Account".

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Prior to May 1915, interest on advances was credited to "Currency Notes, Interest on Government Advances Account". Subsequently the interest, together with the interest on securities, was placed to the credit of the "Investments Reserve Account". Up to the middle of May these figures did not appear in the Currency Note weekly Statement of Account, the form of which was prescribed by Treasury Minute of 20th August 1914; but under the authority of Treasury Minute dated 3rd May 1915 the title of the account was changed as indicated and the figures were embodied in the weekly Return on and after the 18th May 1915. The same Minute directed that securities should continue to be shown at cost price and that any profit or loss thereon should be credited or debited to the "Investments Reserve Account"; further, that when the sum standing to the credit of this account exceeded by more than £100,000 the proportion fixed by the Treasury as necessary to provide an adequate Reserve such excess should be transferred to the Exchequer. The proportion then fixed (which remained unchanged on 31st August 1921) below which the "Investment Reserve Account" might not be reduced was 5% of cost price of the securities held and advances outstanding. The total paid to the Exchequer under this heading up to the 31st August 1921 was as follows:-

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CURRENCY NOTES.	During the period ended	31 Dec.	1917	£1,550,000	
	"	"	1 Jan. to 31 "	1918	2,714,500
	"	"	1 " 31 "	1919	9,950,000
	"	"	1 " 31 "	1920	16,450,000
	"	"	1 " 31 Aug.	1921	<u>11,420,000</u>
					<u>£42,084,500</u>
					=====

A copy of the Currency Notes Return for the week ended 31st August 1921 follows, together with a short explanatory memorandum as to the composition of certain of the items.

CURRENCY NOTES.

(4 & 5 Geo. V., cc. 14 and 72.)

I.—ISSUE ACCOUNT.

	£	s.	d.		£	s.	d.	£	s.	d.
Total issued up to 24th August, 1921, inclusive—				Total cancelled or called in up to 24th August, 1921, inclusive—						
£1 Notes	1,564,526,869	0	0	£1 Notes	1,311,158,664	0	0			
10/- Notes	445,804,414	10	0	10/- Notes	403,306,874	0	0			
Currency Notes Certificates	138,530,000	0	0	Currency Notes Certificates	115,980,000	0	0			
Issued during the week ended 31st August, 1921—				Cancelled or called in during the week ended 31st August, 1921—						
£1 Notes	5,607,426	0	0	£1 Notes	6,350,731	0	0			
10/- Notes	1,351,332	0	0	10/- Notes	1,484,264	10	0			
Currency Notes Certificates	150,000	0	0	Currency Notes Certificates	370,000	0	0			
				TOTAL ..	£1,838,650,533	10	0			
				Outstanding—						
				£1 Notes	252,624,900	0	0			
				10/- Notes	42,364,608	0	0			
				Currency Notes Certificates	22,330,000	0	0			
				TOTAL ..	317,319,508	0	0			
TOTAL ..	£2,155,970,041	10	0	TOTAL ..	£2,155,970,041	10	0			

II.—BALANCE SHEET.

	£	s.	d.		£	s.	d.
Notes outstanding	294,989,508	0	0	Currency Note Redemption Account—			
Certificates outstanding	22,330,000	0	0	Bank of England Notes	19,450,000	0	0
Notes called in but not yet cancelled	1,934,549	10	0	Gold Coin and Bullion	28,500,000	0	0
				Silver Coin	3,000,000	0	0
				Government Securities	282,782,097	2	6
Investments Reserve Account	14,679,483	5	11	Balance at the Bank of England	201,443	13	5
TOTAL ..	£333,933,540	15	11	TOTAL ..	£333,933,540	15	11

TREASURY CHAMBERS,
1st September, 1921.

N. F. WARREN FISHER, *Secretary to the Treasury.*

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NOTES.The Return.

The item "Balance at the Bank of England" comprises two accounts -

- (a) Currency Note Redemption Account.
- (b) Investments Reserve Account.

(a) This account receives the money for all Notes issued, and is debited with all Notes paid.

(b) All interest on securities is credited to this Asset Account as well as profit upon realization or repayment of securities, the account similarly being debited should any loss be incurred; the balance forms a (minor) part of the Liability Account on the other side (see below).

Liability Item of "Investments Reserve Account"

This comprises (1) the cash balance represented by (b) and (2) the amount invested and included in "Government Securities".

But the figure standing to the credit of this account does not represent the total received, which is much greater, as it will be remembered that the Treasury Minute of 3rd May 1915 provided that if the balance on the account exceeded, by more than £100,000, 5% of the cost price of the securities the amount of such excess should be transferred to the Exchequer. As previously stated, under this arrangement no less than £42,084,500 had been appropriated up to 31st August 1921.

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NOTES.Investments.

Surplus funds upon the Currency Note Account were invested chiefly in Ways and Means Advances and in Treasury Bills. The first investments were made on the 1st September 1914 when £7,000,000 was advanced to the Exchequer on Ways and Means and £4,000,000 Treasury Bills were purchased.

In March 1915 £9,000,000 Exchequer $3\frac{1}{2}\%$ Bonds 1920 were taken over from the Bank of England, the Bonds forming part of those allotted to the Bank out of the unsuccessful issue of £50,000,000 made in the early part of the month. A further £1,000,000 of these Bonds was bought from the Bank in May but under a Treasury Minute of the 3rd September the £10,000,000 Bonds were cancelled and the money received by the Currency Note Account in payment was advanced to the National Debt Commissioners. Further advances were made to the Commissioners in September and October but on the 22nd November the total amount, £25,700,000, was repaid and £26,632,124: 7: 2 $4\frac{1}{2}\%$ War Stock 1925/45 was taken over from them. No Ways and Means Advances were made to the National Debt Commissioners after this time, the advances being taken always by H.M.Exchequer. In October a further large block of $4\frac{1}{2}\%$ War Loan was bought from the Commissioners.

The security transactions in the year 1916 call for little comment, as they consisted almost entirely of

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Ways and Means Advances and Treasury Bill movements except for some large purchases and sales of $4\frac{1}{2}\%$ War Loan through the Brokers. Treasury Bills "on tap" were acquired in the usual manner but some purchases were made in the Market in the early months of the year.

In the early part of 1917, owing to the issue of the 5% and 4% War Loans it was thought desirable to lend support to the Security Market in $4\frac{1}{2}\%$ War Loan, and large purchases of this Stock were made, the funds being provided in part by the sale of Treasury Bills or, where necessary, by the repayment of Ways and Means Advances. Some £35,000,000 $4\frac{1}{2}\%$ War Loan was converted under the terms of the Prospectus into £37,500,000 5% War Stock 1929/47. From March to the end of August systematic purchases of the latter Stock were effected for the Currency Note Account in place of purchases by the National Debt Commissioners for the Sinking Fund; in September this practice ceased and the Stock acquired, £15,600,000, was sold to the National Debt Commissioners, the money received being advanced to the Exchequer. After this time Sinking Fund purchases were made by the Commissioners through the Brokers in the customary manner.

In 1918 £26,000,000 5% National War Bonds 1923 then being issued "on tap" were taken up, otherwise the movements in that year and in 1919 need little mention. The Ways and Means Advances were reduced in 1919 by some

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CURRENCY NOTES £80,000,000 (after an increase of £66,000,000 in the previous year) and the Treasury Bill holdings were increased from £65,000,000 to £179,000,000, the policy of reducing Ways and Means Advances being adopted to relieve anxiety in the mind of the public as to this form of Government indebtedness. To the extent of £10,000,000 the variations were due to the fact that in January 1919, in order to prevent disturbance to the Money Market by reason of the recent large subscriptions to National War Bonds, surplus Exchequer balances were used to repay to the Currency Note Account Ways and Means Advances and the sums thereby produced on the latter account to buy Treasury Bills in the Market. The policy of using Currency Note Account balances to ease the Market or of withdrawing surplus funds by the sale of Treasury Bills held by the account was extended a good deal in later years though more particularly in the period subsequent to that under review

In 1920 \$178,000,000 Anglo-French Dollar Loan Bonds, purchased in America by H.M. Treasury in anticipation of redemption on 15th October, were taken over. Also, United Kingdom Convertible Gold Bonds (issued in America in October 1919) similarly purchased in New York, were converted under the terms of the Prospectus into £6,738,000 5% National War Bonds 1929,

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CURRENCY and transferred to the Currency Note Account.
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In October considerable sales of 5% War Loan were made and these were continued into 1921, when also some large amounts of 5% National War Bonds 1929 were disposed of.

In the first few months of 1921, Exchequer Bonds and National War Bonds maturing within a short period were extensively purchased, and in May holdings of National War Bonds were taken over from the National Debt Commissioners and from the Public Trustee; there were also some big transactions in Local Loans Stock.

By June the Currency Note Account held about £56,000,000 National War Bonds of various dates which were then converted into £91,000,000 3½% Conversion Loan under the terms of the Prospectus of that issue. Almost immediately it became possible to sell Conversion Loan in the Market and by the end of August the holding had been reduced by £9,000,000 Stock. Sales were also still being made of 5% War Stock, but while the Conversion Loan sales were made at a profit the 5% War Loan was being disposed of at a loss

In August £13,800,000 Exchequer 5% Bonds 1921 were converted into 5½% Treasury Bonds 1929 under the offer then made to holders of the former security.

From the foregoing brief survey of the Currency Note Account Investments it will be seen that

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the account often served a very useful purpose in connection with the financial operations of the Government, especially perhaps in regard to the purchase of securities shortly maturing for payment, the subsequent conversion of these securities in accordance with any terms which might be offered to the Public and then the sale on the Market as opportunity occurred of the security thus obtained. This policy was continued on a large scale and with much success subsequently to August 1921.

There follows a statement of securities held for the Currency Note Account at the date of the last published Return in the years specified.

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000's omitted.

End of	1914	1915	1916	1917	1918	1919	1920	31 August 1921
Ways & Means* Advances	£6,000	£25,000	£33,000	£106,876	£172,750	£92,450	£114,550	£68,400
Treasury Bills	4,000		55,000	45,449	65,441	179,450	162,350	119,055
4½% War Loan 1925/45		30,632	30,613					
5% War Loan 1929/47				37,590	37,615	37,615	25,800	8,442
5% Exchequer Bonds 1919				6	1,410			
5% Exchequer Bonds 1920				109	2,367	2,367		
5% Exchequer Bonds 1921				50	50	50		286
5% Exchequer Bonds 1922					1,704	1,704	472	7,683
6% Exchequer Bonds 1920					1,158	3,133		
5½% Exchequer Bonds 1925							6,818	8,055
National War Bonds 1922								750
National War Bonds 1923					26,100	26,100	26,100	
National War Bonds 1923 Series II								150
Ca. Fwd.	£10,000	£55,632	£118,613	£190,080	£308,595	£342,869	£336,090	£212,821

N.B. The figures given are the nominal amounts of the holdings.

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000's omitted

End of	1914	1915	1916	1917	1918	1919	1920	31 August 1921
Bt. Fwd.	£10,000	£55,632	£118,613	£190,080	£308,595	£342,869	£336,090	£212,821
National War Bonds 1927 Series I								3,300
National War Bonds 1929 Series IV							4,938	2,714
5½% Treasury Bonds 1929								13,882
5/15 Year Treasury Bonds 1935							350	600
3½% Conver- sion Loan								82,484
Local Loans								3,920
	£10,000	£55,632	£118,613	£190,080	£308,595	£342,869	£341,378	£319,721

N.B. The figures given are the nominal amounts of the holdings.

*The maximum figures for Ways & Means Advances were as follows (Weekly Statements only taken into consideration)

1914	£13,000,000	1918	£172,750,000
1915	£25,000,000	1919	£182,750,000
1916	£40,500,000	1920	£115,300,000
1917	£106,876,500	1921 (to 31 Aug.)	£107,650,000

The Advances were continuous throughout the period 2nd September 1914 - 31st August 1921 except in 1915 when they ran from January to 17th March and again from 29th October to end of year.

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Reserve - Recommendations of Currency Committee -

Maximum Fiduciary Issue.

"A return to the ordinary system of Banking is,
"on the very ground of the late extravagant fall of the
"Exchanges and high price of Gold, peculiarly requisite.
"That alone can effectually restore general confidence in
"the value of the circulating medium of the Kingdom. and
"the serious expectation of this event must enforce a pre-
"paratory reduction of the quantity of paper, and all
"other measures which accord with the true principles of
"Banking."

(Bullion Report 1810.)

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NOTES.Reserve - Recommendations of Currency Committee -
Maximum Fiduciary Issue.

The question of accumulating a reserve of gold Reserve against the Currency Note circulation arose soon after the passing of the Act of 1914, and on the 9th September the Bank, at the request of the Treasury, set aside £3,000,000 sovereigns on behalf of the Redemption Account and undertook that a further £500,000 should be set aside every Wednesday until further notice. On the 20th October, however, in view of the continued increase in the circulation, it was thought desirable that the reserve should be increased at a greater rate and on the following day a further £3,000,000 was set aside, the weekly amount to be so dealt with being increased from £500,000 to £1,000,000.

The Bank enquired of the Treasury whether they would consent to the substitution of gold bullion and foreign gold coin for the sovereigns set aside and to this the Treasury agreed on condition that so long as a cash balance was maintained on the Redemption Account the Bank would be prepared to pay Currency Notes presented for payment out of that balance in standard gold coin. The Treasury also expressed the opinion that, if at any time the amount of the cash balance became less than the amount of gold coin and bullion held upon the Redemption Account, half of the coin and bullion so held should be in standard

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CURRENCY gold coin.
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In December 1914 Ozs. 523,160.775 United States gold coin was set aside, this amount being gradually increased, while in February 1915 some bar gold was also earmarked. By 12th May 1915 the Gold Reserve had reached a total of £28,500,000 made up as follows:-

Sovereigns	£16,700,000
United States Gold Coin	8,800,000
Bar Gold	<u>3,000,000</u>
	<u>£28,500,000</u>
	=====

From that date to the end of the period with which this history is concerned the Gold Reserve was maintained at this figure, although the form in which it was held varied from time to time.

Thus in July 1915, owing to difficulties which the Bank were experiencing in meeting gold requirements, it was found necessary to ask the Treasury to permit part of the reserve to take the form of gold held abroad, and to this the Treasury, whilst expressing their disapproval of the principle involved, consented on condition that the Bank replaced gold held in England as soon as a convenient opportunity occurred. Accordingly £4,000,000 raw gold in South Africa was set aside and a further £4,800,000 in August, to replace the United States gold coin which was released. An addition of £5,000,000 was made in November (sovereigns to a like amount being

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released) making a total of £13,800,000 held abroad. The position then remained unchanged until June 1918 when £3,800,000 South African gold was released and a similar amount of bar gold at Ottawa set aside in its place. A further £1,000,000 was released on the 8th October and similarly replaced. From this date until March 1919 no change in the figures took place, there being £9,000,000 in South Africa and £4,800,000 at Ottawa. In March 1919 all this was released and bar gold at the Bank set aside until November when sovereigns were substituted, thus making the Gold Reserve £28,500,000 in sovereigns.

In addition to this reserve silver coin to the extent of £3,000,000 was set aside on the 14th April 1921 and was still retained on the 31st August 1921.*

The Currency Committee, in their Interim Recommendations Report,[†] published on the 15th August of Currency Committee 1918, expressed the opinion that after the War the conditions necessary to the maintenance of an effective gold standard should be restored without delay. The Committee considered that one of the pre-requisites for the restoration of an effective gold standard was that

"The issue of fiduciary Notes should, as soon as practicable, once more be limited by law, and the present arrangements under which deposits at the Bank of England may be exchanged for legal tender currency without

*This coin was taken over (at face value) to relieve the Bank of England, who had accumulated a large surplus of old coin in connection with the recoinage arrangements.

[†]See also Appendix giving the Governor's evidence before the Committee on 8th July 1918.

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"affecting the reserve of the Banking Department should
 "be terminated at the earliest possible moment. Subject
 "to transitional arrangements as regards Currency Notes
 "and to any special arrangements in regard to Scotland
 "and Ireland which we may have to propose when we come to
 "deal with the questions affecting those parts of the
 "United Kingdom, we recommend that the Note Issue (except
 "as regards existing private issues) should be entirely
 "in the hands of the Bank of England.* The Notes should
 "be payable in London only and should be legal tender
 "throughout the United Kingdom."

The Committee recommended that the principle of the Bank Charter Act 1844 should be maintained,* namely, that there should be a fixed fiduciary issue beyond which Notes should only be issued in exchange for gold, but that provision for an emergency should be made by the continuance in force, subject to stringent safeguards, of Section 3 of the Currency and Bank Notes Acts 1914, under which the Bank might, with the consent of the Treasury, temporarily issue Notes in excess of the legal limit.

The Committee formed the conclusion that it was not practicable to settle any precise figure at which the fiduciary Note issue should be fixed immediately after the War and added -

*In several respects the recommendations of the Currency Committee were identical with those of a special Committee appointed by the Bank of England to consider the Bank Act and kindred matters, which reported on 26th November 1918.

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"We think it desirable, therefore, to fix the amount
"which should be aimed at as the central Gold Reserve,
"leaving the fiduciary issue to be settled ultimately at
"such amount as can be kept in circulation without caus-
"ing the central Gold Reserve to fall below the amount
"so fixed. We recommend that the normal minimum of the
"central Gold Reserve to be aimed at should be, in the
"first instance, £150,000,000. Until this amount has
"been reached and maintained concurrently with a satis-
"factory foreign exchange position for at least a year.
"the policy of cautiously reducing the uncovered Note
"issue should be followed. When reductions have been
"effected, the actual maximum fiduciary circulation in
"any year should become the legal maximum for the
"following year, subject only to the emergency arrange-
"ments previously recommended. When the exchanges are
"working normally on the basis of a minimum reserve of
"£150,000,000, the position should again be reviewed in
"the light of the dimensions of the fiduciary issue as
"it then exists.

"We do not recommend the transfer of the exist-
"ing Currency Note issue to the Bank of England until
"the future dimensions of the fiduciary issue have been
"ascertained. During the transitional period the issue
"should remain a Government issue, but new Notes should
"be issued, not against Government securities, but against

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CURRENCY NOTES. "Bank of England Notes, and, furthermore, when opportunity arises for providing cover for existing uncovered Notes, Bank of England Notes should be used for this purpose also. Demands for new currency would then fall in the normal way on the Banking Department of the Bank of England.

"When the fiduciary portion of the issue has been reduced to an amount which experience shows to be consistent with the maintenance of a central Gold Reserve of £150,000,000, the outstanding Currency Notes should be retired and replaced by Bank of England Notes of low denomination in accordance with the detailed procedure which we describe. "

As an outcome of the recommendations of the Committee £250,000 in Bank of England Notes were set aside on the 6th August 1919 as a reserve against the Currency Note issue and the policy was adopted (until temporarily given up in November 1920, as explained later) of setting aside further Notes each week when the circulation of Currency Notes increased. By the 22nd December 1920 the Bank of England Notes set aside had reached a total of £19,450,000 at which figure they stood on the 31st August 1921.

In their final report (3/12/1919) the Committee expressed the view that, as demobilisation was fast approaching completion and it was hoped that fresh Government borrowing would shortly cease, effect should now be

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CURRENCY NOTES. given to the recommendation made in their Interim Report regarding the fixing each year of a legal maximum for the fiduciary circulation of Currency Notes for the following year, subject only to the possibility of an excess issue under Section 3 of the Currency and Bank Notes Act 1914.

Maximum A Treasury Minute was passed on the
Fiduciary Issue 15th December 1919 giving effect to
this recommendation.

The highest point of Currency
Notes outstanding in the
year 1919 was on the 3rd
April,* when the Notes
issued amounted to £349,108,298:10: -

Against which the gold
held was 28,500,000: -: -

Leaving a fiduciary
issue of £320,608,298:10: -
=====

The actual maximum fixed for the year 1920 was
£320,600,000.

By the beginning of July 1920, the
fiduciary issue was fast approaching the maximum
fixed for the year and the Governor wrote to the
Treasury on the 12th July stating that in the
opinion of the Bank the time had been reached
when the report of the "Committee on Currency
and Foreign Exchanges after the War" should be

*The maximum issue coincided with the date of
the weekly Return.

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made more fully effective, retaining (if the Treasury so desired) the £5,000,000 margin below the maximum fiduciary issue which the Treasury had, it was understood, long determined to keep.* The Governor therefore advocated that the maximum fiduciary issue of Currency Notes should be taken to have been reached, that the Bank Rate and Treasury Bill Rate should be raised by steps if and when the circulations continued to rise, and that further expansion should fall on the Issue Department of the Bank of England if need be under the Currency and Bank Notes Act.

The Treasury decided however to adopt the expedient of treating as cancelled, for the purpose of the first part of the weekly Currency Notes Return, outstanding Currency Notes of the first and second series which had been called in under Treasury Order of the 11th June 1920. This was effected, as previously mentioned, under the provisions of a Treasury Minute of the 21st July which also laid down that, in the second part of the Return, a heading be introduced among the liabilities under the title "Notes called in but not yet cancelled." The effect of this was to reduce the Notes outstanding by £7,149,000 and to increase the margin below the maximum fiduciary issue to £13,719,000 on the date

*It is of interest to note that about this time the Bank suggested to the Treasury the initiation of propaganda by the Post Office Savings Bank having for its object the reduction of the amount of Currency in circulation; such a campaign if successful to be taken up perhaps also by the Banks.

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of the Minute. At the beginning of August, with the holiday movement, the margin fell to some £7,500,000, but the Notes outstanding did not again approach the limit until the last few days of the year, when the margin was reduced to £2/3,000,000 despite the fact that £700,000 in Bank Notes had been set aside on the 22nd December for the Currency Note Account in pursuance of the policy which had been carried out consistently from August 1919 until November 1920 but which had then been suspended owing to the lowness of the Bank's Reserve. The latter fell even below £12,000,000 for 3 days in December.

In the year 1920 the highest point* of Currency Notes outstanding was on the 23rd December

£365,505,247: -: -

Against which the gold and Bank of England Notes held amounted to

47,950,000: -: -

Leaving a fiduciary issue of

£317,555,247: -: -
=====

which figure was accordingly the maximum for the year 1921.

The maximum was never approached during the year.

*According to the published figures. The actual maximum was on the 24th December when the total was £366,689,740 leaving a fiduciary issue of £318,739,740.

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NOTES.Management Terms - Re-issue - Note Register.

Treasury Minute of the 6th August 1914 paragraph 5 refers to a deduction by the Bank of England of whatever amount may be agreed between the Treasury and the Bank as fair remuneration for the latter's services in connection with the issue and withdrawal of Currency Notes.

On the 16th September 1914 the Bank wrote to the Treasury raising the question of the future management of the issue of Currency Notes and pointing out that the work was onerous and troublesome. The Treasury replied that under the circumstances the best course would be to relieve the Bank of the duty and that, if desired, they would make arrangements to this effect with the Inland Revenue as from the introduction of the Notes of new design then in contemplation. As, however, an immediate transfer would be attended with inconvenience the Treasury enquired whether the Bank would not be willing to continue the work until the termination of the War, and if so, at what scale of remuneration. The Bank answered that if the transfer would involve considerable inconvenience, which they were most unwilling to cause, they would be prepared to continue the management until the conclusion of War, without any remuneration. The Treasury accepted the offer with thanks and the arrangement is referred to in Treasury Minute of 3rd May 1915.

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On the 30th March 1916 the Treasury circularised the Bankers through the Committee of Clearing Banks in regard to the withdrawal from circulation of clean Currency Notes. The Treasury drew attention to the fact that efforts had been made by the Bank of England to induce the larger Banks to secure as long life as possible for the Notes but without satisfactory results so far. The Banks were accordingly requested to refrain, as far as possible, from remitting to the Bank of England Notes fit for further circulation, to discontinue stamping clean Notes and to use their influence with their customers to prevent them doing so.

In October of the same year the Inland Revenue raised, through the Treasury, the question whether preventable wastage of Currency Notes was not still occurring but, after some discussion, were satisfied that some apparent wastage was inevitable owing chiefly to the fact that Banks might be divided into two categories, collecting Banks and paying Banks; a collecting Bank could only dispose of a surplus by paying the Notes in to the credit of their account at the Bank of England.

On the 8th February 1917 the Treasury wrote to the Bank regarding the serious risk of fraud in connection with the new issue of Currency Notes. A holder of a mutilated Note could obtain allowance for the value provided a fragment containing at least one complete number were

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presented to the Post Office. Notes had up to that time been cancelled by a hole perforated through the centre, consequently there was a risk that the sorters at the Post Office, who counted the Notes on their return from the Bank of England, might take away small numbers of Notes and obtain value at a Post Office without detection. As it was impossible to keep a numerical register in War time, the Treasury suggested that a new cancellation system be adopted: a hole to be drilled through both numbers on the Note. To this proposal the Bank assented, but before a formal request to this effect was received, the Treasury brought up the question of the arrangements by which Notes, when withdrawn from circulation, had been cancelled by the Bank of England and thereafter transmitted to the Post Office, there to be counted and eventually destroyed. Difficulties had arisen on account of the prevailing shortage of labour in providing at the Post Office for a complete check of the cancelled Notes by count while, if as was proposed, the numbers were to be partly obliterated the value of any detailed scrutiny would be lessened. The Treasury therefore asked the Bank to undertake the whole responsibility for the withdrawal, cancellation and destruction of the Notes and mentioned that, in the event of the issue being continued as a Government issue after the War, it was their intention

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to arrange for the keeping of a complete register of the numbers of the Notes. The new proposals were, therefore, of a temporary character. The Bank did not see their way to accept this responsibility without a register and while forgery of the Notes had been shown to be a comparatively easy matter; they felt that if it were known that their examination and count were final and that the Notes would be destroyed immediately the risk of fraud would be immeasurably increased and the work thrown upon the Bank in the matter of additional check would add to the expense of management. They offered, however, to make arrangements to provide the paper, to print and issue the Notes, keep a register and generally to accept responsibility for the issue and payment of the Notes in consideration of a reasonable remuneration over and above actual out-of-pocket expenses; and suggested that meanwhile a check by the Post Office might be provided by the counting of a proportion of the Notes cancelled. The Treasury decided to continue for the time being the existing system but once more requested the Bank to cancel by a hole drilled through each of the numbers on the Note. The Bank, replying on the 21st May 1917, suggested as an alternative that Notes be cancelled by cutting off two or possibly three corners. This proposal was approved in June but, as previously explained, owing to the delay in the delivery of the guillotines required for the work a start could not be made with the new method until December, and meanwhile the Notes were cancelled by holes

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punched through each of the numbers.

On the 17th September 1917 the Treasury wrote to the Bank that, having regard to the increased cost and durability of the new £1 Notes, it was very desirable that unsoiled Notes should be re-issued and said that they understood the Bank were prepared to undertake the work. A system of re-issue was accordingly instituted, but the total of Notes re-issued never reached any really large figure as will be seen from the following particulars:-

Notes re-issued in 1918	£2,150,000
" " 1919	£1,835,000
" " 1920	£4,160,000
" " 1921	£895,000 (to 31 August)

Exceptional circumstances account for the large figures of the year 1920. A critical examination of the Notes paid in each day with a view to re-issue was never attempted: the method employed was to put on one side parcels of Notes which appeared to contain a considerable proportion of good Notes in numerical sequence. A more extensive system was found to be impossible, particularly in view of the practice of cancelling Notes before counting them which it was found necessary to adopt, as explained in the next paragraph.

In May 1918 the Treasury referred again to this

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question of re-issue, asserting that a very large proportion of good Notes was being returned to the Post Office. The Bank said that the staff available had so far been insufficient to carry out the work as strictly as could have been wished, but that it was hoped to provide additional clerks for the work in the near future. This was, however, found to be impracticable and the matter came up again in August of the same year, when the Bank informed the Treasury that so far from being able to increase the staff employed on Currency Note work they had found it necessary to experiment in a means of reducing the staff by an alteration of practice whereby the cancellation of Currency Notes would take place before counting; this would at any rate permit of a portion of the work being carried out by a lower grade staff.

In July 1919 the Post Office asked the Bank to consider again whether they could undertake the whole responsibility for the withdrawal, cancellation and destruction of Currency Notes. The Bank, for reasons previously advanced, were still not prepared to accept the additional responsibility and asked for further time to consider the matter.

In 1919 the Inland Revenue carried out some tests to discover whether the number of Notes fit for re-issue was sufficient to justify the expense which

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CURRENCY NOTES. a general system of re-issue would involve and came to the conclusion that no advantage, but rather the reverse, would result from any alteration. The Treasury were reminded of this opinion in the Spring of 1920 when the Post Office once more returned to the subject.

As the Bank had only undertaken the management of the Currency Note issue free of charge during the War, the question of remuneration was the subject of various discussions with the Treasury in the course of the year 1919. On the 24th December the Governor wrote to the Treasury at considerable length on the subject. He divided the work into three sections -

Section 1.

Printing:- entrusted by the Inland Revenue to Messrs. Waterlow Bros. & Layton Ltd.

Section 2.

Issue, payment and cancellation:- hitherto undertaken by the Bank free of charge.

Section 3.

Final test examination (partial only) and destruction:- hitherto carried out by the Post Office.

The Governor emphasized the desirability of the whole of the work being placed under one management and

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CURRENCY NOTES made the following suggestions:-

Section 1.

The Bank of England after learning that they would probably be asked to substitute a Bank issue for the present Notes, had already placed orders for about half of the new machinery required to produce in the necessary quantities a plate-engraved Note worthy to take its place as part of the permanent currency of the country. The Governor proposed that the work should be taken over by the Bank as soon as they were in a position to do so and be performed at cost (as defined below under Section 3). The Governor mentioned the recommendation of the "Committee on Currency and Foreign Exchanges after the War" to which reference has been made previously.

Section 2.

As from 1st January 1920 the Bank should recover from the Treasury the "real full cost".

Section 3.

The Bank would be willing to take over this duty at cost, together with any such further work incidental thereto as might be agreed upon, as, for example, the keeping of a Note register;

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the cost to include a proper proportion of overhead charges, any expenses incurred in the prevention and detection of, and prosecution for, forgery, losses resulting from the payment of forged Notes, interest on capital outlay and a sum calculated to amortize the latter within the terms of the contract. The agreement to be for, say, 20 years subject to supersession if it were subsequently arranged that the Bank should take over the issue as part of the Bank's issue or do the work on an agreed scale of charges.

The discussions continued until March 1920 when the Treasury wrote confirming the conclusion provisionally reached:-

1. The production of the Notes to remain under the control of the Board of Inland Revenue.
2. A small Committee to examine the problem of a Note register. The Committee was composed as follows -
Chairman - Sir Warren Fisher, K.C.B., Secretary to the Treasury.

Sir Gordon Nairne, Comptroller of the Bank of England.

Sir Percy Thompson, K.B.E., C.B., Deputy Chairman of the Board of Inland Revenue.

Sir G.E.P. Murray, K.C.B., Secretary to the Post Office.

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The terms of reference were -

To consider by whom and in what manner a register of Currency Notes should be kept and to make recommendations in regard thereto and also in regard to the re-issue and destruction of Notes and the machinery for making allowance for mutilated Notes, etc.

The Committee held several Meetings but by the end of August 1921 they had not made any recommendation or issued an Interim Report.

In February 1921 the Bank referred to the suggestion contained in the Governor's letter of the 24th December 1919 that, as from the 1st January 1920, the Bank should be repaid the amount of the actual expenses incurred by them in conducting the issue, payment and cancellation of Currency Notes. The Treasury replied that they would be ready to consider payment of the Bank's claim and an account for £74,589:11:10 was accordingly sent in on the 16th March 1921 in respect of the year ending 31st December 1920. The claim was settled in May of the same year the sum payable being rounded off to £74,500.

In arriving at the amount to be charged to the Treasury for the period in question overhead charges were taken into account, but subsequent experience showed that the figures under this head had been considerably

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CURRENCY NOTES. under-estimated, due largely, no doubt, to the fact that the presentation of claims on this basis was an entirely fresh experience to the Bank. Subsequent claims were drawn up under a scientific Costing System.