

The growth in demand for new bank notes

Most people prefer new bank notes to old ones. Old notes become dirty, and unpleasant to handle; and they are less convenient than new ones for many employers, particularly for making up wage packets. There is ample reason for continuously withdrawing notes in bad condition and replacing them with new ones.

The cost of satisfying normal demand for replacement should not be unduly high. With a rising price level, it might be expected that an increasing proportion of the total circulation would be held in notes of higher denominations, which last longer in circulation, and that demand for £1 and 10s. notes would diminish correspondingly. This natural shift should help to reduce the number of new notes demanded, even when the value of the total note circulation was increasing.

Recently, however, the demand for new notes in this country has increased so rapidly that it presents a serious and growing problem to the banks, and to the Bank of England, which have to satisfy it. To meet this demand, at its current level, the Bank print an average of over 8 million notes a day. This output for the United Kingdom, with a population of 54 million,⁽¹⁾ is already more than five times as many notes as are issued daily in Western Germany (population 58 million), and more even than are issued in the United States (population 195 million). In short, the Bank print four or more times as many notes per head of the population as are required in comparable countries abroad; and

to continue thus would absorb scarce national resources on an extravagant scale.

Of the daily output of 8 million new notes, the greater part consists of £1 and 10s. notes. Since 1957, the average life in use of the £1 note has fallen from nineteen months to eight months, and that of the 10s. note from six months to five months; and the average daily total of these notes printed has risen from about 5 million to about 7½ million, of which about 2 million are 10s. notes and 5½ million are £1 notes. The average useful life of each denomination is still diminishing. This is not because less durable paper is used; nor does it indicate a substantially faster deterioration in the physical condition of the notes in use. It reflects a growing insistence on new notes rather than used notes by those who draw cash from the banks, or at least the satisfaction of the public's preference for new notes on an increasing scale.

The decision between recirculating a used note and returning it to the Bank of England as unfit for further use is taken at the point of issue to the general public, usually by a cashier at a bank counter. No suitable machine has yet been developed, either in this country or abroad, that will sort clean used notes from dirty ones; there is therefore no substitute for the subjective choice exercised by the bank cashiers.

The printing of bank notes, even when they are mass produced, is inevitably expensive. High standards of control and inspection have

⁽¹⁾ About half of the notes circulating in Scotland, and most of those in Northern Ireland, are Bank of England notes.

to be maintained throughout the lengthy printing and packaging processes; and the greatest care has to be taken to ensure that faulty notes are not issued. The present trend means increasing cost to the nation in labour, and in plant and materials—some of it imported—for printing, transport, safe custody, and in the end for destruction. Furthermore, the greater the number of notes printed, and returned for destruction, the greater the problems of bulk handling—both by the Bank of England and by the commercial banks. A continuation of the present trend can only lead to a misuse of resources; to reverse it would bring valuable economies.

The principal need is that notes should be used longer before replacement. But the greater use of higher denominations would also help to reduce the numbers which had to be printed. Since 1957, when the old 'white' £5 notes were first replaced by the smaller blue notes, the £5 denomination has become increasingly popular. The smaller £10 note, too, first issued nearly two years ago, has been steadily taken into circulation. Nevertheless, the public's holding of £1 and 10s. notes has remained fairly steady, apart from seasonal fluctuations, over the last few years. It is clear that the British public still hold an unusually high proportion of the total circulation in notes of the lower denominations—both in comparison with other countries and in comparison with the pre-war position. For every £100 outstanding there are 60 notes in circulation here, in contrast to comparable countries abroad, where the equivalent of £100 in circulation consists of only 20 to 30 notes—and this despite the fact that some of these countries have notes of a lower value than 10s., our lowest denomination. Moreover, the number of notes per £100 circulating now has declined by only a quarter since before the war, from 80 to 60, whereas the value of money has fallen by more than half.

The comparison with pre-war days is doubtless affected by the war-time withdrawal of all denominations over £5, which must have done something to change people's habits. The change may also be related to the growth in the use of cheques in this country for the settlement of larger transactions. And there may now

be more use of low denomination notes for transactions that before the war would have been settled in coin. Whatever the cause, the composition of the note circulation has changed in a way that has greatly increased the number of notes in circulation. There is evidence now of a reaction, but the movement back towards the earlier pattern of usage is slow.

The Bank of England and the commercial banks will therefore be encouraging the public to accept more used, but clean, notes instead of new ones, thus reducing the number of notes withdrawn for destruction that are still fit for reissue. The number of £1 and 10s. notes outstanding has recently been fairly stable from year to year; but there are large seasonal expansions and contractions associated with peak demands at Christmas, at Easter, and for the August holiday. Many of the new notes issued are drawn into circulation by the rapid build-up before these peaks; and a correspondingly large part of the used notes returned for destruction come back to the Bank when the peaks have passed: in future, a greater proportion of these used notes is to be put back into circulation for further use and there may be short periods when very few new notes, if any, are being issued.

Since the higher denomination notes stay in circulation longer before needing replacement, perhaps because they are handled with greater care, there would be a double benefit if a greater proportion of £5 and £10 notes were used. Drawings in these denominations, instead of in £1 notes, will be promoted by the banks—for use both in filling wage packets and in everyday transactions. And to help the greater use of £5 and £10 notes consideration may well be given to the issue of notes of other denominations higher than £1, so that the public will have available the most convenient sequence of denominations both for making payments, including wage payments, in cash and for giving change. The decision to adopt a decimal currency, with the pound as the main unit, has removed uncertainties which have held up planning in this field for some time.

Some further statistics of the number and value of Bank of England notes issued and in circulation are given in the table.

Bank of England notes

Last Wednesday in November:					10s.	£1	£5	£10	Other notes ^(a)	Total £ millions
					Value of notes in circulation					
1950	...	...	...	...	87	997	132		70	1,286
1951	...	...	...	...	89	1,050	149		76	1,364
1952	...	...	...	...	90	1,121	168		82	1,461
1953	...	...	...	...	93	1,180	190		87	1,550
1954	...	...	...	...	94	1,253	213		92	1,652
1955	...	...	...	...	97	1,362	240		97	1,796
1956	...	...	...	...	99	1,439	265		103	1,906
1957	...	...	...	...	100	1,393	400		108	2,001
1958	...	...	...	...	101	1,314	521		108	2,044
1959	...	...	...	...	102	1,266	666		110	2,144
1960	...	...	...	...	103	1,199	843		113	2,258
1961	...	...	...	...	105	1,125	1,001		113	2,344
1962	...	...	...	...	98 ^(b)	986 ^(b)	1,138		108	2,330 ^(b)
1963	...	...	...	...	100	1,052	1,190		112	2,454
1964	...	...	...	...	103	1,036	1,270	95	108	2,612
1965	...	...	...	...	106	1,037	1,388	140	108	2,779

					Number of notes in circulation				Millions of notes
1950	...	...	...	...	174	997	26		1,197
1951	...	...	...	...	178	1,050	30		1,258
1952	...	...	...	...	180	1,121	34		1,335
1953	...	...	...	...	185	1,180	38		1,403
1954	...	...	...	...	188	1,253	43		1,484
1955	...	...	...	...	194	1,362	48		1,604
1956	...	...	...	...	198	1,439	53		1,690
1957	...	...	...	...	200	1,393	80		1,673
1958	...	...	...	...	202	1,314	104		1,620
1959	...	...	...	...	205	1,266	133		1,604
1960	...	...	...	...	206	1,199	169		1,574
1961	...	...	...	...	211	1,125	200		1,536
1962	...	...	...	...	197 ^(b)	986 ^(b)	228		1,411 ^(b)
1963	...	...	...	...	200	1,052	238		1,490
1964	...	...	...	...	205	1,036	254	9	1,504
1965	...	...	...	...	211	1,037	278	14	1,540

Calendar year:					Number of new notes issued				Millions of notes
1950	...	...	...	...	286	640	13		939
1951	...	...	...	...	323	822	17		1,162
1952	...	...	...	...	333	858	20		1,211
1953	...	...	...	...	327	883	21		1,231
1954	...	...	...	...	346	778	13		1,237
1955	...	...	...	...	366	863	28		1,257
1956	...	...	...	...	387	917	34		1,338
1957	...	...	...	...	401	903	75 ^(c)		1,379 ^(c)
1958	...	...	...	...	416	927	66		1,409
1959	...	...	...	...	430	983	86		1,499
1960	...	...	...	...	452	1,063 ^(c)	112		1,627 ^(c)
1961	...	...	...	...	493 ^(c)	1,120	143		1,756 ^(c)
1962	...	...	...	...	475	1,221	148		1,844
1963	...	...	...	...	490	1,320	199 ^(c)		2,009 ^(c)
1964	...	...	...	...	493	1,379	194	12	2,078
1965	...	...	...	...	509	1,482	223	8	2,222

(a) Including notes held by the Bank of England on behalf of customers e.g., for banks of issue in Scotland and Northern Ireland as cover for their excess note issues.

(b) Notes of the 1928 series ceased to be legal tender in 1962, and some dis-hoarding occurred.

(c) New series introduced.