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SELECT STATUTES
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BANKING, 1832-1928

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THE BANK AND MANSION HOUSE, KING WILLIAM STREET, 1850 .

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SELECT STATUTES
DOCUMENTS & REPORTS
RELATING TO BRITISH
BANKING, 1832-1928

SELECTED
WITH AN INTRODUCTION
By T. E. GREGORY
SIR E. CASSEL PROFESSOR OF
BANKING AND CURRENCY IN
THE UNIVERSITY OF
LONDON

VOLUME II
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- The Bank and Mansion House, King William Street, 1850**
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FINAL REPORT OF THE COMMITTEE ON CURRENCY
AND FOREIGN EXCHANGES AFTER THE WAR

TO THE LORDS COMMISSIONERS OF HIS
MAJESTY'S TREASURY.

MY LORDS,

1. We have the honour to present herewith our final Report on certain matters referred to us in January, 1918, with which we were not in a position to deal in our Interim Report in August of that year.

2. *Foreign Exchanges.*—We stated in the introduction to our Interim Report our opinion that a sound system of currency would in itself secure equilibrium in the Foreign Exchanges. We have reviewed the criticisms which have been made upon this part of our Report, but we see no reason to modify our opinion. We have found nothing in the experiences of the war to falsify the lessons of previous experience that the adoption of a currency not convertible at will into gold or other exportable coin is likely in practice to lead to overissue and so to destroy the measure of exchangeable value and cause a general rise in all prices and an adverse movement in the foreign exchanges.

3. The nominal convertibility of the currency note which has been sustained by the prohibition of the export of gold is of little value. The weakness of the exchanges is in a measure due to trade conditions, but an important cause of the depreciation in sterling in New York and other financial centres is, in our opinion, to be found in the expanded state of credit in this country. The existing expansion is not merely the legacy of the stress of war finance and Government borrowings, which even now have not ceased, but also, in part the result of maintaining rates for money in London below those ruling in other important financial centres. The difficulties of the Foreign Exchanges' position are aggravated by the grant of long term loans and credits, whether directly or under guarantee or otherwise by the Government or by private

lenders, to enable foreign States or their nationals to pay for exports from this country. Few of these loans and credits will be liquidated at an early date. The large payments which we have to make to America, North and South, for necessary imports of foodstuffs and raw materials from those countries make it essential that we, in our turn, should secure payment in cash for as large a proportion as possible of our exports visible and invisible. We recommend therefore that preference should be given to exports to countries which are able to make payment in the ordinary course of trade.

Increased production, cessation of Government borrowings and decreased expenditure both by the Government and by each individual member of the nation are the first essentials to recovery. These must be associated with the restoration of the pre-war methods of controlling the currency and credit system of the country for the purpose of re-establishing at an early date a free market for gold in London.

4. *Bank of England.*—The principles of the Bank Charter Act of 1844 were fully considered by us in our Interim Report. We have examined with care the opinions there expressed in the light of certain criticisms which have been made with regard to them. We see, however, no reason to alter our conclusions. We have again considered the principles governing the banking systems of the principal foreign countries and we are satisfied that they are not so well adapted to the needs of this country as those contained in the Act of 1844. Certain important alterations which experience suggested to be desirable have been made in the constitution and management of the Bank during the war, and we do not now think it necessary to make any further recommendation.

5. *Government Borrowings on Ways and Means Advances from the Bank of England.*—We desire to draw attention to the extensive use made during the war of the system of Ways and Means Advances from the Bank of England. We referred to this matter in paragraph 16 of our Interim Report and explained its effect in causing credit and currency expansion. The powers given to the

Government by Parliament to borrow from the Bank of England in the form of an overdraft on the credit of Ways and Means were, as the name implies, intended to enable the Government to anticipate receipts from Revenue or permanent borrowings for a brief period only. Indeed Parliament by expressly providing that all such advances should be repaid in the quarter following that in which they were obtained showed that it had no intention of bestowing upon the Government the power of securing an overdraft of indefinite duration and amount. Under the exigencies of war finance the Government found it necessary to re-borrow in each quarter on the credit of Ways and Means the amount needed to enable them to comply with the statutory requirement that the previous quarter's Ways and Means Advances should be repaid, with the result that the total outstanding advances remained for a long time at a high figure. We are glad to see that efforts are now being made to reduce this overdraft to more moderate dimensions.

We, therefore, hope, now that conditions are less abnormal, that the Government will confine its use of Ways and Means and Advances from the Bank of England to providing for purely temporary necessities. Such advances afford a legitimate method of tiding over a few weeks' shortage, but are entirely unsuitable for borrowings over a longer period.

6. *Foreign Banks.*—Several of our witnesses have called attention to the conditions under which it is open to foreign banks to establish themselves in this country. We suggest that this is a matter which should receive the early attention of His Majesty's Government.

7. *Scottish and Irish Banks.*—We have now taken evidence in regard to the application of the recommendations in our Interim Report to Scotland and Ireland. The status of legal tender was given to the notes of the Scottish and Irish Banks of Issue as an emergency measure to tide over the period at the outbreak of war when a serious shortage of currency was threatened, a condition of affairs which no longer obtains. Some of the witnesses on behalf of the Scottish and Irish Banks showed a marked desire

to retain the privilege of legal tender status for their notes. In our opinion the grant of legal tender status could not be given permanently to the notes of Scottish and Irish Banks except under statutory conditions similar to those embodied in the Bank Act of 1844. The evidence before us indicates that rather than be subjected to such conditions the banks would prefer the restoration of the pre-war status. We accordingly recommend that the pre-war status be restored. We further recommend that when the position which we contemplate in our Interim Report is ultimately reached the cover held by the Scottish and Irish Banks for their excess issue shall take the form of any legal tender at that time in existence.

8. *Currency Note Issue.*—We have considered whether steps should not be taken at an early date to impose limitations upon the fiduciary portion of the currency note issue with a view to the restoration of the normal arrangements under which demands for new currency operate to reduce the reserve in the Banking Department of the Bank of England. In view of the fact that demobilisation is approaching completion and that as we hope fresh Government borrowing will shortly cease, we consider that effect should now be given to the recommendation made in our Interim Report that the actual maximum fiduciary circulation in any year should become the legal maximum for the following year, subject only to the emergency arrangements which we proposed in paragraph 33 of our Interim Report. The policy of placing Bank of England notes in the Currency Note Reserve as cover for the fiduciary portion of the issue as opportunity arises should, of course, be continued. We recommend further that the Treasury Minute made under Section 2 of the Currency and Bank Notes Act, 1914, providing for the issue of currency notes to Joint Stock Banks, which is in fact inoperative, should now be withdrawn.

The Committee wish to place on record their deep sense of obligation to Mr. G. C. Upcott, who served as Secretary to the Committee from the beginning with unfailing zeal, knowledge and ability. They are also greatly indebted to Mr. H. E. Fass, who was appointed Joint Secretary with Mr. Upcott in July,

1919 and rendered important and efficient service in the closing period of the Committee's labours.

We have the honour to be,

My Lords,

Your obedient Servants,

(Signed) CUNLIFFE (*Chairman*).

C. S. ADDIS.

R. E. BECKETT.

BASIL P. BLACKETT.

GASPARD FARRER.

HERBERT C. GIBBS.

W. H. N. GOSCHEN.

INCHCAPE.

R. W. JEANS.

A. C. PIGOU.

‡GEO. F. STEWART.

W. WALLACE.

G. C. UPCOTT. } *Secretaries.*
H. E. FASS. }

3rd December, 1919.

‡ Subject as regards the recommendations of paragraph 7 to the following reservation:—

Having regard to the evidence given by the witnesses from Ireland, the pre-war status should not be restored in Ireland until the Government consider the time opportune.

(Signed) GEO. F. STEWART.

TREASURY MINUTE, dated 15th December 1919, directing that the Actual Maximum Fiduciary Circulation of Currency Notes in any Year shall be the fixed Maximum for the following Year. [Cmd. 485.]

(See Parliamentary Papers, 1919, vol. xxxii.)

THE Chancellor of the Exchequer draws the attention of the Board to paragraph 8 of the Final Report of the Committee on Currency and Foreign Exchanges after the War, which recommends the imposition of a maximum limit on the issue of Currency Notes under the Currency and Bank Notes Act, 1914. The Chancellor proposes to the Board that steps shall be taken to give effect to the recommendation that the actual maximum fiduciary circulation of Currency Notes in any year shall be the fixed maximum for the following year.

The maximum fiduciary circulation during the expired portion of the current calendar year has been £320,608,298 10s. and the Chancellor accordingly proposes that directions shall now be given to the Bank of England restricting them from issuing Currency Notes during the 12 months commencing the 1st January, 1920, in excess of a total of £320,600,000, except against gold or Bank of England Notes, and from issuing in the calendar year commencing 1st January in any year henceforward notes in excess of the actual maximum fiduciary circulation of the preceding 12 months.

My Lords concur.

Let copies of this Minute be transmitted to the Banks of England and Ireland, the Bankers' Clearing House Committee, and the Comptroller and Auditor-General; and let copies be presented to both Houses of Parliament.

THE RETURN TO THE GOLD STANDARD
REPORT OF THE COMMITTEE ON THE CURRENCY
AND BANK OF ENGLAND NOTE ISSUES, 1925.

MAY IT PLEASE YOUR LORDSHIPS,

1. By Treasury Minute of the 10th June, 1924, we were appointed a Committee to consider whether the time has now come to amalgamate the Treasury note issue with the Bank of England note issue, and, if so, on what terms and conditions the amalgamation should be carried out.

2. We have held nine meetings and have heard thirteen witnesses, including the Governor of the Bank of England, Mr. McKenna, Sir Robert Horne, Professor Cannan, Sir George Paish, Mr. Keynes and representatives of the Clearing Banks, the Association of British Chambers of Commerce and the Federation of British Industries.

3. The greater part of our evidence was taken during the months of June, July and September, 1924, when the sterling dollar exchange was still at a discount of 10 to 12 per cent., but we heard the Governor of the Bank of England a second time on the 28th January, 1925.

On accepting office as Secretary of State for Foreign Affairs, Mr. Chamberlain ceased to act as a member of the Committee. Sir John (now Lord) Bradbury took the chair at the remaining meetings.

The Cunliffe Committee's Recommendation.

4. The natural starting point of our enquiry was the recommendation of the Committee on Currency and Foreign Exchanges after the War (the Cunliffe Committee), that the Currency Note Issue should be transferred to the Bank of England when it had been ascertained, from experience in a free gold export market, what fiduciary issue is compatible with the maintenance of a central gold reserve of £150,000,000.

5. These conditions have not yet been fulfilled, and we have found it necessary to enter somewhat fully into the questions whether a return to the gold standard on the basis of the pre-war sovereign is, in present circumstances, no less desirable than at the time of the Cunliffe Committee's Report; and if so, how and when the steps required to achieve it should be taken.

The Gold Standard.

6. The alternatives are—

- (a.) To return to the gold standard on the basis of a devalued sovereign, *i.e.*, the re-establishment of a free gold market with a unit identical in name but of a lesser gold content than the pre-war unit, and
- (b.) To attempt to find a basis for the currency unit other than gold.

7. The former need not, now that the current exchange rates are already within a small percentage of the pre-war parity, be seriously considered. It was never, in our opinion, a policy which the United Kingdom could have adopted.

8. The latter, in the form of proposals for substituting the price level of commodities in general for gold as the regulating principle of the currency, has been fully and carefully explained in evidence before us. We need not here set out the arguments by which it is supported, which have been published and are now well known. We need only say that, as a practical present-day policy for this country, there is, in our opinion, no alternative comparable with a return to the former gold parity of the sovereign. In this conclusion we are supported by the overwhelming majority of opinion, both financial and industrial, represented in evidence before us.

9. Starting from this fundamental position, we propose to confine ourselves to answering the questions when and how this restoration is to be brought about.

10. When we first began to consider our Report in September last, the ruling rates of exchange on New York were still 10 to 12 per cent. below gold parity, and there was some anxiety whether

the normal autumn pressure would not result in a renewed depreciation of the pound, and whether the limitation on the amount of the fiduciary issue of currency notes prescribed by the Treasury Minute of the 15th December, 1919, could be maintained over Christmas without giving rise to conditions necessitating a sharp rise of money rates.

11. We entertained no doubt, however, even at that time, of the ability of Great Britain, notwithstanding the fact that her international financial situation is in some respects less satisfactory than it was before the war, to restore and maintain the gold standard at the pre-war parity, at any time it might be thought prudent to do so.

12. In spite of the special influences which have, during the last few years, exercised an adverse influence (of which the principal are industrial stagnation and the disturbance of international trade resulting from post-war conditions, and the fact that we are paying interest and sinking fund on our war debt to America without as yet receiving an adequate counterpart from our Continental debtors), our existing volume of exports, visible and invisible, together with the income we derive from foreign investments is still undoubtedly sufficient to meet our foreign debts and pay for our necessary imports, and even to supply a moderate balance for new foreign investment.

13. In these circumstances a free gold market could readily be established and maintained at the pre-war parity, provided that by control of credit we adjusted the internal purchasing power of the pound to its exchange parity, and restricted our foreign investments to our normal export surplus.

14. Further, we were satisfied that the mere announcement that the power to prohibit the export of gold would not be continued beyond the 31st December, 1925, would automatically and rapidly bring about the credit conditions necessary to effect these adjustments, and that the effective gold standard could thus be restored without further danger or inconvenience than that which is inevitable in any period of credit restriction and falling prices.

15. At that time the British and American price levels appeared on the surface—though it is not safe to attempt to draw precise conclusions from a comparison of index figures compiled on different bases—to be fairly well adjusted to the current rate of exchange; and it was, therefore, to be expected that a fall in sterling prices of some 10 or 12 per cent., or a similar rise in dollar prices, would have had to take place before equilibrium could be secured with the exchanges at the pre-war parity.

16. The problem as it then presented itself was whether the undoubted advantages of an immediate return to parity were a sufficient compensation for the inconveniences—temporary though possibly severe while they lasted—of the measure of 'deflation' necessary to bring about the adjustment, or whether it would not be more prudent to pursue, at least for a few months longer, a waiting policy in the hope that the disparity would disappear through a rise in American prices (of the probability of which there appeared to be indications).

17. Our provisional conclusion was that the return to parity and resumption of the free gold market, though it ought not to be much longer deferred, could not be regarded as a matter of such extreme urgency as to justify a credit policy calculated to bring down domestic prices if the same practical result could reasonably be expected to be attained within a very few months by a policy designed merely to prevent them from rising concurrently with a rise elsewhere.

18. The favourable course since September of the dollar exchange (which now stands only $1\frac{1}{4}$ per cent. below gold parity) and the fact that the restrictions on the fiduciary issue of currency notes have been maintained without inconvenience have, however, altered the situation. Indeed, if British domestic prices had already adjusted themselves to the improved exchange value of sterling, the problem would have been solved and we are satisfied that the free export of gold could have been resumed forthwith without danger either of appreciable depletion of our existing gold reserves or of making recourse necessary to any special measures in restriction of credit.

19. The discrepancy between British and American gold prices which existed in September has not, however, disappeared, though it has been reduced. We must still be prepared to face a fall in the final price level here of a significant, though not very large, amount, unless it should happen that a corresponding rise takes place in America, if the rate of exchange is to be restored to and held at the pre-war parity.

20. In present conditions, however, this argument against immediate action has not, in our opinion, great weight. For the adjustment of price levels required to restore and maintain pre-war parity needs to be only some $1\frac{1}{2}$ per cent. larger than that required to hold the exchange at its present rate. If the adjustment of price levels necessary to this end is long deferred, the exchange will inevitably fall back to the rate justified by the comparative price levels—or below it, since the psychological causes which have operated to force it up will tend to act in the other direction—and a period of fluctuating values is likely to ensue. To allow the exchange to fall back now with the certainty of having later on to raise it again would be a short-sighted policy, injurious to trade and industry. But, if this view is accepted and we are prepared to face any price adjustment which may be necessary to maintain the present exchange rate, there is nothing to be said for refusing to accept the very small ($1\frac{1}{2}$ per cent.) extra adjustment involved in the re-establishment of an effective gold standard.

21. The attitude of the Dominions and foreign countries towards the question of an early return to the gold standard is also a material consideration. The Union of South Africa has already decided to take the step in the course of this summer. Other Dominions will undoubtedly follow our lead and may if we delay precede us. The same is true of Holland and Switzerland and possibly other European countries. Although the convertibility of the new German currency into gold is under existing legislation suspended, a high degree of stability has been attained and the establishment of the full gold standard—effectively and even formally—may take place in the early future.

22. Economic conditions in America give promise of a period of financial stability, thus reducing the risk of dangerous reactions during the initial months of a free gold market; and prevailing sentiment there would be likely to be helpful.

23. We therefore recommend that the early return to the gold basis should forthwith be declared to be the irrevocable policy of His Majesty's Government and that it should be definitely stated that the existing restrictions on the export of gold, which expire on the 31st December next, will not be renewed. A general licence should at the same time be given to export gold sold by the Bank for export and the Bank should between now and the date of expiry of the export prohibition avail themselves freely of it whenever the exchange is below the normal export specie point, making good any consequential drafts upon the reserve in the Banking Department in accordance with traditional practice. As from the date of the announcement until such time as the arrangements governing the fiduciary issue can be put on a permanent basis, the existing limitation of that issue should be strictly maintained.

24. We are satisfied that this policy can, given the loyal co-operation of the principal British Institutions which control the supply of credit, be carried through without risk by the Bank of England without external assistance. Indeed such assistance, if it took the form of foreign credits to be used on any considerable scale to mitigate the effect of the policy upon credit conditions in the United Kingdom, would really serve to counteract the very forces on the operation of which we rely for its success.

25. On the other hand, the existence of a substantial American credit known to be available for use in sudden emergencies would tend to discourage speculation and contribute to the creation of a general atmosphere of confidence favourable to the smooth working of the operation.

26. The appreciation of sterling which has taken place since November, 1924, has been due partly to the belief that an effective gold standard will shortly be restored in this country, and only

partly to a lessening of the difference between the purchasing power of sterling and of gold.

27. Insofar as this confidence in the future of sterling has allowed the resumption of those normal operations between New York and London which had been interrupted by political uncertainty and distrust in the preceding 12 months, no reactionary consequences are to be feared.

28. There has, however, undoubtedly been a considerable element of speculation in connection with that movement, the extent of which cannot be exactly determined. To this unknown extent there may be a tendency, when parity has been reached, for realisation of the speculative positions to throw a concentrated strain on the exchange.

29. The proper safeguard against such a danger is in the size of the gold reserves and in the resolute use of these reserves (if required) for the purposes for which they have been accumulated.

30. We believe that the existing gold reserves are amply sufficient for this purpose, and that a conviction that there will be no hesitation in using them, even though this may involve a temporary increase in Bank Rate, will go far to obviate the danger we refer to. If, however, it is thought necessary to make assurance doubly sure by the provision of a gold credit, we feel strongly that recourse should not be made to it unless and until substantial gold exports have taken place and are already producing their normal effects on the monetary situation at home, and in the event of the credit being actually drawn upon, the amount drawn should, until it has been repaid, be treated from the point of view of the Bank of England's monetary policy as equivalent to a corresponding loss from its own reserves.

31. Unless these precautions are taken, borrowing abroad will, as has again and again happened when it has been resorted to as a remedy for exchange difficulties, merely aggravate the mischief which it has been applied to cure.

32. In making these observations and suggesting these precautions, we must not be understood as anticipating that either the

steps which we propose should be taken at once to prepare the way for the return to a free gold market at the end of the year or the actual return on that date may be expected to lead either to a heavy loss of gold or to a serious consequential restriction of domestic credit. British experience of the restoration of the gold standard after the French wars, 100 years ago, and the recent experience of continental countries which have taken steps, under far more difficult conditions, to rehabilitate their currencies; have shown that a courageous policy in currency matters surmounts apparently formidable obstacles with surprising ease. We believe that on this point history will repeat itself. It is possible that some temporary increase in money rates will be necessary to bring about the necessary adjustment of sterling prices to the gold level. We are satisfied, however, that the assimilation of British currency to the gold currencies of the world is so necessary for the ultimate prosperity of British trade that any temporary disadvantage, if such arise, from the measures necessary to maintain parity will be many times outweighed.

33. Indeed, such credit restriction as may become necessary to adjust the general level of sterling prices to a free gold market may well be less drastic than that which would be required in order to maintain a 'managed' pound in the neighbourhood of parity. If the gold standard is firmly re-established, the danger of apprehensions as to the future of exchange leading to sudden withdrawals of foreign balances or foreign investment money will be eliminated, and the risk—inevitable under the present régime—of excessive British lending to foreign countries will be reduced.

34. With a free gold market, any tendency to lend abroad more than we can afford leads to a drain of gold, which, unless redressed by the sale of existing foreign investments, reacts on the general credit situation in London in such a way as to put a stop to new foreign borrowing.

35. Under existing conditions the result of excessive lending to foreign countries, instead of giving an immediate danger signal through its effect on the gold reserves, is more obscurely reflected in the general disturbance of the exchanges.

36. We are of opinion that unless a free gold market is restored, the danger of such overlending on foreign account in the near future will be considerable and a situation may easily develop in which the pressure on our foreign exchanges, resulting from overlending to foreign countries, will necessitate a restriction of general credit.

The Amalgamation of the Note Issues.

37. We return now to the recommendation of the Cunliffe Committee with respect to the amalgamation of the note issues. We have to consider whether the assumption by the Bank of England of the Currency Note Issue must await the experience of the problem of maintaining a minimum gold reserve, whether of £150,000,000 as recommended by the Cunliffe Committee, or of some other figure.

38. It is clear that throughout their Report the Cunliffe Committee contemplated a much earlier removal of the prohibition of gold exports than has actually been deemed expedient, and suggestions have been made to us that the amalgamation of the issues should precede instead of following the restoration of the free gold market, with a view to indicating that the policy of the Government is to restore parity and for the sake of the effect of such an indication upon the foreign exchanges.

39. If our recommendation in regard to the non-renewal of the prohibition of gold exports is adopted, the arguments for altering the sequence of events proposed by the Cunliffe Committee cease to operate and the precise date of amalgamation loses most of its importance. We associate ourselves with the decided preference expressed by the Cunliffe Committee for the principle of a fixed fiduciary issue, and it is as true to-day as five years ago that the permanent fiduciary issue cannot be fixed, except with reference to the actual conditions of a free gold market. It is hardly more feasible to legislate for a progressive reduction to the final figure by definite stages, at any of which the process may be subjected to unforeseen disturbances. The Treasury cannot escape from the responsibility for the existing issue; we doubt whether the Bank would accept it, until the time when effective control can also be given to them.

40. In this connection we think it necessary to observe that the ultimate dimensions both of the central gold reserve and of the fiduciary issue must be to some extent dependent on whether, after the restoration of the gold standard, gold is or is not largely used for internal circulation.

41. The figure of £150,000,000 suggested for the gold reserve by the Cunliffe Committee is based on the assumption that it will not be so used. If it were, a lower figure would suffice, regard being had to the value of gold in circulation as an emergency reserve, as was demonstrated in 1914. On the other hand, the total note circulation would be *pro tanto* reduced and the fiduciary portion would have to be smaller, both absolutely and proportionally than if there were no gold in circulation.

42. Any considerable flow of gold into domestic circulation would thus necessitate imports of the metal which would place an unnecessary burden on our foreign exchanges in a very difficult period.

43. We are of opinion that the use of gold for domestic circulation is a luxury which can well be dispensed with, and which we are in fact, at any rate during the next few years, not likely to be able to afford.

44. The payment of notes in gold coin upon demand is not in itself essential to the maintenance of the gold standard under modern conditions. An obligation upon the Bank of Issue to buy and sell gold at a fixed price is all that is necessary, and if in fact specie payments had been suspended during the war, we should not have recommended their resumption.

45. We should be glad, though mainly for historical and sentimental reasons, to make no formal change in the existing position under which gold coin is still legally obtainable for notes, and we think that the national habit of using paper currency, now firmly established, may suffice to prevent the absorption of any appreciable quantities of gold into domestic circulation, provided that the Joint Stock Banks are able to assist such a policy by undertaking to abstain from asking for gold coin in exchange for notes either for themselves or for their customers, and from holding

gold themselves, and in general by actively discouraging the use of gold among their customers.

46. If, however, there is any doubt whether this will be effective, then we are decidedly of opinion that steps must be taken forthwith by legislative enactment to prevent the internal circulation of gold coin, until such time as the gold standard has been firmly re-established for the purposes of international transactions.

47. We think that, in any circumstances, all Bank of England notes, including the £1 and 10s. notes ultimately to be substituted for currency notes, should in future be payable in coin only at the Head Office of the Bank, and not at the Branch offices.

48. In any case the coinage of standard half-sovereigns should not be resumed.

49. Subject to this observation, we recommend that the policy with regard to the transfer of the Currency Note issue to the Bank of England should remain as recommended by the Cunliffe Committee. We should mention that the machinery of issue by the Bank of England of £1 and 10s. Bank of England notes cannot be improvised at short notice. We understand that if the Bank is to print its own notes at least a year will be required to set up the necessary organisation, and this must be borne in mind in order that sufficient notice may be given to the Bank. As soon as parity is restored we recommend that the Bank be authorised to begin the provision of this machinery. Legislation would also be required to enable the Bank to issue notes below £5, and to make those notes legal tender.

50. We anticipate that if the free gold market is restored at the end of 1925, the experience necessary to enable the amount of the fiduciary issue to be definitely fixed will have been obtained by the end of 1927. The transfer of the issue could then take place early in 1928. But it may well be possible to accelerate these dates in the light of experience.

February 5, 1925.

N. E. YOUNG,
Secretary.

BRADBURY.
GASPARD FARRER.
O. E. NIEMEYER.
A. C. PIGOU.

THE GOLD STANDARD ACT, 1925.

15 & 16 GEO. V, c. 29

An Act to facilitate the return to a gold standard and for purposes connected therewith.

(13th May 1925.)

BE it enacted by the King's most Excellent Majesty by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

1.—(1) Unless and until His Majesty by Proclamation otherwise directs—

(a) The Bank of England, notwithstanding anything in any Act, shall not be bound to pay any note of the Bank (in this Act referred to as 'a bank note') in legal coin within the meaning of section six of the Bank of England Act, 1833, and bank notes shall not cease to be legal tender by reason that the Bank do not continue to pay bank notes in such legal coin;

(b) Sub-section (3) of section one of the Currency and Bank Notes Act, 1914 (which provides that the holder of a currency note shall be entitled to obtain payment for the note at its face value in gold coin) shall cease to have effect;

(c) Section eight of the Coinage Act, 1870, (which entitles any person bringing gold bullion to the Mint to have it assayed, coined and delivered to him) shall, except as respects gold bullion brought to the Mint by the Bank of England, cease to have effect.

(2) So long as the preceding subsection remains in force, the Bank of England shall be bound to sell to any person who makes a demand in that behalf at the head office of the Bank during the office hours of the Bank, and pays the purchase price in any legal tender, gold bullion at the price of three pounds, seventeen shillings and tenpence halfpenny per ounce troy of gold of the standard of fineness prescribed for gold coin by the Coinage Act, 1870, but only in the form of bars containing approximately four hundred ounces troy of fine gold.

2.—(1) Any money required for the purpose of exchange operations in connection with the return to a gold standard may be raised within two years after the passing of this Act in such manner as the Treasury think fit, and for that purpose they may create and issue, either within or without the United Kingdom and either in British or in any other currency, such securities bearing such rate of interest and subject to such conditions as to repayment, redemption or otherwise as they think fit, and may guarantee in such manner and on such terms and conditions as they think proper the payment of interest and principal of any loan which may be raised for such purpose as aforesaid:

Provided that any securities created or issued under this section shall be redeemed within two years of the date of their issue, and no guarantee shall be given under this section so as to be in force after two years from the date upon which it is given.

(2) The principal and interest of any money raised under this Act, and any sums payable by the Treasury in fulfilling any guarantee given under this Act, together with any expenses incurred by the Treasury in connection with, or with a view to the exercise of, their powers under this section shall be charged on the Consolidated Fund of the United Kingdom or the growing produce thereof.

(3) Where by any Appropriation Act passed after the commencement of this Act power is conferred on the Treasury to borrow money up to a specified amount, any sums which may at the time of the passing of that Act have been borrowed or guaranteed by the Treasury in pursuance of this section and are then outstanding shall be treated as having been raised in exercise of the power conferred by the said Appropriation Act and the amount which may be borrowed under that Act shall be reduced accordingly.

3. This Act may be cited as the Gold Standard Act, 1925.

CURRENCY AND BANK NOTES ACT, 1928

[18 & 19 GEO. 5. CH. 13.]

An Act to amend the law relating to the issue of bank notes by the Bank of England and by banks in Scotland and Northern Ireland, and to provide for the transfer to the Bank of England of the currency notes issue and of the assets appropriated for the redemption thereof, and to make certain provisions with respect to gold reserves and otherwise in connection with the matters aforesaid and to prevent the defacement of bank notes. (2nd July 1928.)

BE it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

1.—(1) Notwithstanding anything in any Act—

- (a) the Bank may issue bank notes for one pound and for ten shillings:
- (b) any such bank notes may be issued at any place out of London without being made payable at that place, and wherever issued shall be payable only at the head office of the Bank:
- (c) any such bank notes may be put into circulation in Scotland and Northern Ireland, and shall be current and legal tender in Scotland and Northern Ireland as in England.

(2) Section six of the Bank of England Act, 1833 (which provides that bank notes shall be legal tender), shall have effect as if for the words 'shall be a legal tender to the amount expressed in such note or notes and shall be taken to be valid as a tender to such amount for all sums above five pounds on all occasions on which any tender of money may be legally made' there were substituted the words 'shall be legal tender for the payment of any amount'.

(3) The following provisions shall have effect so long as sub-

section (1) of section one of the Gold Standard Act, 1925, remains in force—

(a) notwithstanding anything in the proviso to section six of the Bank of England Act, 1833, bank notes for one pound or ten shillings shall be deemed a legal tender of payment by the Bank or any branch of the Bank, including payment of bank notes:

(b) the holders of bank notes for five pounds and upwards shall be entitled, on a demand made at any time during office hours at the head office of the Bank or, in the case of notes payable at a branch of the Bank, either at the head office or at that branch, to require in exchange for the said bank notes for five pounds and upwards bank notes for one pound or ten shillings.

(4) The Bank shall have power, on giving not less than three months' notice in the London, Edinburgh and Belfast Gazettes, to call in the bank notes for one pound or ten shillings of any series on exchanging them for bank notes of the same value of a new series.

(5) Notwithstanding anything in section eight of the Truck Act, 1831, the payment of wages in bank notes of one pound or ten shillings shall be valid, whether the workman does or does not consent thereto.

2.—(1) Subject to the provisions of this Act the Bank shall issue bank notes up to the amount representing the gold coin and gold bullion for the time being in the issue department, and shall in addition issue bank notes to the amount of two hundred and sixty million pounds in excess of the amount first mentioned in this section, and the issue of notes which the Bank are by or under this Act required or authorised to make in excess of the said first mentioned amount is in this Act referred to as 'the fiduciary note issue'.

(2) The Treasury may at any time on being requested by the Bank, direct that the amount of the fiduciary note issue shall for such period as may be determined by the Treasury, after consultation with the Bank, be reduced by such amount as may be so determined.

3.—(1) In addition to the gold coin and bullion for the time being in the issue department, the Bank shall from time to time appropriate to and hold in the issue department securities of an amount in value sufficient to cover the fiduciary note issue for the time being.

(2) The securities to be held as aforesaid may include silver coin to an amount not exceeding five and one-half million pounds.

(3) The Bank shall from time to time give to the Treasury such information as the Treasury may require with respect to the securities held in the issue department, but shall not be required to include any of the said securities in the account to be taken pursuant to section five of the Bank of England Act, 1819.

4.—(1) As from the appointed day all currency notes issued under the Currency and Bank Notes Act, 1914, certified by the Treasury to be outstanding on that date (including currency notes covered by certificates issued to any persons under section two of the Currency and Bank Notes (Amendment) Act, 1914, but not including currency notes called in but not cancelled) shall, for the purpose of the enactments relating to bank notes and the issue thereof (including this Act) be deemed to be bank notes, and the Bank shall be liable in respect thereof accordingly.

(2) The currency notes to which subsection (1) of this section applies are in this Act referred to as 'the transferred currency notes'.

(3) At any time after the appointed day, the Bank shall have power, on giving not less than three months' notice in the London, Edinburgh and Belfast Gazettes, to call in the transferred currency notes on exchanging them for bank notes of the same value.

(4) Any currency notes called in but not cancelled before the appointed day may be exchanged for bank notes of the same value.

5.—(1) On the appointed day, in consideration of the Bank undertaking liability in respect of the transferred currency notes, all the assets of the Currency Note Redemption Account other than Government securities shall be transferred to the issue department, and there shall also be transferred to the issue department out of the said assets Government securities of such an

amount in value as will together with the other assets to be transferred as aforesaid represent in the aggregate the amount of the transferred currency notes.

For the purpose of this subsection the value of any marketable Government securities shall be taken to be their market price as on the appointed day less the accrued interest, if any, included in that price.

(2) Any bank notes transferred to the Bank under this section shall be cancelled.

(3) Such of the said Government securities as are not transferred to the Bank under the foregoing provisions of this section shall be realised and the amount realised shall be paid into the Exchequer at such time and in such manner as the Treasury direct.

6.—(1) The Bank shall, at such times and in such manner as may be agreed between the Treasury and the Bank, pay to the Treasury an amount equal to the profits arising in respect of each year in the issue department, including the amount of any bank notes written off under section six of the Bank Act, 1892, as amended by this Act, but less the amount of any bank notes so written off which have been presented for payment during the year and the amount of any currency notes called in but not cancelled before the appointed day which have been so presented.

(2) For the purposes of this section the amount of the profits arising in any year in the issue department shall, subject as aforesaid, be ascertained in such manner as may be agreed between the Bank and Treasury.

(3) For the purposes of the Income Tax Acts, any income of, or attributable to, the issue department shall be deemed to be income of the Exchequer, and any expenses of, or attributable to, the issue department shall be deemed not to be expenses of the Bank.

(4) The Bank shall cease to be liable to make any payment in consideration of their exemption from stamp duty on bank notes.

7. Section six of the Bank Act, 1892, (which authorises the writing off of bank notes which are not presented for payment within forty years of the date of issue), shall have effect as if, in

the case of notes for one pound or ten shillings, twenty years were substituted for forty years, and as if, in the case of any such notes being transferred currency notes, they had been issued on the appointed day and, in the case of any such notes not being transferred currency notes, they had been issued on the last day on which notes of the particular series of which they formed part were issued by the Bank.

8.—(1) If the Bank at any time represent to the Treasury that it is expedient that the amount of the fiduciary note issue shall be increased to some specified amount above two hundred and sixty million pounds, the Treasury may authorise the Bank to issue bank notes to such an increased amount, not exceeding the amount specified as aforesaid, and for such period, not exceeding six months, as the Treasury think proper.

(2) Any authority so given may be renewed or varied from time to time on the like representation and in like manner:

Provided that, notwithstanding the foregoing provision, no such authority shall be renewed so as to remain in force (whether with or without variation) after the expiration of a period of two years from the date on which it was originally given, unless Parliament otherwise determines.

(3) Any minute of the Treasury authorising an increase of the fiduciary note issue under this section shall be laid forthwith before both Houses of Parliament.

9.—(1) For the purpose of any enactment which in the case of a bank in Scotland or Northern Ireland limits by reference to the amount of gold and silver coin held by any such bank the amount of the notes which that bank may have in circulation, bank notes held by that bank or by the Bank on account of that bank, shall be treated as being gold coin held by that bank.

(2) A bank in Scotland or Northern Ireland may hold the coin and bank notes by reference to which the amount of the bank notes which it is entitled to have in circulation is limited at such of its offices in Scotland or Northern Ireland, respectively, not exceeding two, as may from time to time be approved by the Treasury.

10. The form prescribed by Schedule A to the Bank Charter Act, 1844, for the account to be issued weekly by the Bank under section six of that Act may be modified to such an extent as the Treasury, with the concurrence of the Bank, consider necessary, having regard to the provisions of this Act.

11.—(1) With a view to the concentration of the gold reserves and to the securing of economy in the use of gold, the following provisions of this section shall have effect so long as subsection (1) of section one of the Gold Standard Act, 1925, remains in force.

(2) Any person in the United Kingdom owning any gold coin or bullion to an amount exceeding ten thousand pounds in value shall, on being required so to do by notice in writing from the Bank, forthwith furnish to the Bank in writing particulars of the gold coin and bullion owned by that person, and shall, if so required by the Bank, sell to the Bank the whole or any part of the said coin or bullion, other than any part thereof which is bonâ fide held for immediate export or which is bonâ fide required for industrial purposes, on payment therefor by the Bank, in the case of coin, of the nominal value thereof, and in the case of bullion, at the rate fixed in section four of the Bank Charter Act, 1844.

12. If any person prints, or stamps, or by any like means impresses, on any bank note any words, letters or figures, he shall, in respect of each offence, be liable on summary conviction to a penalty not exceeding one pound.

13.—(1) This Act may be cited as the Currency and Bank Notes Act, 1928.

(2) This Act shall come into operation on the appointed day, and the appointed day shall be such day as His Majesty may by Order in Council appoint, and different days may be appointed for different purposes and for different provisions of this Act.

(3) In this Act, unless the context otherwise requires,—
The expression 'the Bank' means the Bank of England:
The expression 'issue department' means the issue department of the Bank:

The expression ' bank note ' means a note of the Bank:

The expression ' coin ' means coin which is current and legal tender in the United Kingdom:

The expression ' bullion ' includes any coin which is not current and legal tender in the United Kingdom.

(4) The enactments set out in the Schedule to this Act are hereby repealed to the extent specified in the third column of that Schedule.

SCHEDULE
ENACTMENTS REPEALED.

Session and Chapter.	Short Title.	Extent of Repeal.
7 & 8 Vict. c. 32.	The Bank Charter Act, 1844.	Sections two, three, five and nine, in section eleven the words from ' save and except that ' to the end of the section, sections thirteen to twenty, and section twenty-two, and, so far as relates to England, sections ten and twelve.
24 & 25 Vict. c. 3.	Bank of England Act, 1861.	Section four, so far as unrepealed.
4 & 5 Geo. 5. c. 14.	The Currency and Bank Notes Act, 1914.	The whole Act, except subsection (5) of section one and section five.
4 & 5 Geo. 5. c. 72.	The Currency and Bank Notes (Amendment) Act, 1914.	The whole Act.
5 & 6 Geo. 5. c. 62.	The Finance Act, 1915.	Section twenty-seven.
15 & 16 Geo. 5. c. 29.	The Gold Standard Act, 1925.	Paragraph (b) of subsection (1) of section one.

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