

legal tender, and could be redeemed in gold on demand, but only at the head office of the Bank of England which was merely acting as the Government's agent. In the first instance, the currency notes were issued in the form of advances or loans to bankers who had the right to borrow at the Bank rate (5%) up to 20% of their deposits. This would have allowed a maximum issue of nearly 1100 millions. As a matter of fact, however, only some 63 millions were taken out by the banks, and even these loans were soon paid off by transferring credits at the Bank of England from their own names to the Public Deposits. The notes which had got into the hands of the public remained nevertheless in circulation, and, moreover, ever since September, 1914, the notes outstanding have been constantly increasing, the banks now taking out the notes to meet the public demand, not as a loan from the Government, but by paying for them directly by means of a draft on their balances at the Bank of England. Issued as an emergency currency to remedy the hoarding of gold, the currency notes have remained and are now defended in the face of adverse exchanges as a means of mobilising our gold supply and maintaining a central gold reserve large enough to guarantee the gold standard. On Dec. 15, 1915, the amount of notes outstanding was \$485,724,000, but against this amount the Government has "earmarked" at the Bank of England a stock of gold to the value of \$142,500,000. The difference, or \$343,200,000 represents of course a loan from the public to the Government, without interest.—a relatively small amount if we consider what the other belligerents have done. Further, though these notes have been connected by some with the 40% rise in prices in England, it is very doubtful whether such a connection can be traced, when we remember the amount of gold held against the notes, the amount of gold that has been withdrawn from circulation because of their issue, and the natural increase in the demand for money because of the greater volume of cash transactions which the war has brought.

It is probably true, however, that there has been some inflation, (relatively slight in England), because of the expansion in credit. We remember how, early in the war, the Bank of England took over some 350 or 400 million dollars of outstanding acceptances for the bill-brokers and private banks, and gave cash credit for them on its books. This transfer to the Bank of England of large amounts of securities, which were not to be paid off for some time, from the portfolios of the other banks, is a creation of money because Bank of England balances are reckoned as cash and as a suitable basis for other loans. The effect is therefore to render possible and to stimulate an increase of loans; but to what extent ad-