

**THE OLD LADY OF THREADNEEDLE STREET.**

**A Series of Short Articles upon the Bank of England.  
Its Working Methods and World Influence.**

**III.—The Issue Department.**

The genesis of the Bank's division into separate Issue and Banking Department's was referred to last week. As then mentioned, the Act of 1844 provided that the former department should be allowed to issue £14,000,000 of notes against securities—the fixed Government Debt of £11,015,100 forming part of such securities. For all notes issued over and above £14,000,000, there was to be a pound-for-pound reserve of coin or bullion—except under the additional provision for issuing, against securities, such further quantities of notes as should be equal to two-thirds of any power-of-issue that might be relinquished from time to time by lapsing country banks.

It will be interesting to compare the first weekly statement of the Issue Department published after the passing of the Act of 1844 with that of a week ago.

ISSUE DEPARTMENT.

For week ending September 7, 1844:

Notes Issued..£28,351,000	Government Debt.....£11,015,100 Other Securities..... 2,984,900 Gold Coin & Bullion.. 12,637,000 Silver Bullion..... 1,694,000
£28,351,000	£28,351,000

ISSUE DEPARTMENT.

For week ending August 29, 1907:

Notes Issued..£55,375,000	Government Debt.....£11,015,100 Other Securities..... 7,434,900 Gold Coin & Bullion.. 36,925,000
£55,375,000	£55,375,000

The comparison shows that in the course of 63 years the amount of notes issued has about doubled. The £55,375,000 shown in the statement of August 30, is secured by: (a) the fixed Government Debt of £11,015,100; (b) other securities amounting to £7,434,900 and (c) gold coin and bullion (silver bullion being no longer held) amounting to £36,925,000. From this it appears that the £14,000,000 issued against all securities in 1844 has increased to £18,450,000 in 1907—the difference of £4,450,000 being due to the use made of country banks' lapsation. As previously remarked, the net profit accruing from such additional issues is credited to the public account and not to the Bank itself.

While the amount of notes issued has been augmented by over £27,000,000 in the past sixty years or so, what is termed the active circulation shows a much less marked increase. The amount of the active circulation is, of course, deduced by subtracting the item of notes reserved by the Banking Department from the total issued by the

Issue Department. According to the 1844 statement this circulation was then £20,176,000. The statement of a week ago showed notes reserved by the Banking Department to amount to £26,200,000, so that (subtracting this from the total issue of £55,375,000) the active circulation was £29,175,000—an increase since 1844 of only £9,000,000 in the circulation actually in the hands of the public, as against an advance of over £27,000,000 in the aggregate note issue.

While this increase in the active circulation is a somewhat varying one, it at no time even distantly approaches the growth of the country's monetary operations since the middle of the nineteenth century. The reason for this apparent disproportion is the general change that has taken place in the carrying out of business transactions—cheques having in all larger affairs almost entirely superseded bank notes in everyday use. As to small payments, British conservatism still clings to the general use of actual coin—especially as the Bank of England's smallest note is for £5. There are exceptions, of course, which call for a considerable employment of Bank of England notes by the general public. Then, too, the banks of the country hold large quantities of such notes in their tills in place of actual coin. The amount in the hands of the public changes largely, even under normal conditions—owing to what may be termed the marked periodicity of Old Country methods. For instance, at the end of each rent-paying quarter there is a tendency to a decided increase in the total of notes in general circulation.

As already mentioned, the active circulation consists of the difference between the total note issue and the amount of notes held as part of the Banking Department's reserve. There are thus two variable terms, so that variations in the active circulation are due to changes both in the total amount issued and in the portion held in reserve. That part of the issue which is balanced by securities remains constant from week to week, except when an increase occurs through another bank's lapsation. The fluctuation in the issue-total thus depends practically upon the amount of gold coin and bullion held by the Issue Department—and the changes in amount of gold and notes are automatically equivalent one to the other.

It is to be remembered that the Issue Department is ~~permitted~~ to issue notes, when so called upon, not only for sovereigns but also for bullion at the rate of £3 17s. 9d. per ounce of standard fineness either in bars or in foreign coin. On the other hand, if gold is wanted, five sovereigns are obtainable on demand for every £5 note presented. Or, if preferred, an exporter might draw bar gold or foreign coin in exchange for his notes—in which case, however, the Bank