FIRST INTERIM REPORT
ON
BANKING AND CURRENCY.

BAILE ATHA CLIATH.
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BANKING COMMISSION.

WARRANT OF APPOINTMENT AND TERMS OF REFERENCE.

The Minister for Finance hereby APPOINTS A COMMISSION to consider and to report to him what changes, if any, in the law relative to Banking and note issue are necessary or desirable, regard being had to the altered circumstances arising from the establishment of Saorstát Éireann.

The Commission will consist of the following:—
Professor Henry Parker-Willis of Columbia University, U.S.A., Chairman;
Senator Andrew Jameson, Director of the Bank of Ireland;
J. J. O'Connell, Esq., Director of the National Bank;
Francis J. Lillis, Esq., Director of the Munster and Leinster Bank;
Lionel Smith-Gordon, Esq., Managing Director of the Industrial Trust Company of Ireland;
C. A. B. Campion, Esq., late of the Commonwealth Bank of Australia;
R. K. L. Galloway, Esq., Director of the Ulster Bank;
J. J. McElligott, Esq., Department of Finance.
J. L. Lynd, Esq., of the Department of Finance is appointed to act as Secretary to the Commission.

Given under the Seal of the Minister for Finance this 8th day of March, 1926.

(Signed) SEOSAMH UA BRAONAIN,
Secretary of the Department of Finance.
BANKING COMMISSION.

FIRST INTERIM REPORT.

To
The Minister for Finance,
Government Buildings,
Upper Merrion Street,
Dublin.

BANKING AND CURRENCY.

Introductory.

1. The Banking Commission established under your Warrant of Appointment dated March 8th, 1926, signed by Mr. Seosamh Ua Braonain, Secretary of the Department of Finance, was duly organised in accordance with your instructions and has continued its work steadily since that time. In all the Commission has held 19 sessions, meeting as a rule daily throughout the week, with the exception of Saturday, and holding two half sessions on each day. This preliminary report is the result of its deliberations and discussions, and is presented in the belief that conditions in Saorstát Eireann have made it desirable that you should be advised of our findings as fast as they are definitely reached. We have thought it best to furnish you with a statement of the conclusions arrived at as regards the subject of banking and currency in the Saorstát in order that you may give it such consideration as it may merit, and may, if desired, have it at hand for reference in connection with such legislation as you may see fit to undertake.

Scope of Inquiry.

2. We have recognised the fact from the beginning of our work that the Terms of Reference set forth in your Warrant are extremely broad. The terms as they are stated require us “to consider and to report what changes, if any, in the law relative to banking and note issue are necessary or desirable, regard being had to the altered circumstances arising from the establishment of Saorstát Éireann.” After considerable discussion and after consulting with authorised officers of the Department of Finance, we have interpreted these Terms of Reference to include the whole field of currency, banking, agricultural and business credit as presented in Saorstát Éireann and we have agreed that any recommendations that we may see fit to make touching any or all of these various elements in the
general banking, currency and credit situation will be sufficiently within the field indicated by the Terms of Reference to warrant us in presenting them for such use as you may see fit to make of them. Accordingly we have recognised the following general fields of investigation:

(a) Currency and note issue.
(b) Agricultural credit.
(c) Industrial and commercial credit.
(d) General banking legislation, regulation and control.
(e) Distribution of public deposits and public borrowing.
(f) Money market and discount conditions.

We do not suppose that within the time at our disposal we can in any sense undertake to exhaust these large fields of enquiry. We merely outline them as indicating our conception of the fields which may be covered should circumstances require or permit, and we mention them as furnishing a background for the general discussion hereafter to be offered. The present or First Interim Report relates solely to the item designated as (a) above and covers the field of currency and banking (in the technical or narrow sense) in the Saorstát.

Reason for early transmittal.

3. We have become convinced that the best interests of business and finance in the Saorstát call for an early adjustment of what is usually called the currency and banking question in the technical sense. In so concluding, we do not at all undertake to suggest that the field of activity is more important than the other branches of work which have been already referred to. It is, however, the field in which the Saorstát already possesses a well developed system, and also the field in which the "altered circumstances arising from the establishment of Saorstát Éireann" call most urgently for prompt action. We have been assured by members of our own body that there exists among the public at large a condition of unrest and anxiety with respect to the possibility of changes in currency, monetary standards and banking arrangements. The same information has come to us from many outside sources, and, while we are not in the least inclined to take an alarmist view of the situation, we recognise that there are always many persons who are uninformed and hence timid with regard to any changes of practice or law which they think may influence the safety or availability of their funds. It is desirable to reassure the minds of such persons and to give them definite knowledge of what is suggested or planned in order that there may be no basis for uncertainty on the part of any element in the community. The fact that no real basis exists for such doubt as may have prevailed alters
in no respect the harm that is done by its presence, and the desirable course of action, we believe, is to eliminate all basis for it by announcing as early as possible the general tenor of our conclusions in this regard.

**Character of Work.**

4. In thus early reaching a conclusion upon the first phase of our investigation, we have been materially aided by the fact that our body included within its members several bankers of long and tried experience in the Saorstat, thoroughly familiar with local conditions, in close touch with the banking and financial interests and hence able to assure us of the view of that element in the community. This has obviated the necessity of lengthy hearings which might otherwise have been needful with a view to ascertaining the actual state of opinion among bankers. There remained, of course, the necessity of ascertaining public opinion outside the banking community. Unfortunately such opinion is not well developed in any country as regards technical questions, and yet we have thought it well to solicit suggestions both from agricultural and business bodies and from other sources. In addition, we have, of course, had at our disposal the data collected by the Department of Finance and by other Government departments, and we have also found that there was a considerable body of introductory material available in published form. Our principal lack has been in connection with statistical information, and for that we have been obliged to rely upon the good offices of the banks to supplement the tabular matter already compiled in the Department of Finance. In some particulars the banks have been disposed to furnish the information as it was needed, and where it was lacking we have thought it well to proceed without lengthy or detailed deliberation, indicating the fact that we had found some inadequacies in the character of the material available, rather than to defer recommendations until a perfectly complete body of figures could be assembled. Should later information upon any point become available as the result of our inquiries, we shall, of course, submit additional recommendations which would take it into account; but in the meantime we believe that the material which has been at our disposal is sufficient for the purposes of this statement.

**Fundamental Problem of Standard.**

5. In every newly organised State the fundamental problem of exchange which must be dealt with is that of a monetary or currency standard. The Saorstat has encountered no difficulties on this score inasmuch as its monetary basis has been identical with that of Great Britain, so that its inconveniences or inadequacies have been only those to which the monetary basis of Great Britain was subject, and Great Britain, as is well known,
has been since the close of the War by far the most sound and stable nation, speaking in a financial and monetary sense, in the European world. Thus the Saorstát has found itself automatically provided at the beginning of its existence with a trustworthy and steadily improving currency basis, and from some points of view it might be argued that all that was necessary was to continue to maintain that basis, working steadily forward in harmony with Great Britain and relying upon the latter country to take the necessary steps for the improvement and support of the monetary system. This, however, is not as feasible as it seems on the surface. It is just here that the "altered circumstances arising from the establishment of Saorstát Éireann" come prominently into view. Since the Saorstát is now a separate State responsible for its own financial future and vested with the power to establish its own currency system, as well as with the responsibility for maintaining that system, changes which may occur in British currency from this time forward will by no means automatically extend themselves to the Saorstát. It would be necessary, therefore, to take negative if not positive action for the purpose of assuring the continuance of the existing situation. An absolute necessity for action is indicated, and in view of such necessity it seems desirable to ensure the proper maintenance of a sound and reliable currency in the Saorstát, either through the provision of an entirely independent monetary system, or through the definite adoption of a fixed relationship to Great Britain, with such supporting arrangements as may seem needful. For this reason, the Commission has carefully examined the whole question of monetary basis, and while recognising that the new Coinage Bill already before the Oireachtas, as well as the expressions of members of the Government with regard to it, evidently presuppose the acceptance and continuance of the British sterling as a standard of value, the Commission has seen the desirability of reviewing the chief factors in the situation and pronouncing its opinion accordingly.

**Adherence to British Sterling.**

6. The outcome of this deliberation has been to recommend definite acceptance and continuance of British sterling as a standard of value in Saorstát Éireann. By this we do not mean to suggest the actual maintenance of British currency in circulation in Saorstát Éireann, but quite the contrary. As will be seen at a later point, the Commission recommends the installation of a new currency system. It is earnest in its recommendation however, that this currency system shall be stated in terms of sterling, thus accepting the British standard of value for Saorstát Éireann, and that it shall be convertible at par into British sterling in order that there may be no interruption to the comparatively free interchange of money and notes between the two
countries, and no shock to the present system of inter-communication between the two, upon a uniform currency basis or standard. The reasons for this decision to retain British sterling as a basis for the currency of Saorstát Éireann need but little exposition. The Saorstát would undoubtedly be in a position to recover gold in ways that will be indicated a little later, and to install a currency unit of its own. But this would in no way be desirable. The Saorstát is now, and will undoubtedly long continue to be, an integral part of the economic system at the head of which stands Great Britain. As the result both of centuries of parallel development and of the natural division of labour between an area predominantly agricultural and an area predominantly industrial, the Saorstát will undoubtedly continue for an indefinite period to find the great bulk of its market for exports in Great Britain. To-day more than 95 per cent. of its export trade is with British territory, and while the proportion of its business going to other parts of the world will undoubtedly increase, as it should, many years must elapse before it can have with any other part of the world, or with all combined, an economic relationship at all comparable to that which it at present has with respect to Great Britain. Nothing is clearer in monetary science than the desirability of maintaining and extending uniformity of currency and monetary usage between areas that are closely related in an economic sense to one another. There have been many proposals for the standardisation or unification of monetary units all over the world, and some such proposals had made considerable progress prior to the world war. There has been a revival of them since the restoration of peace, and they will unquestionably make further progress. It would be a gross and obvious error of monetary policy to attempt the establishment of a new unit of value in a country whose economic relationships are of the kind above outlined.

**Question of Gold Standard.**

7. But the decision to maintain "British sterling" as the unit of value for the Saorstát is necessarily only the first item in the decision which must be reached with regard to a monetary standard in general. British sterling may mean anything from actual gold of the weight and fineness in use before the War to the British currency note which has taken its place, or (outside of Britain's own territory) to a form of remittance stated in sterling. So the question must next be considered—"What is meant by British sterling?" Does that term mean anything more than a unit of account to Saorstát Éireann? As to this, the Commission has considered three existing possibilities:

(a) The recovery of British coined gold in ways hereafter indicated, and the restoration of an actual gold currency in circulation in the hands of the people.
(b) The recovery of gold in bullion form in ways hereafter indicated, and the coinage of a unit identical in weight and fineness with British sterling.

c) The abandonment of any notion of restoring the circulation of coined gold in Saorstát Éireann for the present and the acceptance of British sterling in the sense of current or actual British sterling as in use at the time.

It is the third of these alternatives that the Commission strongly recommends. We believe that while it might be possible with conditions as they are to recover gold and to bring about the actual use of that metal in the Saorstát, such action would at this time, to say the least, possess no advantage. It is an open question in all European countries how far the people are likely to turn to the actual use of coined gold which prevailed before the War. In some countries they certainly will not do so, preferring paper which, with all its disadvantages, so greatly excels in convenience and economy the actual use of coined money. The restoration of a great body of gold to actual use involves a loss equal to the amount that might be realised (net) through the substitution of paper. And above all else in a country whose trade balance is still a subject of uncertainty, such action might not ensure the retention of the gold unless strong measures were taken to protect it. At the present time certainly the Saorstát is, in our opinion, in no position to attempt the experiment of restoring gold to actual use. The best British opinion, we believe, is against any such effort for a long time to come, and it would be both hazardous and expensive to undertake such a change in Saorstát Éireann acting independently. The natural conclusion from these considerations appears to be the acceptance either of actual British legal tender notes in circulation or the establishment of a currency which shall be directly convertible into British sterling (i.e., British legal tender, whatever that may be from time to time). For the reasons already stated the latter alternative is recommended by the Commission. We urge the creation of a new type of local Irish currency, following the methods hereafter set forth, but we urge with equal force that this currency shall at all times be directly convertible into British sterling so that there may be no development of exchange rates, charges or depreciation in the trade between the two countries, and so that Irish obligations of every description stated in sterling may at all times be of a value unquestionably equal to that of similar obligations of all kinds in Great Britain.

The Legal Tender Question.

8. The creation of a local currency, however, involves at the outset a very serious problem which must be carefully analysed and solved. At the present moment in the Saorstát there is
no legal tender in circulation identifiable as such. It is true that there is in circulation a body of British legal tender currency notes whose real amount is uncertain but is estimated by some to be from one million pounds sterling to two million pounds sterling. It is further true that all British Acts of Parliament up to the 6th December, 1922, which are not repealed or otherwise altered remain in force in the Saorstát. But as things now stand the interpretation of this provision prevents the acceptance of British legal tender notes as legal tender in the Saorstát except such as were issued prior to 6th December, 1922. These cannot be separately identified, as British Treasury notes bear no date of issue. Bank of England notes were never legal tender here, nor were Irish Bank notes legal tender prior to the War, and neither are legal tender at present.

There is no method practically available of settling debts by the offer of legal tender in the Saorstát and while we feel bound to add that this question has never become acute or urgent, creditors being entirely satisfied with payment in British legal tender or for the most part in bank notes, it remains a fact that the condition is one which occasionally gives rise to serious doubt and inconvenience and might under certain circumstances become dangerous. Certainly it is one which ought not to be permitted to continue even if there were to be no other banking and currency legislation, and equally certainly the provision of some legal tender basis for a new currency is a fundamental pre-requisite in any plan for general reorganisation that may be put forward. In these circumstances it has seemed to the Commission that its first duty was to consider the question of providing a definite legal tender basis for any currency that might be in circulation in the Saorstát in the future, and inasmuch as gold appears to be out of the question for the moment, owing to the considerations sketched above, the Commission has recommended the provision of a paper legal tender basis, analogous to that existing in Great Britain. In so doing the Commission is fully alive to the undesirability of a Government legal tender currency. In common with the rest of the world, it deplores the continued and almost universal existence of the legal tender paper regime, and it recognises the desirability of working away from that regime as rapidly as possible.

Believing, however, as it does that the Irish currency system is necessarily linked to that of Great Britain and believing also that Great Britain is resolved to maintain its adherence to the gold standard, it considers that the institution of an Irish Government legal tender note properly protected in ways hereafter to be set forth is an expedient whose use is entirely defensible so long as Great Britain continues to progress along present lines. For these reasons the fundamental recommendation of the Commission (questions affecting the unit and monetary base being disposed of as already explained) is, as just stated the creation of a Saorstát Government legal tender note.
Basis for Legal Tender Note.

9. Accepting as just set forth the thought of close and direct convertibility between English and Irish currency, it is evident that the new legal tender note not only should but must be maintained at a parity with sterling and that such maintenance must not be a matter of conjecture or doubt. In order to assure beyond doubt the exact status of such legal tender notes, therefore, the Commission recommends that they shall be issued upon a base or with a protection or backing which shall consist £ for £ of British Government securities. In other words, it recommends that such legal tender notes as may be issued shall be equal in amount to British Government obligations held for their protection, or, so far as conditions of redemption may make it necessary, British Government securities combined with liquid current balances in British banks or with actual deposits of gold or both. The Commission is of opinion that such balances and such gold deposits may be small in amount, but, whatever they are, their total combined with the total of British securities held shall be always equal to the amount of legal tender notes issued to the public. In order that these legal tender notes may furthermore be of unquestionable standing and position, the Commission recommends that they shall become the unlimited liability of the Saorstát, the State pledging itself in the event of any deficiency or shortage in the securities carried behind the notes to make good such deficiency, thus guaranteeing to the holder of the legal tender notes that they shall beyond any question or doubt be equal in value to British Sterling.

The Commission is deeply sensible of the fact that merely to hold securities equal to or balances behind currency is not enough to ensure its parity of value with other notes, but that a mechanism for the actual employment of the securities and balances must be furnished. It has, therefore, been at pains to develop a plan for providing this kind of active protection for and management of a legal tender note system.

Currency Commission.

10. Mindful as it is of the disasters of past years in all countries where currency was issued by the Government, and recognising the hazards which come from changes of Government, from the development of budget deficits and other evils from which no country has found itself immune, the Commission is definitely of the opinion that the management of the legal tender note issue should be placed in the hands of a non-political and independent body, which shall control the conditions of issue and shall have full control and custody of the securities it holds. The Commission, therefore, recommends the creation of an incorporated or chartered body to be established by Act of the Oireachtas and to be entitled the Currency Commission. Such Commission,
should possess a definite liability for obligations, such liability to be set forth and established in the Act creating it, and it should moreover be a definitely organised body. To this Currency Commission should be entrusted the work of actually issuing legal tender notes. The notes themselves as obligations of the Government should bear the signature of some permanent official of the Department of Finance. They might be actually and in fact in the custody of a Government member of or officer attached to the Currency Commission, properly appointed and otherwise subject to heavy responsibility. Every effort should be made to ensure that the issue of notes shall take place without delay. What is necessary is to maintain the Government's check upon and knowledge of the amounts of its obligations which are thus going out into the hands of the public. The Auditor-General's Office should institute, therefore, a careful system of accounting supervision. When the Currency Commission has received notes and has actually issued or delivered them to those who desire to obtain them, it should receive pound for pound payment in gold or the form of currency into which it has undertaken to convert such notes upon request. That form of currency, as already stated, is to be British sterling, and the Commission further recommends that such notes shall be furnished only on payment to the Commission of £ for £ in gold or British legal tender currency or current funds available in London. As will be seen later the Commission recommends that during the period of transition to the new system each bank may be allowed to obtain legal tender notes in exchange for its own notes, not exceeding its excess issue under the Act of 1845 on a specified date, but that once this transition period is past the legal tender notes should issue as above stated and in that way only.

Position of Currency Commission.

11. It is evident that the Currency Commission, if created as just indicated, will be vested with unusual and very great responsibilities. These will appear more clearly as this report proceeds, but enough has already been said to show that it will not only be heavily burdened with obligations of a high type but that it will also have to perform functions of a difficult and technical character. The present Commission therefore, earnestly recommends that the proposed Currency Commission shall be made up in such a way as to ensure due consideration both of private and of public interests and to enlist the best technical ability in its service. We believe that these objects will best be attained by creating a relatively small body of seven Directors, or Managers, of whom three shall be chosen by the Government, two of these three to be representatives of business, industry or trade, and not government officials, and three by the banks which have become members or stockholders in the Currency Commission, while the seventh shall be a man learned
and experienced in banking and finance and shall be chosen by the six members appointed as above. Our view is that the seventh member so selected should be designated as Chairman of the Commission and should be the working or Managing Director thereof. He should be a well salaried man of unquestioned probity and past banking experience, whose relation to the undertaking would be that of general supervising Manager spending his whole time on his duties, and who would find his principal satisfaction in conducting a great public enterprise with success. His duties and those of the Currency Commission will be more fully set forth at a later point, but for the present attention is called to the character of the body and the quality of the men who should compose it because of the significant relation it must necessarily bear to the legal tender currency of the nation and the obligation of the Government of the Saorstát therefor.

**Amount of Legal Tenders to be issued.**

12. It is evident that the amount of the legal tender notes to be issued upon the basis thus indicated, or upon any other basis, is of matter a fundamental importance. The notes are to be backed pound for pound by securities and are to be obtained by those to whom they are issued only upon actual payment for them. There is thus at first sight no inducement or profit which would automatically lead the banks to bring out such notes. Neither is there any obvious reason why the Government itself should issue them. The question thus becomes significant: What will be the inducement to the issue of these notes and how will their amount be regulated? In this matter it seems desirable to proceed as in so many others on an empirical basis. Deferring for the moment, until later, general discussion on banking conditions in the Saorstát, we may call attention to the fact that at the present time the actual currency circulation of the Saorstát (outside of the British currency notes already referred to) consists of bank notes, which are either secured pound for pound by British currency notes or which are protected only by the general liability of the issuing banks. The banks now operating in the Saorstát possess a right of issue which dates from 1845 and which as is well known extends only to those which were then in existence and availed themselves of the privilege. These banks actually issuing the amount of so called fiduciary notes, as provided by the Act of 1845, have been authorised to issue as many additional notes as they choose to pay for, such additional notes being described as “excess circulation.” Assuming for the moment that the Saorstát has at present about the amount of notes that its business requirements have dictated or called for, it is obvious that the excess circulation represents the amount of circulating medium
in addition to the fiduciary notes which is essential for the current needs of business. We may assume that in round figures the total circulation of all Ireland, including both the amount officially stated as being "in circulation" and the amount that is carried by the banks as "till money" is roughly speaking 17 million pounds sterling. Of this sum three millions may be regarded as made up of "till money" and British currency notes, leaving 14 million pounds sterling. Of this latter sum in round figures we may say that approximately eight millions sterling is secured, that is to say, has been obtained as aforesaid by the banks through the deposit of actual funds with the British Government, while six million pounds is fiduciary secured only by the general obligations of the issuing banks. It would seem, therefore, that if an amount of new legal tender notes equal to the amount of the present secured issue should be placed in circulation by the Saorstát its duty to the public would have been discharged, and the interests of the general business of the country would have been fully provided for. Apparently then the fundamental step to be taken is to ensure the placing in circulation of a body of legal tender notes approximately equal to the present secured issue plus the British currency notes which are now in circulation and which presumably will be superseded under the new system. Accordingly this Commission recommends that the new Currency Commission shall issue legal tenders as they are applied for and upon demand for them, as already explained, without any effort to restrict or limit the issue until such time as the amount outstanding has reached a figure which shall fully take into account or cover the present secured issue plus the British currency notes in circulation in the Saorstát. It will, of course, be noted that the figures already furnished relate to all Ireland and consequently will need to be modified when applied to the Saorstát only. More will be said on that point at a later stage of the discussion, but for the present it is enough to say that the exact figures to be arrived at can probably be ascertained with accuracy only by experience and that such ascertainment should be one of the important duties of the Currency Commission, subject to the general instruction herein described:—that the total amount is not to exceed the present secured issue plus British currency notes in circulation in the Saorstát. The important question, whether there might not be an effort to take out legal tender notes in excess of the amount so specified in order to obtain British sterling, might arise during the period of transition to this new system, and because of the possibility that an element of danger might thus present itself, we recommend that the Currency Commission have the power to suspend issue of legal tender notes whenever the figure already referred to shall have been reached. This would place upon the Commission the injunction that it consider the whole subject of volume or amount of issue with the utmost care with a view to avoiding an excess
which might possibly result from the development of some inflationary movement in Great Britain.

How Notes would be paid for.

13. In order to understand fully the working of the legal tender system which we recommend, it should be remembered that the banks now operating in the Saorstát have, in order to obtain their so-called secured issue, in the past obtained on a pound for pound basis the notes for which they made application. The British Government is, therefore, indebted to them in the amount of these currency notes or, in other words, in an amount equal to the secured bank note issue. Under existing conditions it would be possible under the British Gold Standard Act of 1925 to present the currency notes for conversion into gold, obtain such gold and import it into the Saorstát. That would be the procedure indicated were we to recommend the installation of an actual gold currency. Since we have decided against that, it would at first sight seem that the proper procedure would be that the banks which now have outstanding secured notes should present the same to the British Government, obtain from it a cash credit, and place the latter behind the new issue of legal tender notes. As will be seen, it is the plan of this Commission that this work shall be undertaken through the new Currency Commission. The existing banks, therefore, would turn in their outstanding secured notes as rapidly as possible to the British Government and make the cash transfers necessary to entitle them to receive legal tender notes. The net result would be the conversion of the old secured bank notes into new legal tender notes and the placing in the hands of the Currency Commission of an equivalent amount of British sterling or British Government securities. It will be perceived that these assets are held in trust by the Commission for the Government as a backing to protect the outstanding legal tender notes.

Profit to the Government.

14. A survey of the recommendations thus made indicates clearly that the net result of the operation already referred to will be to leave the public with a body of notes in its possession potentially equal to the amount of the present secured notes, while the Government will obtain an interest or earning as the outcome of the transaction which will be equal to the interest upon the securities held for it by the Currency Commission minus such expenses as may be incurred in the course of the operation. This question of expenses will be analysed at a later stage, but for purposes of illustration we may suggest at this point that if the amount of the legal tender notes needed by the Saorstát should be (estimated on the basis of the known issue for all Ireland) approximately 6 million pounds sterling, an earning of, say, 3 to 4 per cent. on that amount would be £180,000 to
f240,000 sterling. From this would have to be deducted whatever expense was involved in the operation, but the net balance would be the actual earning of the Government (in each year) as a result of the change to the new currency system. The public would then have notes protected in exactly the same way as those now existing, except that they would also have behind them the unlimited liability of the Saorstát. It may be enquired what guarantee there is that the banks would actually make this conversion of secured notes into Saorstát notes. That is undoubtedly a problem of importance and one for which the Commission has endeavoured to provide at another point. It is enough for us to say at this stage that we believe this point has been adequately safeguarded.

The Question of Banking.

15. We may now turn to the question of banking. First of all, it may be noted that the banking problem, while intimately bound up with the underlying question of currency and monetary standard, is of course, wholly independent of it. This is a problem or series of problems in and of itself. The question of legal tender would have to be determined prior to reaching any conclusion with respect to ultimate banking arrangements. It may help at the outset to set forth the possible courses of action which the Commission has contemplated. These may be described as follows:

(a) Bestowal of the legal tender quality upon the existing bank notes, so that the circulation may continue to be furnished by the banks themselves (either directly or through the Currency Commission), and at the same time be vested with power to pay debts.

(b) Termination of the present system of bank note issue and the substitution of a central bank with note issuing powers, to which should be transferred the entire business of note issue.

(c) Provision for a type of bank note or fiduciary issue which should possess no legal tender quality whatever, but should be convertible into legal tender notes already provided for upon demand of the holder.

It would be well to consider these alternatives individually, inasmuch as the reasons for a sound decision are best indicated by making plain the elements of the problem with which the Commission has had to deal in its deliberations.

A Central Bank.

16. Almost at the outset of its deliberations the Commission was brought face to face with the question whether to recommend
the establishment of a so-called "Central Bank" for the purpose primarily of directing the note issue. This view appealed strongly to some members of the Commission, but a practical consideration of it led to the feeling that at the present time it was not to be recommended as an immediate expedient. It is clearly true that the tendency in many countries has been of recent years toward the creation of central banks, and toward the retirement of private bank note issues, their place being taken by central bank note issues. It would be easy to cite illustrations of this movement both from the British Dominions and from Europe and from the experience of countries in the Western Hemisphere. The Genoa conference recommended the creation of central banking institutions by countries desiring particularly to take steps towards a uniform and sound note issue, and at the same time to maintain control of their own financial affairs. As to this general question we call attention, however, to the following points:—

(1) The Saorstát has to-day an unquestionably sound and satisfactory banking system. No one questions the solidity of its banks or their ability to meet the demands of their customers.

(2) Government business is being on the whole satisfactorily dealt with from the banking standpoint.

(3) Banks are able to obtain either through their own offices in London or through correspondent banks there such access to a great money market as they may need from time to time.

(4) There is no independent discount market in Ireland and in fact apparently little market for Bills of Exchange outside the banks.

It would appear, therefore, that many of the conditions which often call very urgently for the establishment of a central bank are absent, while at the same time the conditions which render easy its establishment are likewise absent. While some members of the Commission are of the opinion that the conditions which render such an installation feasible or easy are not likely to make their appearance in the near future, other members differ, but we are all of the opinion that they are not present at this time. Prior to the establishment of such a central bank, efforts should be made in ways which may be indicated by this Commission in later Reports to bring about a much greater condition of liquidity or fluidity in Irish credit, both public and private. We may sum up the situation, therefore, by saying that we are of the opinion that at the present time the principal considerations which seem to call for the establishment of a central banking mechanism in Saorstát Éireann are found in connection with note issue, and that the general credit basis
for central banking in the Saorstát is still rudimentary; and that we believe the principal services of a central bank which at the present time, so far as the Saorstát is concerned, are to be found in connection with note issue, can be obtained more quickly, more cheaply, and with greater confidence by another method. The means which we recommend to that end is the employment of the Currency Commission already referred to as a note issuing mechanism. Before proceeding, however, to look at the functions of the Currency Commission in that connection it is well to devote some attention to the other alternative already mentioned—the question of bestowing legal tender quality upon present bank notes. It was suggested by some that the best and easiest plan for ending the present uncertainties would be to grant to existing bank notes a definite legal tender quality, proceeding thereupon to limit the entire amount of the issue in appropriate ways, and at the same time to take for the Government a due share of the earnings of the notes by taxation, probably through the use of a graded tax rate. We have decided against any such plan for several reasons. First of all, there are legal difficulties arising out of the bestowal of a legal tender quality upon any bank note. Questions arise both of form of note and of liability which are by no means easy to adjust. The general feeling throughout the world that such notes represent an unwise combination of private liability and of Government authority is well founded, as painful experience has shown in many countries. The dangers may not appear at a given moment, but they are always lurking in the background and it is wise to avoid them. Then too it has not seemed to us that the establishment of a system of graded taxation designed to take for the Government a fair share of note income, which properly accrues to it upon that part of the circulation which remains outstanding, could be very equitably provided for through even the most carefully graded system of taxation, and while we have been prepared to recommend plans on that score which would attain the desired object, they have been open to technical difficulties, growing out of the apportionment of the note issue among non-issue banks, which were by no means easy to overcome. Both on theoretical and practical grounds, therefore, we have laid aside this alternative plan and we have committed ourselves to the third which is that of authorising a pure bank note issue similar to the present fiduciary issue, except that it shall now be frankly convertible into Government legal tender notes instead of, as before the War, into gold, or as at the present time (probably) into British legal tender notes. To sum up, therefore, we recommend that the Currency Commission shall issue all bank notes, such bank notes to be convertible on demand into legal tender notes which we have already described, but to be private obligations without legal tender quality and in no way a charge upon or liability of the Saorstát itself. Exactly how to provide for the transition to this new system we shall now proceed to indicate.
17. It would seem at first sight comparatively easy to fund or convert existing bank notes into new bank notes just as the old British currency notes, and that part of the existing bank notes which is secured, will be converted into legal tender notes. Or, what would be much the same thing, it would be easy to say in effect to existing banks: "You shall continue your privilege of (fiduciary) note issue exactly as at present, the difference between the old regime and the new one being that instead of putting up your own secured notes when the fiduciary limit is exhausted, you shall obtain the new legal tender notes." But this apparent ease of transition disappears when the practical needs of the situation are carefully considered. In particular two difficulties of major importance emerge. These difficulties lie first of all in the fact that at the present time not all banks operating in the Saorstát are allowed the privilege of issue, and secondly, in the fact that very strong prejudice exists in some quarters against any extension of the privilege of note issue to banks which do not now enjoy it. We are of the opinion that we cannot conscientiously recommend the continuance of the fiduciary privilege upon its present basis, dating back as it does to a time when banking and general business conditions were quite different from those of the present day. We are, therefore, firmly convinced that a mere continuance of the present note issue privilege on the existing basis and by the banks which heretofore enjoyed it would not meet present day needs and would not be satisfactory as a solution of the problem. The question then arises what can be substituted for the existing regime. Apparently it might be sufficiently easy to assign to the banks of non-issue an additional volume of notes based upon the amount which they in the past have been obtaining from the issue banks. It has been the practice of the banks of non-issue in the Saorstát to obtain from issuing banks such supplies of notes as they desired. The issuing banks were thus able to meet the needs of the non-issue banks as long as their uncovered or fiduciary circulation was unexhausted, and afterwards to supply these needs from their excess issue. If now we should recommend that the non-issue banks be granted an issue of their own measured or limited by the amount which they have been in the habit of obtaining from the banks of issue, we should simply be enlarging the total issue for the purpose of giving to the non-issue banks a profit and thereby of satisfying them in their natural and appropriate competition with the banks of issue. We have been of the opinion that to take any such step as this would be merely to recognise the "privilege" of issue as a kind of monopoly and to admit to the advantages of that monopoly other banks which succeed in making good their claim to a share of the advantage. We have not thought that such action as this would approach the problem from the public standpoint,
and hence we have not been able to see our way to recommend it, even if satisfied that in other respects it would meet the needs of the existing situation. Moreover, it has been the opinion of some of us that we could hardly defend an action which would increase the number of issuing banks (regardless of the question already discussed as to their relative right to participate in any franchise which belongs to the public). Some of us have been of the opinion that to do so would, moreover, merely mean that we transfer to these banks of non-issue a corresponding amount of the "field of circulation" which would otherwise be occupied by the proposed legal tender notes, or, in other words, that we should be handing over to the banks of non-issue a profitable privilege or advantage which should go to the Government. We do not need to argue this question, involving as it does extended theoretical discussion of an abstract nature. Suffice it to say that the different phases of the subject have been considered in all their aspects by our members during a series of discussions and that by different routes and for different reasons we have come to the conclusion that this way of solving the problem is not feasible. The final alternative, therefore, to which we have come through the process of logical exclusion is that the entire existing fiduciary issue should be extinguished and that in place of it there should be substituted a consolidated issue parallel with the legal tender note issue already described and obtainable from the Currency Commission heretofore proposed. Our recommendation, therefore, is that as rapidly as possible the old bank notes shall be retired and that for them there shall be substituted a new consolidated issue which shall be put out by the Currency Commission itself, as the obligation of that Commission, bearing the signature of the Chairman of that Commission, and secured or protected in ways which will be presently explained. We recommend that this new bank note issue shall be obtainable only by banks under conditions to be made clear hereinafter. We assume that henceforward the term "fiduciary issue" will become obsolete and that in future there will be substituted for it the term "bank note issue" or "consolidated bank note." The result of our recommendations, if carried into effect, would thus be the establishment parallel with the legal tender notes of a consolidated bank note issue originated by the Currency Commission and furnished by it to its own members. Retrospectively, we note that as soon as our project shall have been carried into effect, currency of the Saorstát will then consist of legal tender notes convertible into British sterling and of consolidated bank notes convertible into the legal tenders themselves and hence, of course, ultimately into British sterling.

**Distribution of Issue.**

18. But this conclusion or recommendation is only a first
approach to the solution of the entire problem. Two difficulties
now present themselves as follows:—The division of the note
issue between the Saorstát and Northern Ireland, and the
division of the note issue among the banks which are to have
access to it. These two questions may be considered individually
a little further on. At this point it is desirable, first of all, to
say why they emerge. As has already been remarked, the
present fiduciary bank note of the Irish banks dates from 1845.
The issue privilege in the Saorstát is theoretically enjoyed by
six and actually exercised by five Irish banks at the present
moment. They enjoy their rights either under special charter
or under law governing the general organisation of banking,
and as has already been seen they have thus been able to exercise
and derive advantage from a peculiar type of legislation which
was a product of the English Bank Act of 1844, itself the out-
come of the unfortunate conditions which had preceded it. The
rigid fiduciary issue thus authorised, amounting to £6,354,494
sterling for all Ireland, was, of course, authorised at a time
when the Saorstát was not an individual State. As things stand,
nine joint stock or chartered banks and one Government institu-
tion are authorised to operate in the Saorstát, and of these, as
just stated, only six are banks of issue, three of them having their
Head Office in Northern Ireland. All of the banks referred to,
with one exception, operate and may continue to operate in-
definitely in both the Saorstát or Northern Ireland. It is thus clear
that the limit to fiduciary circulation which was set up in 1845
is to-day necessarily obsolete through the Establishment of the
Saorstát, even if it were not obsolete prior to that time; and on
the other hand it is equally clear that the reasons which dictated
the confining of the issue privilege to a few banks are no longer
valid. So the Commission has come definitely to the conclusion
that the new consolidated issue which it recommends must be
distributed or put out in substantially new circumstances. In
other words, it holds to the belief that the limits of 1845 have
become obsolete, not only by reason of the passage of time and
the change in economic conditions, but also because of the
political changes which have taken place and which have
altered the political division of the area to which the limits of
1845 corresponded.

Division between the Saorstát and Northern Ireland.

19. It would seem first of all, therefore, that the Commission
in order to make its plan valid has been obliged to consider the
question of dividing the new issue, whatever it may be, between
the Saorstát and Northern Ireland in such a way that a bank
operating in both could know definitely what portion of notes
would be accessible to it for the prosecution of its business in
the Saorstát. It is perfectly true that the abstract theory of
note issue would probably dictate the abandonment of all such
maximum restrictions and would leave the output of notes to be determined as the result of automatic business considerations. In fact we may generally state the theory of note issue as indicating abstractly that the maximum issue of notes should be limited only by the kind of business done by the issuer in such a way as to confine it to an amount not exceeding the absolute liquid and current transactions of the bank and further to limit it by the amount of reserves actually held in vaults. Accordingly when these restrictions are conscientiously lived up to there should be no "over issue" or "inflation." But this theory holds good in strictness only when a country is fully upon a gold basis, or more broadly still when the world at large is upon a gold basis. The Commission, therefore, has been predominantly of the opinion that it was safer not to guide itself by the abstract theory of note issue, but to settle upon a total limit for the notes which will be indicated later on. Whatever that limit may be, the question of division between the Saorstát and Northern Ireland remains. Various measures of distribution have been suggested such as population, total volume of trade, relative amounts of business done by the banks at their branches in the Saorstát and in Northern Ireland, and a variety of others. It is our opinion that none of these criteria can be effectively applied without knowing much more than we now know of the business done at individual branches by the several banks. Such information is at present unavailable to the Commission and we have not found any way of obtaining it. As you are aware the Commission has been without authority to summon either persons or papers and has been entirely dependent upon the voluntary co-operation of the community.

Absolute Limit of Note Issue.

20. As has already been explained the Commission has been unwilling to commit itself to the theory of an automatically self-limiting note issue, and has accepted the view that the aggregate issue should be limited. The question has thus presented itself: Shall that limit be fixed as a lump sum in round figures or shall it be stated as a percentage? We have in the main accepted as an abstract proposition the view that note issues should bear some definite relation to the active operations of the bank, and on the whole after considering a great variety of measures of this kind involving various combinations of deposits, advances, loans and the like, have come to the conclusion that advances may best be taken for convenience as the proper measure. But obviously the advances of Irish banks are much larger in amount than any note issue that is now or is likely to be needed, so that if we should leave the decision at this point we should in effect, although not theoretically,
be committing ourselves as a practical matter to the theory of self-limiting (or unlimited, as some would call it) note issue. The Commission has, therefore, thought it best to name a fairly definite figure as a limit upon aggregate note issues for the time being. That figure has been reached after a careful study of data showing the apportionment of aggregate business between the Saorstát and Northern Ireland furnished by the banks themselves as well as considerations of the number of branches. It has been recognised by the Commission that in this problem the question of till money must also be considered. In the past the banks have been able to keep their own notes in their vaults, issuing the same as they were needed, so that they were not obliged to count either as secured or as fiduciary notes paper which had not been paid out but was awaiting issue. Under the proposed plan it will be difficult for them to follow this same method as will appear upon a perusal of this entire report. Some paper at least will necessarily be lying idle in their vaults so that a certain enlargement of the note issue limitation appears to be unavoidable. After due study of all these considerations the Commission has tentatively fixed the aggregate limit for bank notes in the Saorstát at six million pounds sterling.

Division among Banks.

21. The question how to make a satisfactory division of the six million pounds sterling aforesaid brings to the front the question of a ratio or basis of division which shall establish the maximum amount of notes that may be actually obtained and put into circulation by any of the participating banks. Here it is necessary to remember what has already been said with reference to the original basis of the present note issue. That original basis dates from 1845 and represents an issue which, as already explained, is confined in Saorstát Éireann to six—or in practice five—distinct banks of issue. For reasons previously set forth, we have felt that there is no justification for continuing the old basis of note issue whereby individual banks were limited to the amounts laid down in 1845, while other banks, established at that time or later are without note issue. We feel, in short, that all banks should have access upon similar terms, to the use of bank notes. Thus it becomes necessary to ascertain or appraise the relative claims of different banks to a note issue. No such question would arise if the note issue were not absolutely limited in amount, but since we have, for the reasons heretofore mentioned, determined to limit the amount, we must also limit the individual banks. In examining the principles which should guide us in making a distribution or apportionment, we have thought best to obtain the advice of the Banking community itself. This is for the reason that while the public is deeply interested in the total or aggregate
amount of notes to be issued, it is not so directly interested in the amount of the note issue assigned to each bank. On this account the distribution as between different banks may be regarded as essentially a banker's problem. In its deliberations, therefore, the Commission determined to nominate a Committee whose duty it should be to consult with the representatives of the Banking Community and recommend a basis of division. This Committee called to its assistance an advisory committee selected by the different banks, and that body unanimously recommended a basis of apportionment which is founded upon the relative amount of advances and deposits and capital and reserves reported by each of the banks now operating in the Saorstát, modified by the relative numbers of branches established and maintained by the various banks. This basis was accepted by the Commission and the following table sets forth the proportions in which it is recommended that the several banks now operating in the Saorstát be allowed to obtain notes from the Currency Commission. On the basis of this apportionment the various banks would be able to issue notes obtained from the Currency Commission as follows:

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Notes in £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Ireland</td>
<td>1,705,000</td>
</tr>
<tr>
<td>National Bank</td>
<td>1,365,000</td>
</tr>
<tr>
<td>Northern Bank</td>
<td>243,000</td>
</tr>
<tr>
<td>Provincial Bank</td>
<td>649,000</td>
</tr>
<tr>
<td>Ulster Bank</td>
<td>419,000</td>
</tr>
<tr>
<td>Hibernian Bank</td>
<td>439,000</td>
</tr>
<tr>
<td>Munster &amp; Leinster Bank</td>
<td>852,000</td>
</tr>
<tr>
<td>National Land Bank</td>
<td>55,000</td>
</tr>
<tr>
<td>Royal Bank</td>
<td>273,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,000,000</strong></td>
</tr>
</tbody>
</table>

Obviously this basis of apportionment necessarily takes from the volume of notes heretofore at the service of the five issuing banks and transfers a privilege to those who have not had it in the past. To the extent that the five note issuing banks lose circulation rights (the difference between their former fiduciary circulation and the present limit of bank note issue) they are theoretically injured, while the others are theoretically benefited to a corresponding extent. It is to be observed, however, that the harm or benefit thus received is, so far as the community goes, non-existent, the public being in approximately the same position no matter how the notes are distributed among the several banks. It may be accepted that, with the return of the practice of directly redeeming notes so that each
bank pays out only its own notes and retires those of others the public will in fact become, as it should be, the determining factor as to what banks shall attain a relatively larger amount of circulation. To put this in another way, the figures which have been set forth above would permit banks whose notes were popular and well received to obtain an increasing amount of actual notes while those whose circulation was unpopular (if any) would relatively lose circulation.

Further than this the Commission recommends that the six million pounds sterling maximum which it has set out as aforesaid, should be regarded as valid for a two year period only, dating from the establishment of the new system. After that date we believe that the whole subject should be reconsidered by the Currency Commission on the basis of careful investigations to be made during the first two years of its life.

Protection of Bank Notes.

22. What we have said up to this point is based upon the assumption that all banks will unquestionably be able to comply with the general conditions of bank note issue, and if they are so able, all that is necessary is to regulate the extent to which they shall be able to obtain the notes they want. But more important than this matter of distribution is the essential basis upon which the notes are to be founded. We have, therefore, given much attention to the question of protecting or securing the new notes. This question is one which has not arisen in the past because of the fact that the existing banks have issued their notes directly, up to the amount authorised as their own obligations, whereas now the notes are to be issued as obligations of the Currency Commission, representing the associated banks. As things stand to-day, some of the note issue banks have an unlimited liability for the notes which they issue. Such notes are a prior lien upon the assets of the banks, and they are also a direct obligation upon the shareholders or the property of the shareholders without limit. The question is raised how the Currency Commission shall protect these notes which it furnishes to the several banks already indicated. We have unreservedly accepted the principle that bank notes properly represent the current business of the banks in the form of advances to solvent borrowers who are able to repay at maturity. We, therefore, recommend that the Currency Commission, when issuing notes to the banks which apply for them, shall receive from these banks claims upon the entire assets of the banks receiving such notes; and moreover, that it shall not issue the notes at all unless satisfied that the applying banks are in possession of an equal amount of claims against their customers for liquid sound borrowings obtained by the latter. To put this more briefly, we recommend that no bank shall receive notes unless it be able
to prove the existence in its portfolio of a fully equal amount of liquid sound advances. In those countries in which current advances to customers take the form of Bills of Exchange, or short-dated promissory notes, it is customary to exact as protection for notes a transfer of such bills or obligations. In the Saorstát banks custom does not permit of the actual application of this principle in a technical way. Much of the business done by the banks, many of their soundest and most beneficial loans, take the form of overdrafts, and are not represented by individually-executed obligations. We, therefore, recommend that the Currency Commission shall furnish the notes to applying members (banks) on one or the other of the following bases, or upon a combination of the two:—

(1) Upon the transfer to the Commission of satisfactory Bills or evidence of indebtedness, arising out of Irish or English trade, domestic or foreign—such bills to have the endorsement of the depositing bank and to be satisfactory to the Commission.

(2) Upon the furnishing of due Bills or Contract Obligations made by the bank itself in favour of the Commission and representing liquid sound advances to customers on overdraft or otherwise; or in cases where so desired, upon approved securities satisfactory to the Commission. It should be noted that in this latter case the "approved securities" would be taken merely by way of immediate protection to the notes, and it would still remain true that no notes were to be issued, unless the bank could show the existence in its portfolio of the liquid advances referred to.

In order to assure itself of the existence and character of these credits as represented by the banks, the Commission should, we recommend, be authorised to examine the portfolio of the applying bank in such manner as it may deem best.

Eventual Character of the Circulation.

23. From the perusal of the foregoing outline, it will be apparent that the eventual character of the note circulation which we recommend will be two-fold—a basis of legal tender notes protected by British Government securities held in trust by the Currency Commission and belonging to the Government—a body of bank notes representing either commercial and business paper transferred to the Commission or direct obligations of the banks representing live current credits to industry, trade and agriculture. The liability for the legal tender notes will, as already stated, be assumed by the Saorstát and will be unlimited. The liability for the bank notes will be assumed by the Commission, and will be limited only by the liability of the bank receiving
the notes, and by the underlying liability of the shareholders of such bank. It is not proposed that the banks should become jointly and severally liable for the entire body of notes, nor is it intended that the Commission should use the funds of other banks for the purpose of making good any deficit which may appear as a result of insufficiency of the assets of a bank which may go into liquidation. We are satisfied that the provision which we suggest for the protection of the individual allotment of notes is adequate, and that the resulting currency will be fully as safe as the bank note currency at present outstanding. In some particulars it may be better safeguarded than the existing note currency.

Reserve against Deficits.

24. There is, however, always the possibility that the best of calculations may suffer from a flaw or in other words that, due to unforeseen circumstances, failure of some bank might result in the possibility of loss to note-holders. In order to meet this contingency, we recommend that there shall be set aside out of the earnings derived from investments a sum equal to 10% of the outstanding bank note issue, and that this sum of 10%, when fully accumulated, shall, like the note fund itself, be invested in British securities. We recommend that such fund shall be used for the purpose of meeting and providing for any deficit that may occur in either kind of note as a result of shortage of assets behind them. The note fund is to be held in trust by the Commission for the Government and the earnings from the securities in which it is invested are to go to the Government, but as already stated, any deficit of the kind described would be met from this 10% reserve fund, and the fund would then be restored to its original amount by transferring to it a sufficient amount from subsequent earnings through the note fund. This, we believe, should provide for any margin of possible loss which, so far as we can now see, could in any ordinary contingency develop.

Extraordinary Issues of Notes.

25. While the issue of notes would, under normal circumstances, be as just set forth, we think it well to remember that in any plan for note issue which is based on an actual limitation of amount, there may be times when the extension of current issues beyond the figure so fixed would be desirable. Such extension represents the so-called "Emergency Currency" which has been provided for by the legislation of various countries. An analogy to it has been found in British practice during past years in the custom of authorising, on occasion, the suspension of the "Bank Act." With a view to arming the Currency Commission against any such emergency, we recommend that the Commission be authorised to permit "extra-
ordinary issues” on the part of any bank up to an amount represented by the published reserves of such bank as a maximum. Such issues would, of course, be protected in the same way as ordinary issues and would entail the same liability on the Commission and the banks as the ordinary issues. In order, therefore, that such extraordinary issues may not become the usual or normal conditions we recommend that they shall be permitted only by the unanimous vote of the Commission and that they shall be subject to an agreed tax which shall in no case be less than 5 per cent; still further, such excess shall in no case be allowed to persist for a period longer than 12 months.

26. We have already explained the working of the proposed plan in giving to the Government the total earnings realised from investments held behind the legal tender notes. In past years, however, the Government has had a special source of income represented by a fixed tax which has been charged to banks of issue upon the average amount of its notes outstanding. This tax has been at the rate of 7/- per £100 sterling and has produced to the Government an income which at the present time amounts to slightly less than £40,000 sterling. The 7/- has been, under British practice, levied by the British Government upon the entire amount of notes outstanding whether secured or unsecured, so that at the present time it yields to the Saorstát Government the £40,000 aforesaid through the collection of the tax upon the banks actually within the jurisdiction of the Saorstát and in proportion to their outstanding notes. From time to time in the past the banks which are subject to this tax have protested against its being levied upon the secured issue pointing out that they were in fact paying in full for their secured issue (excess issue) and hence could not properly be charged a tax thereon. They have constantly contended that the tax was leviable only upon the amount of their fiduciary issue. We believe that this contention of the banks has been theoretically justified, but we also feel that in view of the somewhat larger powers of issue which we propose they shall have, a re-adjustment of this tax would be fair. Investigation has shown us that such taxes levied in foreign countries range in varying amounts from 1 per cent. to 2½ per cent., or more, and that the conditions upon which they are levied are very variable, the object in some cases being merely revenue, in others the provision of a fund designed to cover the expenses of bank supervision and examination, and in some others the restriction or limitation of the amount of notes outstanding. Perusal of this report will show, we believe, that we have provided for these various objects in every way with the exception of the revenue aspect of the matter, and we, therefore, feel that such recommendation as we may make should be confined to the revenue aspect of the matter.
side of the situation. Looking at the subject from that standpoint we have, after due consideration, determined to recommend a tax of 30/- per £100 sterling equivalent to 1½ per cent. per annum upon the entire bank note issue for which we have provided. It is recommended that this tax be ascertained at the close of each half-yearly period by finding the average amount of circulation outstanding during that period, computing the total tax at the rate of 1½ per cent. thereon and then apportioning such tax to the several banks in the proportion in which they have each shared in the average amount of notes outstanding during the half-year referred to. The result would be that if the total six million pounds already indicated were to be outstanding continuously the Government would receive an aggregate sum in taxation equal to 1½ per cent. upon six million pounds, or in other words £90,000 sterling. In endeavouring to compare this with the existing situation it should be remembered that the 6 million pounds which we recommend as the maximum limit is probably about two million pounds more than the proportion of the old issue which is properly assignable to the Saorstát, so that, in assessing the additional taxation to which the banks are subject, the £40,000 already paid by them should be increased to about £60,000. This would mean that the proposed rate of taxation would be an increase of about 50 per cent. of the tax heretofore paid by the banks. The actual proportion in practice would probably not work out exactly in this way due to the natural variations in the amount of bank notes outstanding, but the increase given may be taken as, roughly speaking, the practical basis of comparison.

**Actual Total Earnings of the Government.**

27. In a former paragraph the possible earnings of the Government have been roughly stated as perhaps £180,000 to £240,000 per annum from the interest on securities held behind the legal tender note. If we add to this figure the £90,000 now indicated, a total of £270,000 to £330,000 sterling results, and this would be the acknowledged total "profit" of the Government of the Saorstát. It must be remembered, however, that operations of the kind to which we have referred cannot be carried out without expense. As will be seen in the course of the present report, the keeping of the legal tender currency at parity with British sterling will involve some expense—precisely how much cannot now be stated, although an approximate estimate will be furnished. Moreover, since the Government is to receive the entire profit on the legal tender note issue, being paid pound for pound for every such note which it supplies, fairness would require that it should pay the expense of producing the legal tender notes in question. We recommend, therefore, that the Government shall, besides paying the expenses of maintaining the legal tender
notes at parity, also pay the expenses of providing the notes themselves, and shall also, of course, suffer the loss which may be incurred through any depreciation in the quoted value of British securities; conversely, it should also receive any profit that may come from any appreciation of the said securities.

**Form of Notes.**

28. One of the subjects to which we have given much attention has been the question of the form to be assumed by these proposed note issues. This question has partly been settled, by implication, in the proposals already outlined, yet something remains to be said with regard to the topic. The legal tender notes should, in our opinion, bear the signature of some permanent officer of the Ministry of Finance, and should be described upon their face in such a way as to indicate their origin. They should bear at the top the words "Saorstát Éireann," followed in the line below by the words "Currency Commission, Irish Free State," the third line carrying the legal tender clause with an indication of the denomination of the note. On the left hand lower corner of the note should be the title and date of the Act under which it has been issued. On the right hand lower corner should be the words "Issued through the Currency Commission." We suggest that the general appearance of the note might be similar to that of the present British legal tender note. As for the Bank Note, we recommend that it be of the same size as the legal tender note and bear the same words—"Saorstát Éireann"—on the top, but that in the second line "Consolidated Bank Note Issue" shall appear; while in the third line shall be the usual promise to pay in legal tender. We think that the maker or signer of the note should be the Chairman of the Currency Commission, and that on the left hand lower corner should be the title and date of the Act, and in the right hand lower corner the words "Issued through the Currency Commission," while below these latter words should be "Convertible into legal tender at the Bank, Dublin (or Cork)." This last line would be intended to indicate definitely the bank to which the notes were issued and so to locate the responsibility for their redemption in legal tenders, while the note holder would be definitely advised of the name of the bank at whose head office he might present the note for such conversion into legal tender.

**What Banks shall participate.**

29. The question what banks shall participate in the issue of bank notes is one which was early brought before the Commission and has been the subject of continuous discussion. In general terms an answer has already been afforded to the question by indicating the character of the conditions under which banks may obtain the currency. Obviously no bank
which could not comply with these conditions would be able to obtain the notes in any case. One or two special questions, however, need to be discussed in this connection. Perhaps the most important of these is the domicile of the issuing banks. At present the Free State is the actual domicile of only 5 banks which would possibly be eligible as recipients of the notes, four others having head offices outside the Free State. Some of us have been of the opinion that all banks should be required to convert themselves into Saorstát Corporations, and should be registered under the Companies Acts. This question has been examined from many angles, and in studying it the Commission has had the advice of Senator S. L. Brown, K.C. It has come to the conclusion that to require such re-registration here would be unnecessary. They could, undoubtedly, organise subsidiary corporations with offices in the Saorstát, and could in that way comply with all the requirements even of the most exacting. Such action would, however, subject some of them to considerable annoyance and loss of prestige; while all would incur some serious difficulties due to the fact that they would have troubles of a very real character in connection with the management of the subsidiary corporations referred to. This perhaps would be no conclusive argument if we were able to indicate any definite considerations which would conduce to the public interest as the result of local registration. The only consideration of that kind which seems to merit serious attention from an immediate standpoint is that of taxation, particularly in connection with the death duties, and we believe that the needs of the case in that regard can be fully met by requiring each bank to maintain in the Saorstát a local shareholders’ register, including the names of shareholders who are domiciled or resident in the Saorstát. One bank having its head office outside the Saorstát maintains such a register at the present time, and we believe all should be required to do likewise. Other than this we recommend that every bank in order to receive notes shall comply with such general requirements governing banking as may be imposed by law upon registered Saorstát institutions, and should accept such general regulations as may from time to time be promulgated by the Currency Commission. It is recommended that, subject to these requirements, all banks now registered or operating in the Saorstát shall become eligible for membership in the Currency Commission, and that other banks which may come into existence in the future, if any, shall become members only on a majority vote of the Commission. Should any existing bank in the future lose its eligibility and cease to be a member it should recover such membership only in the same way—through compliance with the requirements herein set forth and upon a majority vote of the Commission. These conditions will, we think, broadly speaking, satisfactorily safeguard the access to the note issue, and will insure its being exercised only by institutions which are properly qualified to perform it.
30. In what has thus far been said constant reference has been made to the necessity of maintaining the new legal tender notes on a basis of parity with British sterling, but only general indication has been afforded of the circumstances under which such parity should be maintained. It is evident that the maintaining of parity should take place in London, for while it would be perfectly feasible to convert legal tender notes into sterling in Dublin such action would result either in placing upon the Commission the necessity of supplying London funds or else would give to the banks and other holders the right of obtaining conversion in Dublin. Depreciation or slight adverse quotation for Irish legal tender currency would be an undesirable condition. The function of maintaining parity between the legal tender note and sterling should be actually exercised in London, and while for convenience sake it may very well be that the Commission will from time to time undertake to supply British sterling on demand at its Dublin office, it should not be compelled to do so, but should be required to maintain convertibility only at the point where British sterling is available in quantity. In order to accomplish this and carry out the operations connected with it, the Commission will, therefore, need to appoint a conversion agent in London. This agent should be a bank or banks and arrangements should be made to carry out the actual day to day conversion of such notes as may come in. Undoubtedly it would be necessary for the Commission to carry with such agent a substantial current balance and this balance may be maintained by refraining from the full investment of the funds which are placed in its hands in return for legal tender notes, or upon occasion, should conversions prove heavy, may be met through the actual sale of securities. The technique and detail of this operation will need to be carefully worked out and we believe it may properly be left to the Currency Commission itself subject to general authorisation which should be conveyed in the Act creating the Commission at the same time that the Commission is charged with the duty of keeping up the conversion. Granting that the conversion is thus steadily maintained in London, the duty of providing the means out of which to conduct it will evidently fall upon the banks, since they will receive legal tender notes in Dublin only upon placing the Commission in possession of funds in London. The Commission will in short receive London funds for Dublin notes, while it will pay out on request London funds in exchange for Dublin notes which have been carried to London. Should it appear that there is a disposition to discriminate against the legal tender note in Dublin, the Commission will easily be able to correct a condition of the sort if it chooses by making direct conversion of the notes in Dublin, and it should be authorised to do this under such conditions as may seem best,
31. The question has been raised in the course of our discussions whether there might not be some danger that legal tender notes would “run short.” In other words since there is no profit to banks in the issue of legal tender notes it has been feared that banks would consistently abstain from the issue of such notes so far as they could, while they would keep outstanding the entire amount of their bank note issue. This fear is based to a large extent upon the belief that the Saorstát will in future have need of a smaller and smaller amount of currency since otherwise (assuming that it remains as at present or grows in amount) the natural avenue of expansion would be the legal tender note. Other members have been inclined to minimise this danger and to feel that the legal tender note issue would best be left to take care of itself, and that the smaller the amount of the legal tender notes outstanding with the liability of the Saorstát upon them the better for all concerned. It has been their belief that the requirement that the banks convert their own notes into legal tender at all times would be quite sufficient guarantee of the maintenance of a full supply of legal tenders since no bank would be willing to run the risk of defaulting upon the obligation to convert its notes into legal tender.

Undoubtedly in some minds the belief has been present that the existing condition wherein notes are seldom presented for conversion would continue. It may be remarked parenthetically that with the approach to a real gold standard this condition is likely to be less and less obvious, and that the constant presentation of notes for conversion into legal tender is likely to be more and more frequent. Be this as it may it remains true that several of our members have feared the possible falling off in the amount of legal tenders, and as a result the progressive reduction in the amount of earnings which the Government could be expected to obtain from British securities behind them. In order, therefore, to meet the fear of a shortage of legal tender currency and the parallel fear of a reduction in Government income we have decided to recommend to you the fixing of the maximum bank note issue at the figure of six million pounds for a period of two years, with the proviso that, if at the end of any half-year the legal tender issue shall have fallen below four million pounds, the Currency Commission may reduce the bank note issue so that it shall not be more than one million pounds in excess of the legal tender issue. We further recommend that the Commission should be given power to revise, at the end of two years and every three years thereafter, the maximum figure of bank note issue on a basis which shall have regard to the banking requirements of the country.
32. The Saorstát is provided with a sound, well maintained system of commercial banking which has been free from the failures that have of late years been common in other countries. There can be no doubt that the public at large possesses a high degree of confidence in it. It is essential that this confidence be maintained and that the banks be encouraged in every proper way to extend their operations in the Saorstát, to increase their accommodation to the citizens of the Saorstát and to further the development of industry, agriculture and commerce. In later reports we shall make further suggestions with reference to the attainment of these objects. We now wish merely to call attention to the fact that a necessary preliminary condition to any of them is the early and definite statement of the basis of currency and note issue along satisfactory lines. It is to this end that the present interim report has been presented to you.

(Signed)

H. PARKER-WILLIS,  
Chairman.

J. J. McELLIGOTT.

C. A. B. CAMPION.

LIONEL SMITH-GORDON.

FRANCIS J. LILLIS.

R. K. L. GALLOWAY.

J. J. O'CONNELL.

J. L. LYND, Secretary.

Dublin, this 16th day of April, 1926.
Statement by Mr. Andrew Jameson.

To
The Minister for Finance,
Government Buildings,
Dublin.

PART I.

CRITICISM OF
NOTE CURRENCY MEMORANDUM AS ADOPTED.

Section 2, sub-section (b), is as follows:—"Bank Notes to be backed by 'Liquid Assets,' as hereinafter described, and to be convertible into legal tender notes on demand at the (local) head office, in the Saorstát, of the issuing Bank. It is desirable that supplies of legal tender notes be maintained at the principal offices of the Banks." As drawn this sub-section makes it necessary for the Banks to back their notes, or rather, as appears later (See Section 3, sub-section (b)), the notes issued to them as bank notes by the Currency Commission, by liquid assets, and also for the Commission to issue notes to the Banks when these liquid assets are produced. Section 5, sub-section (b), which described these liquid assets, includes the following words: "The Commission shall receive from stockholding members liquid assets as follows (as protection for bank notes): (1) Satisfactory bills or evidence of indebtedness growing out of Irish or English trade, domestic or foreign, with the endorsement of the depositing bank and satisfactory to the Commission; (2) Due bills or direct obligations made by the bank itself (in favour of the Commission) and representing liquid sound advances to customers on overdraft or otherwise or approved securities . . . . . . . ." The liquid assets, as thus defined, are of such a nature that any Bank could obtain notes when it was making advances to the full limit of its resources. It could make loans and advances, produce evidence of them to the Commission and get further notes, all of which would tend to inflation and unsound trade. In Ireland bills and advances of a character to justify their forming a legitimate basis for Bank Note Issue are extremely rare; bills and advances to afford such legitimate security should be invariably paid at maturity. The whole of the conditions and regulations applied to liquid assets in the Currency Memorandum are inapplicable to Ireland, probably as a whole, but certainly as to the Saorstát. This is even acknowledged in the Interim Report, page 16, where it is said: "Efforts should be made in ways which may be indicated by
The following words in sub-section (b) of Section 5 describe the only security on which an issue of Bank Notes (fiduciary) should be allowed to a Bank, viz.: “a prior lien on all assets of the Member Bank receiving the notes up to the amount of such notes, and this lien shall extend to the liability of the shareholders.” When the amount of any Bank’s fiduciary issue is fixed it should be placed at an amount for which the assets of the Bank and the liability of its shareholders are undoubted, which is the existing condition.

Once the limits of the Fiduciary Issues of the Banks are fixed, which should be done by Act of the Oireachtas, they should not be altered except at considerable periods of time, ten years at least, and the matters which are to be taken into consideration when the revision takes place should be specified. The only question of real importance to the public, who hold the notes, is the continued value of the Banks’ assets.

Section 8, sub-section (b), now includes the following words: “The maximum bank note issue shall be fixed at six million pounds for a period of two years: Provided that if at the end of any half year the legal tender issue shall have fallen below four million pounds the Commission may reduce the bank note issue so that it shall not be more than one million pounds in excess of the legal tender issue. At the end of two years and every three years thereafter the Currency Commission may, with the approval of the Minister for Finance, revise the maximum figure of bank note issue on a basis which shall have regard to the banking requirements of the country.” This would upset the whole present system of Bank Note Issue in the Free State and give the control of the Note Issues of the Banks into the hands of a newly-appointed Currency Commission, the successful working of which has yet to be proved, and on which there are to be at least three Government nominees, and possibly a Government appointed Chairman as well. This sub-section would lead to an alteration of the note-issuing arrangements of the Banks every six months after the first period of two years had elapsed. The whole object of this section is to make money for the Government (Vide Interim Report, p. 32, where the following words occur: “In order . . . to meet the fear of a shortage of legal tender currency and the parallel fear of a reduction in Government income we have decided . . . . . . ”).

There is here no mention of the real purposes for which the Legal Tender Notes are to be created, viz.: to supply the note issue required by the trading conditions of the Free State and to supply legal tender. The profit to be made out of them by the Government, though most useful, and to be secured by all means which are safe for the note issuing requirements of the
country, is not an essential. In Great Britain Government Legal Tender Notes are to disappear and are to be replaced by notes issued by the Bank of England, possessing the quality of legal tender; under the terms of Section 8, sub-section (b), Government Legal Tender Notes are to be established in the Free State, and that largely at the expense of the existing Bank Note Issues.

Section 4 deals with the new Currency Commission and the composition of its Directorate; sub-section (b) of this Section which defines its functions is as follows: "Its sole function shall be the issue of notes and the investment and management of the backing of such notes, and operations ancillary thereto. All arrangements in connection with the printing and custody of legal tender notes and associated bank notes shall be in the hands of and under the direction of the Currency Commission." It is well to compare the function of the Currency Commission as laid down here with Section 10, sub-section (3), of the Memorandum, viz.: "Provided it (the Member Bank) shall accept the regulations to be fixed by the Commission relating to bank management." By this last-quoted sub-section the Commission is given power to make regulations relating to bank management, and it is laid down that no bank is to receive notes which does not comply with these regulations.

With the functions given to the Currency Commission in Section 10, sub-section (3), and the further developments which appear in the Interim Report (See page 30) where, referring to the Member Banks, it recommends that every Bank "should accept such general regulations as may from time to time be promulgated by the Commission," and further recommends that in the future Banks "shall become members only on a majority vote of the Commission." With these powers and with three and possibly four Government members on the Commission the Government of the day is practically given the power to say which Banks shall have a Note Issue, to what amount and under what regulations they shall carry on their business.

In this connection it is instructive to compare the following extracts from the Interim Report of the Cunliffe Committee of 1918: "In our opinion the management of banking should be left as free as possible from State interference . . . ." A certain deprecated action, the Committee continued, "would inevitably lead in the end to State control of the creation of banking credit generally, a contingency which we are convinced would greatly hamper the elasticity and efficiency with which Banks are able to meet the requirements of industry."

The Reports of the Cunliffe Committee were approved by the Committee on the Currency and the Bank of England Note issue of 1925.
It is evident therefore that the recommendations of the present Commission are widely at variance with those of the most important Committees which considered the Currency question in post-war times.

Section 4, sub-section (c), is as follows: "Its Board of Directors shall consist of 3 members to be chosen by the Member Banks and 3 members to be named by the Government, with one chosen by these six who shall be Chairman, in all. Of the three Government nominees on the Commission two shall be representatives of or experienced in commerce, trade or industry, and shall not be Government officials. In case of inability to select a Chairman, the Minister for Finance shall nominate a seventh, who shall be Chairman. The Chairman shall be learned in banking and finance. Directors shall hold office for three years and one Banking and one Government member shall retire each successive year." The reason assigned for putting Government nominees on the Currency Commission is the assumption by the State of liability for the Legal Tender Note Issue. (See Interim Report, p. 12, Section 11). This issue should be made absolutely safe by the investment conditions imposed on the Currency Commission, and no State guarantee should be required or should be given. It was admitted at the Commission meetings that the State guarantee would and should practically never be required. It seems only to be insisted upon to secure State control of the Currency Commission, and an issue of Government Legal Tender Notes. The whole advice of both the British Currency Committees was summed up in the words: "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," namely, that the State Note Issue should cease.

The recommendation of the present Commission is that an Irish Legal Tender Note Issue (page 10 of the Interim Report) should now be started in the Saorstát.

Section 8, sub-section (a), which deals with the limit of issue, now reads as follows: "Legal Tender Notes shall be issued without limit subject to conditions already set forth, but the Commission may at any time discontinue the issue of further notes when the total, not including ten shilling notes, exceeds a figure which shall take into account the present secured issue plus British currency in circulation in the Saorstát. The Commission shall retire issues of legal tender notes at the request of any of the stockholding banks."

The part of this Section giving the Commission power to discontinue the further issue of Legal Tender Notes at any time, whether required by the trade of the country or not, seems to be one which should not be entrusted to such a body. At present the Banks supply the amount of notes required, partly from their fiduciary issues and partly from their secured (excess)
issues, but there is no fear of the trade requirements of the country being interfered with at any time, or of any inflation by an over issue.

Comparing the present note issuing arrangements in Ireland with those of Great Britain, we find in the former a fiduciary issue by the Banks of a limited amount, absolutely secured by the liability of the assets of the Banks and of their shareholders, and an excess issue, which supplies the balance of the notes required by the trade of the country, and which varies with the trade requirements, and this excess issue is covered pound for pound by sterling, either held as gold or British currency notes at the head office and certain specified branches, or as British currency certificates at the Bank of England redeemable on demand by the British Government.

In Great Britain there is an issue of fiduciary notes to a fixed amount by the Bank of England, and an enormous issue of Treasury Notes by the State, a condition of affairs which every effort is being made to put an end to, and which only arose in consequence of the war, was adopted by the Government, and was forced on the country by war requirements. Undoubtedly the note issuing arrangements in Ireland at present are more satisfactory than in Great Britain, and these the present Commission propose to alter on lines which the highest financial authorities in Great Britain have condemned, and which condemnation has received the approval of Parliament. The change to the system so condemned is accompanied by an interference with Bank management, in direct opposition to the recommendations of the most important Committee which has ever considered the matter in Great Britain.

Section 2, sub-section (a), is as follows: "Legal Tender Notes to be backed by securities as hereinafter described, and to be convertible into British legal tender (notes or gold) at a designated redemption (or conversion) agency in London." In this sub-section it is stated that the securities which are to form the backing of the legal tender notes are to be described "hereinafter." A Section numbered 11 and headed "Management of Legal Tender Note Fund" was typed and placed on the table of the Commission and as (except in this Section 11, which does not now form portion of the Memorandum) these securities are not described, the Memorandum is deficient in what is a very vital particular.
of which stands Great Britain." "It would be a gross and obvious error of monetary policy to attempt the establishment of a new unit of value in a country whose economic relationships are of the kind above outlined."

We find on page 8 the following recommendation: "We urge the creation of a new type of local Irish Currency." To make this new type of local Irish Currency conform to the conditions as laid down on page 7, arrangements must be made for its convertibility into British sterling of such a nature that no doubt can exist of their sufficiency. The majority of the Commission in their Report have found it necessary to advise that the guarantee of the Irish Free State should be added to the other arrangements, thereby showing decided doubt of their efficiency.

The following words occur on page 9 of the First Interim Report: "The Commission has recommended the provision of a paper legal tender basis, analogous to that existing in Great Britain, and in so doing the Commission is fully alive to the undesirability of a Government Legal Tender Currency . . . . "it" (i.e., the Commission) "considers that the institution of an Irish Government Legal Tender Note . . . . . . . . . . . . . . is an expedient whose use is entirely defensible so long as the British Government continues to progress along present lines." Two British Currency Committees have condemned these "present lines," and they are to be departed from as soon as arrangements can be made for the Bank of England to take over the State Note Issue as well as its own. This will be at no distant date, and then the new Free State Government Legal Tender Issue will be entirely indefensible, even on the Majority's own showing.

The securities held by the Currency Commission for the Legal Tender Notes should be of such a character that no depreciation can take place, and the condition stated on page 10, viz.: "that their total combined with the total of British securities held shall be always equal to the amount of Legal Tender Notes issued to the public," should be made essential. In this case there would be no liability for the Saorstát to assume, and it should not assume any.

The Report contradicts itself. It first states the securities must always be equal to the amount of notes issued, and then makes arrangements for a deficiency. This can only be caused by dangerous and unsafe investments, and these should not be allowed.

The beginning of Section 10, on page 10, is as follows: "Mindful as it is of the disasters of past years in all countries where currency was issued by the Government, and recognising the hazards which come from changes of Government, from the development of budget deficits and other evils from which no country has found itself immune, the Commission is definitely of opinion that the management of the legal tender note issue
should be placed in the hands of a non-political and independent body." This is a clear statement of the case against the issue of Government Legal Tender Notes. The Section from which the foregoing quotation has been made at a later period contains the following words: "The notes themselves as obligations of the Government should bear the signature of some permanent official of the Department of Finance," and lays down that these notes should be in the custody of a Government member or of an officer attached to the Currency Commission; the Notes are described as "its" (i.e., the Government's) "obligations which are . . . . . . going out into the hands of the public," and the Auditor-General is to have the control of the accounting. Three members of the Currency Commission, and probably the Chairman, are to be Government nominees. All these later recommendations as to the connection of the Government with the new issue of Legal Tender Notes are in direct contradiction to the sound financial statement quoted at the beginning of this paragraph.

Section 4, sub-section (b) of the Note Currency Memorandum as adopted is as follows: "Its sole function shall be the issue of notes and the investment and management of the backing of such notes, and operations ancillary thereto. All arrangements in connection with the printing and custody of Legal Tender Notes and associated Bank Notes shall be in the hands of and under the control of the Currency Commission." Compare this with what is said in Section 11 of the Majority Report as to the functions of the Currency Commission: "It is evident that the Currency Commission, if created as just indicated, will be vested with unusual and very great responsibilities. These will appear more clearly as this Report proceeds, but enough has already been said to show that it will not only be heavily burdened with obligations of a high type, but that it will also have to perform functions of a difficult and technical character."

If the Currency Note Memorandum conditions as to the functions of the Commission were adhered to its duties would be simple, such as a department of a Bank could carry out with a small Currency Commission of, say, three members, to give instructions for the carrying out of conditions which should be laid down by the Oireachtas. There might be a member selected by the Banks, the Governor of the Bank of Ireland of the day, and a member of the permanent staff of the Department of Finance to take care of the Government interests in the shape of profits. The cost of the whole administration would be small and the work would be efficiently and correctly done, and it would be carried out on safe lines laid down by the Oireachtas.

Section 10, sub-section (3), of the Note Currency Memorandum makes it a condition of the issue of Legal Tender Notes to any Bank that "it shall accept the regulations to be fixed by the Commission relating to bank management." Evidently it is intended that the Currency Commission shall have practically
power to interfere with the management of the Banks through its control of the Note Issue. In such case, no doubt, its functions would be of a "difficult and technical nature," and the Government with its right of nomination to the Directorate of the Commission will have an influence on the management of Free State banking, which Government influence, though it may have been found necessary elsewhere, is directly opposed to the banking principles which have prevailed in these countries.

The last lines of Section 11 speak of "the legal tender currency of the Nation and the obligation of the Government of the Saorstát therefor." This obligation is here insisted upon as the reason for giving the Government such a dominant power over the appointments to the directorate of the Currency Commission. In reality the obligations of the Government will be negligible, and would never be required if the management of the Currency Commission is financially sound. The conditions under which the Currency Commission is to work should be so definitely laid down by law that the financial soundness of its management should be certain, and no Government guarantee should be needed.

In Section 12 there is a statement that there was no obvious reason why the Government itself should issue these Legal Tender Notes. On the contrary there is an obvious reason, the Government are to get the profit on the investment of the cover put up by the Banks when obtaining these notes; the larger the issue the larger the profit of the Government, which is the only body making a profit out of this issue. This is one of the main reasons why the Currency Commission issuing these notes should not be subject to the influence of the Government.

On page 13 of the Report the statement is made that the till money and British Currency Notes in all Ireland would amount to three million pounds; the amount is much more likely to be five million pounds.

On page 13 it is also stated that the fiduciary issues of the Irish Banks are "secured only by the general obligations of the Issuing Banks." In reality these fiduciary issues are also secured by the unlimited liability of the Banks and of their shareholders. The statement in the Report minimises the existing security which lies behind the Irish Banks' Note Issues.

The following words occur on page 13, viz.: "If . . . . . . . the present secured issue should be placed in circulation by the Saorstát." These words show that the signatories to the Majority Report contemplate a Government Issue of Legal Tender Notes. It should be remembered the issue of Government Notes by the State in Great Britain during the war led to most of the inflation and price difficulties with which the country has been confronted ever since.

The Currency Commission are to be restricted in the amount of Legal Tender Notes they are to be allowed to issue by the following words on page 13, which restrict the issue to an amount out-
standing "which shall fully take into account or cover the present secured issue plus British Currency Notes in circulation in the Saorstát." This restriction might be most disastrous should the trade of the country require a large amount, as a very short time ago it did, and might easily require again, if improved trade conditions and better prices for cattle and produce prevailed. These notes will not be applied for by the Banks, pound for pound, unless the trade of their clients requires them, and when it does an artificial limitation of this kind would be disastrous.

On page 13 the following words occur: "We recommend that the Currency Commission have the power to suspend issue of Legal Tender Notes whenever the figure already referred to shall have been reached." No such restriction should exist, and no body of persons, appointed by the Government or otherwise, should be given this power. So far as Ireland is concerned all the excess issue notes required to carry on the trade of the country were always obtainable, even when the amount in circulation reached thirty millions.

The procedure for the cancellation of the present Excess Issue Notes is described as follows: "The Banks which now have outstanding secured notes should present the same to the British Government, obtaining from it a cash credit, and place the latter behind the new issue of Legal Tender Notes." This procedure could not be carried out. The Banks would cancel their own notes (Excess Issue) and obtain payment from Great Britain as their total Excess Issue went down. The Currency Commission would have nothing to do with it, and no secured (excess) notes would be sent in to the British Government. Those who signed the Majority Report are apparently unfamiliar with the present procedure with regard to the Excess Issues of Irish Bank Notes.

It is stated on page 15 that "it may be noted that the Banking problem, while intimately bound up with the underlying question of currency and monetary standard, is, of course, wholly independent of it," and yet it is to be noted that the Commission recommend that to get the notes they require the Banks must "accept such general regulations as may from time to time be promulgated by the Currency Commission" (Report, p. 30), which is appointed only to deal with the "question of currency and monetary standard." (Compare Section 4, subsection (b), of the Note Currency Memorandum.)

The following sentences appear on page 16 (i) "At the present time it" (a central Bank) "was not to be recommended as an immediate expedient." (ii) "The Saorstát has to-day unquestionably sound and satisfactory banking system, no one questions the solidity of its Banks or their ability to meet the demands of their customers." In spite of these statements at the foot of page 17 the Commission recommends the abolition of all existing Bank Fiduciary Note Issues, and their replacement by a note issued
by the Currency Commission, which note is yet to be the private
obligation of the Bank to which it is issued. In Section 6, sub-
section (b), of the Note Currency Memorandum it is laid down
that the Currency Commission is to assume a certain liability
for all Bank Notes, and yet here it is stated that the notes are
to be the private obligation of the Banks. Only one explanation
of this discrepancy is possible, that the Currency Commission
guarantee is held to be valueless.

On page 14 the following statement is made: "The Banks
now operating in the Saorstát have, in order to obtain their
so-called secured issue, in the past obtained on a pound for pound
basis the notes for which they made application. The British
Government is, therefore, indebted to them in the amount of
these Currency Notes." Compare this statement with that on
page 25 of the Interim Report, to the effect that the securities
held in trust by the Currency Commission belong to the Govern-
ment. The present position is that the Banks having the right
of note purchase the necessary cover for their excess issues
from the British Government; the cover so purchased is, while
held, the absolute property of the purchasing Banks, and the
Bank of England issue a certificate to the effect that Currency
Notes have been set aside as cover against the particular excess
issue. As set out on page 25 of the Interim Report, above
referred to, the securities to be held as cover for Irish Legal
Tender Notes are to be held by the Currency Commission, and
are to be described as belonging to the Government. Any
raison d'être for the assumption of the ownership by the Govern-
ment of these purchased securities arises from the totally dif-
ferent procedure to be adopted in respect of the issue of notes in
excess of the authorised issues of the respective Banks. Under
the system recommended in the Interim Report there can be no
Excess Issues of Bank Notes; a Bank requiring notes over and
above the limits of its Authorised Issue must purchase Legal
Tender Notes from the Currency Commission. The notes so
purchased will become the property of the Bank and either be
held by them or paid to the public in redemption of their debts.
The money paid to the Commission in respect of these Legal
Tender Notes will become the property of the Government, and
the securities purchased with that money will be their property
so long as the Legal Tender Notes issued by them have not been
redeemed. An absolute limit to the respective Authorised Issues
of each Bank's Notes in circulation is impracticable, but if it
were possible for such a practice to obtain all the notes in
 circulation beyond the Authorised Issues must be Legal Tender
Notes.

The transfer of the ownership of the security, covering the
issue of notes beyond the Authorised Issues, from the Banks
to the Government, while being detrimental to the Banks, could
add no further security to the notes and afford no additional
assurance of safety to the public holding these notes. Under
the proposed new system of providing these Excess Issues (i.e., Legal Tender Notes) their credit will largely depend on the credit of the particular Government in office, a credit which in its nature is always variable and may at times be a disadvantageous factor.

As referred to above on page 17 of their Interim Report, the Majority have committed themselves to the authorisation of a "pure bank note issue similar to the present fiduciary issue . . . . . . ."; they "recommend that the Currency Commission shall issue all bank notes . . . . to be private obligations without legal tender quality and in no way a charge upon or liability of the Saorstát itself." On page 26 the Majority state: "It is not proposed that the Banks should become jointly and severally liable for the entire body of notes, nor is it intended that the Commission should use the funds of other Banks for the purpose of making good any deficit."

Subsequently in the Report, on page 22, it is stated that "the Commission has tentatively fixed the aggregate limit for Bank Notes in the Saorstát at six million pounds sterling," which amount is stated on page 28 as being "probably about two million pounds more than the proportion of the old issue which is properly assignable to the Saorstát," thereby making the assumption that the Fiduciary Issue attributable to the Saorstát amounted to four million pounds. As the result of careful and exhaustive estimates which have been made I am of opinion that the Fiduciary Issue attributable to the Saorstát would amount to about £4,800,000, but for the purposes of the argument which follows the figures given in the Majority Report may be taken.

The soundest financial authorities have always deprecated any increase in the total Fiduciary Issues of a country, but in the Interim Report the majority of the Commission definitely recommend an increase (using their own figures) from four to six million pounds in the Authorised Issues. Again, there is no precedent since the passing of the Bank Acts of 1814 and 1815 for granting note issuing privileges to a Bank not already possessing them. The tendency has been all the other way, and in England all the private issues have been absorbed by the Bank of England, its central banking institution.

While the amount of the Fiduciary Issues has been increased and the number of issuing Banks extended, it cannot be shown that the complicated system recommended to be set up by the Majority offers any additional security to the note holder. The notes, as indicated above, are the liability of the issuing Bank; the other associated Banks have no liability for these notes and, while there may be some contingent liability on the part of the Currency Commission, it does not appear either from the Note Currency Memorandum or from the Report from what source the Currency Commission can meet any liability if the necessity arose.
The existing Fiduciary Issues are of great benefit to the country, as well as being admittedly a source of profit to the Banks. These issues are securely based on Saorstát capital, and not on outside security, and yet are spoken of in the Interim Report as if their issue were entirely the privilege of the Banks and not a means given to them whereby they have been able to employ the capital of the country for the advancement of its industries.

It is admitted on page 18 that it had been "the practice of the Banks of non-issue in the Saorstát to obtain from Issuing Banks such supplies of notes as they desired, the Issuing Banks were . . . . . . . able to meet the needs of the non-Issuing Banks."

The Report proceeds to suggest that it might be possible to grant to these non-Issuing Banks an issue in some measure equal to the amount of notes with which they have been supplied by the Banks of Issue, but continues the Report: "we have been of the opinion that to take any such step as this would be merely to recognise the 'privilege' of issue as a kind of monopoly, and to admit to the advantages of that monopoly other Banks which succeeded in making good their claim to a share of the advantage. We have not thought that such action as this would approach the problem from the public standpoint, and hence we have not been able to get our own consent to adopt it."

As the Majority consider that to extend the privilege of a Fiduciary Issue to existing Banks of non-issue would seriously interfere with the Government's profits, to obtain which seems to have been one of the main objects they had in view, they were compelled to recommend "that the entire existing Fiduciary Issue should be extinguished," and its place taken by a Consolidated Bank Note Issue.

It therefore would appear that the Majority consider there is a conflict of interests between the Government and the Banks and that in that conflict they assume that they are patriotically taking the part of the Government. There is not, and never can be, any conflict between the Government and the country which it governs, and the Banks whose prosperity depends on the prosperity of the country and the stability and integrity of its rulers.

On page 20 it is stated that certain Irish Banks have "been able to exercise and derive advantage from a peculiar type of legislation which was the product of the English Bank Act of 1844, itself the outcome of the unfortunate conditions which had preceded it." Compare this statement with the opinion expressed by the Cunliffe Committee and by the Committee on the Currency and Bank of England Note Issues of 1925, in both of which Committees the best financiers of Great Britain took part, and on the former of which Ireland had a representative. The Cunliffe Committee, in its final report, stated, "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."

On page 21 the Majority state: "We have in the main accepted as an abstract proposition the view that note issues should bear some definite relation to the active operations of the bank, and on the whole after considering a great variety of measures . . . . . . have come to the conclusion that advances may best be taken for convenience as the proper measure."

The Interim Report then goes on to state that by basing the note issue upon advances "we should in effect, although not theoretically, be committing ourselves as a practical matter to the theory of self-limiting (or unlimited, as some would call it) note issue." Noting the extraordinary nature of these two statements the Majority have recommended the fixing of the Fiduciary Issues at an arbitrary figure of six million pounds, which amount has only a partial relation to advances.

The concluding words of Section 20 of the Interim Report recommends the fixing of the Fiduciary Issues of the Saorstát at six million pounds sterling. Carefully prepared estimates indicate that the present Fiduciary Issue attributable to the Saorstát would amount to £4,800,000, and it is computed that if the right of note issue is extended to the three Banks in the Saorstát not having an authorised issue, a further £1,200,000 of Fiduciary Notes would probably be required. These, however, are not the facts upon which the Majority arrive at this figure of six million pounds. The increase to this amount of six million pounds is in some way a quid pro quo to the Banks for their inability, under the scheme set out in the Majority Report, to hold their own notes as free and unpaid for till money. "Some paper" (some Legal Tender Notes which had been previously paid for), says the Report, "at least will necessarily be lying idle in their vaults, so that a certain enlargement of the note issue limitation appears to be unavoidable." It will be almost impossible to estimate the loss to the existing Banks of Issue of losing the privilege of keeping their own notes as till money at their numerous branches. Their inability to hold this till money in future may necessitate the closing of a great many of their branches and sub-offices to the inconvenience of the public and the detriment of the trade of the country.

The statement on page 23, that while the public is deeply interested in the total amount of notes to be issued, "it is not so directly interested in the amount of the note issue assigned to each bank," is not a correct setting out of the facts; the public is not only deeply interested, but it is vitally concerned as to the security which each particular Bank is able to offer for the proportion of the Fiduciary Issue allotted to it. If this Interim Report should give rise to legislation, the bill which will make valid the proper allotments of these six millions of the proposed Fiduciary Issue to the various Banks will, in the course of its
discussion, enable the Oireachtas to judge if the amounts proposed for each Bank are such as their particular assets justify. The statement that the public is not interested in the way in which the future Fiduciary Issues are to be distributed is again made later on the same page. Surely it is obvious that if, say, four millions of the six millions of Fiduciary Issue were given to one of the smaller Banks, or to a newly-constituted Bank, would not the public who hold the notes of these Banks be interested? More especially as it is stated on page 26 of the Interim Report, a statement to which I have already referred, that "it is not proposed that the Banks should become jointly and severally liable for the entire body of notes."

On page 24, after a lengthy examination of the future possible distribution of the Note Issues, the Interim Report concludes: "the percentages which have been set forth above would permit Banks whose notes were popular and well received to obtain an increasing amount of actual notes, while those whose circulation was unpopular (if any) would relatively lose circulation." It is certain that unless there is a vital falling off in the trade of the country, the whole of the notes representing the proposed Fiduciary Issues will be required. Under the suggestions made in the Interim Report, if the notes of any particular Bank decreased no other Bank could supply the deficit from its own limited issues, those issues would be already fully employed. If the restriction of its issue by one Bank was caused by its unpopularity any notes required from it would have to take the form of Legal Tender Notes. Thus while an unpopular Bank would cause an increase in the circulation of Legal Tender Notes, no Bank, however unpopular, could issue notes to the public, who desired them, beyond the limits fixed for its Fiduciary Issue.

It might, therefore, be that while the nominal Fiduciary Issue obtaining in the Free State would amount to six million pounds, the actual Fiduciary Issue outstanding might be considerably smaller. As the requirements of the country would probably necessitate a note circulation considerably in excess of these six millions, it is obvious that any notes required in excess of the Fiduciary Issues actually in the hands of the public must be Legal Tender Notes. As these Legal Tender Notes, when they are obtained by the Banks, must be paid for pound for pound, it is obvious that the Banks must employ a considerable amount of their resources in their purchase. The money that is expended by the Banks in the purchase of these Legal Tender Notes, many of which will remain unemployed in their tills and strong rooms, must be withdrawn from that common fund of monies out of which advances are made to the public. The alienation of these monies and the locking up of Legal Tender Notes by the Banks will thus tend to curtail credit.

Another consequence of the withdrawal from the Banks of their privilege of holding free till money (see page 46 of this Criticism) might be the raising of rates charged for accommodation. The
increased duty to be charged on the notes in circulation, together with the large withdrawal of monies to purchase Legal Tender Notes, will entail such losses on the Banks that it may be they will have to raise their rates for accommodation.

It is a commonplace of banking and economics that high rates tend to curtail credit; consequently the substitution of Legal Tender Notes for the Fiduciary notes of the Banks will tend to curtail credit in two ways, viz.: directly by the withdrawal of available funds, and again by the possibility of compelling the Banks to raise their rates.

On page 23 the statement is made that "to the extent that the five note-issuing Banks lose circulation rights . . . . they are theoretically injured while the others are theoretically benefited to a corresponding extent." It may here be pointed out that the Banks whose Fiduciary Issues are to be restricted will not only be injured theoretically, but they will be practically injured, as under no circumstances can they increase the number of their notes in circulation beyond the new restricted limits. In the same way the Banks of Non-Issue will not be theoretically benefited, but will be practically benefited, to the extent that they are granted the privilege of issuing their own notes.

In the concluding paragraph of Section 21, the Majority recommend: "that the six million pounds sterling maximum . . . . should be regarded as valid for a two-year period only, dating from the establishment of the new system. After that date . . . . the whole subject should be reconsidered by the Currency Commission. . . . ." This recommendation to review the proposed apportionment of the Fiduciary issues at the end of two years would have the effect of making the Majority's proposals still more dangerous and destructive. It makes the Currency Commission, appointed for quite another purpose, the sole arbiter of what should be the ultimate Fiduciary Issues of the Banks of the Saorstát.

Discussing (on page 24) the steps to be taken for the protection of the Consolidated Bank Note Issues, the Majority state: "this question" (i.e., that of protecting the notes) "is one which has not arisen in the past. . . . ." The Majority go on to say that "as things stand to-day, some of the note issue banks have an unlimited liability for the notes which they issue." As a matter of fact each of the five Banks in the Free State having an Authorised Issue, whether otherwise limited or not, have in respect of their notes an unlimited liability. The Interim Report proceeds: "We have unreservedly accepted the principle that bank notes properly represent the current business of the Banks in the form of advances to solvent borrowers who are able to repay at maturity." This statement is not correct, and is not capable of proof, and any recommendations based on it are fairly certain to be unsound.

Page 25 is largely taken up with the description of the securities which the Commission must be assured are in existence before...
a Bank receives any of the projected Consolidated Bank Note Issue. These securities may be transferred to the Commission, or they may be retained by the Bank on producing to the Commission satisfactory evidence of their existence. These conditions destroy the fiduciary nature of the Consolidated Bank Note Issues. While their introduction throws doubt on the safety of the present Bank Note Issue they do not propose any substitute for that issue so worthy of public confidence. If the present Fiduciary Issues are not safe (as they are admitted to be by the Commission) the interposition of the Currency Commission and its investigations into the solvency of the Issuing Banks will not make the future Bank Note Issues any safer. Outside interference with banking management of the kind suggested would be quite useless as a safeguard, would destroy confidence in the Banks, and seriously hamper their efficiency in supplying their customers' needs.

The notes of the Consolidated Issue to be put out by the Currency Commission itself are to bear the signature of the Chairman of the Commission (see page 29 of the Interim Report). It seems illogical that any individual Bank should be made liable for such notes. The liability of a Bank can only be fixed when the notes issued by it bear its promise to pay on the face of them. The interposition of the Currency Commission will not strengthen the security behind the notes, but will make the recovery from the Bank by the holder of the note a more complicated and lengthy process than at present.

Section 24 on page 24 deals with the reserve against deficits and speaks of the "failure of some Bank," which "might result in the possibility of loss to note holders," and recommends that a fund should be created to meet such possible losses. These proposals pre-suppose the weakness of the Currency Commission guarantee. No such fund as that proposed is required under existing conditions, and if the Banks are allowed to continue their present issues under existing conditions no reserve fund will be required, and no encroachment on Government profits, derivable from its Legal Tender Issue, will be necessary. As the formation of this reserve fund will naturally take some time it follows that during the transitionary period when the accumulations are being made, there will be no adequate fund from which the note holders can be recouped in the possible event of a loss.

Section 25 of the Interim Report, which deals with extraordinary issues of notes, contains inter alia the following passages:—"We think it well to remember that in any plan for note issue which is based on the actual limitation of amount there may be times when the extension of current issues beyond the figures so fixed would be desirable . . . . . . . The issues would, of course, be protected in the same way as ordinary issues and would entail the same liability on the Commission and the Banks as the ordinary issues . . . . . . . They shall be subject to an agreed tax which shall in no case be less than 5
The first quoted words of this Section indicate the circumstances in which it may become necessary to make extraordinary issues of notes, and the other words quoted make it clear that these extraordinary issues of notes are to be Consolidated Bank Notes.

Under existing conditions, should circumstances arise calling for extra issues of Bank Notes, these notes would be automatically supplied. The existing system provides fully that measure of elasticity which the varying demands of the trading community require. At present no outside authority is necessary to limit the issue of Bank Notes, when such issue is required by the trade of the country. The fully covered Excess Issues of the Banks are an adequate and effective preventive of any over issue.

In the conditions which will prevail, if the recommendations of the Interim Report are put into operation, extraordinary issues of notes may become necessary. The fact that such issue may be required is a further indication of the unsoundness of the proposals embodied in the Majority Report.

Section 27, which deals with the earnings to be derived by the Government from the Consolidated Bank Note Issue, concludes as follows: "We recommend . . . . that the Government shall, besides paying the expenses of maintaining the Legal Tender Notes at parity, also pay the expenses of providing the notes themselves, and shall also, of course, suffer the loss which may be incurred through any depreciation in the quoted value of British securities; conversely, it should also receive any profit that may come from any appreciation of the said securities."

The management, printing, issuing and cancellation of from £6,000,000 to £8,000,000 of the Legal Tender Notes that may be in circulation will be expensive. A scheme involving such expenses should only be adopted if there were no less expensive and equally satisfactory method of dealing with these questions of management, printing, issue and cancellation. An economic method of dealing with Legal Tender Note Issues can be easily devised.

The concluding lines of the above quoted Section clearly imply a system of trading by the Currency Commission with the funds lodged by the Banks for Legal Tender Notes, which should not be sanctioned under any conditions.

Dealing with the "maintenance of parity," the Interim Report in Section 30, on page 31, states "it is evident that the maintaining of parity should take place in London, for while it would be perfectly feasible to convert Legal Tender Notes into sterling in Dublin, such action would result either in placing upon the Commission the necessity of supplying London funds or else would give to the Banks and other holders the right of obtaining conversion in Dublin . . . . The function of maintaining parity between the Legal Tender Note and sterling should be actually exercised in London . . . . it may very well be that..."
the Commission will from time to time undertake to supply British sterling on demand at its Dublin office, it should not be compelled to do so." The necessity for supplying London funds in Dublin to Banks may require some special regulation, but the ordinary holders of Legal Tender Notes should be able to get their reasonable demands for British currency met in Dublin. This should be a matter of right and not merely of convenience. The statement that the Commission could vary from time to time the conditions under which it would supply British sterling in Dublin to holders of Legal Tender Notes is absolutely preposterous. If the Commission attempted to put varying conditions into operation the exchange value of Free State Legal Tender Notes would at once become depreciated.

Section 31 of the Interim Report, which discusses the question of Legal Tender versus Bank Notes, states: "It may be remarked . . . . that with the approach of a real gold standard . . . . the constant presentation of notes" (i.e., Consolidated Bank Notes) "for conversion into Legal Tender is likely to be more and more frequent." This statement is not borne out by experience; when gold was freely paid in exchange for Bank Notes the gold was rarely demanded, and then only in small amounts. It is not at all unlikely that should the proposed Consolidated Bank Note Issues and Free State Legal Tender Notes come into use there will be more frequent and larger demands for their ultimate conversion into gold, as neither the new Consolidated Bank Note nor the Legal Tender Note Issue, under the conditions recommended in the Interim Report, will be as acceptable to the general public as the existing Bank Note Issues. This Section continues: "In order, therefore to meet the fear of a shortage of legal tender currency and the parallel fear of a reduction in Government income, we have decided to recommend . . . . ."

These last quoted words contain the admission that the real reason for Clause 8, sub-section (b) of the Note Currency Memorandum as adopted is "to meet the fear of a shortage of legal tender currency," not because it would hamper or interfere with public needs, but because of the "fear of a reduction in Government income." For this reason, therefore, the Bank Note Fiduciary Issue is being interfered with and unsuitable, uncomfortable and costly conditions imposed on the Banks.

It is well to note here again the fact that the arrangements proposed for the appointment of the Board of Directors of the Currency Commission practically give the Government the control of the majority of the Board. There is no doubt therefore that the Government can prevent a reduction of its income, derived from the Legal Tender Note Issues, by steadily reducing the Bank Note Issues at the frequent periods of revision it is proposed to grant to the Currency Commission.

At the end of this Section the following words occur: "the maximum figure of bank note issue on a basis which shall
have regard to the banking requirements of the country.” It is not at all unlikely that the Government will take a similar view to that set out in the Interim Report, and regard the primary purpose of putting Legal Tender Notes into circulation as preventing a “reduction in Government income,” and act accordingly through their Nominees on the Commission. Confronted with the alternatives of the “banking requirements of the country,” and the fear of a “reduction in Government income,” there is little doubt which sacrifice would be demanded by a needy Government.

The profits derivable by the Government from their issues of legal tender will diminish as and when gold once more comes into general circulation. For the sake of making gains, which in their essence may prove partly temporary, the present satisfactory Bank Note Issues are to be destroyed at the expense of the Banks and of their customers, and the Government are advised to set up a complicated and expensive system of note issue, while itself taking no risk or real responsibility for these issues. No evidence has been given before the Commission to indicate that the Government wishes such steps to be taken. The frequent changes, suggested in this section, in the Note Issues of the Banks would be disastrous in effect and, when proposed for such an object, are indefensible.

Section 32 opens with the words: “The Saorstát is provided with a sound, well maintained system of commercial banking which has been free from the failures that have of late years been common in other countries. There can be no doubt that the public at large possesses a high degree of confidence in it.” After having paid this tribute to the existing system of banking in the Saorstát, it is difficult to see what justification the Majority have for destroying this system, especially as the real reason for its destruction, viz.: the making for the Government of legitimate profits out of the Banks’ Excess Issues could be otherwise effected by simple, safe and inexpensive means.

PART III.

RECOMMENDATIONS FOR NOTE ISSUES OF THE SAORSTAT.

1. That one uniform Note Issue be adopted as legal tender in the Saorstát.

(a) The denominations of these Legal Tender Notes shall be as follows:—

10/-
£1
£5
£10
£20
£50
£100
(b) There shall also be Legal Tender Certificates representing Legal Tender Notes. These Legal Tender Certificates shall be issued to Banks only, as cover for their own notes in circulation above their Fiduciary Issues.

2. That a Currency Commission be appointed to manage and control the issue of Legal Tender Notes and Legal Tender Certificates, and to be responsible for the Cash and Securities held as cover for these Legal Tender Notes and Legal Tender Certificates.

3. That the Currency Commission be constituted as follows:

(i) A Chairman, with a defined term of office, elected by the Boards of the Banks having a Note Issue in the Saorstát;

(ii) A Member, learned in banking and finance, to be nominated by the Government, or a Member being one of the permanent staff of the Department of Finance; and

(iii) The Governor for the time being of the Bank of Ireland.

4. That Legal Tender Notes and Legal Tender Certificates shall be issued to Banks in the Saorstát against payment of money in London, pound for pound.

(a) A Bank requiring Notes shall deposit money in London to the credit of the account of the Currency Commission, and shall obtain, on and after the date such money is available in London, Legal Tender Notes and Legal Tender Certificates from the Currency Commission of equal nominal value in exchange therefor.

(b) If the money in payment for Legal Tender Notes and Legal Tender Certificates applied for is not available in London when the Legal Tender Notes and Legal Tender Certificates are required, then under exceptional circumstances a draft on a London Bank may be taken in payment therefor. Interest should be charged on the value of the Legal Tender Notes and Legal Tender Certificates issued until the date on which the money is available in London, at such a rate as the Commission may determine.

5. That the moneys held for the cover of Legal Tender Notes and Legal Tender Certificates shall be disposed of by the Currency Commission in such manner as is determined by the Oireachtas.

Note.—A certain percentage of these moneys should be held in gold, a certain amount (for immediate redemption purposes) should be held to the credit of the
Currency Commission’s current account at the Commission’s London Bankers, and the balance should be utilised in the purchase of Three Months’ British Treasury Bills and Maturing British Government Bonds.

6. That Legal Tender Notes shall always be convertible into British sterling on demand, and that such arrangements shall be made with the Bank of England that these Legal Tender Notes shall, on presentation at the Bank of England, be paid at their full face value in sterling.

7. The Banks of Issue shall hold sufficient Legal Tender Notes to pay them in exchange for their own Notes on demand; the terms and conditions of the Bank Note (Ireland) Act of 1920 are to remain in force, and Bank Notes shall only be payable at the Head Office, where they are expressed to be issued.

8. That the existing Bank Note Issues be continued, and that an estimate of the total amount attributable to the Saorstát be prepared.

9. That the Bank of Ireland make such arrangements with the Hibernian Bank, Ltd., Munster and Leinster Bank, Ltd., and the Royal Bank of Ireland, Ltd., in respect of Bank Note Issue, as may be mutually agreed on.

10. That the Issues of Bank Notes beyond the adjusted Authorised Issues be covered by any or all of the following:

(a) Gold held at the four principal places of business of each Bank,

(b) Legal Tender Notes held at the four principal places of business of each Bank,

(c) Legal Tender Certificates.

11. That the Bank of Ireland shall hold cover sufficient for all its Excess Issues, whether made by its own Branches or by other Banks issuing its Notes under special arrangements.

12. That no Bank having an Authorised Issue shall issue or re-issue the Notes of another Issuing Bank.

13. That the Composition Stamp Duty payable in respect of the Authorised Issues of the respective Banks shall be at the rate of £1 10s. (One Pound and Ten Shillings) per cent., calculated upon the average weekly amount of notes in circulation during the preceding twelve months.

14. That after paying the management expenses of the Currency Commission and the expenses of printing and custody of Legal Tender Notes and of Legal Tender Certificates all profit arising from the issue of Legal Tender Notes and Legal Tender Certificates shall be transferred by the Currency Commission to the Minister for Finance of the Saorstát.
15. That such steps shall be taken, as the law officers of the Saorstát advise, to obtain whatever lien is necessary to secure the Fiduciary Issues of those Banks having a Note Issue, the Head Offices of which are outside the Saorstát.

Note.—If it should be determined that the total Authorised Issue of the Saorstát should be fixed at the sum of Six Million Pounds, then the apportionment of this Authorised Issue of Six Million Pounds should be as agreed upon by the existing Banks having offices in the Saorstát. The granting of this increased Authorised Issue of Six Million Pounds must, however, not be accompanied by any conditions as to the maintenance in active circulation of any percentage of Legal Tender Notes.

(Signed) ANDREW JAMESON.

19th October, 1926.
Rejoinder to Mr. Jameson's Statement.

To

The Minister for Finance,

Government Buildings,

Dublin.

Sirs,

We have received copies of a statement transmitted to you by Mr. Andrew Jameson consisting of three sections as follows:

(1) A criticism of the memorandum on note currency adopted by the Commission and upon which its Report is based to a great extent.

(2) A detailed examination of the Report already presented to you.

(3) Suggestions for dealing with future note issues of the Saorstát.

It has seemed to us needful to present you with comments upon Mr. Jameson's statement not for the sake of controversial discussion, but because it contains many assertions which we believe to be out of harmony with the facts of the case as regards the actual decisions of the Commission, and many misinterpretations of statement or position which should not go unchallenged. For the purpose of rectifying any such possible causes of misunderstanding or error, this communication is transmitted to you.

Although Mr. Jameson's statement is technically divided into three sections, as already set forth, it really consists of two, the first a criticism of the work of the Commission, the second a presentation of an alternative plan. Of the two the latter is evidently the more important since it presents a project for action and is, therefore, of a presumably constructive nature. We shall, therefore, give first attention to that phase of the work of Mr. Jameson, basing what is said upon Section 3 of the statement entitled "Recommendations for Note Issues of the Saorstát."

1. The New Proposals.

The proposals of Mr. Jameson, it is to be observed, are identical with those of the Interim Report in the following particulars:

(a) The establishment of a legal tender note issue, thus recognising the desirability of eliminating the British legal tender notes...
which are now in circulation. It is to be observed, however, that the proposal of a uniform legal tender note issue is immediately modified by the provision that legal tender certificates representing legal tender notes shall be issued to Banks. But in substance it may be stated that Mr. Jameson concurs in the desirability of a new legal tender note issue local to the Saorstát. Inasmuch as he would have Bank notes immediately convertible on demand into legal tender notes it is evident that in this matter he does not essentially differ from the Interim Report so far as the protection of the public is concerned.

(b) The establishment of a Currency Commission to have joint charge of the issue and retirement of the new legal tender notes. Here the essential difference between Mr. Jameson and the Interim Report is found in the fact that whereas the latter calls for a Currency Commission of seven persons, three of whom are to be nominated by the Government, three by the Banks, and one by these two groups of nominees acting together, Senator Jameson makes the Commission consist of a representative of the Bank of Ireland, a representative of the Government, and only one representative of all the other Banks of Issue.

(c) Maintenance of sterling parity. Both plans provide for the maintenance of sterling parity by calling for the protection of the proposed notes through proper investments in Government securities. The principal difference between the two in this respect is found chiefly in the lack of definiteness in Mr. Jameson's plan in respect of the details of the operations. In fact his proposal contains substantially the same general provisions with respect to convertibility into sterling as are provided in the Interim Report, although the former calls for redemption of the notes at the Bank of England.

(d) Taxes and income of the Government. Mr. Jameson would give to the Government all of the profits to be derived from the issue of fully protected legal tender notes, and he also accepts the Commission's proposal of a tax of $0/- calculated upon the average outstanding circulation of each of the Banks. He also follows the Interim Report in taking certain expenses connected with the Currency Commission and the legal tender issue from the gross profits and turning over the remainder to the Government.

It will thus be seen that in many basic points Mr. Jameson substantially accepts the proposals of the Commission, and that the statements contained in his criticism of the Interim Report concerning the alleged departure of the plans of the Majority from the principles of sound finance could certainly be paralleled in essential particulars as regards his own proposals. During the course of the Commission's work the important points embodied in its final phase were submitted to vote and were unanimously adopted, Mr. Jameson himself being present. If any
such plan as has been suggested is unsound, it is as unsound when proposed by him as it is when proposed by the Commission.

We may now come to the main points of difference between the two proposals. These are as follows:

(a) The treatment of existing bank note currency. Whereas the Commission undertakes not only to restore the pre-war status of the non-legal tender bank note currency by making it actively redeemable in the legal tender of the country, but to secure that a considerable volume of legal tender note currency would always be in active circulation alongside the bank note currency, Mr. Jameson’s proposals would, in practice, confine the note currency of the country largely to notes without the legal tender quality. He would restrict the circulation of the legal tender notes to the greatest extent possible by the provisions that legal tender certificates might be accepted as cover for excess issues of bank notes and that increases in the authorised issues should not be accompanied by any conditions as to the maintenance in active circulation of any percentage of legal tender notes. The result would be that the currency of the country would consist mainly of a note issue theoretically redeemable in legal tender, but which would not in practice be so redeemed, except to a limited extent, as the banks would naturally issue their own notes to the exclusion of the legal tender notes whenever possible. It is indeed strange to find Mr. Jameson an advocate of such a note currency, in view of the fact that the two Committees, whose Reports he has praised so highly, have both recommended a note currency for England consisting entirely of notes with the legal tender quality.

(b) Whereas the Commission desires to place the responsibility for the issue of notes in the hands of all of the responsible banks of the community, Mr. Jameson desires to retain the existing division of the notes under which about 60 per cent. of the total issue is in the hands of the Bank of Ireland. The only proposal for any change in this respect is found in the suggestion “that the Bank of Ireland make such arrangements” with certain other Banks “as may be mutually agreed on.”

(c) Whereas the Commission has made adequate provision for the protection of the public in respect of the security of note issues and the protection of the Government in respect of taxation of Bank notes as well as in respect of the collection of Death Duties by means of the establishment of share registers in Saorstát Eireann, Mr. Jameson merely suggests the taking of some proceedings designed to obtain “whatever lien is necessary” to secure the note issues “of those Banks . . . the Head Offices of which are outside the Saorstát.” There is here an effort to discriminate sharply between Banks which happen to have Head Offices in the Saorstát and
those which under the former distribution of Governmental powers had, for a variety of reasons, established their offices elsewhere.

(d) Mr. Jameson, moreover, makes no provision for "Emergency issues." This is a point provided for in existing legislation not only in Great Britain, but in all countries provided with a banking system. To overlook it here would in our opinion be a serious omission.

2. The Fundamental Difference between the Two Proposals.

The fundamental difference between the two proposals is thus seen to be that whereas the Commission desires to provide as carefully as can be for the exercise of the existing note function by the Banks of the country on an equitable basis and for the transfer to the Government of such profit as it may be proper for it to receive, Mr. Jameson simply desires to maintain the existing partial monopoly and, indeed, to consolidate that monopoly. To that end he proposes that a single existing Bank which now possesses the right of issue to the extent of about 60 per cent. of the existing fiduciary note circulation shall be confirmed and perpetuated in its present privileges by the creation of a Currency Commission in which it shall have one representative as against a single representative for all other note issuing Banks and a single representative of the Government. He further proposes the definite consolidation of this note issuing privilege for a period of ten years, since he expressly urges that no change in note issuing conditions shall be made within that period. Moreover, by the provision that legal tender certificates designed to protect the excess issues of bank notes shall be issued to Banks and in other ways he makes it unlikely that any considerable part in the actual circulation of the country will be filled by these legal tender notes, and more or less ensures that any shrinkage in circulation shall fall on the legal tender notes and not on the Bank notes, thereby further confirming that Bank which now issues the major part of the notes in the enjoyment of its present preferred position. In view of all these facts we cannot refrain from calling special attention to the inference which Mr. Jameson leaves to be drawn that his proposals would not create any new vested interests. They not only would create new vested interests in ways that have already been indicated, but they would in our opinion confirm and greatly extend undesirable features of existing vested interests and would undoubtedly provide a well-founded basis for public discontent and for the "anxiety or unrest" to which he refers in such deprecatory terms.

3. Criticism of Minority Proposal.

Our opinion with regard to Mr. Jameson's proposal in its public aspects has thus been made clear. In addition to ex-
periencing this general feeling with respect to the proposal, we wish to call your attention to the essentially indefinite and incomplete character of the Memorandum. A reading of the document will make clear—

(a) That the Currency Commission which is suggested is given no definite powers. It is merely to be "appointed to manage and control the issue of legal tender notes and legal tender certificates and to be responsible for the cash and securities held as cover." There is no indication of the status of this Commission, of its legal authority, or of its term of office. About the most definite feature connected with it is found in the specification that it shall always contain as one of its members the Governor of the Bank of Ireland.

(b) Although Mr. Jameson has much to say in criticism of the suggestions of the Commission with reference to the maintenance of sterling parity, he is extraordinarily vague in his own description of the methods to be pursued in this regard. Not only does he (Paragraph 4 of Section III.) provide only vaguely that "a Bank requiring notes shall deposit money in London" (no place stated) but he goes on to suggest that "if the money in payment for legal tender notes . . . is not available in London" then "under exceptional circumstances a draft on a London Bank may be taken in payment thereof." What the circumstances are or who is to determine them is nowhere indicated.

(c) Mr. Jameson is singularly indifferent in his provisions regarding the management of the funds held to protect legal tender notes. Although he is positive in condemnation of Government interference in Banking and extreme in fear of Government activity or regulation, he does not hesitate to state that "the moneys held for the cover of legal tender notes . . . shall be disposed of by the Currency Commission in such manner as is determined by the Oireachtas." Apparently he would leave the use of these funds at the mercy of such temporary majority as might exist in the Oireachtas, despite his distrust with regard to the intentions of any Government (representing the controlling party in the Oireachtas) that may be in power.

(d) Although Mr. Jameson is unusually desirous that the most careful steps shall be taken with reference to all problems relating to convertibility into sterling, his proposal merely calls for the making of such arrangements with "the Bank of England that those legal tender notes shall, on presentation at the Bank of England, be paid at their full face value in sterling." Does not this suggest in effect that the Government shall turn over the entire working of the plan to the Bank of England and simply provide that whatever that Bank may suggest shall be approved by the Oireachtas?
(e) So in the same way Mr. Jameson instead of addressing himself to the problem of determining the kind of note issues for the immediate future, simply recommends "that an estimate of the total amount attributable to the Saorstát be prepared," although by whom, on what basis, or for what purpose is not suggested. What would be done with this estimate when finally settled is not intimated, nor is there any indication whatever as to the method of dividing existing bank note issues between Northern and Southern Ireland.

(f) This vagueness in point of view and carelessness in expression reach a climax in paragraph 15 of Section III., where it is recommended that "such steps shall be taken" (by whom is not stated) "to obtain whatever lien is necessary to secure the fiduciary issues of those banks" (in whose favour or by what means is not stated) "having a note issue, the head offices of which are outside the Saorstát." Apparently this merely means that the author of this plan has not worked out in his mind the details of his project and merely wishes to leave them for someone else to prepare.

4. Some General Problems.

Possibly the most important element in the whole question raised by the dissenting member is that which relates to inflation and to the amount of note issue as compared with the requirements of business. It is in this aspect indeed that the subject of banking reform ought to be most seriously considered. Mr. Jameson's argument contains two conflicting points of view—the first representing a fear that as a result of change in existing conditions inflation and unsound trade may follow, the other that as a result of the proposed change in existing conditions there may be a restriction of credit, a curtailment of note issues and, consequently, a tendency to prevent the banking community from supplying the needs of the public and accommodating the customers of the banks.

It is evident, of course, that, as already indicated, both these criticisms cannot simultaneously be sustained against any plan or proposal.

During the sittings of the Commission the questions of inflation and deflation were the subjects of considerable discussion, and an effort was made to estimate the effect of the Commission's recommendations in regard to the supply of currency and the immediate ability of the banks to meet the needs of their customers. It has throughout been the effort of the Commission in making its recommendations to avoid suggesting anything that would open the door to either inflation or deflation. The Commission does not believe that prevailing conditions in any country are desirable merely because they exist, and yet it is fully conscious of the dangers which may follow from hasty or ill-considered alterations in currency relationships. The Commission fully
believes that changes in the currency system of a country do not in and of themselves necessarily produce inflation. That is a question of the management of credit and of banking. As we have pointed out in our First Interim Report, the Saorstát is fortunately equipped with conservative and well-managed commercial banking institutions which certainly cannot be charged with recklessness or desire to bring about inflation, while, on the other hand, there is no evidence that they have pursued a policy tending towards deliberate deflation. They have in the main sought to conduct their affairs conservatively and carefully, leaving the general level of prices to vary in accordance with general economic conditions which means that on the whole this level of prices corresponds more or less closely to that which is determined by conditions in the British financial market.

As we have explained in our First Interim Report we do not believe that the financial market of the Saorstát can at this time be separated from that of Great Britain, and, in making our recommendations, we have constantly had this fact in mind and have avoided anything which might tend to disturb the price level as influenced by those broad conditions of financial and economic relationship which are reflected to-day in the British price situation. Moreover, it should be remarked that changes in currency or in the method of issuing notes take effect most positively through banking loans and transactions, save of course in those cases where a note issue put out by the State without satisfactory banking protection shifts the prices of a country automatically from one stage to another. No such condition would be brought about by anything that we have suggested, but on the contrary the whole body of our recommendations, as already explained, is based upon the idea of stability and assumes that such changes as may be brought about are to be produced, not through alterations in currency, but through other and more general means to which in this Report we have not addressed ourselves at all. It should be borne in mind also that inflation may, of course, occur now or at any time from bad banking, unwise loans, speculation upon poor security or in other ways of a similar character. It is not the result of the issue of notes which are fully protected and which merely take the place of others already out. Neither is there any reason to suppose that a change in the mechanism of note issue, whereby the printing and issue of notes are placed in the hands of a Commission instead of in those of the several banks, could have any relation to or exert any effect whatever on business or upon the price level.

5. General Summary.

Mr. Jameson appears to offer the following main contentions bearing upon the general question:—

(a) that the proposed plan disturbs existing conditions;
As we have stated, the Saorstát is charged with the commission of a central bank, which has the duty, among others, of preserving the value of its currency. As Mr. Jameson has observed, this is a difficult task, and it would be impossible to perform it adequately without a proper knowledge of the economic conditions of the country. It is therefore necessary that the Government should have a clear idea of the principles on which the currency system should be based, and that it should be able to exercise a certain amount of control over the note issue.

As to these points, it is to be noted that the existing conditions which are disturbed are, as already explained, not those which are likely to lead to inflation, or, as he states, elsewhere, to deflation.

(c) that it represents a Government control of note issue;

(d) that it is at variance with the recommendations of the Cunliffe Committee.

As to the second point, it is likewise to be observed that the question of inflation is, as already explained, primarily a matter of banking and credit and not a matter of note issue, and hence unlikely to be affected one way or the other by the plan suggested by the Commission. As to the third point—the control of note issue—everything depends on what is meant by “control.” That it is wise or proper for any Government to know how many notes are being issued with its endorsement, that is, with the legal tender quality, would seem to be obvious. Certainly it is the unanimous verdict of scientific and practical opinion in all countries that the person or institution responsible for a note should have power to discontinue or check its issue when the liabilities that are thus incurred become excessive or suggest danger. The institution responsible in this case is the Currency Commission, over which the Government has no control. As for the fourth point—the recommendations of the Cunliffe Committee—we have only to say that the main principle inspiring the Cunliffe Committee was that of a steady return to a genuine gold standard, and that it is to that end that our entire deliberations have been directed. So soon as Great Britain shall have definitely re-established the gold standard as a circulating medium, the currency system of the Saorstát, if based upon the plan which we have developed, will likewise conform in this respect to the British system. Apart from this, the backing for legal tender notes which is provided under our plan in the form of British Government securities will itself rest upon a gold basis. It is possible that the Government of the Saorstát may not desire to retire its paper, and put gold into actual circulation. In many countries where paper has superseded gold during the war period, it is the prevailing opinion that a return to the actual use of gold in current transactions will be unnecessary and needlessly expensive. This is the view taken to-day in Great Britain, which country is, of course, on a gold standard.

6. Mr. Jameson’s criticism of First Interim Report.

Before passing on to the discussion of Mr. Jameson’s criticisms of the concrete proposals recommended by the majority of the Commission, we may remark incidentally that Mr. Jameson bases his statements not only upon the Majority Report, which has been transmitted to you, but also upon a certain Note Currency Memorandum. This Memorandum is merely a digest of the work of
the Commission which was developed during our sittings and was gradually brought into final form. It constitutes the chief basis upon which the Report itself was prepared, but is obviously only a skeleton outline of the main points contained in the latter. In the circumstances we may disregard Section I. of Mr. Jameson's statement, and will confine our attention to Section II. entitled "Criticism of First Interim Report of the Free State Banking Commission of 1926." On this we have the following observations to offer:

(a) The first ground of criticism of the Interim Report, which Mr. Jameson presents is found in the alleged inconsistency of the refusal or failure to recommend "a new unit of value in a country whose economic relationships are very close to Great Britain and the determination none the less to suggest "a new type of local Irish currency."" As to this, we need only say that a unit of value is not a type of local currency. Mr. Jameson remarks that in order to make this Irish currency conform to the canons previously laid down in the Report, arrangements must be made for its convertibility into British sterling "of such a nature that no doubt can exist of their sufficiency." The arrangements that have been made, as Mr. Jameson neglects at this point to state, are seen in the requirement that such currency shall be backed by British Government securities pound for pound. No doubt of the "sufficiency" of this protection is conveyed or even implied in the requirement which we make of the "guarantee" of the Sáorstát, that being added for entirely other reasons, chief among them the desire (often expressed by Mr. Jameson himself during the deliberations of the Commission) that there be a recognised legal tender currency for use in the Sáorstát. The existence of such a legal tender currency implies Government responsibility.

(b) The next major point to which exception is taken by Mr. Jameson is the fact that a plan for a new legal tender note has been adopted by the Commission, notwithstanding its criticism of the general idea of Government legal tender notes in the abstract. Unfortunately, legal tender paper currency already exists in Great Britain, and so long as it exists there, it is, in our view, desirable that it should exist in Ireland. We wish to avoid unnecessary currency differences between the two countries. The Commission considered the question of an immediate transition to the gold standard, and this was definitely rejected by Mr. Jameson as impracticable at this time. As for the hopeful forecast that the gold standard in the sense of the actual use of the metal may almost immediately be restored in Great Britain, we regret to say that there is no warrant for any such statement, and we are advised on the best authority that the end of the present legal tender note situation is not likely to be reached in the near future.
(c) Mr. Jameson is opposed to the acceptance by the Saorstát of any liability in respect of legal tender notes, and complains that the Report contradicts itself, inasmuch as it first states that the securities must always be equal to the amount of notes issued, and then makes arrangements for a deficiency. We recommended that the State should accept liability for these notes because they were endowed with the legal tender quality, and we made arrangements to meet any possible deficiency because we were aware, as Mr. Jameson surely is also, that even the very best securities are liable to fluctuations in value. We need not consider further the suggestion conveyed here and there in his communication, that the Commission has recommended investments which are of a dangerous or unsafe character, as the report of the Commission is very specific in its statements that the only investments contemplated are those in British Government securities.

(d) In complaining of the composition of the Currency Commission Mr. Jameson apparently feels that the presence of Government appointees upon any body makes such an organisation "political." Nevertheless he has recommended a Currency Commission of his own in which one-third of the members might be permanent officers of the Government. The Banking Commission recommended a body in which four-sevenths of the members might be appointed by the Government, but should not be in its employment. Apparently the difference between these two phases of a substantially similar proposal would, in the mind of Mr. Jameson, constitute all the difference between a political and non-political composition of such a commission.

(e) One point that is made by Mr. Jameson with special emphasis is the section of the Commission's Note Currency Memorandum and the corresponding portions of its Report recommending that the proposed Currency Commission shall be authorised to fix regulations relating to "bank management," as a condition upon which notes shall be issued to any given bank making application to them. On this point he says: "Evidently it is intended that the Currency Commission shall have practically power to interfere with the management of the banks through its control of the note issue." This is a gratuitous assumption, there being nothing in the Report of the Banking Commission to suggest anything of the kind. The subject is fully discussed in the Report, particularly in Section 29 thereof, where some of the considerations which must be borne in mind in determining what banks shall participate in note issues are indicated. At other points also, the Report makes plain the reason for the recommendation to which Mr. Jameson takes serious exception. If the Currency Commission is to function at all as a note issuing mechanism, and is to exercise its functions through relations with the banks and not in direct contact with the public, it evidently must have some power to control the action of the banks in their
exercise of the note issue function and to supervise their activities in connection with redemption and circulation. Were not this power given to the Currency Commission, it is difficult to see how that body could successfully do anything whatever.

The power to which such exception is taken is, in short, a power to control bank management in connection with the issue of notes, and to insist upon a handling of the notes by each given bank, which shall coincide with the interests of the other banks and of the group of banks as a whole. Lacking such power to co-ordinate the action of the entire group in the matter of note issue, the Currency Commission might as well not attempt to exercise this function at all. The regulations relating to bank management referred to are of course regulations relating to those particulars of bank management as to which the Currency Commission is to function, and have no relation to problems of internal bank management. Over these the Currency Commission has no jurisdiction whatever; and only by stretching the imagination can it be made to appear that there was any such intention.

(f) Very much the same effort to divert the issue from its real channel, which is made in these remarks of Mr. Jameson with respect to the proposed "regulations," is also made elsewhere where the point is urgently emphasised that the Government should "interfere" as little as possible with banking, and the Cunliffe Committee is cited as authority for the opinion. We need not here debate the abstract question of Government interference with banking, its nature and its limits. It is enough to say that there is in the Report of the Banking Commission nothing whatever to indicate any desire to interfere with the functioning of the banks or to impede or direct their operations. The question of note issue has been referred to the Commission for investigation, and it has recommended a plan which gives to the banks fully as much liberty of action as they now have with their note issues, and far greater liberty of action than was ever allowed under the Bank Act of 1844, which (as Mr. Jameson points out) has received the hearty endorsement of the Cunliffe Committee. It should be quite out of the question to attempt to arouse fears of an imaginary danger growing out of Government interference since nothing of the kind is contemplated in our Report, while the changes that are recommended are no more extensive in their application to note issue than are those which Mr. Jameson himself suggests. It is, however, true that the plan suggested by the Commission would quite materially alter the distribution of the notes among the banks and might to that extent conceivably "interfere" to a limited degree with their profits. This, in fact, is evidently what Mr. Jameson has in mind and is particularly concerned to prevent, since in the latter part of his statement he clearly expresses the fear that the banks whose "fiduciary issues are to be restricted . . . . will
be practically injured." Criticisms of this nature would appear to be inspired rather by fear that a given bank will lose profit as a result of a change in the distribution of the notes, than by fear of any imaginary "interference" on the part of the Government with banks in general.

(g) The same fictitious dread of "Government interference" apparently animates Mr. Jameson in his argument that the Government is given such a dominant power over the appointments to the directorate of the Currency Commission. We have fully discussed elsewhere the very careful provision that has been made for safeguarding the membership of the Commission, and its appointments. Mr. Jameson wholly disregards these proposed safeguards, and goes on to consider at great length the danger that some Government which may happen to be in power at a given time will be entirely able to deprive an offending bank of the power to issue notes, or may otherwise undertake to discipline banks through its control or direction of membership in the Currency Commission. It is surprising that in spite of this dread of a grant of preponderating power to some one element in the community, Mr. Jameson should continue to insist that the Governor of the Bank of Ireland, whoever he may be at the time, should be a member of the Currency Commission which he proposes. He apparently has far more confidence in the Board of Directors of the Bank of Ireland and their ability to select a person who can properly be entrusted with what he calls the "control" of the note issues, than he has in the power of the duly elected Government of the Saorstát to select members of the Currency Commission to represent the general interest, in conjunction with members representing the several banks. In this feeling it may be doubted whether many people will join him. For the purpose of the present discussion it suffices to say that we do not, and that there is nothing whatever to warrant the belief that, under the carefully guarded provisions which we have recommended in connection with the appointment of the Currency Commission, that body could reasonably be expected to become the sport of successive Governments of the Saorstát, even if it be assumed that such Governments would endeavour to exert influence in reshaping and redirecting the policy of the proposed Commission.

(h) Another phase of Mr. Jameson's argument which has a close relationship with that which has just been discussed is found in his suggestion that there is ground for fearing that the money paid by the banks which receive legal tender notes from the Currency Commission will in some way be sequestrated or misused by the latter body. Mr. Jameson develops a long argument to show that the situation would be different under the proposed legislation from that which exists at the present time. Undoubtedly it would. That is exactly what the work of the Ban-
ing Commission has been directed to bring about. There is, however, nothing in the work of the Commission or anywhere else to warrant the expression of fear that the funds turned over by the banks to the Currency Commission would be misused or misapplied. In referring to the note currency memorandum at an earlier point in his discussion, Mr. Jameson has complained that the investments to be made with the funds are to be "hereinafter specified"; and yet that they are not so specified. The note currency memorandum is not a separate and independent document standing by itself, but is a part of the Commission's general work. It was not transmitted to you as part of our First Interim Report. The specification of investments has been fully made by the Commission in the First Report. It is clear that if any Government makes an outstanding issue of notes its own liability or obligation, as it is proposed that the Saorstát Government shall do in the case of the new legal tender notes, it should receive some kind of security or protection, and that so long as its obligation remains outstanding it is entitled to the retention of this protection. The secured notes which are now issued by the banks are not legal tender while the proposed new issue is to be so—in fulfilment of the urgent request made from all sources, including Mr. Jameson himself, that the Saorstát should be promptly supplied with that legal tender which it now lacks.

(i) Mr. Jameson takes very serious exception to our recommendation that power be granted to suspend the issue of legal tender notes, and he points out that in the past there has never been any restriction upon note issue. In fact the issues at one time were over £300,000,000. Nevertheless various parts of his statement show that he is much disturbed because of the fact that the Report, if put into effect, will tend towards inflation. Apparently he is inflationary when he thinks that this Commission is deflationary, and deflationary only when he thinks that we are inflationary.

(j) Mr. Jameson complains because the assets which it is proposed to hold behind the legal tender notes are to be held in trust by the Currency Commission for the Government, and he takes the view that the assets should be held in trust by the Commission for the banks. It is difficult to see how he could reconcile such a statement with his own recommendation elsewhere that the notes should be paid for by the banks pound for pound. Evidently, if the banks buy the notes, the money which they pay belongs to those from whom they get them—in this case the Government—just as surely as does the money which is paid by an individual to a merchant from whom he bought goods belong to the latter after he has supplied the goods.

(k) Mr. Jameson finds a serious inconsistency in our statements because of the assertion that "the banking problem . . . is independent of the underlying question of the monetary and currency standard," while we have recommended that the banks
should submit to regulation by the Currency Commission. Of course, here again he falls into the error of confusing the issue of notes with a standard of value. The establishment of such a standard is the duty of the Government through the Oireachtas; the administration of the issue of notes is properly the work of an administrative body. There is no inconsistency between the two.

\( (l) \) Mr. Jameson comments on the fact that although we found the banking system to be sound and satisfactory we have recommended the abolition of all fiduciary note issues, and this is indicated as a serious inconsistency. No such recommendation has been made and nothing has been done that in any way reflects upon the responsibility of the banks, but on the contrary it has accepted their service and present status with the utmost confidence. Our Report merely provides that the State's own obligation be placed behind certain notes because of the fact that they are endowed with a legal tender quality. The Currency Commission would be an administrative body in its dealing with bank notes. The eventual guarantee or liability in respect of the latter notes is found only in the assets of the issuing banks.

\( (m) \) Quite out of line with Mr. Jameson's contentions about the legal tender notes and the responsibility for them is his apparent disposition to fear harm as a result of an increase in the proposed fiduciary issue. He complains that the estimate of £4,000,000 sterling, treated as the share of the Saorstát in the present total issue is too low and advances it to £4,800,000 sterling on the basis of "careful and exhaustive estimates." If Mr. Jameson had access to any such estimates he did not make them available to the Commission. Accepting his statement, however, that such estimates have been made, it is interesting to note that according to his computations the proposed figure of £6,000,000 sterling for bank note issues is approximately right, and indeed he admits that this same figure "may be taken" as correct if only "for the purposes of the argument" which follows in his statement. Apparently he wants to keep as large a new fiduciary issue outstanding as he can, and yet he complains that "the soundest financial authorities have always deprecated any increase in the total fiduciary issues of a country." If that be true, would it not be well to eliminate those fiduciary issues entirely? Logic would seem to be entirely in favour of such a course if his argument be accepted at face value, and yet he apparently shrinks from it. Further, it would appear that as an advocate of the principles laid down in the Cunliffe Committee's Report, he ought to favour the complete transfer of control of all bank note issues to a central bank. Yet, as already stated, he is against any such course of action. In fact his communication contains the statement that "the existing fiduciary issues are of great benefit to the country."
Equally difficult to understand is Mr. Jameson’s treatment of the present arrangement whereby the note issue is largely (62 per cent.) in the hands of the Bank of Ireland, which in its turn furnishes other banks with a supply of its notes on a pound for pound basis. This plan, according to him, is at the present time working well, inasmuch as the existing banks possessing a right of note issue have been able to meet the needs of the non-issuing banks. But no member of the Commission has doubted the ability of banks possessing the right of issue to “meet the needs” of the non-issuing banks. The complaint has been that it has done so at too high a price. The Commission holds that all the other banks are quite as fully entitled to the right of issue as is the Bank of Ireland. The question does not involve as Mr. Jameson states “a conflict of interest between the Government and the banks,” but a conflict of interest between the banks themselves. This conflict of interests does not serve the needs of the public, but results in inflicting upon them a rate of interest higher than they should pay—a situation which the Commission’s plan endeavours to rectify.

(n) A further point needs attention in this connection, viz.: the argument presented by Mr. Jameson that “while the nominal fiduciary issue obtaining in the Free State would amount to about £6,000,000, the actual fiduciary issue outstanding might be considerably smaller.” He argues from this that “as the requirements of the country would probably necessitate a note circulation considerably in excess of these six millions, it is obvious that any notes required in excess of the fiduciary issues actually in the hands of the public must be legal tender notes.” It would be obvious without any argument that issues in excess of the fiduciary issues would naturally consist of legal tender notes. An almost precisely similar situation exists at the present time, inasmuch as any excess over the fiduciary issues which is needed to-day has to consist of the secured notes of the bank, the issue of which has precisely the same effect in withdrawing funds from other use as is feared by Mr. Jameson in his discussion of this subject. There is nothing to produce any curtailment of notes in circulation if the public wants and is willing to use them. Mr. Jameson apparently dreads high discount rates, and says that it is a “commonplace of banking and economics that high rates tend to curtail credit,” yet this is in spite of the fact that he has consistently argued that rates are at the present time not high in the Saorstát, while the banking members of the Commission see nothing in the proposed plan to raise them. His argument also appears to be singularly inconsistent in that he fears a substitution of legal tender for fiduciary notes, though he has already expressed a dread that an increase of fiduciary notes would be hazardous or even disastrous to the interests of the community.

We find it difficult to believe that Mr. Jameson expects anyone
to take seriously the statement that "it will be almost impossible
to estimate the loss to the existing Banks of Issue of losing the
privilege of keeping their own notes as till money at their
numerous branches. Their inability to hold this till money in
future may necessitate the closing of a great many of their
branches and sub-offices to the inconvenience of the public and
the detriment of the trade of the country." The idea that the
right of note issue is essential for the carrying on of a successful
banking business with numerous branches has been long ex-
ploited. The fact that banks without the right of note issue have
equally with banks having such right been greatly increasing the
number of their branches in recent years without any diminution
of prosperity shows how groundless are Senator Jameson's fears.
In England, too, the banks, having no right of note issue, have
adopted the policy of branch extension to a remarkable degree.
Incidentally, it may be pointed out, that the Bank note issue
recommended for the Saorstát, corresponding to the old fiduciary
issue, was fixed at the figure of £6,000,000 to compensate, inter
alia, for the loss of the privilege referred to. We may say
without fear of contradiction that the opening and retention of
branches depend not on the right of note issue but on the energy
and prosperity of the individual Banks, and that if any branches
have to be closed in the future it will be not as a result of any
recommendations contained in the Report, but because the num-
ber of new branches opened in the period of inflation will be
found to be in excess of the trade requirements of the country in
more normal times. If the number of branches is excessive, the
closing down of the superfluous and unprofitable ones will be an
economic advantage, and is likely to cause little, if any, incon-
venience to the public in view of the fact that in practically every
small town in the Saorstát branches have been opened by two
or three banks at least.

(o) Mr. Jameson's comment on the proposal to have provision
for an extraordinary issue of notes is apparently summed up in his
statement that "the fact that such an issue may be required
is a further indication of the unsoundness of the proposals" of
the Commission. If that be the case the note issue plans of
practically all countries in the world must be unsound, since most
of them provide some means for furnishing an extraordinary issue
of notes. Great Britain has at times found it desirable to furnish
such extraordinary issues by a method of her own, as have other
nations. We cannot agree with Mr. Jameson, therefore, that a
precaution suggested by the general experience of the financial
world indicates "unsoundness." Indeed we may be sure that if it had not been there Mr. Jameson and those who think as he
does would have found fault because of its absence—a conjecture
which is amply warranted by the reading of the discussions on
this very point during the sessions of the Commission when the
proposed plan was under consideration.
(p) The suggestions made at various points by Mr. Jameson that the report of the Commission shows an ignorance of the Saorstát banking situation, or that it has carelessly permitted serious blunders to creep into its statement of the terms and considerations of existing note issue is unwarranted in view of the fact that it has been reviewed and approved by representatives of the banks of the Saorstát who have been long in service, and as practical bankers are thoroughly familiar with the conditions under which they are operating. Mr. Jameson himself has had the report of the Commission before him for a long period, it being read line by line for discussion before the Commission, yet he never suggested any such error of statement during the entire deliberations of the Commission.

(q) As for the references made to the Act of 1844 in Great Britain (1845 in Ireland) and the comparison instituted between the Commission's remarks and those of the Cunliffe Committee on that head it is probably sufficient to say that these statutes have for many years past been the subject of continuous criticism on the part of British financiers, bankers and economists and that our criticism of them is certainly not original.

(r) Fear is expressed by Mr. Jameson because of the possibility that the management and issue of legal tender notes would be very "expensive." It certainly would not be as expensive as the present system of six separate issues by the banks.

(s) Further complaint is made that in some elements in its plan the Commission has been unduly influenced by fear of a possible reduction in Government income, and the statement is made that its chief object is to make money for the Government. This seems to be putting the cart before the horse. The present system is intended to, and does, make money for the British Government, while the proposed system would merely transfer this profit to the Government of the Saorstát. There has been no undue fear of a reduction in the income of the Saorstát, nor any effort to make money by means not already in effect.

7. General Comment.

While much more might be said by way of detailed rejoinder to the comments of Mr. Jameson contained in his memorandum, the survey which has already been given of that document probably covers the major issues involved in it and need not be further protracted. In closing, it seems proper to say that the memorandum seems to us to be based on a misconception of the entire situation, coupled with serious misrepresentation of what has been in fact decided by the Commission. The belief that
such is the case affords the immediate reason for transmitting the present letter of explanation by way of rejoinder.

Respectfully submitted,

(Signed)       H. PARKER WILLIS.
J. J. McELLIGOTT.
C. A. B. CAMPION.
FRANCIS J. LILLIS.
J. J. O'CONNELL.
R. K. L. GALLOWAY.
LIONEL SMITH-GORDON.

16th December, 1926.
the provision of a certificate of competency for instructors.

The provision of a certificate of competency for instructors was carefully permitted on the basis of the terms and conditions of the Act of 1944. The certificate is to be issued by representatives of the Commission, and must be in accordance with the conditions laid down by the Act. The certificate is to be issued for a period of five years from the date of issue, and is subject to renewal at the discretion of the Commission. In the event of non-renewal, the certificate is automatically renewed for a further period of five years.

The certificate is to be held in trust for the British and Irish governments, and may be transferred to the Commission on the recommendation of the Commission. There has been no provision made for the transfer of the certificate to the British or Irish governments, and it is under the jurisdiction of the Commission.

The certificate is to be renewed every five years, and is subject to renewal at the discretion of the Commission. The certificate is to be held in trust for the British and Irish governments, and may be transferred to the Commission on the recommendation of the Commission.

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APPENDIX.

NOTE CURRENCY MEMORANDUM.

(Referred to by Mr. Jameson in his Statement.)

1. Future Circulation.
   (a) An issue of legal tender notes as hereinafter described.
   (b) An issue of bank notes, not legal tender, as hereinafter described.

2. Character of Issue.
   (a) Legal tender notes to be backed by securities as hereinafter described, and to be convertible into British legal tender (notes or gold) at a designated redemption (or conversion) agency in London.
   (b) Bank notes to be backed by "liquid assets," as hereinafter described, and to be convertible into legal tender notes on demand at the (local) head office, in the Saorstát, of the issuing bank. It is desirable that supplies of legal tender notes be maintained at the principal offices of the banks.

   (a) Legal tender notes shall be furnished pound for pound to banks, and to banks only, who may furnish:
      (1) Gold or British legal tender currency.
      (2) Existing bank notes (each bank its own notes) until a sum equal to the present secured issue of each bank shall have been retired.
      (3) Payment of pound for pound of current funds in London.
   (b) Bank notes shall be issued (of course to Banks only, and only to such banks as hereinafter specified) to an amount equal in the case of each bank to a figure hereinafter prescribed. Such notes may be obtained:
      (1) By presenting the existing bank notes (each bank its own notes);
      (2) By presenting liquid assets (hereinafter defined) or the evidence of possession of such assets as hereinafter specified.

(a) A Corporation to be called The Currency Commission shall be chartered; its members to be banks and the Government only.

(b) Its sole function shall be the issue of notes and the investment and management of the backing of such notes, and operations ancillary thereto. All arrangements in connection with the printing and custody of legal tender notes and associated bank notes shall be in the hands of and under the direction of the Currency Commission.

(c) Its Board of Directors shall consist of 3 members to be chosen by the member banks and 3 members to be named by the Government, with one chosen by these 6 who shall be Chairman, 7 in all. Of the three Government nominees on the Commission two shall be representatives of or experienced in commerce, trade or industry, and shall not be Government officials. In case of inability to select a chairman, the Minister for Finance shall nominate a seventh, who shall be Chairman. The Chairman shall be learned in banking and finance. Directors shall hold office for three years and one banking and one Government member shall retire each successive year.

5. Mechanism of Issue.

(a) The Currency Commission shall, as funds come into its hands, with request for legal tenders, issue such notes to those banks which have applied for them and the funds received in exchange shall be invested as hereinafter set forth. Such funds shall be held in trust by the Commission for the Government and the income therefrom shall accrue to the Government.

(b) The Commission shall receive from stockholding members liquid assets as follows (as protection for bank notes):

(1) Satisfactory bills or evidence of indebtedness growing out of Irish or English trade, domestic or foreign, with the endorsement of the depositing bank and satisfactory to the Commission.

(2) Due bills or direct obligations made by the bank itself (in favour of the Commission) and representing liquid sound advances to customers, on overdraft or otherwise, or approved securities. The Commission shall have a prior lien on all assets of the member bank receiving the notes up to the amount of such notes, and this lien shall extend to the liability of the shareholders. To assure itself of the character of these credits the Commission may examine the portfolio of the applying bank.


(a) The Saorstát shall assume an unlimited liability for the ultimate payment of legal tender notes.
(b) The Commission shall assume liability for all bank notes furnished to banks up to the realisable value of the assets of the bank to which the notes have been supplied in each case.

7. Form of Issue.

(a) Legal tender notes shall bear at the top the words "Saorstát Eireann" and below that the words "The Currency Commission, Irish Free State," following with the legal tender clause. On the left-hand lower corner of the note shall be the title and date of the Act under which issued. On the right-hand corner shall be the words "Issued through the Currency Commission." The signature shall be that of an official of the Department of Finance.

(b) Legal tender notes shall be issued in denominations of ten shillings, one pound, five pounds, ten pounds, twenty pounds, fifty pounds, and one hundred pounds.

(c) Bank notes shall bear the same words at the top, but in the second line "Consolidated Bank Note Issue," following with the usual promise to pay (in legal tender). The maker or signer of the note shall be the Chairman of the Currency Commission. On the left lower corner shall be the title and date of the Act under which issued and the words, "Issued through the Currency Commission." On the right lower corner shall be the words, "Convertible into legal tender at the bank at the Chief Office in Dublin (or Cork)."

(d) Bank notes shall be issued in denominations of one pound, five pounds, ten pounds, twenty pounds, fifty pounds, and one hundred pounds.

8. Limit of Issue.

(a) Legal tender notes shall be issued without limit subject to conditions already set forth, but the Commission may at any time discontinue the issue of further notes when the total, not including ten shilling notes, exceeds a figure which shall take into account the present secured issue plus British currency in circulation in the Saorstát. The Commission shall retire issues of legal tender notes at the request of any of the stockholding banks.

(b) The maximum bank note issue shall be fixed at six million pounds for a period of two years: Provided that if at the end of any half-year the legal tender issue shall have fallen below four million pounds the Commission may reduce the bank note issue so that it shall not be more than one million pounds in excess of the legal tender issue.

At the end of two years and every three years thereafter the Currency Commission may, with the approval of the Minister for Finance, revise the maximum figure of bank note issue on a
basis which shall have regard to the banking requirements of the country. The security stipulated for in Section 5 (b) behind the issue shall, of course, be entirely satisfactory in character to the Currency Commission.

(c) Extraordinary issues up to an amount equal to the “rest” may be permitted to any bank by unanimous vote of the Commission subject to graded taxations. Provided that such tax shall be not less than 5 per cent. and that such extraordinary issue shall be retired within 12 months.

9. Payment to the Government.

(a) The Government shall receive earnings from legal tender note investments as aforesaid.

(b) The Government shall also receive an annual sum equal to thirty shillings per hundred pounds, which shall be charged to and paid by each bank in proportion to average bank note circulation outstanding. Said sum shall be varied from time to time as the Commission may vote.

(c) From the net profits of the Government derived from the legal tender note fund, and from the proceeds of the tax as aforesaid, there shall be set aside a special reserve fund which shall accumulate until it shall equal 10 per cent. of the outstanding legal tender notes. Such fund shall be invested in the same way as the legal tender note fund itself and shall be the property of the Government held in trust by the Commission. It shall be used to cover any losses due to shrinkage of investments and shall be the recipient of any profits thereon. All excess above such 10 per cent. shall be semi-annually paid to the Government in cash.

10. Conditions of Membership.

Any bank registered in the Saorstát or now operating there shall be eligible to membership:

(1) Provided it shall maintain a local shareholders’ register for holders domiciled or resident in the Saorstát.

(2) Provided it shall comply with such requirements governing banking as shall be fixed by law.

(3) Provided it shall accept the regulations to be fixed by the Commission relating to bank management.

(4) A majority vote of the Commission shall admit to membership.
payment to the Government.

4. The Government may require Government to make
investments or advances.

The Government may require Government to make
advances to members of the Corporation or to the
Government or to any person for the purpose of
assisting the Corporation in carrying out the
purposes of this Act. The advances may be
repaid by instalments over a period of not more
than five years after the date of the
advance. The amount of any advances made
shall be fixed by the
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