



HM TREASURY

1 Horse Guards Road London SW1A 2HQ

Information Rights Unit

Veronica Chapman

Tel: 0207 270 4558
Fax: 0207 270 4861

By email: request-7551-
d437f2a6@whatdotheyknow.com

www.hm-treasury.gov.uk
public.enquiries@hm-treasury.gsi.gov.uk

Ref: 9/96

26 February 2009

Dear Ms Chapman

Freedom of Information Act 2000: 'Money'

Thank you for your enquiry dated 3 February requesting information under the Freedom of Information Act 2000. I have also taken account of the follow-up email sent on 10 February; this does not seem to change the substance of your request, but does provide some insight to the intent of what is otherwise a very broad question.

2. You asked –

how precisely is money created?

For your information I have been given to understand that it is created by means of Promissory notes. In more detail, when a human being signs a 'promise to pay' (known colloquially as an IOU) which can stand until the end of time. And that the human being's signature on that promise renders said promise lawful.

Can you please be so kind as to confirm or deny my understanding and, if necessary, correct my understanding?

3. I need to point out that the purpose of the Act is to oblige authorities to disclose recorded information. Broad questions and requests for explanation or confirmation of a view, as in your enquiry, are not valid requests under the Act. The information Commissioner has published a 'Charter for Responsible Requesters', which includes guidance about how to formulate a request for the best prospects of success. I enclose a copy with this reply.

4. To be helpful, I offer the following comments, although your question is really an academic one and HM Treasury is not perhaps best placed to answer it.

5. Money is whatever is accepted in a society as payment for goods and services, or for repayment of debts. Gold is a form of what is called 'commodity money', not created, but perceived as having value in itself. Modern 'currency' is known as 'fiat money': it is artificially created, has no value in itself and the basis for its use in exchange is typically a government edict. Since its foundation in 1694, the Bank of England has issued notes promising to pay the bearer a sum of money. The promise



could be made good by the Bank paying out gold in exchange for its notes. The link with gold helped to maintain the value of the notes, although the link was sometimes suspended, for example, in wartime. The link with gold was fully broken in 1931 and since that time there has been no other asset into which holders have the right to convert Bank of England notes. Members of the public may only exchange notes for other Bank of England notes. This is set out Section 1(4) of the Currency and Bank Notes Act 1954 Act: "the holder of [Bank of England] bank notes of any denominations shall be entitled, on a demand made by him during office hours at the head office of the Bank of England or, in the case of notes payable also at some place other than the head office, either at the head office or at that other place, to receive in exchange for the notes bank notes of such lower denominations, being bank notes which for the time being are legal tender in the United Kingdom or in England and Wales, as he may specify."

6. The Bank of England is required to back all banknotes issued with securities (such as Government bonds), which are held by the Issue Department. Public faith in the pound is fostered through the Bank of England's operation of monetary policy, the statutory object of which is price stability. Monetary stability is the first of the Bank's core purposes.

7. The judicial citation you provided seemed to be concerned with the category of 'credit money'. You are correct that in essence this amounts to an IOU. Indeed banknotes that 'promise to pay the bearer on demand' are essentially credit money, as are government gilts and other financial instruments. It is arguable that all money is ultimately credit money, to which the only alternative is barter of goods and services - with attendant disadvantages! The second of the Bank of England's core purposes - financial stability - is concerned with maintaining confidence in the credit money in terms of the financial system as a whole. The Bank works with HM Treasury and the Financial Services Authority to promote confidence in the UK financial system. But financial markets are now so global in reach that stability depends on international cooperation and standards.

8. None of the above suggests to us that mortgages contracted with financial institutions that have subsequently been undermined by the credit crunch would be judged void - if that was the suggestion from your reference. But, just as HM Treasury is not set up for academic purposes, neither are we in a position to offer legal advice.

9. I hope this is helpful. If you have any queries about this letter, please contact me. It will be helpful to us if you remember to quote the reference number above in any future communications.



Paul Morran
Information Rights Unit

Your right to complain under the Freedom of Information Act 2000

If you are not happy with this reply, you may request a review by writing to -

HM Treasury, Information Rights Unit, 2/S2, 1 Horse Guards Road, London SW1A 2HQ.

Email public.enquiries@hm-treasury.gov.uk <<mailto:public.enquiries@hm-treasury.gov.uk>>.

Any review request must be made within 2 months of the date of this letter. It would assist our review if you set out which aspects of the reply concern you and why you are dissatisfied.

If you are not content with the outcome your complaint, you may apply directly to the Information Commissioner for a decision. Generally, the ICO cannot make a decision unless you have exhausted the complaints procedure provided by the Treasury. The Information Commissioner can be contacted at: The Information Commissioner's Office, Wycliffe House, Water Lane, Wilmslow, Cheshire SK9 5AF.

