



गुल्लक Gullak



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The Journey of Banknotes (Part I)

A **Banknote** (often known as a **bill**, **paper money**, or simply a **note**) is a type of negotiable instrument known as a promissory note, made by a bank, payable to the bearer on demand. Banknotes were originally issued by commercial banks, who were legally required to redeem the notes for legal tender (usually gold or silver coin) when presented to the chief cashier of the originating bank. These commercial banknotes only traded at face value in the market served by the issuing bank. Commercial banknotes have primarily been replaced by national banknotes issued by central banks.

National banknotes are generally legal tender, meaning that medium of payment is allowed by law or recognized by a legal system to be valid for meeting a financial obligation. Historically, banks sought to ensure that they could always pay customers in coins when they presented banknotes for payment. This practice of "backing" notes with something of substance is the basis for the history of central banks backing their currencies in gold or silver. Today, most national currencies have no backing in precious metals or commodities and have value only by fiat. With the exception of non-circulating high-value or precious metal issues, coins are used for lower valued monetary units, while banknotes are used for higher values.

The idea of using a durable light-weight substance as evidence of a promise to pay a bearer on demand originated in China during the Han Dynasty in 118 BC, and was made of leather. The first known banknote was first developed in China during the Tang and Song dynasties, starting in the 7th century. Its roots were in merchant receipts of deposit during the Tang Dynasty (618–907), as merchants and wholesalers desired to avoid the heavy bulk of copper coinage in large commercial transactions. During the Yuan Dynasty, banknotes were adopted by the Mongol Empire. In Europe, the concept of banknotes was first introduced during the 13th century by travelers such as Marco Polo, with European banknotes appearing in 1661 in Sweden.

Counterfeiting, the forgery of banknotes, is an inherent challenge in issuing currency. It is countered by anti-counterfeiting measures in the printing of banknotes. Fighting the counterfeiting of banknotes and cheques has been a principal driver of security printing methods development in recent centuries.

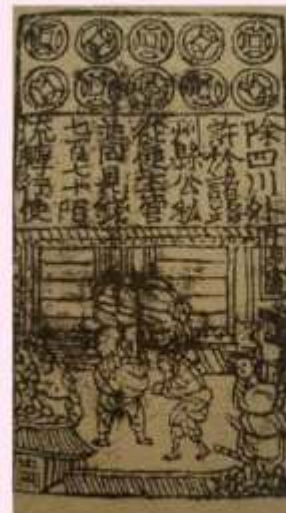
History

Paper currency first developed in the Tang Dynasty China during the 7th century, although true paper money did not appear until the 11th century, during the Song Dynasty. The usage of paper currency later spread throughout the Mongol Empire. European explorers like Marco Polo introduced the concept in Europe during the 13th century. Napoleon issued paper banknotes in the early 1800s. Paper money originated in two forms: drafts, which are receipts for value held on account, and "bills", which were issued with a promise to convert at a later date.

The perception of banknotes as money has evolved over time. Originally, money was based on precious metals. Banknotes were seen as essentially an I.O.U. or promissory note: a promise to pay someone in precious metal on presentation (see representative money). With the gradual removal of precious metals from the monetary system, banknotes evolved to represent credit money, or (if backed by the credit of a government) also fiat money.

Notes or bills were often referred to in 18th century novels and were often a key part of the plot such as a "note drawn by Lord X for £100 which becomes due in 3 months' time".

Early Chinese paper money



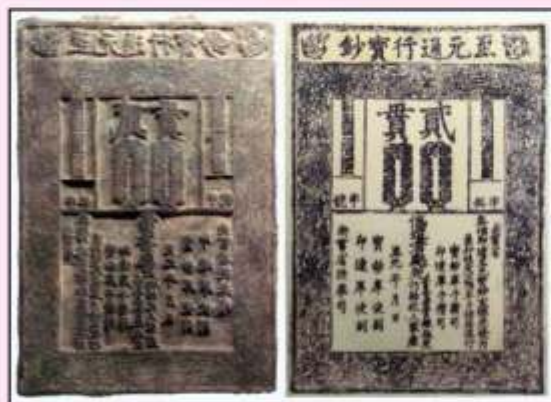
Song Dynasty Jiaozi, the world's earliest paper money.

Development of the banknote began in the Tang Dynasty during the 7th century, with local issues of paper currency, although true paper money did not appear until the 11th century, during the Song Dynasty. Its roots were in merchant receipts of deposit during the Tang Dynasty (618–907), as merchants and wholesalers desired to avoid the heavy bulk of copper coinage in large commercial transactions.

Before the use of paper, the Chinese used coins that were circular, with a rectangular hole in the middle. Several coins could be strung together on a rope. Merchants in China, if they became rich enough, found that their strings of coins were too heavy to carry around easily. To solve this problem, coins were often left with a trustworthy person, and the merchant was given a slip of paper recording how much money he had with that person. If he showed the paper to that person he could regain his money. Eventually, the Song Dynasty paper money called "jiaozi" originated from these promissory notes.

By 960 the Song Dynasty, short of copper for striking coins, issued the first generally circulating notes. A note is a promise to redeem later for some other object of value, usually specie. The issue of credit notes is often for a limited duration, and at some discount to the promised amount later. The jiaozi nevertheless did not replace coins during the Song Dynasty; paper money was used alongside the coins.

The central government soon observed the economic advantages of printing paper money, issuing a monopoly right of several of the deposit shops to the issuance of these certificates of deposit. By the early 12th century, the amount of banknotes issued in a single year amounted to an annual rate of 26 million strings of cash coins. By the 1120s the central government officially stepped in and produced their own state-issued paper money (using woodblock printing).



A Yuan dynasty printing plate and banknote with Chinese and Mongol words.

Even before this point, the Song government was amassing large amounts of paper tribute. It was recorded that each year before 1101 AD, the prefecture of Xinan (modern Xi-xian, Anhui) alone would send 1,500,000 sheets of paper in seven different varieties to the capital at Kaifeng. In that year of 1101, the Emperor Huizong of Song decided to lessen the amount of paper taken in the tribute quota, because it was causing detrimental effects and creating heavy burdens on the people of the region. However, the government still

needed masses of paper product for the exchange certificates and the state's new issuing of paper money. For the printing of paper money alone, the Song court established several government-run factories in the cities of Huizhou, Chengdu, Hangzhou, and Anqi.

The size of the workforce employed in these paper money factories were quite large, as it was recorded in 1175 AD that the factory at Hangzhou alone employed more than a thousand workers a day. However, the government issues of paper money were not yet nationwide standards of currency at that point; issues of banknotes were limited to regional zones of the empire, and were valid for use only in a designated and temporary limit of 3-years' time.

The geographic limitation changed between the years 1265 and 1274, when the late Southern Song government finally produced a nationwide standard currency of paper money, once its widespread circulation was backed by gold or silver. The range of varying values for these banknotes was perhaps from one string of cash to one hundred at the most. Ever since 1107, the government printed money in no less than six ink colors and printed notes with intricate designs and sometimes even with mixture of unique fiber in the paper to avoid counterfeiting.

The founder of the Yuan Dynasty, Kublai Khan, issued paper money known as Chao in his reign. The original notes during the Yuan Dynasty were restricted in area and duration as in the Song Dynasty, but in the later course of the dynasty, facing massive shortages of specie to fund their ruling in China, they began printing paper money without restrictions on duration. The Venetian merchants were impressed by the fact that the Chinese paper money was guaranteed by the State.

European explorers and merchants

According to a travelogue of a visit to Prague in 960 by Ibrahim ibn Yaqub, small pieces of cloth were used as a means of trade, with these cloths having a set exchange rate versus silver.

In the 13th century, Chinese paper money of Mongol Yuan became known in Europe through the accounts of travelers, such as Marco Polo and William of Rubruck. Marco Polo's account of paper money during the Yuan Dynasty is the subject of a chapter of his book, *The Travels of Marco Polo*, titled "How the Great Kaan Causeth the Bark of Trees, Made Into Something Like Paper, to Pass for Money All Over his Country."

All these pieces of paper are, issued with as much solemnity and authority as if they were of pure gold or silver... with these pieces of paper, made as I have described, Kublai Khan causes all payments on his own account to be made; and he makes them to pass current universally over all his kingdoms and provinces and territories, and whithersoever his power and sovereignty extends... and indeed everybody takes them readily, for wheresoever a person may go throughout the Great Kaan's dominions he shall find these pieces of paper current, and shall be able to transact all sales and purchases of goods by means of them just as well as if they were coins of pure gold.

— Marco Polo, *The Travels of Marco Polo*

In medieval Italy and Flanders, because of the insecurity and impracticality of transporting large sums of cash over long distances, money traders started using promissory notes. In the beginning these were personally registered, but they soon became a written order to pay the amount to whoever had it in their possession. These notes are seen as a predecessor to regular banknotes by some but are mainly thought of as proto bills of exchange and cheques. The term "bank note" comes from the notes of the bank ("nota di banco") and dates from the 14th century; it originally recognized the right of the holder of the note to collect the precious metal (usually gold or silver) deposited with a banker (via a currency account). In the 14th century, it was used in every part of Europe and in Italian city-state merchants colonies outside of Europe. For international payments, the more efficient and sophisticated bill of exchange ("lettera di cambio"), that is, a promissory note based on a virtual currency account (usually a coin no longer physically existing), was used more often. All physical currencies were physically related to this virtual currency; this instrument also served as credit.

Modern Banknote

The shift toward the use of these receipts as a means of payment took place in the mid-17th century. The goldsmith-bankers of London began to give out the receipts as payable to the *bearer* of the document rather than the original depositor. This meant that the note could be used as currency based on the security of the goldsmith, not the account holder of the Goldsmith-banker. The bankers also began issuing a greater value of notes than the total value of their physical reserves in the form of loans, on the assumption that they wouldn't have to redeem all of their issued banknotes at the same time. This pivotal shift changed the simple promissory note into an agency for the expansion of the monetary supply itself. As these receipts were increasingly used in the money circulation system, depositors began to ask for multiple receipts to be made out in smaller, fixed denominations for use as money. The receipts soon became a written order to pay the amount to whoever had possession of the note. These notes are credited as the first modern banknotes.

The first short-lived attempt at issuing banknotes by a central bank was in 1661 by Stockholms Banco, a predecessor of the Bank of Sweden. These replaced the copper-plates being used instead as a means of payment. This banknote issue was brought about by the peculiar circumstances of the Swedish coin supply. Cheap foreign imports of copper had forced the Crown to steadily increase the size of the copper coinage to maintain its value relative to silver. The heavy weight of the new coins encouraged merchants to deposit it in exchange for receipts. These became banknotes when the manager of the Bank decoupled the rate of note issue from the bank currency reserves. Three years later, the bank went bankrupt, after rapidly increasing the artificial money supply through the large-scale printing of paper money. A new bank, the *Riksbens Ständers Bank* was established in 1668, but didn't issue banknotes until the 19th-century.

Permanent Issue of Banknotes




The sealing of the Bank of England Charter (1694). The Bank began the first permanent issue of banknotes a year later.


The modern banknote rests on the assumption that money is determined by a social and legal consensus. A gold coin's value is simply a reflection of the supply and demand mechanism of a society exchanging goods in a free market, as opposed to stemming from any intrinsic property of the metal. By the late 17th century, this new conceptual outlook helped to stimulate the issue of banknotes. The economist Nicholas Barbon wrote that money "was an imaginary value made by a law for the convenience of exchange." A temporary experiment of banknote issue was carried out by Sir William Phips as the Governor of the Province of Massachusetts Bay in 1690 to help fund the war effort against France.

The first bank to initiate the permanent issue of banknotes was the Bank of England. Established in 1694 to raise money for the funding of the war against France, the bank began issuing notes in 1695 with the promise to pay the bearer the value of the note on demand. They were initially handwritten to a precise amount and issued on deposit or as a loan. There was a gradual move toward the issuance of fixed denomination notes, and by 1745, standardized printed notes ranging from £ 20 to £ 1,000 were being printed. Fully printed notes that didn't require the name of the payee and the cashier's signature first appeared in 1855.

To be Continued ...



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Calendar of Events 2016-17

Month	Date	Place	Event	Venue
November	4-6	Indore	Maha-Mudra Utsav 2016	Sajan Prabha Garden, Vijaynagar Square, Indore
November	4-6	Tirunelveli	Nellai Coin & stamps Exhibition	KRR Thirumana Mandapam, Nagarkovil Road, Thirunelveli
November	7-9	Gwalior M.P.	Coin Exhibition Virasat - 2016	Art Gallery (Kala Vithika) Gwalior M.P.
November	5-7	Lonavala	99th Annual Conference	Numismatic Society of India
November	11-13	Delhi	Delhi Coin & Stamps Exhibition	Cancelled
November	18-20	Mumbai	Coinex 2016	Postponed
November	25-27	Chennai	Stamps Coins & Paper Money Exhibition	St. Bede's Hr. Sec. School Auditorium, Santhom, Chennai.
December	9-11	Pune	Coinex - Pune 2016	Sonal Hall, Karve Road, Pune (Shri Basti Solanki) International Collector's Society of Rare Items
December	10-12	Jamshedpur	Jharkhand Jam Coin -2016	Tulsi Bhavan, Inner Cir, Bistupur, Jamshedpur, Jharkhand
December	10-12	Coimbatore	C.P's Coinstampex-2016	Cancelled
December	24-26	Kolkata	Mudra Utsav 2016	Postponed
January	6-8	Nashik	Rare Fair 2017	Postponed
January	20-22	Mumbai	1st Numismatic Expo 2017	World Trade Centre, Cuffe Parade, Mumbai
January	27-29	Nagpur	Nagmoney 2017	Nagpur
January	27-29	Salem	Coin Expo 2017	Vasantham Mandapam, Opp to Vasavi Mahal, First Agraharam, Salem - 1.
March	10-12	Mumbai	Coinex 2017	Sunderbhai Hall, Behind Income Tax Off, Churchgate, Mumbai.
April	1-2	Ahmedabad	Ahmedabad Coin & Currency Fair	The President Hotel, opp. Municipal Market, Off. C. G. Road, Navrangpura - 380009.
April	21-23	Mumbai	Shukla Coin Day	World Trade Centre, Cuffe Parade, Mumbai

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