

**PAPER CURRENCY :
THE GOVERNMENT NOTE ISSUES IN THE REIGN
OF KING CHULALONGKORN**

by

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Towards the end of 1888, a branch of the Hongkong and Shanghai Banking Corporation was established in Bangkok.¹ At about the same time, the Bank received permission from the Siamese Government to issue its own Bank Notes in Siam, and in early 1889 Government Offices were instructed to receive the Bank's Notes in payment for taxes and duties.² These Notes were not the first Paper Currency to be issued in the Kingdom. Paper Money, issued by the Government, had first appeared in Siam as early as 1853 and there had been three separate Issues in the Fourth Reign alone.³ In the Fifth Reign there had been only one previous Issue, in the 1870's. For many years prior to that, the trade of the Kingdom had been disturbed by the appearance of large numbers of counterfeit 1 att tin coins. In 1874, the King decided to replace these tin coins with coins minted from copper but there was some delay whilst the machinery for the production of the new coins was assembled. During this period, 1 att paper notes were issued but they were withdrawn from circulation in 1876 when the new copper atts appeared.⁴ Therefore the Note Issue of the Hongkong and Shanghai Bank at the end of the 1880's was the first major Issue of the Fifth Reign.

1) Maurice Collis, *Wayfoong The Hongkong and Shanghai Banking Corporation* (London, 1965). pp. 90-93.

2) Prince Devawongse to J.R.M. Smith (Manager of the Hongkong and Shanghai Bank, Bangkok). 31st December 1888. Records of the Bangkok Branch of the Hongkong and Shanghai Bank held in the Bank in Bangkok. (At first only the Customs House was instructed to receive the new Notes but this was later extended to the other Government Departments.)

3) R.S. Le May, *The Coinage of Siam* (Siam Society, 2nd Ed., 1961), pp. 100-104,

4) Ibid. pp. 117-119.

The appearance of the Bank's Notes in Bangkok soon proved to be of considerable benefit to trade.⁵ The value of Siam's Foreign Trade had risen from approximately 20 million baht a year at the beginning of the Fifth Reign to over 40 million baht in the early 1890's.⁶ With the value of trade growing at that rate, marchants and traders had found it increasingly inconvenient to convey large volumes of baht coins in the course of their business. By 1910, the annual value of Siam's Foreign Trade was to have risen to over 170 million baht.⁷ Such a rapid growth in the Commerce of the Kingdom would have been practically impossible without the existence of a Paper Currency.

Prince Narathip's Scheme 1890-1893

Within two years of the appearance of the Notes issued by the Hongkong and Shanghai Bank, the Government began to consider issuing its own Paper Currency. Almost certainly the Government had been encouraged by the success of the Bank's Issue. During October 1890 the matter was discussed between the King and Prince Narathip Pra-phanphong, the acting Minister of Finance, and as a result of the discussions, an order was placed with a German printer, Giesecke and Devrient of Leipzig for some notes.⁸ Almost four million notes were ordered with a face value of 19.2 million baht. Some two years were spent discussing technical points with the German printers and it was not until January 1893 that the first consignment of notes reached Bangkok. On the arrival of the notes, Prince Narathip proposed to the King that the scheme be inaugurated on the 1st April 1893.⁹ The Acting Minister's idea was that at first the Notes would be issued only in Bangkok, at the Bangkok Treasury and at the Bangkok Customs House. He foresaw considerable difficulty in introducing the scheme outside the Capital

5) Sir Henry Norman, *The Peoples and Politics of the Far East* (London, 1895), p. 429.

6) James C. Ingram, *Economic Change in Thailand Since 1850* (Stanford, 1955). Appendix C. Statistics of Foreign Trade.

7) Ibid.

8) Prince Naradhip to King. 1st November 1890. National Archives, Bangkok (henceforth N.A.) Files of the Ministry of Finance for the Fifth Reign (henceforth Kh.) 11.1/1.

9) Prince Naradhip to King 16th January 1893 N.A. Kh. 11.1/1.

because at that time, the Provincial Administration of the Government was insufficiently established to ensure a constant supply of Notes, and the convertibility of those Notes, in the Provinces. However, if the Notes issued in Bangkok were to find their way into the Provinces, they were to be accepted as legal tender by the Tax Farmers. As the Provincial Administration improved, so the scheme would gradually be extended outside the Capital. The speed at which the Notes became accepted as a medium of exchange by the people was to depend solely on the willingness of the public to exchange their coins for notes at the Bangkok Treasury and Bangkok Customs House. As regards the existing Note issue of the Hongkong and Shanghai Bank, Prince Narathip was adamant that on the appearance of the Government's Notes, the Bank's right to continue issuing Notes had to be withdrawn. If the Bank were to continue to issue its own Notes after the inauguration of the Government scheme, then it would be difficult for the Ministry of Finance to determine the total value of Paper Money in circulation. However, the Hongkong and Shanghai Bank had issued a large volume of Notes since its establishment in Siam and to suddenly force the Bank to withdraw its Notes could involve the Bank in a substantial loss. Therefore Prince Narathip proposed to the King that there be a transitional period from the date of the inauguration of the Government's scheme and that in that period, the two types of Notes would remain in circulation but that the Hongkong and Shanghai Bank's Notes would gradually be withdrawn.

Prince Narathip drafted the necessary Act, Notifications and Regulations and the whole scheme was presented to the Cabinet on 19th January 1893.¹⁰ Prince Damrong immediately expressed concern over the existing Note issue of the Hongkong and Shanghai Bank. He feared that once the Government issued its own Paper Currency, the Notes of the Hongkong and Shanghai Bank would be returned to the Bank in such large numbers that it would perhaps be difficult for the Bank to redeem all the Notes in cash immediately. In that case, replied Prince Narathip, the Government could come to the assistance of the Bank by lending it cash for a period of six months at 7%. The Cabinet had no other amendments to make to Prince Narathip's scheme so the Act was approved.

10) Meeting of the Cabinet : Report. 19th January 1893 N.A. Kh. 11.1/1.

On 6th March 1893, the King wrote to Prince Narathip proposing a few changes in the Legislation as approved by the Cabinet,¹¹ but by that time the Cabinet was in the middle of a serious crisis.¹² At the end of March, Prince Narathip was replaced by Prince Naritsaranuwattiwong.¹³ With the appointment of a new Minister of Finance and with a continuing crisis that was to make Cabinet Government ineffective for almost two years, Prince Narathip's scheme was forgotten.

Prince Mahit's Scheme 1898-1902

In March 1898, the Chartered Bank of India, Australia and China, which had established a branch in Bangkok soon after the Hongkong and Shanghai Bank, received permission from the Government to issue Bank Notes in Siam, and the Notes first appeared later that year.¹⁴ The third European Bank to be established in Bangkok, the Banque de L'Indo Chine, began issuing its own Notes in April 1899.¹⁵ Meanwhile the idea of a Paper Currency Issue by the Government had been revived in 1898 by Prince Mahit Ratchaharithai who had become Minister of Finance two years previously.¹⁶ At the request of the Minister, the British Financial Advisor, Alfred Mitchell-Innes, submitted a long memorandum on the subject,¹⁷ but whilst not rejecting the idea of a Paper Currency issue by the Government, he was much less enthusiastic for the scheme than was Prince Mahit. Before his appointment as Financial Advisor in Siam, Mitchell-Innes had worked in the British Administration in Egypt and the notoriously bad history of financial mis-management in Egypt at that time clearly influenced Mitchell-Innes' thinking on the subject. In his memorandum, he stressed how important it was that the Government maintain an adequate cash reserve for the Paper Currency, so that at any time, the Government would be able to meet any demands from the public that their Notes be exchanged back into cash. If the Government

11) King to Prince Narathip: 6th March 1893 N.A. Kh. 11.1/1.

12) David K. Wyatt, *The Politics of Reform in Thailand* (Yale, 1970), pp. 94-101.

13) Bangkok Times, 22nd March 1893.

14) Meeting of the Cabinet: Report 3rd March 1898 N.A. Kh. 20/2.

15) Prince Devawongse to King 22nd April 1899 N.A. Kh. 20/3.

16) Prince Mahit to King 6th June 1898 N.A. Kh. 11/1.

17) Memorandum on the issue of a Government Paper Currency. Mitchell-Innes, Undated. N.A. Kh. 11/1.

were to find itself in a position where it was unable to exchange the public's holdings of Notes into cash—that is, if ever the Government were forced to declare its Notes 'inconvertible'—then the faith of the public in the value of the Notes would be shaken and this could eventually lead to the collapse of the Paper Currency Scheme. Mitchell-Innes pointed out that the collapse of the Currency System in Egypt had contributed to the reasons which had led to British intervention. In England, the Paper Currency had been declared inconvertible by Parliament in 1797 and this had led to 24 years of currency problems before convertibility had been re-established in 1821. In France, Austria and Russia, the inconvertibility of the Paper Currency had in each case caused considerable financial difficulty. In Mitchell-Innes' view, based on the experience of England, France and Germany, an adequate cash reserve would be 60% of the value of Notes in circulation.

Mitchell-Innes was not entirely convinced of the benefit to be gained by the Government issuing its own Paper Currency either. In the first place, the Government Notes would have to compete against the Note issues of the European Banks in Bangkok. Furthermore, the experience of the Banks had suggested that a Paper Currency was not very popular with the public. According to the Manager of the Hongkong and Shanghai Bank, the Notes of his Bank were used exclusively in Bangkok: the total value of Hongkong and Shanghai Bank Notes in circulation was only slightly more than one million baht, and the Bank felt that it would be difficult for it to expand its issue above that level. Mitchell-Innes considered whether it would be possible for the Government to promote the use of its Notes by paying the salaries of Civil Servants in the new Paper Currency instead of in coins. He doubted, however, whether this would be successful. With the smallest denomination of the proposed Notes being 1 baht, the Civil Servants would find it much easier to use small copper atts for their daily expenditure. If Civil Servants were to be paid in Notes in an attempt to promote the Government's Paper Currency Issue, then the Notes would be immediately exchanged for coins at the nearest Government exchange post and the Notes would come rapidly flowing back into the Treasury. Mitchell-Innes believed that the Government's Notes would make slow progress in Bangkok and could perhaps, in time, spread out into the Provinces: however, he considered

that the Government would be able to maintain only some 2-3 million baht of its Notes in circulation. If this were so, then it meant that the Government would be unable to use its Note issue to finance any of its expenditure. To a limited extent, a Government could pay for some items of expenditure—particularly Public Works Programmes—with its own Notes. However if this method of financing expenditure be resorted to on a large scale, the result is rapid inflation. However, Mitchell-Innes felt that in the case of Siam, the limitation on the use of this method was not so much the danger of generating an inflation, but rather the fact that not a sufficient volume of Notes could be maintained in circulation. Indeed, with the current cost of the Railway Construction Programme for the Kingdom estimated at 50.0-60.0 million baht, it was difficult to see how any significant part of the Government's Public Works Programme could be financed by this cheap method.

Mitchell-Innes' Memorandum was sent to the King by Prince Mahit¹⁸ but the King, feeling that he lacked sufficient knowledge of the subject to be able to discuss it in detail, suggested to the Minister that a decision be delayed until the Cabinet had time to consider the proposal.¹⁹ However, the following year, 1899, it was decided to proceed with the scheme. An officer in the Financial Department of the Indian Civil Service, W.J.F. Williamson, was engaged to work in the Comptroller-General's Office and to assist in the setting up of a Paper Currency Department within the Ministry of Finance. Williamson arrived in Bangkok in May 1900 and immediately began work preparing a suitable office, framing a code of rules and arranging for the printing and supply of the Notes.²⁰ At one stage it was suggested that some old Paper Notes of the Government be used in the new scheme.²¹ Unfor-

18) Prince Mahit to King 6th June 1898 N.A. Kh. 11/1.

19) King to Prince Mahit 13th June 1898 N.A. Kh. 11/1.

There is no indication in the National Archives' Documents of whether the Cabinet discussed Prince Mahit's scheme at this stage or not. Nor is there any account of the discussions which took place the following year and which led to the decision to establish a Paper Currency Department.

20) Report of the Financial Advisor on the operations of the Department of Paper Currency R.S. 121 (1902-03). Files of the Financial Advisor (henceforth F.F.A.), Ministry of Finance, Bangkok. 38/C.

21) Prince Mahit to King 7th August 1901. N.A. Kh. 11/2.

Unfortunately it is not made clear to which 'old notes' this refers. It is possible that it included the notes ordered by Prince Narathip some ten years earlier and which had been stored in the Ministry of Finance following the abandonment of the earlier scheme.²² But the description of the old Notes does not always fit that of the Notes ordered by Prince Narathip so that it is probable that it was considered using Notes dating back to the Fourth Reign. (It is even conceivable that the notes referred to belong to an earlier scheme about which nothing else is known.) But, whatever the identity of the old Notes, Williamson decided that they could not be used as in many cases the printing on the Notes had faded, and the notes were not uniform in design or lettering (which confirms the impression that it was contemplated using old Notes from various previous Issues.)²³ Once it was decided to order new notes, Prince Mahit instructed that all the old Notes held by the Ministry of Finance be burnt.²⁴ (When this was carried out in July 1902 under the supervision of Williamson, it was discovered that the Ministry held many more old Notes than were accounted for in its records: it was as well that the idea to use the old Notes in the new scheme was discarded). The new Notes were ordered from Thomas de La Rue, the first order being for 8.0 million baht's worth of Notes. It was hoped at first that enough Notes would arrive to inaugurate the scheme in January 1902²⁵ but proofs had to be called for from the printers several times so sufficient Notes did not reach Bangkok until August 1902.

Meanwhile in the previous June, Prince Mahit had submitted a draft of the Paper Currency Act to the Cabinet.²⁶ As with Prince Narathip's abortive scheme of almost ten years before, the main problem concerned the existing Note issues of the European Banks in Bangkok. In the first draft of the Act, the Banks were given a period of time following the promulgation of the Act during which they had to withdraw their Notes from circulation. They were also forbidden to issue new

22) Sir Henry Norman, *The Peoples and Politics of the Far East* (London, 1895), p. 429.

23) Prince Mahit to King 7th August 1901 N.A. Kh. 11/2.

24) Prince Mahit to King 25th July 1902. N.A. Kh. 11/2.

25) Report of the Financial Advisor on the operations of the Department of Paper Currency. R.S. 121 (1902-03) F.F.A. 38/C.

26) Meeting of the Cabinet: Report. 16th June 1902. N.A. Kh. 11.1/3.

Notes. But in framing a clause in the Act which would effectively prevent the Banks from maintaining their Notes in circulation, it was found difficult to avoid infringing on the Bank's right to use Bills of Exchange, Drafts, and Promissary Notes which are close substitutes of Bank Notes. At the suggestion of Prince Devawongse, the clause was omitted from the final version of the Act. Instead, in answer to a request by the Government, the Banks voluntarily agreed to withdraw their Notes from circulation once the Government Notes were issued.²⁷ Prince Mahit re-submitted the Act to the Cabinet on 23rd June 1902²⁸ and the Paper Currency Act was approved by the King the following day.²⁹

The Act established the Paper Currency Department as a division of the Ministry of Finance with the Director of the Department directly responsible to the Minister of Finance. The function of the Department was to administer the exchange of Notes and coins and to maintain the Paper Currency Reserve. This Reserve had to equal the Total value of Notes in circulation although at the discretion of the Minister of Finance 25% of the reserve could be invested. (In other words, the amount of coins held as a Reserve for the Paper Currency had to be at least 75% of the value of Notes in circulation). It was also stated in the Act that any profit made by the Department from the Note Issue or from its investments was to be handed over to the Treasury.

The Opening of the Paper Currency Department-September 1902

By August 1902, sufficient notes had been received from the printers to inaugurate the scheme. Prince Mahit decided that in order to publicise the event as much as possible, the opening of the Department should be marked by a special ceremony attended by the King³⁰ and Rivett-Carnac, the new Financial Adviser was entrusted with the task of drafting the King's speech. This speech was to cause some temporary confusion. In his first draft, the Financial Adviser had required the King to read out the whole Paper Currency Act, together with the Ministerial

27) เกลิม ขนบุญเกิด : *พระราชพงศาวดารไทย* (Bangkok, 2506). p. 196.

28) Meeting of the Cabinet : Report 23rd June 1902. N.A. Kh. 11.1/3.

29) King to Prince Mahit. 24th June 1902 N.A. Kh. 11.1/3.

30) Prince Mahit to King 6th September 1902 N.A. Kh. 11/3.

Notifications and Regulations. But, he had also added a point that was not contained in any of the Legislation—that all Government Departments had been instructed to receive the new Notes as payment for taxes and duties. This involved an important point for Prince Mahit. The Minister felt that it would be preferable to avoid giving the impression that the Government Notes were being forced on the public; he had decided that it would be better if the public were allowed to exchange their coins for Notes as and when they wished to do so. In that way the note issue would perhaps expand more slowly but more safely—there would be less chance of the value of notes in circulation growing so fast that the Government would find it difficult to maintain the required Reserve level. So even though the relevant Government Departments had indeed been instructed to accept the new Notes,³¹ Prince Mahit did not want the fact publicized. Rivett-Carnac's final version of the King's speech was much shorter and contained no references to the Legislation.³² As it turned out, when the Department was opened on 19th September 1902, the King was indisposed and his place was taken by Prince Phanuphundu-wongse.³³ The guests present at the opening ceremony took the opportunity to exchange their coins for the new Notes and almost 4,000 baht of the new Notes were issued. The Department was opened for ordinary business on 23rd September 1902 and on that day alone, the public exchanged 62,410 baht for Notes.³⁴ At first four denominations of Notes were issued, 5, 10, 20 and 100 baht. It was felt that notes with a value above 100 baht would not be taken up by the public³⁵ though later 1,000 baht notes were issued. 1 baht Notes were not issued because of the large number of baht coins in circulation at the time.³⁶

Paper Currency Department 1902-1903

By the end of October 1902, the value of Government Notes in circulation was 1,014,040 baht. By the end of March 1903, 6 months after

31) Prince Mahit to King : undated - but early September 1902. N.A. Kh. 11/3.

32) Prince Mahit to King 18th September 1902. N.A. Kh. 11/3.

33) Bangkok Times, 22nd September 1902.

34) Report of the Financial Advisor on the operations of the Department of Paper Currency. R.S. 121 (1902-03) F.F.A. 38/C.

35) Meeting of the Cabinet : Report. 16th June 1902 N.A. Kh. 11.1/3.

36) เฉลิม ขงบุญเกิด : *กระษาปณ์ไทย* (Bangkok, 2506). p. 197.

the opening of the Department, the figure had risen to 3,479,105 baht and after a full year's operation, the value of Government Notes in circulation was 6,349,600 baht.³⁷ These figures had been achieved despite the fact that Mitchell-Innes had earlier estimated that at first the Government would be able to maintain only 2.0-3.0 million baht in circulation. Furthermore, the Note issue of the Government exceeded that of the Hongkong and Shanghai Bank as early as December 1902, and in the following month, the Government issue exceeded the total issue of all three European Banks combined.³⁸ In addition, as was made clear when Prince Mahit objected to the first draft of the King's speech prepared by Rivett-Carnac, the Government was making no attempt to force its Notes into circulation. As Williamson noted in the first report of the Paper Currency Department "Even officials, who draw salaries and allowances at the Treasury, have been, and continue to be, at perfect liberty to receive either notes or coins at their pleasure".³⁹ There may even have been a restriction on the rate of expansion of the Government Note issue since even the Treasury could only obtain its Notes by purchase in cash from the Currency Office. Undoubtedly one reason for the rapid rise in the value of Government Notes in circulation was the voluntary agreement by the European Banks to withdraw their own Notes. But as Williamson pointed out in his Report, the Banks, in one way, benefited by the replacement of their own Notes with the Government Issue.

"At times when money is plentiful, Banks and other large holders of coin are glad to keep a portion of their cash balances in notes, representing as they do, considerable value in small bulk and economy of storage room, while in seasons of monetary scarcity all notes not actually required for business purposes can be immediately converted into coin by presentation at the Currency office. This is a convenience which the Banks could not obtain by the exclusive employment of their own paper."⁴⁰

37) Monthly Reports of the Paper Currency Department to the Minister of Finance. N.A. Kh. 11/4. (See Table 1.).

38) Memorandum. Circulations of Bank Notes in Siam. Williamson 2nd April 1910 F.F.A. 24/8.

39) Report of the Financial Advisor on the operations of the Department of Paper Currency R.S. 121 (1902-03) F.F.A. 38/C.

40) Ibid.

By December 1909, the total value of outstanding notes of the European Banks had fallen to 62,103 baht and most of these notes were those issued by the Hongkong and Shanghai Bank.⁴¹

It March 1903 Williamson left the Department to become Financial Adviser, replacing Rivett-Carnac who was leaving Siam. Prince Rajani assumed the post of Director of the Paper Currency Department but in September 1903 he was transferred to another post within the Ministry of Finance, though he remained nominally the head of the Department. Phra Suwan Phakdi became Acting Director.⁴²

Forged Notes : November 1903

Within three months, the Department was faced with its first serious crisis. On 18th November 1903, the Hongkong and Shanghai Bank informed Williamson that forged Government Notes had been handed in at the Bank. Immediately Williamson and Eric St. J. Lawson, the Commissioner of Police for Bangkok went to the Bank.⁴³ The Notes were good forgeries but once the differences were known, they were easily detectable. (The most noticeable fault of the forgery was that the word 'Limited' in 'Thomas de La Rue Limited' was printed 'Limitep'). The other two European Banks, the Gambling and Lottery Farmers, the Customs Department and the Railway Department were all immediately informed of the existence of the forgeries by Lawson. Meanwhile Prince Mahit had been told and had made arrangements to inform the Provinces and to have a Notification placed in the Newspapers announcing the existence of the forgeries and describing how the forged notes could be recognised.⁴⁴ The forgers were rapidly traced. Six men were involved, four Japanese, all of whom had already been involved in counterfeiting Notes for release in China, and two Siamese, one of whom had been instrumental in passing the forged Notes, the other having financed the scheme. The first arrests were made within three days of the discovery

41) Memorandum. Circulation of Bank Notes in Siam. Williamson 2nd April 1910 F.F.A. 24/8.

42) Report on the Paper Currency Department for R.S. 122 (1903-04) F.F.A. 38/C.

43) Eric St. J. Lawson. to Prince Nares Votariddhi 24th November 1903. N.A. Kh. 11/8.

44) Prince Mahit to King 19th November 1903. N.A. Kh. 11/7.

of the forgeries and within a week all six were apprehended.⁴⁵ It was estimated by Lawson that they had printed 1.2 million baht's worth of Notes though most of them were still in Japan where they had been produced.⁴⁶

The quick arrest of the forgers, the fact that relatively few Notes were released (and were quickly traced and withdrawn) and the fact that the forged Notes were comparatively easy to detect, meant that Public confidence in the Paper Currency was hardly affected. The total value of Government Notes in Circulation, which had stood at 6,471,715 baht at the end of October had by the end of November fallen to 6,337,385 baht but by the end of January 1904, the figure had risen to 6,487,800 baht.⁴⁷ (It is quite probable that this slight decline in the value of Notes in circulation during November–December 1903 was due to seasonal factors rather than the forgery episode since similar phenomena are noticeable at the end of 1904 and 1905—see the section below on the Paper Currency Amendment Act 1906). The two Siamese were heavily punished; one, a junior member of an important Siamese family was temporarily banished from Bangkok and stripped of all rank whilst the other was sentenced to twenty years imprisonment. The four Japanese however escaped lightly; under the 1898 Siam-Japan Treaty they were tried in Japan. The leaders were fined the equivalent of about 100 baht each, the others being fined about 50 baht each. Lawson was dismayed at the lightness of the sentences and wrote to Prince Nares⁴⁸ "Comment on this peculiar form of 'Justice' is needless. I do not think it will be very long before some more Japanese start this very safe and profitable business again".⁴⁹ The Police Commissioner's fears were unfounded.

45) Bangkok Times, 21st November 1903.

46) Phra Suwan Phakdi in his Report on the Paper Currency Department for R.S. 122 (1903-04) put the figures of forged notes much lower. He said that only 100,000 baht had been printed and 25,000 baht released.

47) Monthly Reports of the Paper Currency Department to the Minister of Finance N.A. Kh. 11/4.

48) Eric St. J. Lawson to Prince Nares 9th May 1904 N.A. Kh. 11/8.

49) Prince Devawongse, the Minister of Foreign Affairs made enquiries into the punishment received by the Japanese. On 28th June 1904, the Japanese Government introduced an ordinance making forgery punishable by 9-11 years hard labour. N.A. Kh. 11/8.

In 1906 there were two minor incidents involving attempts to pass crudely forged Notes in Gambling Houses⁵⁰ and in 1909, the Acting Siamese Consul in Singapore reported that it was rumoured that Siamese Notes had been printed in Java and were on their way to Bangkok; but nothing was ever seen of the Notes in Siam.⁵¹ None of these cases compared with the November 1903 episode, and none of them seriously affected the public's confidence in the Government issue.

Paper Currency Department 1904-1905

At the end of 1904, the value of Government Notes in circulation, which had been increasing steadily since the inauguration of the Paper Currency Department in September 1902, increased substantially. In October 1904, the Ministry of Finance issued a Notification demonetizing the bullet-shaped baht coins, which had not been minted since the Fourth Reign. Under the Notification, the Public were allowed a period of time in which to exchange their holdings of the old coins either for flat baht at the Treasury, or for Notes or the Paper Currency Department. Between November 1904 and March 1905 the value of Notes in circulation increased by 2,089,860 baht. During the same period, the Department received 1,606,648 bullet-shaped baht which were exchanged for an equivalent value of Notes.⁵² Over the whole period October 1904 to October 1905, the total value of bullet-shaped baht exchanged at the Department was 2,726,906 baht. These coins were then exchanged for flat baht at the Treasury and were added to the cash Reserve of the Paper Currency Department.⁵³

In his Report on the operation of the Department in R.S. 123 (April 1904-March 1905), the Acting Director, Phra Suwan Phakdi concluded that the "Note issue is now in a flourishing condition" and that the Scheme was now well enough established for it to be safe to invest a portion of the Cash Reserve as allowed under the 1902 Act. It had been intended to do so in 1903 but the forgery case in November of that

50) Prince Chantaburi to King 6th March 1906;

Prince Nares to King 28th June 1906 N.A. Kh. 11/7.

51) Prince Devawongse to Prince Sommot 12th October 1909 N.A. Kh. 11/11.

52) Report on the Paper Currency Department for R.S. 123 (1904-05) F.F.A. 38/C.

53) Report on the Paper Currency Department for R.S. 124 (1905-06) F.F.A. 38/C.

year had upset the arrangements.⁵⁴ Throughout 1904, the market rate of exchange of the baht was low. As a result it was not found possible to remit money out of the country at a satisfactory rate of exchange in order to purchase investments.⁵⁵ The incentive to invest part of the Cash Reserve was very strong. By 1905, the total value of Notes in circulation exceeded 11.0 million baht and the whole of this amount was backed by holdings of cash in the Paper Currency Department. If a portion of the Reserve were invested, then the earnings on those investments could contribute to the cost of administering the Department: no income was being earned on the Reserve whilst it remained totally in the form of coin. At the end of 1905, with the Exchange rate favourable for the remittance of money out of the country, almost exactly 25% of the Reserve was invested in $2\frac{1}{2}\%$ British Consols and $3\frac{1}{2}\%$ Indian Gold Stock.⁵⁶ The annual earnings on the investment was expected to be about 70,000 baht or more than twice the cost of administering the Department.⁵⁷

Paper Currency Amendment Act. 1906

Within a year of making these investments, the new Minister of Finance, Phraya Suriyanuwat proposed to the King that the 1902 Paper Currency Act be amended so that up to 50% of the Reserve could be invested.⁵⁸ The Minister had examined the accounts of the Department and estimated that the maximum value of coins which the Department had to pay out at any one time in exchange for returned Currency Notes, was only approximately 10% of the total value of Notes in circulation. It was normal that in October to December of each year, substantial amounts of Notes would be returned to the Department and exchanged for baht coins, the reason being that in those months, the rice crop was harvested and rice-millers found that the Provincial rice-farmers preferred to be paid in coins rather than in Notes. On the other hand, the Paper Currency Department was, since December 1905, holding in coins,

54) Report on the Paper Currency Department for R.S. 122 (1903-04) F.F.A. 38/C.

55) Report on the Paper Currency Department for R.S. 123 (1904-05) F.F.A. 38/C.

56) Prince Mahit to King 20th December 1905. N.A. Kh. 11/10.

57) Report on the Paper Currency Department for R.S. 124 (1905-06) F.F.A. 38/C.

58) Phraya Suriyanuwat to King 2nd October 1906 N.A. Kh. 11/10.

75% of the value of Notes in circulation. Furthermore, since the early 1900's, the Ministry of Finance had been finding it increasingly difficult to meet the rapidly rising expenditure of the Government out of current Revenue. In those circumstances, it was unwise to maintain too large a non-interest-earning Cash Reserve for the Paper Currency. If the Minister of Finance could invest up to 50% of the Reserve, that would allow the Minister to invest 6.0 million baht which at $2\frac{1}{2}\%$ p.a., would yield interest at the rate of 150,000 baht a year.⁵⁹ After paying the administrative expenses of the Department, any profit was, under the 1902 Act, handed over to the Treasury and became part of the General Revenue Fund. There was a further, more pressing reason why Phraya Suriyanuwat proposed amending the 1902 Act to allow up to 50% of the Paper Currency Reserve to be invested. There was at the time an acute shortage of baht coins in the Treasury, so acute that the Banks were unable to find enough coins to finance trade satisfactorily. The shortage was caused first of all by the poor output of coins from the Mint; in particular, the Mint was unable to remint the demonetized bullet-shaped baht into flat coins at anything like the required rate. Secondly, the Government was trying to introduce the baht into its Southern Provinces where for many years the Straits Dollar, and before that, the Mexican Dollar, had been the main currency in use. This necessitated sending large amounts of baht coins into the Peninsula, principally to Puket. The Minister argued that if he were allowed to invest an additional 25% of the Paper Currency Reserve, this would release approximately 3 million baht which could be sent to Puket leaving enough coins in the Bangkok Treasury to satisfy the demands of the European Banks.⁶⁰

Phraya Suriyanuwat also proposed to the King that every year the investments held by the Paper Currency Department be re-valued to determine their current market value. It was probable that after the investments were made, their market value, *in terms of baht* could alter either as a result of a change in the market value of the shares, or as a result of a change in the exchange rate, or as a result of both. If the Department were ever forced to sell some of its investments, it was possible, therefore that the amount of baht the Department would receive

59) Phraya Suriyanuwat to King 2nd October 1906 N.A. Kh. 11/10.

60) Phraya Suriyanuwat to King 17th July 1906 N.A. Kh. 26/13.

could be less than the amount it had originally paid out to purchase the stocks. In that case, the value of the Reserve would be less than the value of Notes in circulation. At a time when the Minister of Finance was authorized to invest only up to 25% of the Reserve, such changes in the baht value of the investment of the Department were not that important. But now that it was proposed that up to 50% of the Reserve be invested, it was possible that substantial falls in the baht value of the Reserve could occur. Phraya Suriyanuwat suggested that in those cases where the baht value of the investments had fallen, the Treasury would make good the loss to the Paper Currency Department. Alternatively, if the baht value of the investment increased, the Department was obliged to transfer the balance to the Treasury. The King approved of Phraya Suriyanuwat's suggestions and the Paper Currency Amendment Act came into force on 9th October 1906.⁶¹

Later in the month, whilst the three million baht ear-marked for Puket was being transferred from the Paper Currency Department to the Treasury, Williamson discovered that almost half the coin Reserve of the Department was held in bullet-shaped baht which had been demonetized two years previously.⁶² Not only did this discovery have serious implications for the Puket Currency Scheme, in that only half the coins could be used in the Province, but it also meant that if the Paper Currency Department were ever faced with a large public demand for its Notes to be converted back into coin, the Department would be severely hampered by the fact that half its coin Reserve consisted of demonetized coins which were absolutely useless as money.⁶³ However, since Phraya Suriyanuwat had earlier shown that in normal circumstances, the Department required only about 10% of its Reserve, there was not too much cause for alarm. Meanwhile, in November 1906, some more British Consul Stock was added to the investments of the Department and in January 1907, German Imperial Stock and Siamese Stock were purchased. This brought the total value of the investments to 5,310,378 baht or just over 40% of the value of Notes in circulation. Further purchases of these

61) King to Phraya Suriyanuwat. 9th October 1906. N.A. Kh. 11/10.

62) Memorandum. Shortage of ticals in the Treasury 18th October 1906 N.A. Kh. 26/15.

63) Ibid.

stocks were made in the following years to bring the proportion of invested Reserve up to 50%. The earnings on these investments were substantial. In the year April 1907 to March 1908 (R.S. 126) they yielded 183,326 baht: the costs of running the Paper Currency Department in the same year was 29,232 baht. The balance was transferred to the Treasury.⁶⁴

In August 1907 Williamson carried out the first valuation of the investments of the Department in accordance with the 1906 Amendment Act. He estimated that the baht value of the investments had fallen from their original market value by 707,016 baht. Of this fall, 255,234 baht was due to falls in the value of the stocks and the rest was due to a rise in the exchange value of the baht.⁶⁵ (That a rise in the exchange value of the baht could lead to a fall in the baht value of the investments can perhaps be best explained in the following manner: at the end of 1905, the exchange value of the baht in terms of Pounds Sterling was a little over 17 baht to the Pound. If the Government had purchased £1,000 worth of stock in London at that rate, the equivalent baht value of the investment would have been just over 17,000 baht. By 1908, the baht had been revalued several times and stood at 13 baht to the Pound. If the Government were then to have sold that stock—and assuming that there had been no change in the market value of the stock,—then the Government would have received only 13,000 baht in return.) Accordingly, on 10th October 1907, the Treasury paid the Paper Currency Department 707,016 baht.⁶⁶ A further revaluation took place in July 1909 as a result of which a further 154,232 baht were transferred from the Treasury to the Department.⁶⁷

Transfer of the Paper Currency Department to the Comptroller General's Office 1909

The existence of the Paper Currency Department as a separate division within the Ministry of Finance came to an end in May 1909

64) Report on the Paper Currency Department for R.S. 126 (1907-08) F.F.A. 38/C.

65) Memorandum. Depreciation of Currency Investment. Williamson. 19th August 1907 N.A. Kh. 11/10.

66) Report on the Paper Currency Department for R.S. 126 (1907-08) F.F.A. 38/C.

67) Prince Chantaburi to King 8th July 1909. N.A. Kh. 11/6.

when the Department was transferred to the Comptroller-General's Office. The Minister of Finance, who by that time was Prince Chantaburi Norinat, explained to the King that under the old system, it was found that even quite small matters, which should have been dealt with within the Department, were being referred all the way up to the Minister. By transferring the Department to the Comptroller-General's Office, these matters would in future be dealt with by the Comptroller-General, though the Minister of Finance would of course still have ultimate responsibility for the operations of the Department. In addition, the merger would provide an opportunity to reduce the staff of the Paper Currency Department and in this way a small reduction in the salary bill of the Ministry could be made. Prince Chantaburi added that the new system was the one in force in India.⁶⁸

There was, however, a more compelling reason for the abolition of the Department as a separate division of the Ministry of Finance. Prince Chantaburi, writing privately to the King⁶⁹ informed him that the Director of the Paper Currency Department Phra Suwan Phakdi had over the years borrowed a substantial sum of money, much of it from people who also were employed in the Ministry of Finance. There was no doubt that Phra Suwan Phakdi could meet these debts but that to do so he would have to sell some of his holdings of land. This would take time and meanwhile the Director's creditors were becoming impatient. Both the Minister and the Director felt that any scandal, however unjustified, could seriously damage the credibility of the Paper Currency Scheme. Therefore Phra Suwan Phakdi had asked Prince Chantaburi for permission to resign in order to arrange for the settlement of his debts. The Minister had agreed to this and had made arrangements for an allowance to be paid to him until another position, preferably in the Ministry of Finance, could be found. Prince Chantaburi felt that in the circumstances, less of a disturbance would be apparent to the Public—and hence less of a risk of Public disquiet—if the Paper Currency Department were transferred to the Comptroller-General's Office than if there were a change of Director. The transfer took place on 19th May 1909.⁷⁰

68) Prince Chantaburi to King 17th May 1909 N.A. Kh. 11/6.

69) Prince Chantaburi to King 17th May 1909. Private Letter N.A. Kh. 11/6.

70) King to Prince Chantaburi 18th May 1909 N.A. Kh. 11/6.

Conclusion

In conclusion I want to consider just two aspects of the Government's Paper Currency Schemes in this period. Firstly, to consider why Prince Narathip in 1890 and more particularly Prince Mahit in 1898-99 felt it necessary for the Government to issue its own Paper Currency since Notes issued by the Banks were already in circulation and were greatly assisting trade: and secondly to consider some of the reasons for the success of the Paper Currency Department from 1902.

(i) There are perhaps three reasons why the Government would have wished to replace the Notes issued by the European Banks with its own Issue. In the first place, it may simply have felt that it was undesirable that the Paper Money in circulation in Siam should bear anything other than the name of the Siamese Treasury. Secondly, the Notes in circulation before 1902 were used almost solely in Bangkok. To a large extent this was due to the fact that the daily expenditure of the Provincial rice-farmer was so small that it was found more convenient to use the small copper coin then in circulation, the att. This preference for the att would also have acted against the spread of the Government Notes into the Provinces after 1902, particularly in view of the fact that the lowest denomination Note issued by the Government was five baht. But in the long run, as the Provincial Administration grew stronger under Prince Damrong's Ministry of the Interior, as the authority of the Central Government in Bangkok over the Provinces became tighter, so it was probable that a Government-issued Paper Currency would have a greater chance of success outside the Capital than Notes issued by the foreign Banks in Bangkok which lacked a net-work of offices in the Provinces. Indeed there are indications that even in the short-run, within three or four years of the inauguration of the Government scheme, Government Notes were used to a far greater extent outside Bangkok, than ever the issues of the European Banks had been.⁷¹ Finally, the issuing of a Paper Currency can be, as the Banks were well aware when they asked the Government's permission to issue Notes, a highly profitable commercial undertaking.

71) Paper Currency Notes were sent to Pattani in 1907 as part of the Ministry of Finance's scheme to replace the use of the Straits Dollar in those Provinces with the baht. It is unlikely that the Notes would have been sent if it were suspected that they were unacceptable to the local population.

(ii) Throughout most of the period 1902-1909, the total value of Government Notes in use—and by December 1909, the figure had risen to 16,776,930 baht⁷² was far in excess of what was originally believed could be achieved. Just prior to the introduction of the Government Note Issue in September 1902, the three European Banks had just over three million baht in circulation.⁷³ Mitchell-Innes's estimate had been that at first the Government would be able to maintain only 2-3 million baht in circulation though his calculation was based on the assumption that the Notes of the Banks would not be withdrawn. Prince Mahit had originally ordered only 8.0 million baht's worth of Notes from Thomas de La Rue so further orders had to be placed in January 1905⁷⁴ and October 1906.⁷⁵ This success of the Government's Paper Currency Scheme was due to a considerable extent to the fact that the Notes were introduced at a time when the Commerce of the Kingdom was rapidly expanding though there was a brief trade depression in 1907-08; as the value of trade increased, so the demand for Paper Notes, together with the demand for other kinds of money, grew. Also, the existence of Paper Money in circulation in Bangkok for many years prior to 1902, undoubtedly helped familiarize the Public with Paper Notes before the establishment of the Paper Currency Department. In addition, since the Notes of the European Banks were gradually withdrawn after 1902, the Government's Notes once they appeared faced very little direct competition.

Finally in the establishment of the Paper Currency Department in 1902 and in the operation of the Department in the years that followed, the Government proceeded with a great deal of caution. Firstly, the cash reserve level stipulated in the 1902 Act—75% of the total value of Notes in circulation—was higher than that recommended by even Mitchell-Innes in 1898. The figure was brought down to 50% only after Phraya Suriyanuwat had shown that in its normal operations, the Department did not need to maintain such a large volume of coins in

72) Monthly Reports of the Paper Currency Department to the Minister of Finance. N.A. Kh. 11/4.

73) Memorandum. Circulation of Bank Notes in Siam. Williamson. 2nd April 1910 F.F.A. 24/8.

74) Prince Mahit to King 3rd January 1905 N.A. Kh. 11/2.

75) Phraya Suriyanuwat to King 8th October 1906 N.A. Kh. 11/2.

reserve; and when the Treasury had become desperately short of baht coins. The total reserve—coins plus investments—was maintained at 100% of the value of Notes in circulation throughout this period. (Indeed the clause in the 1906 Amendment Act providing for the periodic revaluation of the Department's investments illustrates how much care the Government was taking to maintain the total Reserve at 100%). On the other hand, as Williamson discovered in 1906, approximately half the coin held in Reserve were in the form of demonetized bullet-shaped baht, and even though this was mainly due to the failure of the Mint to re-mint the old coins at a satisfactory rate, the fact remains that in an extreme crisis, the Department would have been short of coins. But for the normal, day to day work of the Department, the coin Reserve was more than adequate. Secondly, the Government made no attempt to force its Notes into use; the value of notes in circulation was determined solely by the Public's willingness to exchange its coins for Notes at the Paper Currency Department. These two features of the scheme—the high Reserve level and the fact that the Government's Notes were not forced into circulation—explain to a large extent the confidence of the Public in the Government's Notes—and hence the success of the Issue.

TABLE 1

*Value of Government Notes in Circulation :
October 1902—October 1909*

<i>Date : —(figure is for last day of each month)</i>	<i>Value of Government Notes in Circulation in baht.</i>
October 1902	1,014,040
January 1903	3,355,995
April 1903	N.A.
July 1903	5,569,490
October 1903	6,471,715
January 1904	6,487,800
April 1904	6,983,060
July 1904	7,850,930
October 1904	8,533,260
January 1905	9,753,540
April 1905	10,893,095
July 1905	11,339,140
October 1905	10,825,035
January 1906	10,856,915
April 1906	12,116,075
July 1906	12,858,245
October 1906	11,497,275
January 1907	13,245,660
April 1907	16,057,820
July 1907	15,520,375
October 1907	15,617,530
January 1908*	14,289,505
April 1908	14,982,165
July 1908	13,480,905
October 1908	15,572,985
January 1909	16,156,270
April 1909	17,590,690
July 1909	17,506,315
October 1909	17,171,560

Source : Monthly Reports of the Paper Currency Department to the Minister of Finance. N.A. Kh. 11/4.

*The fall in the value of Notes in circulation in 1908 was a result of the trade depression in Siam in 1907-08.