A MONEY MARKET PRIMER

A

MONEY MARKET PRIMER

AND

KEY TO THE EXCHANGES

BY

GEORGE CLARE

THIRD EDITION

REVISED BY

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LONDON

EFFINGHAM WILSON

16 COPTHALL AVENUE, E.C.2

1931

First Edition	1891
Second Edition	1892
Reprinted	1896
"	1899
"	1901
"	1903
"	1905
"	1906
"	1907
"	1908
"	1910
"	1911
"	1913
"	1916
"	1919
"	1920
"	1921
"	1923
Third Edition	1931

*Made and printed by Adlard & Son, Limited,
21, Hart Street, London, W.C. 1,
England.*

CONTENTS

INTRODUCTION

THAT the Bank of England, even in George Clare's time, had attained an unquestioned position in the money market of this country is evidenced by the fact that, although the " market" looms large in the title to his now classical work, the first seventy pages of a book of one hundred and fifty were given up to the history, constitution, functions and operations of the Bank, while the discussion of the market proper was reserved for the third and final section of the book, that on the " Open Market," covering some seventeen pages only.

When it is remembered that Clare wrote over forty years ago, it is a remarkable testimony to his reasoning that the bulk of the principle remains true to-day. Because, therefore, of the sustained strength of his work, it has been deemed desirable to retain as much as possible of the original, and merely to add so as to bring the book up to date. To speak of revising is scarcely correct, or, at least, just; for little more has been necessary than to describe the happenings of the early twentieth century (punctuated, as it was, by that devastating financial calamity, the War), and to allow for the influence which such events had upon the condition of affairs as Clare saw it.

It has been thought reasonable to retain, for their historic value, the chapters on the Paris, Berlin and New York exchanges, and to add to them a brief survey of the effect of the War on the money market and the exchanges in general.

Finally, Clare's graphs have been omitted, for the figures of the past seventeen years of artificial conditions would bear no comparison with those of the period prior to 1914.

A comparison between certain statistics of the years 1881 to 1890 and those of recent date would show that although the Bank of England is still the pivot of the money market, there have been changes of very considerable importance. Previously, the Bank stood out alone from a host of relatively small, unconnected units; nowadays it is a giant of the central banking sphere coincident with giants in the industrial and commercial spheres. It then dominated by reason of its greater strength, its monopoly and the lack of strength and of cohesion of its *confrères*. To-day it dominates purely as a control dominates the subsidiary parts of an engine, but it cannot function without them. Its earlier virtual monopoly of note issue meant the control of currency, credit and banking generally; to-day it means the control of currency and credit only.

To speak of the London Money Market of the present day is not to speak of the Bank of England alone, or even of the Bank together with the joint stock banks. The market is constituted by a number of money factors in the mercantile sense of the term "factor." Each of these plays a part in the composite organisation. In the days which Clare reviewed, from 1850 to 1890, the organisation was much looser and the component parts less interdependent than in later years, particularly those of the twentieth century preceding 1914; but to-day, although the structure of the market is losing none of its composite nature, there is a gradual fading away of the definition between the individual components. In other words, certain constituents of the market are tending to trespass on the sphere which was once regarded as the particular preserve of other constituents. This is not to say that the latter are in danger of losing their identity, but that they tend to become less strong by reason of such encroachment.

Like the expression "foreign exchanges," the term "money market" is applied at will to any of a number of conceptions, the chief of which are, perhaps, the nebulous place where the market's transactions are effected; the members of the financial community responsible for the being and existence of the market; and lastly, and most importantly, the volume of money which constitutes the market's commodity. Fortunately, a true description of the market must cover all these conceptions, so that everyone's individual ideas are met.

The geographical conception of the market may be disposed of briefly by stating that it lies within the area bounded, roughly, by an imaginary line passing on the western side of the new Head Office of the Midland Bank in Poultry; north to the south side of Finsbury Square; east, so as to include Old Broad Street, Bishopsgate and Gracechurch Street; south along King William Street; and back to Poultry. This area covers the Head Offices of the "Big Five" and other important clearing bankers, the Bank of England, the Stock Exchange, the bill brokers, acceptance houses, discount houses, merchant bankers, London offices of the Scottish and foreign and colonial banks, and many of the most important insurance offices, which comprise the components mentioned earlier.

From the standpoint of this Primer, the most significant factor of the market is the commodity. Curiously, perhaps, it is not all the money of the country which is held in mind when the market is discussed or considered; in fact, it is the lesser part to which the importance of prime consideration is granted, which bears on our financial relations with the money markets of the world. It is with no little reluctance that I attempt to define this aspect of the market; it cannot truly be defined, but simply indicated, and then only approximately.

There is a volume of money, of relatively stationary amount, supplied primarily by the clearing banks, flowing into and out of the Bank of England according to certain influences, the total of which volume depends, at the present time, upon the country's international financial and commercial relations and upon the production of gold and its sale to the Bank. These considerations will be dealt with in later chapters; it only remains, for the present, to mention the essential characteristics of a successful international money market. These are the free and unfettered import and export of the international currency, gold; the existence of a highly organised discount market, a market in the international credit instrument, the bill of exchange; a central institution which can and shall control the market and act as the medium through which international transactions are ultimately effected.

Of this organisation the Bank is the pivot, the keystone, the fulcrum. It is the ultimate gold reserve of the country, and the only medium through which gold can be minted; it is the bankers' bank and the controlling institution in the discount market; it has a monopoly of note issue and, consequently, controls the volume of credit. For this reason, therefore, the Bank, its history, status, functions and influence can deservedly be given first place in the following pages.

I have to acknowledge particular indebtedness to the following, which are suggested as the nucleus of a bibliography—

EINZIG, PAUL.—*The Fight for Financial Supremacy.* Macmillan, 1931.
„ „ *International Gold Movements.* Macmillan, 1929.
GREENGRASS, H. W.—*The Discount Market in London.* Pitman, 1930.
KEMMERER, E. W.—*The A.B.C. of the Federal Reserve System.* Princeton University Press: Humphrey Milford, 1919.

SCHACHT, H.—*The Stabilisation of the Mark.* Allen & Unwin, 1927.

SPALDING, W. F.—*The London Money Market.* Pitman, 1930.

" " *Tate's Modern Cambist.* Effingham Wilson, 1929.

COMMITTEE ON FINANCE AND INDUSTRY (Lord Macmillan, Chairman), REPORT. Cmd. 3897. 1931.

and, for welcome advice, to Messrs. H. E. Evitt, J. Huskins, John Sangway and William F. Spalding, of Messrs. Harlow & Jones, Ltd. (Foreign Exchange Brokers), and the Ottoman, Westminster and Hong-Kong Banks respectively.

M. H. M.

5, BISHOPSGATE, E.C. 2;
July, 1931.

PREFACE TO FIRST EDITION

In the following pages an attempt is made to present, in brief compass and in plain untechnical language, a general view of the London Money Market, and of the elements that combine to determine the value of loanable capital in this country.

As the object aimed at is simply to make the reader acquainted with those rudimentary facts and principles, a knowledge of which is essential to the right understanding of an ordinary "money article," the writer makes no pretensions to originality, but has merely endeavoured to collect and arrange such of the widely-scattered information bearing on the subject as will, he believes, render those who "inwardly digest" it able to follow and appreciate the meaning of the City Editor's pros and cons.

The scope of the work is to point out and elucidate the influences that conduce to the rise or fall, firstly, of the Bank Rate of discount, and secondly, of the Market Rate. Beginning with the former, we pass in review each item of the weekly account issued by the Bank of England, noticing how the normal variations arise, how they are affected by the state of credit, and what evidence they afford of that ebb and flow in the demand for loanable capital, the movements of which are reflected in the ever-changing price of "money." Of these figures those which record the amount of cash held by the Banking Department are, of course, the most significant; and as it is well known that the relative weakness or strength of this item is the main incentive to action on the part of the Bank, the Reserve has been subjected to detailed analysis, with the result of demonstrating that there exists a much closer connection than might be imagined between the Bank's gain or loss of gold on foreign account and the variations of the advertised rate.

In view of such connection gold movements themselves claim attention, and, in order to gain a clear insight into their causes and antecedent conditions, the working of the Foreign Exchanges is next investigated. It is investigated, moreover, at some length, there being reason to believe that no branch of commercial knowledge is in general more imperfectly understood. By treating it, however, in a more practical manner than is usually the case, and by associating the enunciation of principles with illustrations of their application, the writer, who has actual experience to guide him, trusts he has succeeded in bringing the intricacies of the subject within the grasp of any ordinary intelligence.

Finally, the leading features of the open market are described and explained; what loanable capital consists of, whence it comes, how it is disposed of, and how its value is settled, being, with other such, the questions to which it is sought to furnish a reply. . . . .

From beginning to end the writer has confined himself, as far as possible, to statements of fact, and to the inferences that seem fairly deducible therefrom, leaving all matters of mere speculative theory to be dealt with by those who are better able than himself to do them justice. Moreover, he has even resisted the temptation of attempting an answer to "What is money?"—a problem which seems almost as far from satisfactory and concise solution as the famous query propounded by "jesting Pilate."

April, 1891.

INDEX

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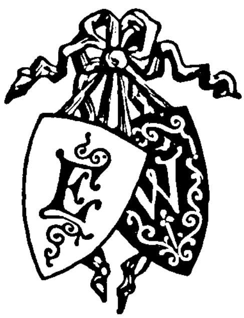

Supplement to Clare's "Money Market Primer," *Third Edition.*

THE GOLD STANDARD

Text of the Amending Act, 1931.

Great Britain abandoned the gold standard on Monday, September 21st, 1931. This act was preceded by the formation of a National Government pledged to balance the Budget, the unbalancing of which had led to a condition of affairs which had caused the foreigner to look askance at the pound sterling.

The position had been difficult for some time past and the Bank of England and the Treasury had found it necessary, in defence of sterling, to obtain considerable credits for its support. First France and the United States of America granted £25,000,000 each and this was followed later by a further £80,000,000 from America. Such was the uneasiness, however, with which the foreign observer regarded the finances of this country, that these did not suffice and, as *The Times* put it, we were forced off the gold standard when our gold reserve was just sufficient to cover the £130,000,000 recently borrowed.

The text of the Act providing for the suspension is given below :—

CHAPTER 46.

An Act to suspend the operation of subsection (2) of section one of the Gold Standard Act, 1925, and for purposes connected therewith. [21st September, 1931.] A.D.

BE it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows :—

1.—(1) Unless and until His Majesty by Proclamation otherwise directs, subsection (2) of section one of the Gold Standard Act, 1925, shall cease to have effect, notwithstanding that subsection (1) of the said section remains in force. Suspe of righ purch gold b 15 & 1 Geo. 5

(2) The Bank of England are hereby discharged from all liabilities in respect of anything done by the Bank in contravention of the provision of the said subsection (2) at any time after the eighteenth day of September, nineteen hundred and thirty-one, and no proceedings whatsoever shall be instituted against the Bank or any other person in respect of anything so done as aforesaid.

(3) It shall be lawful for the Treasury to make, and from time to time vary, orders authorising the taking of such measures in relation to the exchanges and otherwise as they may consider expedient for meeting difficulties arising in connection with the suspension of the gold standard.

This subsection shall continue in force for a period of six months from the passing of this Act.

tle. **2.** This Act may be cited as the Gold Standard (Amendment) Act, 1931.

The Treasury Order made under Section 1 of the Act was as follows:—

Order made by the Treasury under Section 1 of the Gold Standard Amendment Act, 1931.

THE Lords Commissioners of His Majesty's Treasury in pursuance of Section 1 of Gold Standard Act, hereby order that until further notice purchases of Foreign Exchange or Transfers of Funds with the object of acquiring such exchange directly or indirectly by British subjects or persons resident in the United Kingdom shall be prohibited except for the purpose of financing normal trading requirements—contracts existing before September 21st—reasonable travelling facilities or other personal purposes.

(Signed) PHILIP SNOWDEN.

September 22nd, 1931.

The abandonment of gold has had many consequences. Firstly and, perhaps, foremost, the exchanges of most countries have gone seriously against the pound, the dollar and the franc standing (1-10-1931) at 3.98 and $100\frac{1}{2}$ to the £ respectively after having touched $3.78\frac{1}{2}$ and 96. Other countries have *become vastly mistrustful of sterling* and have thrown sterling securities wholesale on to the market, the 5% War Loan dropping to 90½. The London Stock Exchange was closed for two days and Continental exchanges followed suit. The Government which took the step now proposes to go to the country for a clearer mandate, one which would permit it to introduce tariffs in the endeavour to bring some measure of prosperity to British industries. Meanwhile, the Continent anxiously awaits the result and the pound remains hopelessly undervalued in terms of other currencies. Denmark, Norway and Sweden have followed the example of this country and have prohibited the export of gold. India and Ireland have decided to remain attached to sterling.

The ultimate effect of the step is yet to be seen, but conjecture is rife as to the possibility of sterling's being devaluated and stabilised at something below par and as to the ultimate departure of all countries from gold.

NOTE.—The steps taken by the English Parliament following the suspension of the Gold Standard during the war are described in Clare's "Money Market Primer," page 246, *et seq.*

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In 1929, just one hundred years later, the centenary edition of this same volume, now known as 'Tate's Modern Cambist,' has come from the press.

During the intervening years, twenty-six editions of the book have been compiled and published, each being revised and brought up-to-date by its editor. The latest, and twenty-eighth edition of the volume, thus contains more than 700 pages, in contrast to the 100 of the original volume.

William Tate himself edited the first twelve editions of the book and from that time on his work has been carried on by various editors, all financial experts of their day. The new edition, which has taken four years to compile, is the work of William F. Spalding, Fellow of the Institute of Bankers and Royal Economic Society and the author of a number of other works on financial subjects, among which are 'Foreign Exchange and Foreign Bills,' 'Eastern Exchange Currency and Finance,' 'A Primer of Exchange,' 'Bankers' Credits,' and the 'London Money Market.'

The new edition contains, first of all, a preface and a list of the monetary units of principal countries. It is then divided into two parts. The first contains an introductory chapter on the foreign exchanges, analyzing their workings, discussing gold movements, etc.

It then takes up each country of the world separately and tells concerning each; the monetary unit with the parity of that unit with London and New York; a full description of the coins of the country, their bullion content, the nomenclature, and the amount for which they are legal tender; state or bank-note circulation; methods of stabilization; principal points in the law concerning bills of exchange and cheques; stamp duties on bills of exchange, checks, receipts, etc., weights and measures.

This information takes up more than 600 pages in the volume, and the second part of the book, which is much shorter, is devoted to the presentation of such information as the valuation of bullion, a discussion of the gold and silver markets, and bullion operations, etc. A number of alterations have been made and new features, made necessary by the recent war, added. These latter include a description of the American silver market. A full subject index and an appendix which gives a biographical sketch of William Tate are additional new features.

'Tate's Modern Cambist' has been invaluable to bankers for a century, and its present editor, Mr. Spalding, is regarded as an authority on all matters concerning currency and exchange. The combination of the distinguished book with a distinguished author has made the new edition of "Tate" an epoch-making book, carrying added prestige into its second century.

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