Volume 10

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MONEY MARKET

BY

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THE MONEY MARKET

CHAPTER I

THE BEGINNING OF BANKING
IN ENGLAND

The present position of the Money Market in this country so enters into the life of the people as a thing that is, that few trouble themselves to inquire how our monetary system came to be what it is, how it was founded, grew, and developed into its present state. Whether people are aware of it or not, the stability and condition of the Money Market of a country influences the lives of all—rich and poor alike—and the material well-being of all is largely dependent upon it. Before proceeding to any examination of the methods in which present-day business in the London Money Market is conducted, we will look back into the past, and trace the rise of our financial system from its early beginnings.
Trade is, of course, the foundation of, and reason for, the need of money; and trade commenced with the first division of labour. With the earliest men one was more fitted for one thing and one for another; one was a hunter and one a husbandman. When the hunter handed over to the husbandman so many skins for so much corn, trade was established; but this trade was, of course, only a system of barter. As men grew more civilised and trade developed, the inconveniences of this system became apparent and pressing, and gradually more suitable modes of settling transactions were evolved; although in certain remote and uncivilised parts of the world trading by barter exists to the present day. As a reminder of bygone times there is, in the Royal Exchange, a picture of the Phœnicians trading with the men of Cornwall fine cloth for tin and skins.

We know that the early inhabitants of this country had coinage of a kind, but the earliest record of any definite business in monetary transactions was in the reign of William the Conqueror, who first introduced Jewish traders to this country. From that time on, for hundreds of years, the Jews were more or less intimately connected with our finances; but they led a very chequered career in England, being frequently treated with great cruelty
and barbarity. They were required for the help which could be obtained from them, but hated by the people for their usurious practices. The exactions which the kings and nobles of the time put upon them were largely conducive to these practices, however, as unless the Jews could make large profits out of the people they would not have been able to meet these exactions.

The financial importance of the Jews appears to have declined in this country towards the end of the thirteenth century; but about the same time their place was taken by the Lombards, the early Italian merchants, who came over and settled here in the street which still bears their name. These Lombards were men of some attainment, being skilled in arts and trade, and they possessed the only knowledge of banking then in existence. They combined the art of the goldsmith with the business of the banker, and gradually obtained a firm and sound footing in the country.

The reign of Elizabeth was notable, among many other things, for a great and important increase in the trade and commerce of the country. Many causes contributed to this, among others being the capture of Antwerp by the Duke of Parma, when it is said a third of the merchants of that flourishing city found
a refuge on the banks of the Thames. The newly awakened national energies found fresh outlets and markets, and London gradually became the general mart of Europe and of the then known world. That the knowledge of banking and the foreign exchanges had by this time considerably developed we can gather from many sources; but the knowledge and wisdom exhibited by Sir Thomas Gresham during the reigns of Edward VI., Mary, and Elizabeth is remarkable, and his influence had a far-reaching effect on the public and private finances of the time.

In spite of this increase of the knowledge of monetary matters, however, no settled banking business developed for some time. As our merchants gradually accumulated riches they fell into the custom of sending their surplus funds to the Tower of London for safe custody. This custom was brought to an abrupt end in 1640 by Charles I. taking possession of £200,000 which had thus been lodged at the Tower; but this sum was shortly after repaid. For a time the merchants kept their moneys in their own possession, but owing to the unsettled condition of affairs ruling through the whole period of the civil war, they adopted a system of depositing their cash with the goldsmiths, who were by this time a wealthy and responsible body.
In addition to the presumed safety of funds so deposited, the goldsmiths offered an extra inducement for further funds to be placed in their hands by allowing interest on such moneys. With this additional borrowed cash at their disposal, the goldsmiths commenced the business of discounting bills and lending money; and they also lent money to the king on the security of the taxes. The receipts they issued for the money lodged with them circulated from hand to hand, and were known as Goldsmiths' Notes, and these may be considered the first kind of notes issued in England. Scott, in the *Fortunes of Nigel*, makes Heriot to say, "I am a goldsmith, and live by lending money as well as by selling plate."

In 1672, however, this gradually developing banking business received a rude shock. As we have already seen, the goldsmiths, or bankers, of the time lent their money to the king; that is, they deposited their moneys with the Treasury on the security of the revenue, from which they were afterwards reimbursed, obtaining a good rate of interest on their money in the meanwhile. A king or a government, however, can no more live beyond their income without getting into difficulties, than can an individual. The necessities and extravagances of Charles II.
led him to a memorable step when, in the year 1672, he suddenly ordered the Exchequer to be closed, and refused to pay out any of the sums deposited. The amount thus annexed was about £1,300,000, and this drastic measure had the effect of bringing ruin on nearly half of the goldsmiths, and consequently on their clients who had money deposited with them. The injustice of this seizure raised such universal protest that the king agreed to pay interest at the rate of 6 per cent, per annum on the principal sum out of the hereditary excise. This interest was paid until the last year of his reign, and subsequently an arrangement was made by which about one-half the sum owing was allotted to the claimants in the form of stock. This was the real commencement of our National Debt in its present form.