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BOOK ONE

*Breakdown, 1914-1918*

PART I

*The Crisis of 1914*

## CHAPTER I

### *The Impact of the Crisis of 1914 on the International Gold Standard*

During the late spring and early summer of 1914 the shadow of the approaching conflict in Europe was cast over the world's money markets. There was a quiet preliminary girding for the struggle—a movement toward unusual liquidity in the principal money markets of Europe. Upon the normal movement and flux in the amount of inter-money market and international indebtedness was superimposed an entirely new current of payments back to the central markets. This was clearly reflected in the movement of the exchanges and of gold.

#### Premonitory Symptoms

In May and June 1914 the dollar-sterling rate passed beyond gold export point from New York, and gold moved to London in large volume until the usual seasonal drawing of finance bills on London by New York banks caused the dollar to rise again temporarily in July.<sup>1</sup> The exchanges of Amsterdam, Berlin, Milan, and other centers moved in favor of London, and England began to draw gold from all over the world.<sup>2</sup>

British banks, to put themselves in a position to meet demands that might be made upon them if the crisis became acute, quietly called in foreign assets; and a strong demand for very short term securities arose in London as part of a

<sup>1</sup> Charles Blankart, *Die Devisenpolitik waehrend des Weltkrieges* (Zurich, Arell Fussli, 1919), p. 5; O. M. W. Sprague, 'The Crisis of 1914 in the United States,' *American Economic Review*, Sept. 1915, p. 500.

<sup>2</sup> During May, June, July, and the first two weeks of August England received gold from the United States, Argentina, Brazil, Uruguay, Egypt, and Germany.

general movement to get assets into liquid form. This was reflected in the short term rates for money in London, where the market rate of discount ranged from  $1\frac{7}{8}$  to  $2\frac{1}{2}$  per cent at the beginning of July. Paris also, as a creditor market, drew in her credits from Germany, the United States, and Russia, and the exchanges of these countries moved in favor of France. As the crisis developed, French balances were accumulated in London,<sup>3</sup> whence, according to long tradition and practice, they could be instantly withdrawn. This added both to the strength of sterling and the need for liquidity felt by the London bankers with whom these balances were held. Germany, though called upon to remit heavily not only to London and Paris but also to Zurich and Brussels, was at the same time able to withdraw assets from Russia and Italy. The Reichsbank, in fact, was able to strengthen its gold reserve during the early part of 1914 by drawing gold from Russia. The double movement is clearly reflected in the exchange rates. Switzerland also was remitting to her creditors and drawing from her debtors. Large withdrawals of funds by Paris had to be met in the Swiss markets, but Swiss assets were in turn recalled from Italy, Austria, and Germany, and Switzerland found that she had become a haven for uneasy private capital exported from these three countries. Funds were withdrawn from the Dutch market to London, Paris, and Berlin, and the exchange rates moved against the Netherlands in these centers.<sup>4</sup>

There was thus an unraveling of part of the characteristic creditor-debtor relations of the principal money markets—a sort of preliminary and tentative retreat from the system of mutual adjustment of money markets through the ebb and flow of capital and credit.

As the crisis reached its acute stages, an overwhelming demand for sterling developed in many markets. From July 24,

<sup>3</sup> Kirkaldy speaks of temporary French credit balances in London in July 1914. *British Finance, 1914-1921* (London, Pitman, 1921), pp. 329-31.

<sup>4</sup> Cf. Blankart, *op. cit.*, for detailed discussion of the continental exchanges at the outbreak of the war.

the day following the presentation of Austria's ultimatum to Serbia, to July 27, the day preceding the declaration of war by Austria on Serbia, the German, Austrian, Italian, Russian, American, Spanish, and Swedish exchange rates moved in favor of London. All these changes were due largely to the calling in by London banks and financial houses of floating balances abroad. The South American exchanges were steady, as were those of the smaller creditor countries of Europe—Belgium, the Netherlands, and Switzerland—but the outstanding exception to the general strength of sterling at the outbreak of the war was the strength of the French franc.<sup>5</sup> The behavior of the exchange rates reflected the dual nature of the demand for sterling, which was a composite of the recall of British assets from abroad and of the repatriation of assets of nationals of other countries—the continent in particular—via London, because London was the principal market for the continent for dollars, yen, and the South American and Empire exchanges.

These movements in the exchanges (Chart 1) were of the same kind as those which followed the Baring crisis, and accompanied the crisis of 1907. The movements of gold from debtor to creditor nations were similar to those noted by Hans Neisser as characteristic of pre-war crises. They were not, however, destined as before the war to become merely episodes in the functioning of a fundamentally unchanged world credit system, but were the first premonitory symptoms of a breakdown in that system. Before the war London had been able in time of crisis to contract her total current foreign obligations and to call in part of her foreign assets—that is, to exercise her power as a creditor to strengthen sterling and to attract gold—without interfering with the basic transactions of international trade and finance, or lessening the availability of sterling as a world medium of payment. This was largely

<sup>5</sup> During the week preceding August 1, 1914, there were large withdrawals of gold from London to Belgium, France, and Switzerland, of which £1,358,000 went to France. French gold imports from London had begun as early as June.

due to the organic connection in the London financial system between the long and short term markets which made possible a partial shifting of foreign advances from the long to the short term shoulder, so that intelligent banking administration could vary total advances to foreigners without a severe shock to either market (cf. pp. 660-8). The truly distinctive feature of the 1914 crisis in London from the viewpoint of gold standard analysis was that instead of a regulation there was a stoppage of the flow of sterling credit and a temporary suspension by London of the performance of its functions as a middleman in international finance.

### The Breakdown of International Clearance Through London

In the closing days of July 1914 the normal demand for sterling balances to complete current business transactions was suddenly augmented by the recall to or through London of assets permanently invested abroad or usually turned over in foreign markets. The normal demand was customarily met in part through the accumulation of credits in London in the ordinary course of trade, but in part also by the continuous replenishment of the sterling international loan fund through the extension of long or short term sterling credit. In the ordinary course of foreign exchange dealings sterling currently accumulating by the sale of goods or services and of investments or other assets in England, the receipt of short term advances, and the receipt of installments on new long term loans underwritten in London was always being redistributed on the books of London banks to the accounts of individuals and institutions in need of sterling balances to make payments for freight, insurance, commissions, and similar obligations, and to provide cover for maturing advances for the Account on the Stock Exchange, for maturing sterling acceptances, and to meet interest and sinking fund payments on long term loans. Most of the foreign balances in London at the time of the crisis were, therefore, in an economic sense, already

pledged. They were, in fact, part of a revolving fund of working capital placed in London for the conduct of current trade and financial operations. They could not be used for these purposes and also to meet the payments now suddenly demanded on capital account. Some new sources of sterling had to be found if the mechanism of remittance was not to break down. But under the then existing conditions it was impossible even to maintain uninterrupted the normal flow of short term London credits.

The London acceptance houses, as dealers in credit who had to meet their outstanding acceptances on due date regardless of the fulfillment of their clients' obligations to them, were exposed just before the culmination of the crisis to a danger amply sufficient under ordinary business principles to prevent them from assuming new obligations. The outbreak of war was certain to prevent direct remittance to London from the continent, especially from Germany, and to make it difficult for debtors in enemy countries to acquire sterling through neutral markets. The declaration of moratoria was sure to have similar effects. Even if their own resources had been sufficient to enable them to withstand the losses arising from failure of continental clients to remit, the acceptance houses would still have been prevented from undertaking new business by events in the discount market. The most important single source of the sterling international loan fund was the investment by the joint stock banks and other banks of part of their secondary reserves in loans to the discount market and in less degree to the Stock Exchange. As the crisis became more severe the banks began to contract their loans at call and short notice in order to be ready to meet expected demands for cash if the crisis should develop into a panic. The discount market therefore was crippled as an outlet for new bills and as a device for carrying the floating supply of bills. The machinery of the sterling acceptance market could not function under this double blow and on July 27 the London acceptance houses refused to grant new acceptance

credits.<sup>6</sup> This cut off the most important single source for the current replenishment of the sterling balances of foreigners. The process of repayment and reconstitution of the world's working capital fund in London was interrupted.

The disproportion between the demand for and supply of sterling was increased therefore not only by an entirely abnormal increase in demand, but also by the failure of a normal source of supply. The gap could not be filled by the proceeds of new long term credits. The supply of sterling made available by the continued payment of installments on loans floated in the first part of the year was wholly inadequate to the needs of the moment, and the granting of new long term credits in London suddenly ceased, as is shown by the monthly figures for 1914 in our compilation of pre-war foreign loans.

*New Foreign Capital Applications in London, 1914, monthly*<sup>7</sup>

|           | THOUSANDS OF POUNDS |
|-----------|---------------------|
| January   | 31,756              |
| February  | 34,664              |
| March     | 23,797              |
| April     | 12,043              |
| May       | 6,684               |
| June      | 21,760              |
| July      | 16,201              |
| August    | 340                 |
| September |                     |
| October   | 1,000               |
| November  |                     |
| December  | 1,850               |
| Total     | 150,095             |

As long as the London Stock Exchange remained open a means of acquiring large supplies of sterling through the sale of securities in London was still available. One effect of the crisis, however, had been to close stock exchanges abroad. On July 30 only the New York Stock Exchange, the London Stock

<sup>6</sup> Sprague, *op. cit.*, p. 503.

<sup>7</sup> The inclusion of the following issue in the total for July 1914 is not without its grim irony: £600,000 for the Imperial Ottoman Docks, Arsenal and Naval Construction Co., issued in connection with a contract between the Imperial Ottoman Government and Sir W. G. Armstrong Whitworth & Co. and Vickers Ltd., who subscribed to £100,000 of the bonds.



Exchange, and the official Paris Bourse remained open. As a consequence, there was an immense concentration of the sale of securities of every description for foreign account on the London Stock Exchange. In the presence of a world-wide liquidation of securities the power of the Stock Exchange to perform its traditional middleman function and distribute these securities throughout the world was greatly reduced. The volume of securities offered bore no relation whatever to the capacity of British capital to absorb it. The power of the market to absorb was undermined by the inevitable decline in investment demand owing to the shock of the crisis and by the withdrawal of loans to the Stock Exchange by the joint stock banks for the same reasons that they withdrew accommodation from the bill market. Furthermore, the foreign exchange difficulties had placed impediments in the way of the repayment by foreigners of loans made to them for the carrying of securities for the Account. The shrinkage of demand in the face of overwhelming offers threatened complete demoralization of prices, and the London Stock Exchange closed shortly after ten o'clock in the morning of July 31.

The crisis of 1914 was a remarkable demonstration of the strength of Great Britain as a creditor nation, but it was not possible to exert that giant strength to the full without suspending temporarily the basic operations of international finance. That very fact demonstrated dramatically the overwhelming importance to the world as a whole of the uninterrupted operation of the international credit mechanism centered in London.

### The Foreign Exchange Deadlock

The actual outbreak of war did, as expected by the acceptance houses, cut off the means of direct remittance to London from Germany and Austria-Hungary, but it did not completely destroy every connection between the currencies of the Central Powers and those of the Allies. Remittance between the Central Powers and the Allied world continued to be made,

though with difficulty, through markets of Germany's neutral neighbors. The Swiss foreign exchange market in particular became extremely important in the world economy for this reason and some of the most interesting of the war-time financial expedients were those adopted by Germany to keep open this channel of financial communication with the outside world.

The breakdown of the machinery of international remittance was by no means confined to the exchanges of the Central Powers. Once the London market ceased to function normally a foreign exchange deadlock was created, which was nearly world-wide. London exchange quotations on continental centers became nominal in the following order: from July 28, St. Petersburg; from July 29, Genoa; from July 30, Paris, Brussels, Berlin, Vienna, Amsterdam, Zurich, Madrid, Stockholm, and Lisbon. Quotations on Montreal and New York also became nominal in London on July 29. This condition continued through the week of the crisis and in many exchanges for some time thereafter.<sup>8</sup> Market rates collected for the author by P. L. J. Bateau in London show that only nominal rates were obtainable for India from July 31 to August 25, for China from July 30 to August 21, for Brazil from July 31 to August 24 and from August 26 to September 4, and for Argentina from July 31 to August 25. Owing to the suspension of all communication with London via Siberia, Japan did not have a single export bill in London on which money could be raised in August, though the nominal depreciation of the yen was slight.<sup>9</sup>

In New York the sterling exchange rose from 4.89 to 6.35 in the last week of July, and became purely nominal at the beginning of August. The spread of the deadlock throughout

<sup>8</sup> Kirkaldy, *op. cit.*, p. 330. *The Economist* did not list quotations for the leading continental centers until September 22.

<sup>9</sup> Junnosuke Inouye, *Problems of the Japanese Exchange, 1914-1926* (London, Macmillan, 1931), p. 5, and table, p. 245. Inouye gives also the New York-Japan rate as unchanged at 49 during August and September, obviously a nominal cross rate, *ibid.*, table, p. 255.

the world's exchange markets is further illustrated by the fact that no quotations were obtainable in New York during August on Yokohama, Rio de Janeiro, Stockholm, Zurich, Bombay, Madrid, or Buenos Aires, and in September on Yokohama, Rio de Janeiro, Stockholm, Madrid, Buenos Aires, and Bombay.

### Moratoria of Payments and Gold Embargoes

The difficulty of international remittance was one of the causes of, and was in turn increased by, a series of moratoria on private payments in various countries. The French government imposed a moratorium on all negotiable instruments between August 1 and September 1, which was subsequently extended by a series of decrees to March 1, 1915. In Russia an optional moratorium on bills of exchange was established by a decree of August 2, 1914. By a later decree of October 2 all bills falling due between July 30 and November 30, 1914 were made payable ninety days from date of maturity. Although Italy was neutral, a full moratorium on bills and a partial moratorium on bank deposits was in force from the outbreak of the war until March 31, 1915. In addition, Argentina, Austria-Hungary, Belgium, Brazil, Egypt, Greece, Norway, Peru, Portugal, Roumania, Sweden, and Switzerland all had moratoria of one form or another.

To have remained faithful to their legal obligations under the international gold standard convention would have meant for many countries a dissipation of gold reserves and a further blow to confidence without solving the foreign exchange difficulty. Payment in gold could not of course replace the whole system of international remittance or any large part of it. During the first days of the war gold shipments overseas were actually impossible because insurance could not be had against the new war-time risks. Nevertheless, payment in gold was demanded by creditors. It was resisted by debtors and general concern was shown, even in some creditor markets, for the preservation of gold reserves against internal with-

drawals as well as against external shipments. The Russian State Bank suspended specie payments on July 27, 1914, the Reichsbank on August 4, 1914, and the Bank of France on August 5, 1914. Legal gold export embargoes were at once declared in Germany, Russia, and Argentina. The Bank of France ceased to deliver gold except for reasons it regarded as satisfactory,<sup>10</sup> and in the United States a de facto gold export embargo was established. The circumstances under which the American embargo was imposed and the general American crisis of which it was a part afford the best illustration of the world-wide importance of the smooth functioning of the pre-war London-centered banking and credit systems.

### The Impact of the Crisis on the United States

Late in the summer of 1914 the New York market was seasonally indebted to the London market on short term account.<sup>11</sup> The supply of finance bills, which had ended the gold export of May and June to London and Paris, suddenly ceased. American balances in London were small.<sup>12</sup> There was nothing with which to meet an extraordinary increase in the demand for sterling. Maturing obligations had to be met, and in addition the New York Stock Exchange experienced an overwhelming liquidation of securities for continental account which was swelled by a very large offer of British-owned American securities. New York banks were instructed to remit the proceeds abroad and both because of the large number of British sales and because London was the market for dollars for the continent, this implied remittance in sterling. The

<sup>10</sup> The private export of gold from France was not prohibited until July 3, 1915 by decree and November 15, 1915 by law.

<sup>11</sup> New York City owed approximately \$80 million in obligations abroad falling due between August 1, 1914 and January 1, 1915 (*The Annalist*, Jan. 4, 1915, p. 5). Estimates of the running trade balances due abroad in this period range from \$130 million to \$450 million. Cf. *Commercial and Financial Chronicle*, Aug. 22, 1914, p. 505; S. E. Harris, *Monetary Problems of the British Empire* (Macmillan, 1931), p. 28; R. M. Jaeger, *Stabilization of the Foreign Exchanges* (New York, privately printed, 1922), p. 18.

<sup>12</sup> Sprague, *op. cit.*, p. 501.

gold movement from New York to London was abruptly resumed<sup>13</sup> and the sterling exchange rose to unprecedented heights.

Under these circumstances the breakdown of the acceptance machinery in London and the closing of the London Stock Exchange seriously endangered the whole structure of the New York money market, which was not organized to meet so large a volume of sales of securities coming for the most part from investment holdings and to remit the proceeds abroad. The special nature of these sales placed the banks in a peculiarly difficult position in their relations to the Stock Exchange. In the absence of an adequate supply of sterling they could remit abroad only in gold. Faced by large actual and even larger potential losses of reserves, they were in an unfavorable position to extend large additional credits to brokers. Such credit extensions, however, were necessary if purchasers were to be found. New investment demand for securities was, for the same reasons as in London, greatly curtailed. Since most of the securities pressed on the market for sale came from investment holdings the proceeds were not used to repay old call loans. Bank funds were therefore not released for the financing of new purchases on margin, and the demand for bank accommodation from margin purchasers became a demand for fresh additional accommodation rather than part of a turnover in the call loan market. In brief, at the moment new loans were urgently required by the Stock Exchange the banks were in the least favorable position to make them. To prevent a complete collapse of prices the New York Stock Exchange was closed on July 31. The liquidation of foreign owned securities could thereafter be continued only by private sales outside the Exchange.

<sup>13</sup> During the week ending August 1, \$9,782,485 in gold left New York for France and \$14,846,852 for England. A similar amount was sent to England during the following week. This movement was greatly facilitated by the United States Treasury which concentrated gold in New York in advance of the demand for gold for export. B. H. Beckhart, ed., *The New York Money Market* (Columbia University Press, 1932), IV, 198.

The closing of the New York Stock Exchange made it extremely difficult, though not impossible, for American banks to liquidate their investments,<sup>14</sup> or to realize upon their loans secured by collateral. The ordinary domestic supplies of capital were momentarily dried up, while the demand for loans increased because the usual methods of financing suddenly became unavailable. Ocean traffic was disorganized because of the submarine danger and the absence of insurance facilities; consequently, grain and foodstuffs for export became so congested in Gulf and Atlantic ports that a temporary embargo was placed by railroads on the shipment of grain to the seaboard. The entire system of financing the movement of the cotton crop was thrown into confusion and extraordinary measures of assistance to cotton growers and shippers were immediately required. The breakdown in the New York money market machinery and the general uncertainty everywhere prevailing made interior banks anxious about their position and increased the demands upon them for local accommodation. An unseasonal drain of gold from New York to the interior resulted.

Under the rigid organization of the American banking system the New York banks could not sustain the threat to their reserves occasioned by a simultaneous domestic and foreign drain. The situation was temporarily met by an informal embargo upon the export of gold, and by the use of new bank notes issued under the Aldrich-Vreeland Act of 1908.

The primary needs of the moment were two: to increase the supply of and to decrease the demand for sterling ex-

<sup>14</sup> When trading was suspended, a committee of the Stock Exchange, known as the Committee of Five, superintended the settlement and delivery of uncompleted transactions. On August 12 the Committee on Clearing House of the Exchange was authorized to supervise dealings in securities at or above the closing prices of July 30. A market of considerable size was developed in this manner. In addition a 'street market' came into existence which traded in securities somewhat below the closing prices of July 30. *The Annalist*, March 8, 1915, pp. 210-1.

change. To increase the supply it was necessary, first, to restore to active operation the machinery of the London discount market; and second, to increase shipments of goods to England and the rest of Europe against which bills could be drawn. These were relatively long run solutions. While they were being worked out the American money market had to find a way to satisfy the immediate and overwhelming demand for sterling. New York bankers tried to get around the exchange difficulty by such devices as providing credits in New York against obligations falling due abroad at provisional rates of exchange and exchanging credits in New York for credits in other countries. The latter device was successfully used in transactions between New York and France,<sup>15</sup> Italy, Switzerland, and Austria, but prolonged negotiations with England failed to result in a similar arrangement. England demanded payment in gold, and to facilitate such payment agreed on August 12 to accept gold deposited with the Finance Department of the Canadian government in Ottawa as the equivalent of gold deposited in the Bank of England in London. This deprived the New York banks of the technical defense that it was impossible to ship gold because of the perils at sea. The demand was made upon them to live up to the spirit and the letter of the international gold standard. On September 1, 1914, therefore, a conference of New York bankers arranged to meet American obligations abroad as they fell due by using the available supply of bills of exchange and by shipping gold. No gold was to be allowed to move for exchange profit, and shipments were to be strictly limited to the requirements of the balance of payments. For this purpose a gold fund of \$100 million was to be provided, of which 55 per cent was to come from banks outside New York.

These arrangements, which were officially sanctioned by

<sup>15</sup> During the first week of August an interchange of credit between Paris and New York was arranged through J. P. Morgan & Co. and the Bank of France. *Commercial and Financial Chronicle*, Aug. 8, 1914, p. 386.

the Federal Reserve Board and the Treasury on September 21, 1914, constituted in effect the first of the long series of foreign exchange controls and of controlled gold movements typical of the war period. Virtually complete knowledge was obtained of the international indebtedness which had to be settled by remittance through the sterling-dollar exchange, and it was possible for those in control of the exchange market to predict almost to the day the date on which sterling would again return to par in New York. This was not long deferred, for while the exchange control arrangements were being devised in America measures were being taken in London to restore the operation of the sterling acceptance market and the whole position of the United States in international trade was being altered by war-time conditions.

Gold shipments by the gold pool were consequently small. On October 1 \$10 million, advanced by New York banks and trust companies, were shipped to Ottawa. On October 13 all the banks in the pool were asked to pay in one-fourth of their gold subscriptions, but the pool exported only \$18,300,000 for the account of the Bank of England. These shipments were among the last in a gold movement to Ottawa which amounted in all to \$104 million and has been described by the Rt. Honorable Sir Thomas White, at that time Finance Minister of Canada:

“During the summer and fall of 1914 288 consignments of gold were received from merchants and others in the United States and Canada having bills and accounts maturing in Great Britain. The first was received on August 12, 1914 from Messrs. Kidder Peabody and Co., Boston, the last was received on December 16, 1914. The gold embraced in these consignments consisted of United States gold coin, sovereigns, Japanese yen, and fine gold bars. A shipment of \$505,000 was received from the Secretary of the Treasury of the United States for the credit of the Secretary of the United States Treasury, London, and \$800,000 was received from the United States Post Office for the account of the British Post Office. A few consignments were also received from Canadian banks in Toronto and Ottawa . . . The Japanese coin . . . came



direct from Japan, through Japanese branch banks in San Francisco."<sup>16</sup>

Hardly had the full machinery of the gold pool begun to function when the deep and persistent forces of the war-time international movement of goods began to dominate the world's exchanges. By December 1914 the sterling-dollar exchange reached and passed par. The French exchange, which had moved against New York at the outbreak of the war, had already returned to par, and the German rate, after quickly losing its brief measure of appreciation, had begun to fall. The dollar was growing generally and progressively stronger in terms of the belligerent currencies.

### Meeting the Crisis in London

The crisis in London was met in part by methods long sanctioned by tradition—a high Bank rate, liberal advances, and temporary suspension of the Peel Act. Bank rate was raised from 3 to 4 per cent on July 30, from 4 to 8 per cent on July 31, and from 8 to 10 per cent on August 1. In the ten days preceding August 1 the Bank of England increased its holdings of 'other securities' £31,700,000, largely by making loans to the discount houses and to the Stock Exchange to replace loans called by the joint stock banks.<sup>17</sup> In addition, the Bank experienced some internal drain of gold because the joint stock banks met holiday demands for currency in Bank of England notes instead of in gold. Some of these were presented for conversion into sovereigns, though there was no general run on the banks. As a consequence, on August 1 the Bank of England asked and received the customary letter of indemnity which in times of crisis permitted the issue of notes against securities in excess of the limits fixed by the Act of 1844.

The crisis was met also by the creation of a new paper

<sup>16</sup> 'Gold Movements through Ottawa during the Great War,' *The Gazette*, Montreal, Jan. 29, 1921, p. 19.

<sup>17</sup> Kirkaldy, *op. cit.*, p. 3.

money, the Currency Note, and by measures specifically recognizing the temporary breakdown of London's international banking machinery. The closing of the Stock Exchange itself was such a measure, as were special moratoria granted to the acceptance houses on August 2 and the general moratorium of August 6.

On Sunday, August 2, a one month's moratorium was granted the acceptance houses by a proclamation that permitted them to postpone payments of all acceptances accepted before August 4 for one month after due date. This resulted in the freezing of a portion of the assets of the discount houses and other holders of bills. It clogged the financial machinery with a load of 'moratorium' bills. On August 6 a proclamation was issued under the Postponement of Payments Act (passed August 3) putting into effect a general moratorium that remained in force for two months, but a large number of domestic payments and, in addition, debts due by foreigners to British creditors were not subject to it. These exceptions had a bearing on the repercussions of the crisis in the United States, for Americans were prevented from realizing certain of their London assets while at the same time England demanded payment of all debts due. This situation contributed substantially to the difficulty of remitting to London,<sup>18</sup> and aroused in Americans a sense of indignation at being requested to pay in gold while their London assets were impounded.

These drastic temporary measures were succeeded by a series of constructive steps to restore the functioning of the international financial machinery of London. These steps took time and entailed making advances of £200 million by the Bank of England under government guarantee to the various departments of the money market.<sup>19</sup> On August 13 the Bank of England, under government guarantee against

<sup>18</sup> In its issue of Oct. 17, 1914 the *Commercial and Financial Chronicle* quotes London cables to the *New York Evening Telegram* showing British recognition of this fact.

<sup>19</sup> 68 H. C., col. 1544-5, 1549.

loss, undertook to discount, at Bank rate and without recourse to the holder, approved bills accepted before August 4, and granted to acceptors the privilege of postponing payment of bills at maturity on paying 2 per cent interest above Bank rate. This restored the market for bills by moving the moratorium bills off the hands of the holders, and gave temporary relief to the acceptance houses. Total advances on pre-moratorium bills under government guarantee were £120 million. It may be inferred with some degree of confidence, therefore, that at least two-thirds of the amount of sterling acceptances outstanding, estimated at from £300 million to £350 million were repaid in the regular way despite the breakdown of the exchanges and the moratoria established on the continent.<sup>20</sup> On September 5 the Bank of England announced that it would find funds for the payment of all pre-moratorium acceptances and agreed not to claim repayment of any sums not recovered by acceptors from their clients until one year after the end of the war. A total of £60,386,000 was advanced to acceptors to enable them to meet their obligations at maturity and perhaps £50 million were definitely carried through the war in 'cold storage.' Of these a large proportion proved in the end to be not German but Russian.<sup>21</sup> The joint stock banks undertook to finance the discount of new bills on similar terms.<sup>22</sup> By these means the decks were cleared for the flow of new acceptance credit in London.

The resumption of trading on the Stock Exchange was somewhat longer delayed, and a government guarantee of payment of advances to the Exchange was necessary. It was not until November 18, 1914 that the July settlement was completed, and the Exchange itself was reopened only on January 4, 1915.<sup>23</sup>

<sup>20</sup> *The Economist*, Sept. 12, 1914, pp. 444-5.

<sup>21</sup> 68 H. C., col. 1545, 1546.

<sup>22</sup> Kirkaldy, *op. cit.*, p. 11.

<sup>23</sup> *Ibid.*, p. 8.